IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PERSONS LOCATED OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Preliminary Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Preliminary Prospectus. In accessing the Preliminary Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Preliminary Prospectus), Deutsche Bank AG, London Branch or J.P. Morgan Securities Ltd. (the "**Joint Lead Managers**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PRELIMINARY PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Preliminary Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) or (2) persons located outside the United States. This Preliminary Prospectus is being sent to you at your request, and by accessing this Preliminary Prospectus you shall be deemed to have represented to the Issuer and the Joint Lead Managers that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S under the Securities Act ("**Regulation S**")) and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any state of the United States or the District of Columbia and (2) you consent to delivery of such Preliminary Prospectus by electronic transmission.

You are reminded that this Preliminary Prospectus has been delivered to you on the basis that you are a person into whose possession this Preliminary Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Preliminary Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Preliminary Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within 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 who is not a relevant person should not act or rely on this document or any of its contents.

The attached Preliminary Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers, any person who controls them (as applicable) or any director, officer, employee or agent of them (as applicable) or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Preliminary Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

REPUBLIC OF SERBIA

(acting through the Ministry of Finance)

U.S.$1,000,000,000 7.25 per cent. Notes due 2021
Issue price: 98.263 per cent.

The U.S.$1,000,000,000 7.25 per cent. Notes due 2021 (the "**Notes**") to be issued by the Republic of Serbia, acting through the Ministry of Finance (the "**Issuer**", the "**Republic of Serbia**" or "**Serbia**"), will mature on 28 September 2021 and, unless previously purchased and cancelled, will be redeemed at their principal amount on that date.

The Notes will bear interest at a rate of 7.25 per cent. per annum. Interest will accrue on the outstanding principal amount of the Notes from and including 28 September 2011 and will be payable semi-annually in arrear on 28 March and 28 September in each year, commencing on 28 March 2012.

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

Notes are being offered inside the United States to QIBs (as defined below) only pursuant to an exemption from, or in a transaction not subject to the registration requirements of the U.S. Securities Act of 1933 (the "**Securities Act**"). In addition, Notes are being offered outside the United States in reliance on Regulation S ("**Regulation S**", such Notes so offered and sold, the "**Regulation S Notes**") under the Securities Act.

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

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A ("**Rule 144A**") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) outside the United States in reliance on Regulation S. Each purchaser of the Notes is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

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

The Notes will be offered and sold in registered form in denominations of U.S.$200,000 and any amount in excess thereof which is an integral multiple of U.S.$1,000. The Regulation S Notes will be represented by beneficial interests in a global unrestricted note certificate (the "**Regulation S Global Note**") in registered form without interest coupons attached, which will be registered in the name of a nominee for, and deposited on or about 28 September 2011 (the "**Issue Date**") with Deutsche Bank AG, London Branch, as common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Beneficial interests in the Regulation S Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. The Rule 144A Notes will initially be represented by a global restricted note certificate (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited with a custodian (the "**Custodian**") for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**") on or about the Issue Date. Beneficial interests in the Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Except as described herein, definitive note certificates evidencing holdings of Notes issued in exchange for beneficial interests in the Global Notes will be available only in certain limited circumstances. See "*Form of the Notes and Transfer Restrictions*".

Serbia's long-term foreign currency debt has been assigned a rating of "BB" with a stable outlook by Standard & Poor's Credit Market Services Europe Limited, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**") and a rating of "BB-" with a stable outlook by Fitch Ratings Ltd. ("**Fitch**"). The Notes are expected to be assigned the same ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The credit ratings included or referred to in this prospectus (the "**Prospectus**") will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by S&P and Fitch. Each of S&P and Fitch is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such application has not yet been determined. Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "**Market**"). References in this Prospectus to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the "**Markets in Financial Instruments Directive**").

Joint Lead Managers

Deutsche Bank **J.P. Morgan**

The date of this Prospectus is 26 September 2011

*This Prospectus constitutes a prospectus for the purposes of Article 5 of Directive 2003/71/EC (the "**Prospectus Directive**") for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to be able to make an informed assessment of the financial position and prospects of the Issuer and the rights attaching to the Notes. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having made all reasonable enquiries and having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.*

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

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

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

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

The Joint Lead Managers have not separately verified the information contained in this Prospectus. Accordingly, no representation, warranty or undertaking, express or implied, is made, and no responsibility or liability is accepted, by the Joint Lead Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes or their distribution.

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

IN CONNECTION WITH THE ISSUE OF THE NOTES, DEUTSCHE BANK AG, LONDON BRANCH (THE "STABILISING MANAGER") (OR ANY PERSON ACTING FOR THE STABILISING MANAGER) 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, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED 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 INITIAL ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is a sovereign state. It may not be possible for investors to effect service of process within the United States upon the Issuer or to enforce against the Issuer in or through courts located in the United States judgments obtained in courts located in the United States, respectively, 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.

It may not be possible to enforce in the courts of the Republic of Serbia any foreign court judgment (including a judgment obtained from a United States 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 is not conducted as a general rule.

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. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — A claimant may not be able to enforce a court judgment against certain assets of Serbia in certain jurisdictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421 B**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY

UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

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

References in this Prospectus to "**RSD**", "**Dinar**" and "**Serbian Dinar**" are to the currency of Serbia; references to "**U.S. Dollars**" and "**U.S.$**" are to the currency of the United States and references to the "**Euro**", "**Euros**" 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 the European Union.

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 products and services within a particular sector before taking account of taxes and subsidies. "**Nominal GDP**" or "**nominal GVA**" measure the total value in current prices. "**Real GDP**" or "**real GVA**" measure the total value in constant prices, thus allowing historical GDP or GVA comparisons that exclude the effect of inflation. For the purposes of this Prospectus, real GDP or real GVA figures are calculated by reference to 2005 prices.

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 no. 54/2009, 73/2010 and 101/2010).

References to laws, including the Budget, refer to such laws (and the Budget), as amended from time to time.

Unless otherwise stated, all annual information, including budgetary information for the Republic of Serbia, is based on calendar years. Unless otherwise stated, all budgetary and statistical information as at and for the year ended 31 December 2010, as at and for the six months ended 30 June 2011 and for any other period ended in 2011 is preliminary and subject to revision and amendment. Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary reflecting such rounding and figures which are totals may not be the sum of their components.

Statistical data appearing in this Prospectus have, unless otherwise stated, been obtained from the Office of Statistics of the Republic of Serbia (the "**Office of Statistics**"), the Ministry of Finance 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. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Government is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading in any material respect. In this Prospectus, the data is presented as having been provided by the relevant responsible ministry. The relevant interim period in 2011 for which, and/or the relevant date in 2011 as at which, data is presented may differ depending on the most recent information available from the relevant responsible ministry.

Unless otherwise stated, all statistical data appearing in this Prospectus (save in relation to public expenditures for employees, purchase of goods and services and social welfare and transfers and the number of public sector employees) has been prepared on a basis which excludes the relevant data in respect of the autonomous province of Kosovo and Metohija. In addition, the number of public sector employees includes public sector employees in the municipalities of Kosovska Mitrovica, Zubin Potok, Leposavic, Gracanica, Gnjilane and Strpce in the autonomous province of Kosovo and Metohija.

The last census in Serbia was performed in 2002. 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 — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Economic and political factors may make an investment in a developing country such as Serbia riskier than investing in a more developed country".

Data Dissemination

Serbia has been a participant in the General Data Dissemination System (the "**GDDS**") of the International Monetary Fund ("**IMF**") since May 2009. The GDDS is a structured process through which IMF member countries commit voluntarily to improving 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. The purpose of the GDDS is to guide countries in developing sound statistical systems, with special emphasis on comprehensiveness, reliability and timeliness of data and the practice of dissemination of economic, financial and socio-demographic data. Metadata, submitted by countries participating in the GDDS, provide systematic descriptions on the content and classification of data, as well as the concepts, data sources and compilation and processing methods. GDDS lies at the core of the statistical development cycle, comprising sets of metadata divided into the real sector (national accounts, prices, production, labour market), the fiscal sector, the financial sector, the external sector, and socio-demographic data (population, health, education, poverty).

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written and oral statements that Serbia and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise are or may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). However, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Statements that are not historical facts, including, without limitation, statements about Serbia's or the Government's beliefs and expectations, are forward-looking statements. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. These statements are based on current plans, objectives, assumptions, estimates, projections or methods that may be incorrect or imprecise and that may be incapable of being realised. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as at the date on which they are made and Serbia undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Serbia cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to, plans with respect to the implementation of economic policies and the pace of economic and legal reforms, expectations about the behaviour of the economy if certain economic and fiscal policies are implemented, the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts and estimates of debt repayment and debt service.

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

- decisions of international organisations regarding the terms of their financial assistance to Serbia and accordingly the net flow to or from such international organisations over the life of the Notes;
- 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 foreign direct investment ("**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;
- decisions of international financial institutions such as the IMF, the World Bank, the European Bank for Reconstruction and Development (the "**EBRD**") and the European Investment Bank (the "**EIB**") regarding the provision of funding for new or existing projects over the life of the Notes; and
- political factors in Serbia, which may affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations.

See "*Risk Factors*".

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 2006 to 2010 and for the period ended 16 September 2011, expressed as Serbian Dinars per U.S. Dollar, as published by the National Bank:

	Serbian Dinar to U.S.$			
Year	**Low**	**High**	**Average**	**Period End**
2011 (up to and including 16 September 2011)	66.6387	82.4106	72.3577	72.6811
2011 (up to and including 30 June 2011)	66.6387	82.4106	72.6689	70.6398
2011 (up to and including 31 March 2011)	72.4060	82.4106	75.9238	73.2224
2010	66.8376	86.7278	77.9066	79.2802
2010 (up to and including 30 June 2010)	66.8376	86.7278	75.6856	85.4794
2010 (up to and including 31 March 2010)	66.8376	74.9469	71.3752	74.3814
2009	61.9332	75.6297	67.4731	66.7285
2008	48.9974	72.2647	55.7641	62.9000
2007	52.8478	62.0940	58.3934	53.7267

Source: National Bank.

As at 16 September 2011, the RSD/U.S.$ exchange rate published by the National Bank was RSD 72.6811 = U.S.$1.00.

The following table sets out certain exchange rate data for the years 2006 to 2010 and for the period ended 16 September 2011, expressed as Serbian Dinars per Euro, as published by the National Bank:

	Serbian Dinar to Euro			
Year	**Low**	**High**	**Average**	**Period End**
2011 (up to and including 16 September 2011)	96.7007	106.4947	101.9274	100.7651
2011 (up to and including 30 June 2011)	96.7007	106.4947	101.8757	102.4631
2011 (up to and including 31 March 2011)	102.5674	106.4947	103.9546	103.5951
2010	95.9679	107.5216	103.0431	105.4982
2010 (up to and including 30 June 2010)	95.9679	104.3704	100.0290	104.3704
2010 (up to and including 31 March 2010)	95.9679	99.8848	98.6685	99.7604
2009	89.5436	96.5657	93.9517	95.8888
2008	75.7543	91.6317	81.4405	88.6010
2007	76.8093	84.7540	79.9640	79.2362

Source: National Bank.

As at 16 September 2011, the RSD/Euro exchange rate published by the National Bank was RSD 100.7651 = EUR1.00.

The following table sets out certain exchange rate data for the years 2006 to 2010 and for the period ended 16 September 2011, expressed as U.S. Dollars per Euro, as published by Bloomberg:

	U.S. Dollar to Euro			
Year	**Low**	**High**	**Average**	**Period End**
2011 (up to and including 16 September 2011).....	1.2947	1.4847	1.4103	1.3795
2011 (up to and including 30 June 2011).............	1.2907	1.4830	1.4050	1.4502
2011 (up to and including 31 March 2011)...........	1.2944	1.4212	1.3699	1.4183
2010	1.1923	1.4513	1.3266	1.3387
2010 (up to and including 30 June 2010).............	1.1959	1.4536	1.3267	1.2291
2010 (up to and including 31 March 2010)...........	1.3344	1.4536	1.3821	1.3526
2009	1.2531	1.5134	1.3949	1.4326
2008	1.2454	1.5992	1.4712	1.3973
2007	1.2892	1.4873	1.3709	1.4591

Source: Bloomberg.

As at 16 September 2011, the U.S.$/Euro exchange rate published by Bloomberg was U.S.$1.3795 = EUR1.00.

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

TABLE OF CONTENTS

OVERVIEW

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

Overview of the Republic of Serbia

General

Serbia is located in the central part of the Balkan Peninsula and occupies an area of approximately 88,361 square kilometres. By virtue of its geographic position, it controls some of the major land routes between Western Europe and Turkey and the Near East. Serbia is bordered by eight other countries: to the East by Bulgaria, to the North East by Romania, to the North by Hungary, to the West by Croatia, Montenegro and Bosnia and Herzegovina and to the South by Albania and 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 2002, Serbia had a total population of approximately 7.5 million (excluding Kosovo) and the Office of Statistics estimates that total population has declined to approximately 7.3 million in 2011. The next census will be held in October 2011. 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. Mirko Cvetkovic is the current Prime Minister. The President is elected for a five-year term and may not serve more than two terms. Boris Tadic 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. In addition, following the adoption of the National Judicial Reform Strategy on 25 May 2006, the Government has been engaged in a comprehensive effort to reform the judiciary in order to uphold the principles of separation of powers, promote legal certainty and strengthen the rule of law. This reform effort is part of the Government's broader efforts to modernise Serbia's legal framework to bring it in line with European and other international standards.

Economy

In the period from the end of 2008 through to mid 2011, the Government and the National Bank have implemented a programme of measures intended to alleviate the consequences of the global financial and economic crisis, to protect the Serbian economy, banking system, free market and attempt to ensure that the burden imposed by the crisis was distributed in order to protect impoverished segments of the population. The Government intends to continue to pursue appropriate fiscal and economic policies to facilitate the adoption of public sector reforms, restructure the economy in order to increase exports and develop the country's infrastructure. The Government believes that monetary and fiscal policy will play a key role in the achievement of Serbia's development-related aims. In particular, a low and stable inflation rate, reducing unemployment, creating attractive conditions for FDI and fiscal responsibility are important factors in the Government's approach. The following selected economic information is qualified in its entirety by, and should be read in conjunction with, the detailed information appearing elsewhere in this Prospectus:

	2010	2009	2008
Domestic Economy			
Nominal GDP (RSD billions)[(1)]	2,986.6[(2)]	2,713.2	2,661.4
Real GDP (growth rate) (%)[(1)]	1.0[(2)]	(3.5)	3.8
Consumer Price Index (%)	10.3	6.6	8.6
Balance of Payments (EUR millions)[(3)]			
Exports of Goods (FOB)	7,402.5	5,977.8	7,416.0
Imports of Goods (FOB)	(12,175.8)	(11,096.3)	(15,917.2)
Trade Balance	(4,773.3)	(5,118.5)	(8,501.2)
Overall Balance	(928.7)	2,363.5	(1,686.6)
Public Finance (RSD billions)[(4)]			
Public Revenues	1,223.4	1,146.5	1,143.4
Public Expenditure	(1,359.9)	(1,267.9)	(1,213.9)
Consolidated Balance	(136.5)	(121.4)	(70.5)
Consolidated Balance (% of nominal GDP)[(1)]	4.6[(2)]	4.5	2.6
Public Debt (RSD billions)			
Internal Public Debt	518.2	401.4	280.1
External Public Debt	497.9	543.1	764.4
Gross Public Debt (% of nominal GDP)[(1)]	42.9	34.8	29.2

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

Notes:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See *"Economy of Serbia — Gross Domestic Product"*.

(2) Office of Statistics estimates.

(3) Data prepared in accordance with the IMF Balance of Payments Manual, 5th Edition.

(4) The consolidated balance sheet of the Government is prepared on a cash basis using the Government Finance Statistics Manual (the "**GFSM**") 1986 methodology.

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

Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes

- Economic and political factors may make an investment in Serbia riskier than investing in a more developed country
- Serbia may not succeed in implementing proposed economic, financial, political and other reforms, which may negatively affect its economy and ability to pay principal and 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
- Serbia may not become a member of the EU in the near to medium term or at all
- Depreciation of the Dinar may adversely affect the Serbian economy and its public finances
- The current account deficit may undermine foreign exchange liquidity and regular servicing of external debt
- The inability of the Government to adjust public spending to generate fiscal revenues may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes
- Foreign-owned banks may diminish or discontinue their support of their subsidiaries operating in Serbia
- Other risks associated with the banking sector
- There is no guarantee that the credit rating of Serbia will not change
- Relatively high and sustained inflation may have a material adverse effect on the Serbian economy
- The corporate sector may not be able to settle debts to domestic and foreign creditors, which could have a material adverse effect on the Serbian economy

- 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
- Serbia may not be able to refinance its debt on favourable terms, or might not be able to refinance it at all
- Official economic statistics may be less accurate or reliable than those produced in more developed countries
- Deterioration in Serbia's relations with its major energy suppliers, restricted energy supplies or increases in the price of oil or natural gas may have adverse effects on the Serbian economy
- The legal system of Serbia is not fully developed and therefore involves greater risk and uncertainty than in other more developed legal systems
- A claimant may not be able to enforce a court judgment against certain assets of Serbia in certain jurisdictions

Factors which are Material for the Purpose of Assessing the Market Risks Associated with the Notes

- The Notes may not be a suitable investment for all investors
- Collective action clauses
- EU Savings Directive

Risks Related to the Notes Generally

- Modification, waivers and substitution
- Governing law
- Pari passu securities

Risks Related to the Market Generally

- The secondary market generally
- Exchange rate risks and exchange controls
- Interest rate risks
- Credit ratings may not reflect all risks
- Legal investment considerations may restrict certain investments

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

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

Issuer	The Republic of Serbia (acting through the Ministry of Finance).
Notes Offered	U.S.$1,000,000,000 principal amount of 7.25 per cent. Notes due 2021.
Issue Date	28 September 2011.
Maturity Date	28 September 2021 (the "**Maturity Date**").
Interest on the Notes	7.25 per cent. per annum, computed on the basis of a 360-day year of 12 30-day months.
Interest Payment Dates	The Notes will bear interest at a rate of 7.25 per cent. per annum payable semi-annually in arrear on 28 March and 28 September of each year. The first payment of interest will be made on 28 March 2012 for the period from and including 28 September 2011 to but excluding 28 March 2012. See "*Terms and Conditions of the Notes — 7. Interest*".
Issue Price	98.263 per cent. of the principal amount of the Notes.
Yield	As at the Issue Date and on the basis of the Issue Price the yield of the Notes is 7.5 per cent. per annum.
Redemption	The Issuer will redeem the Notes at their respective principal amounts on the Maturity Date. See "*Terms and Conditions of the Notes — 9. Redemption and Purchase*".
Denominations	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000.
Status	The Notes will constitute direct, unconditional and (subject to the provisions of a negative pledge covenant described below) unsecured obligations of the Issuer. The Notes rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. The full faith and credit of the Issuer is pledged to the due and punctual payment of all amounts due in respect of the Notes. See "*Terms and Conditions of the Notes — 4. Status*".
Negative Pledge	So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public Indebtedness or any Guarantee of any Public Indebtedness, unless the Issuer shall at the same time or prior thereto procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or have the benefit of such other security or arrangement as may be approved by an Extraordinary Resolution (as defined in Condition 14(c) (*Modifications*) of the Conditions). See "*Terms and Conditions of the Notes — 5. Negative Pledge*".
Events of Default	The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default. Holders of not less than 25 per cent. in the aggregate principal amount of the Notes may, by written notice to the Issuer, declare the Notes immediately due and payable and all principal, interest

	and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration. If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the relevant Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto. See "*Terms and Conditions of the Notes — 12. Events of Default*".
Form of Notes	The Notes will be in registered form, without interest coupons. Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of a Regulation S Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary. Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of a Rule 144A Global Note, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC.
Taxation and Additional Amounts	All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Republic of Serbia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction had been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes — 10. Taxation*".
Modification and Amendment	A summary of the provisions for convening meetings of Noteholders and amendments is set forth under "*Terms and Conditions of the Notes — 14. Meetings of Noteholders and Modification*".
Use of Proceeds	The net proceeds of the issue of the Notes will be used for general Budget purposes (including, without limitation, repayment of outstanding indebtedness). See "*Use of Proceeds*".
Ratings	The Notes are expected to be assigned a rating of "BB" with a stable outlook by S&P and "BB-" with a stable outlook by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading	Application has been made to admit the Notes to the Official List of the UK Listing Authority and to trading on the Market.
Governing Law	The Notes will be governed by English law.
Transfer Restrictions	The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the

	Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. See "*Form of the Notes and Transfer Restrictions*".
Fiscal Agent, Principal Paying Agent and Transfer Agent	Deutsche Bank AG, London Branch
Registrar, Transfer Agent and Paying Agent	Deutsche Bank Luxembourg S.A.
U.S. Registrar, U.S. Transfer Agent and U.S. Paying Agent	Deutsche Bank Trust Company Americas
ISINs	XS0680231908 and US817477AB81 for the Regulation S Global Note and Rule 144A Global Note, respectively.
Common Codes	068023190 and 068086370 for the Regulation S Global Note and Rule 144A Global Note, respectively.
CUSIP Number	817477AB8 for the Rule 144A Global Note.

RISK FACTORS

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

In addition, factors which the Issuer believes are material for the purpose of assessing the market risks associated with the Notes are also described below.

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

Risks Associated with Emerging Markets

Investors in securities of sovereign or corporate issuers in emerging markets such as Serbia should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. These greater risks include economic instability, caused by a variety of factors such as a narrow export base, reliance on imports, fiscal and current account deficits, reliance on foreign investment, high unemployment and changes in the political, economic, social, legal and regulatory environment. Actions of governments may be challenged by future governments. Investors should also note that emerging economies such as Serbia's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets 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.

The disruptions recently experienced in the international capital markets, especially in relation to sovereign debt, have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Any entity located in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs.

In addition, the availability of credit to any entity operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding within any of these markets.

Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes

Economic and political factors may make an investment in Serbia riskier than investing in a more developed country

Investment in Serbia, which began its transition to a market-based economy in 2000, bears a considerably greater risk than investing in countries with more developed market economies and mature political and legal systems. Although progress has been made in reforming the economy and the political and judicial system, the Serbian legislative framework is still not in all material respects in line with the standards adopted, for example, by European Union ("**EU**") member states or the United States. As a result, investment in Serbia carries specific risks that are not typical for investment in developed markets. Accordingly, investors should carefully assess the risks of the Serbian market and make their own assessment of the relevant risks.

The Serbian economy is associated with, and subject to similar risks as, the economies of the former Yugoslav republics. Economic and financial difficulties affecting such former republics and other countries in the region may negatively affect Serbia's economy. Foreign investors may also associate the difficulties experienced by these other economies with the Serbian economy, which may adversely affect investment in Serbia. Even though the Government has in recent years focussed, and it intends to continue to focus, on establishing strong connections and increased trade with developed economies in Europe, including EU member states, the effects of the global financial and economic crisis, which began in the second half of 2008, severely impacted the Serbian economy (see "*Economy of Serbia*") and its plans for future growth. Serbia's economy may be adversely affected by any further financial and/or economic crises that may occur in the future, including, but not limited to, issues arising from or linked to the current situation in Greece.

Serbia may not succeed in implementing proposed economic, financial, and political and other reforms, which may negatively affect its economy and ability to pay principal and interest on the Notes

Serbia has undergone significant political transformation since democratic reforms in 2000. In parallel with this political reform, Serbia has implemented a programme of economic structural reforms aimed at establishing a market-based economy through privatisation of state and Socially-Owned Enterprises, deregulation and a shift in its trade policy aimed at increasing exports. However, this process is not yet complete and the Serbian economy has not yet reached the same standard of economic and market practices which apply in most other developed European countries. In particular, Serbia's transition to a more efficient economy with a focus on the private sector may lag behind certain other peer countries in the region. Serbia may not succeed in implementing its proposed economic, financial and other reforms, which may negatively affect its economy and its ability to pay principal and interest on the Notes.

The reforms described in this Prospectus may not continue at all or on the basis of any relevant expected timetable outlined or they may be reversed. In addition, there can be no assurance that any such reforms will successfully achieve the stated objectives. The Government currently comprises a coalition of a number of different political parties and has recently come under increasing internal and external political pressure including failed opposition protests in the spring of 2011 calling for an early election. The failure of the Government to implement its intended programme of economic and social reforms may lead to a deterioration of general economic conditions and lack of availability of public finance to fund Budget payments obligations, including obligations to foreign and domestic investors and/or creditors which may, in turn, adversely affect future FDI inflows and foreign trade. The next parliamentary elections are expected to be held in late March or early April 2012 and this may result in a change in the government and/or policy. In particular, it is anticipated that the next government may need to raise effective retirement ages and to improve labour market incentives in order to increase pension contributions. There can be no assurance that a new government will implement these and other reforms described in this Prospectus.

In recent years, Serbia has experienced some tensions in its relations with certain other countries as a result of its relations with the autonomous province of Kosovo and Metohija. In 1997 the Kosovo Liberation Army ("**KLA**"), a Kosovan Albanian organisation, initiated a campaign against Federal Republic of Yugoslavia ("**FRY**") security forces seeking the separation of Kosovo from the FRY, leading to a war between the FRY security forces and the KLA which lasted from 1998 to 1999. As a result, the North Atlantic Treaty Organisation ("**NATO**") intervened in March 1999, sponsoring a campaign of bombing (the "**NATO bombing campaign**") in the FRY that lasted 79 days, from March to June 1999. In June 1999 the mandate of the United Nations Interim Administration Mission in Kosovo ("**UNMIK**") was established by the United Nations Security Council pursuant to its Resolution 1244 ("**UN Resolution 1244**"), and the NATO bombing campaign ceased. Prior to the NATO bombing campaign, many European countries severed relations with Serbia. However, relations were re-established with many of these countries after federal elections in 2000. On 17 February 2008 the Kosovan Assembly (with 10 representatives of the Kosovo Serb community and one representative of the Kosovo Guarani community abstaining) issued a declaration of Kosovo's independence from Serbia purporting to establish the Republic of Kosovo. In early 2008 Serbia severed diplomatic relations with certain countries who formally recognised Kosovo as an independent state (including the United States, Canada, Australia and Japan, as well as several member states of the EU), but all of these diplomatic relationships have since been reinstated.

On 22 July 2010 following an application made to it by Serbia, the International Court of Justice ruled that the adoption of the declaration of independence of 17 February 2008 did not violate any applicable rule of international law because general international law contains no applicable prohibition of declarations of independence and the declaration was not issued by the Provisional Institutions of Self-Government of Kosovo (the local administrative bodies in Kosovo established by UNMIK), nor was it an act intended to take effect, or actually taking effect, within the legal framework under which those Provisional Institutions operated, and, therefore its authors were not bound by the framework of powers and responsibilities established to govern the conduct of those Provisional Institutions. The court explicitly did not address the legal consequences of the declaration, nor whether Kosovo had achieved the status of an independent state.

The Government has declared itself committed to the legal and political defence of Serbia's sovereignty in Kosovo. EU-sponsored, and UN-supported, dialogues between Belgrade and Pristina (the capital of the autonomous province of Kosovo and Metohija) on a number of issues have taken place since March 2011. Discussions were held on 2 July 2011 in Brussels prior to a dispute at two customs posts on the Kosovo border. Discussions have resumed in September 2011. See "*Description of Serbia — Historical Background*".

Any deterioration in relations between Belgrade and Pristina and/or between Serbia and members of the international community as a result of differences over the future status of the autonomous province of Kosovo and Metohija or any part thereof and/or its residents may have an adverse effect on political and economic conditions in Serbia, its international standing and its relations with the EU.

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

The Serbian economy remains vulnerable to external shocks, such as those caused by the global financial and economic crisis which began in the second half of 2008. Since late 2008, the global financial and economic crisis has negatively affected the Serbian economy. As in other European countries with similar characteristics, the crisis has caused sharper declines in FDI inflows and exports of goods and increased growth in overall levels of government borrowing than Serbia experienced prior to such time. It has also exacerbated depreciation of the domestic currency, inflationary pressures, fiscal imbalances, high unemployment levels and the incidence of a "grey" market economy. See "*Economy of Serbia — Historical Economic Policy and Developments*".

The negative trends seen in the economy of Serbia in the second half of 2008 continued in 2009. Real GDP in 2009 was 3.5% lower than in 2008, although the Serbian economy began a gradual recovery in the second quarter of 2010 and real GDP growth of 1.0% was recorded in 2010 compared to 2009. Net FDI has fallen in recent years after reaching a record-high level of EUR 3.3 billion in 2006, largely due to the proceeds from the privatisation of Telekom Srbija, the second largest mobile operator in Serbia. Net FDI fell by EUR 1.5 billion in 2007, remained stable in 2008 and fell again in 2009 and 2010 by EUR 0.4 billion and EUR 0.5 billion, respectively. In the first six months of 2011, net FDI inflows amounted to EUR 0.57 billion, an increase of 34.9% compared to the first six months of 2010. Any further decrease in GDP or FDI inflows may adversely affect Serbia's ability to grow sustainably its economy based on investments in fixed capital and net exports including long-term infrastructure projects and industrial projects mainly funded by FDI.

The onset of the global financial and economic crisis in 2008 had a negative effect on Serbia's fiscal deficit, which put pressure on the value of the domestic currency and caused a drop in demand, low economic activity and rising unemployment. As a result, public finances deteriorated markedly and Government borrowing increased significantly during 2009 and 2010 in an attempt to prevent further deterioration of general economic and social conditions. Public Debt (as defined below) increased from approximately EUR 8.8 billion (RSD 778.0 billion) at the end of 2008 to approximately EUR 13.3 billion (RSD 1,361.4 billion) at the end of June 2011. Serbia's Budget deficit increased and was mainly financed by the issuance of Government securities in the domestic market. This had the effect of severely restricting access to borrowing in the capital and money markets by the private sector. External Public Debt (as defined below) at the end of 2010 increased to EUR 7.2 billion (RSD 764.4 billion) from EUR 5.7 billion (RSD 543.1 billion) in 2009, largely due to a EUR 0.45 billion (RSD 47.4 billion) loan from the IMF. At the end of 2010, the external debt (of both the public and private sectors) to GDP ratio was 82.1% as compared to 77.9% in 2009.

There can be no assurance that the Serbian economy will return to the levels of growth achieved from 2005 to 2008 when growth was fuelled by substantial inflows of foreign capital through FDI mainly attributable to privatisation of State-Owned Enterprises and private sector borrowing. A return to growth in the economies of Serbia's main trading partners would assist Serbia in increasing the growth of its economy and help transition its economy into a more export-led economy. However, there can be no assurance that Serbia's main trading partners, including EU member states, will achieve such growth. Other important factors in achieving economic growth will be the reform of Serbia's Socially-Owned Enterprises (as defined below), some of which currently operate at a loss and are funded by the Government, and public sector reform, in order to attract foreign investment and increase exports. If the Serbian economy is not able to generate stable and sustainable growth based on the investments in fixed capital as well as growth of its trading partners and net export, there could be a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes.

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

The first step towards Serbia's potential accession to the EU occurred in October 2005 when negotiations between the EU and the State Union of Serbia and Montenegro with respect to the Stabilisation and Association Agreement formally began. In November 2007, following the dissolution of the State Union, the Stabilisation and Association Agreement between the EU and Serbia was initialled, with formal execution taking place in April 2008. In late 2009, Serbia formally applied for membership in of the EU.

Serbia has made considerable progress in implementing several EU harmonisation measures. See "*Description of Serbia — Foreign Relations — European Union*". Certain important commitments that have not been implemented as of the date of this Prospectus relate to the adoption of the Law on Public Property (which includes the property of autonomous provinces and local governments) and the Restitution Law. Each of these laws deals with property rights and their provisions will have to be aligned. Additionally, an amended Civil Procedure Law and Criminal Procedure Code are scheduled to be considered shortly for adoption by the Assembly of Serbia (the "**Assembly**"). The Government currently expects to adopt these laws, as well as other remaining draft laws foreseen in the Action Plan for fulfilment of priorities under the European Commission's Annual Progress Report, in late September or early October 2011.

Serbia's ability to attain EU candidate status and the timing of it achieving full membership of the EU will depend on a number of economic and political factors relating to both Serbia and the EU, potentially including Serbia's dialogue with Kosovo. In addition, there can be no assurance that the majority of the Serbian population will vote in favour of EU membership in any national referendum which may be held on this matter. As a result, there can be no assurance that Serbia will become a member of the EU within any given timescale or at all.

Depreciation of the Dinar may adversely affect the Serbian economy and its public finances

A significant share of Serbia's External and Internal Public Debt (as defined in *Public Debt*) is denominated in foreign currency. As at 30 June 2011, 100.0% of Serbia's External Public Debt and 55.5% of Serbia's Internal Public Debt was denominated in foreign currencies. In the period since 2008, there has been an increase in the proportion of Public Debt denominated in Dinar, with the proportion of aggregate External and Internal Public Debt denominated in Dinar standing at 20.0% as at 30 June 2011. 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, may result in an increase in the Dinar amount debt obligations denominated or payable in other currencies and an increase in the Dinar amount of Serbian public funds required for debt servicing. This would reduce the amount of public funds available to fund public investment projects and service social benefits and other Budget expenditures. As a result, Serbia's economic performance, credit rating and/or its ability to service its debt may be adversely affected.

The share of foreign currency denominated loans (including loans indexed to foreign currency) in total corporate and household lending was 68.6% as at 30 June 2011. As a result, any devaluation of the Dinar against foreign currencies (and in particular against the Euro) may negatively affect the capacity of corporate and household borrowers to repay their debts and as a result adversely affect the financial and economic condition of Serbia.

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

Serbia's current account deficit, excluding grants, rose from EUR 2.4 billion in 2006 (10.1% of nominal GDP) to EUR 7.1 billion in 2008 (21.6% of nominal GDP), mainly due to an increase in the foreign trade deficit. A larger decline in imports than exports of goods and the resulting decrease in the trade deficit contributed to a reduction in the current account deficit to EUR 2.1 billion (7.2% of nominal GDP) in both 2009 and 2010. In the first six months of 2011, the foreign trade deficit increased and this, combined with a decrease in the net inflow of remittances, led to a rise in the current account deficit by EUR 0.07 billion compared to the same period in 2010.

Exports of goods from Serbia, as a proportion of GDP, have grown since 2002, while imports have grown even faster than exports. As a result the foreign trade deficit has increased from EUR 3.8 billion (21.2% of nominal GDP) in 2002 to EUR 8.5 billion (26.0% of nominal GDP) in 2008. Due to the effects of the global financial and economic crisis on domestic and foreign demand, the trade deficit fell to EUR 5.1 billion in 2009 (a decrease of 39.8% compared to 2008) and EUR 4.8 billion in 2010 (a decrease of 6.7% compared to 2009). In the first six months of 2011, foreign trade was EUR 2.5 billion (16.9% of nominal GDP) compared to EUR 2.4 billion (17.2% of nominal GDP) in the same period in 2010, due to higher volumes of imports of goods.

In the period from 2002 to 2008, an influx of foreign capital and the privatisation process produced weaker than expected effects on the export sector. Any future increase in the inflow of foreign capital may go towards the consumption and services sector, further increasing the trade deficit. 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 private external debt and External Public Debt.

The inability of the Government to adjust public spending to generate fiscal revenues may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes

The effects of the global financial and economic crisis in Serbia became especially severe in the last quarter of 2008, resulting in the Government and the National Bank adopting a series of measures to seek to prevent further deterioration of Serbia's net fiscal position. These measures continued to be implemented throughout 2009, but the effects of the crisis resulted in a Budget deficit that was even greater than had been expected. In 2010, the Budget deficit was within the Government's projections. However, factors such as the dependence of Serbia's pension fund on transfers from the Budget, unfavourable demographic trends, high unemployment and the inability of the economy to utilise more labour force from the labour market represent a risk to Serbia's public finances and could result in a widening of the Budget deficit in 2011 and in future periods beyond any currently contemplated deficits. 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 stable public finances.

Fiscal risks arise from Serbia's pension system, which is financed on a "pay-as-you-go" basis whereby state benefits are paid out of contributions from the current work force. A higher number of pensioners, primarily due to Serbia's aging population in combination with a decline in overall population growth, high unemployment and a significant "grey" market economy, have resulted in low pension fund contributions leading to deficits in the pension fund. These deficits have been funded by allocations from the Budget. In 2010, just over 45.0%, or approximately EUR 2.14 billion (RSD 220.1 billion), of the total expenditure of Serbia's pension fund was financed by allocations from the Budget. The Government's expenditure on pensions from the Budget in this period was 7.4% of nominal GDP. Expenditure on public wages and pensions currently represent the largest single category of expenditure in the Budget and this may continue in the future. See also "*Economy of Serbia — Social Insurance System — Pensions and disability*" and "*Public Finance — Consolidated General Government Budget*".

In addition, the privatisation process in Serbia began in 2001, but some large public enterprises are still in the process of being restructured and continue to receive substantial funding for their operations from the Budget. The Government subsidy scheme is concentrated on three main sectors — agriculture, Serbian Railways and manufacturing companies, with the last being subsidised through a series of direct and indirect subsidies. It is unlikely that in the near future these enterprises will be profitable. If the Government is unable to privatise these enterprises they will continue to require substantial funding for their operations from the Budget.

Any failure to successfully implement structural reforms in the public sector (including reform of the pension system, high dependence on government assistance and periodic price rises for services provided by public companies) or development and investment projects or to comply with Budget targets, as well as any negative economic or political impact resulting from austerity measures, may lead to further deterioration of public finances and may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes.

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

As at 30 June 2011, foreign-owned banks accounted for approximately 73.0% of total assets, 76.0% of total loans and 67.0% of total deposits in the Serbian banking system. See "*Monetary System — Banking Sector*". These 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. In addition, foreign banks may decrease funding to their subsidiaries operating in Serbia due to actual or perceived deterioration in asset quality, particularly in the event of 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 fund their subsidiaries in Serbia. This may lead to, among other things, a loss of confidence in the Dinar which, in turn, may result in significant devaluation of the Dinar. Resulting balance sheet mismatches may negatively affect the Serbian economy and, as a result, have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes.

Other risks associated with the banking sector

As at 30 June 2011, the total amount of non-performing loans in the Serbian banking sector stood at approximately EUR 3.0 billion (RSD 311.0 billion), an increase of 15.4% in Euro terms (13.7% in Dinar terms) from approximately EUR 2.6 billion (RSD 274.0 billion) as at 31 December 2010. As at the same date, the ratio of non-performing loans to total loans was 18.6%, an increase from 16.9% of total loans as at 31 December 2010. While all sectors recorded an increase, corporate borrowers represented the primary driver of growth in non-performing loans in Serbia's banking sector, comprising 67.5% of total non-performing loans outstanding (excluding bankrupt entities), with a non-performing loan to total loan ratio of 22.0%, an increase of 1.3% in comparison to the ratio as at 31 December 2010. Household payment delinquencies also increased as a proportion of total loans during the first six months of 2011 and stood at 8.1% as at 30 June 2011. Expectations of further asset quality deterioration could prompt banks to reduce their lending activities and this may have an adverse effect on growth prospects for the economy as a whole and the corporate sector in particular.

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

Long-term debt of the Republic of Serbia is currently rated "BB" (with a stable outlook) by S&P and "BB-" (with a stable outlook) by Fitch. 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. Any adverse change in the credit ratings applicable to the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes.

Relatively high and sustained inflation may have a material adverse effect on the Serbian economy

Serbia's annual inflation, as measured by the end-of-period Consumer Price Index ("**CPI**"), was 6.6% in 2009 and 10.3% in 2010. For the first six months of 2011, the index was a further 6.8% higher than its level at 31 December 2010. The Government expects that the inflation rate will therefore exceed the National Bank's inflation target for 2011 of 4.5% (with a tolerance band of +/- 1.5%). The National Bank's target for 2012, set in consultation with the IMF, is 4.0% (with a tolerance band of +/- 1.5%).

The ability of the National Bank to control inflation will depend on a number of political and economic factors. In 2009, 2010 and the first seven months of 2011, Serbia's inflation rate was subject to increases primarily driven by increases in food prices and regulated prices, particularly in petroleum product prices. See "*Monetary System — Inflation and Interest Rates*".

High and sustained inflation may lead to market instability, a financial crisis, additional expenditures on wages and social transfers, a reduction in consumer purchasing power and erosion of consumer confidence. Any of these events could lead to a deterioration in the performance of Serbia's economy, and, as a result, have an adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes, and adversely affect the trading price of the Notes.

The corporate sector may not be able to settle debts to domestic and foreign creditors, which could have a material adverse effect on the Serbian economy

Debt owed to domestic banks denominated in Dinar increased by 40.0% in the period from 2008 to 2010, largely in the form of loans indexed to foreign currencies, principally the Euro and the Swiss Franc. The failure of the corporate sector to generate sufficient revenue to service the relevant debt obligations may adversely affect the Serbian economy and the capacity of the Government to collect corporate tax revenues. This in turn could result in an increase in levels of unemployment in the private sector, thereby increasing the pressure on the system of social benefits required to be paid out of the Budget to the unemployed. A combination of all or some of these factors may lead to a further deterioration in public finances and may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including 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

Corruption and money laundering have been identified as significant problems in Serbia. In Transparency International's 2010 Corruption Perceptions Index survey of 180 countries, Serbia was ranked 78th. In 2006, in an effort to combat corruption and restore public confidence in the judicial system, the Government adopted the National Judicial Reform Strategy and began a programme of judicial reform. The Law on Prevention of Money Laundering and Terrorist Financing came into force in March 2009. There can be no assurance, however, that these judicial reform measures will be fully implemented or that all of the provisions of the Law on Prevention of Money Laundering and Terrorist Financing will be effectively applied. Any future allegations or evidence of corruption or money laundering in Serbia may have a negative impact on Serbia's economy, especially on its ability to attract foreign investment and could slow down or halt progress toward EU membership. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Serbia which may in turn lead to a further deterioration in public finances and a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes.

Serbia may not be able to refinance its debt on favourable terms, or might not be able to refinance it at all

Serbia has a significant level of Internal and External Public Debt. As at 30 June 2011, Public Debt amounted to approximately EUR 13.3 billion (RSD 1,361.4 billion), of which External Public Debt accounted for approximately EUR 7.3 billion (RSD 750.0 billion), while Internal Public Debt accounted for approximately EUR 6.0 billion (RSD 611.5 billion). In the past two years, Serbia has accumulated approximately EUR 2.4 billion (RSD 244.2 billion) of Public Debt (18.0% of debt stock) in Dinar denominated treasury securities with average maturity as at June 2011 of less than one year. As a result of the short-term nature of much of this debt, there is a risk in relation to refinancing. Any deterioration in financing conditions, as a result of market, economic or political factors that are either beyond or within the control of the Government may have a material adverse effect on the ability of Serbia to service, repay or refinance its debt, including the Notes.

Official economic statistics may be less accurate or reliable than those produced in more developed countries

Although a number of government ministries, including the Ministry of Finance, the National Bank and the Office of Statistics, produce statistics relating to Serbia and its economy, there can be no assurance that these statistics are as accurate or reliable as those produced by the relevant bodies in more developed countries. Potential investors in the Notes should be aware that the data on Serbia's GDP and other data referred to in this Prospectus may not have been prepared in accordance with international standards and/or to the same degree of accuracy as equivalent statistics produced by the relevant bodies in more developed countries.

In addition, the accuracy of statistical data can vary from one institution to another or from one period to another, due to various factors, including different methodologies having been applied. In this Prospectus, the data is presented as having been provided by the relevant responsible ministry to which it relates, and there has been no attempt to reconcile these data with the data collected by other ministries or other organisations, such as the IMF or World Bank. See also "*Presentation of Economic and Other Information*".

The existence of a substantial unofficial or unrecorded economy may also affect the accuracy and reliability of statistical data. Potential investors should also be aware that none of the statistical data presented in this Prospectus has been independently verified.

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

Serbia's economy depends on trade flows with certain other countries largely because Serbia imports a significant percentage of its energy requirements. Serbia imported 34.0% of its energy requirements in 2010. If bilateral trade relations with Serbia's major energy suppliers were to deteriorate or if supplies of oil or natural gas to Serbia were to be restricted, Serbia's economy could be adversely affected. In addition, an increase in the price of oil or natural gas could adversely affect Government finances and/or the pace of economic growth of Serbia. Government finances could be adversely affected if the Government subsidises energy prices against increases in oil or natural gas prices. Any changes in relations with major energy suppliers to Serbia, restricted energy supplies or increases in the price of oil or natural gas could lead to a deterioration in the performance of Serbia's economy, and, as a result, have an adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes.

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

Since 2000, the legal system of Serbia has been undergoing major reforms. These include the adoption of new laws and revisions of some existing laws, such as those relating to companies, property, protection of competition, securities, labour and taxes, to bring them more in line with comparable EU legislation. However, reform of the legal system of Serbia is still continuing and therefore involves greater risk and uncertainty than in the countries with more developed legal systems. In particular, the risks associated with the legal system of Serbia include: (i) the risk of potential mismatch between the Constitution and other laws and regulations of the Government; (ii) the risk of ambiguous or imprecise provisions of laws and regulations, which may result in difficulty and uncertainty in their implementation and interpretation; and (iii) difficulties in predicting the outcome of legal cases. These and other factors influencing the legal system of Serbia may make an investment in the Notes subject to risks which may not apply to debt securities issued by countries with more developed legal systems.

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, and 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. It may not be possible in the courts of Serbia to enforce foreign court judgments, including English court judgments, against Serbia that are predicated upon the laws of foreign jurisdictions without a re-examination of the merits of such judgment in the Serbian courts.

Serbia is a sovereign state and there is a risk that, notwithstanding the limited waiver of sovereign immunity by Serbia pursuant to the Terms and 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. 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 or (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Serbia or any agency or instrumentality thereof; or (iii) military property or military assets or property or assets of Serbia relating to any of the assets referred to in (i) and (ii).

Factors which are Material for the Purpose of Assessing the Market Risks Associated with the Notes

The Notes may not be a suitable investment for all investors

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

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

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

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

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

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

Collective action clauses

The Notes contain provisions regarding acceleration and voting on amendments, modifications, changes and waivers, which are commonly referred to as "collective action clauses". Under these provisions, certain key provisions of the Notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of the Issuer and defined majorities of Noteholders. Each such amendment will be binding on all Noteholders, whether or not they voted in favour of such amendment or at all. See Condition 14 (*Meetings of Noteholders and Modification*).

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35.0%. The transitional period is to terminate following the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding measures) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment is made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent (as defined in the Conditions below) nor any other person is obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Under the Conditions, the Issuer is required to maintain an Agent in a Member State that would not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Risks related to the Notes generally

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to authorise amendments to the Conditions of the Notes so as to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Such amendments may include a reduction or cancellation of the principal or other amounts payable under the Notes, amendment of the Events of Default, status, currency or payment dates in respect of the Notes and the modification or cancellation of the Deed of Covenant.

Governing law

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

Pari passu securities

Any new securities issued by Serbia will rank equally in right of payment with the Notes. The issue of new securities may reduce the amount investors may recover in respect of the Notes in certain scenarios as the incurrence of additional debt could affect Serbia's ability to repay the principal of, and make payments of interest on, the Notes.

Risks Related to the Market Generally

The secondary market generally

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, which may have a severely adverse effect on the market value of the Notes. The market for the Notes will be influenced by economic and market conditions in Serbia and, to varying degrees, interest rates, currency exchange rates and inflation rates in other countries, such as the United States and the Member States of the EU. If the Notes are traded after their initial issuance, they may trade at a discount to their offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions, the political, economic or financial condition of Serbia or other factors. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

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

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

Interest rate risks

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

Credit ratings may not reflect all risks

The credit rating(s) assigned to the Notes at any time may not reflect the potential impact of all risks related to 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 assigning ratings organisation at any time.

Legal investment considerations may restrict certain investments

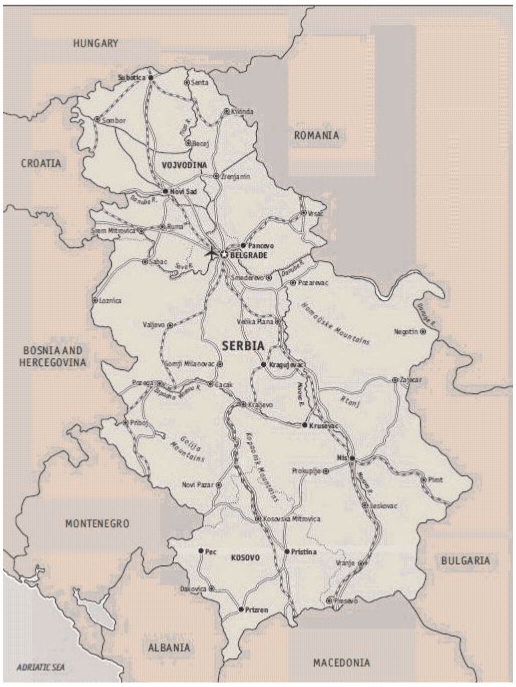
The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes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

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general Budget purposes (including, without limitation, repayment of outstanding indebtedness).

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 Macedonia.

Serbia consists of 29 administrative districts as well as two autonomous provinces ("**AP**"), 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 2002, Serbia had a total population of approximately 7.5 million (excluding Kosovo) and the Office of Statistics estimates that total population has declined to approximately 7.3 million in 2011. The next census will be held in October 2011. The highest population concentration is in Belgrade, with approximately 1.6 million people, representing approximately 21.9% of the national total, according to the most recent census. Other cities have much smaller populations.

As of the date of the last census, the majority (82.9%) of the population were ethnic Serbs. There are approximately 37 other nationalities within Serbia. Other ethnic groups include Hungarians (3.9%), Bosnians (1.8%), Roma (1.4%), Croats (0.9%) and Albanians (0.8%).

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

Historical Background

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

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

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

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, which consisted 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, Macedonia and Montenegro were given separate and equal republican status within the new socialist federation of Yugoslavia. A Yugoslav communist regime, led by Marshall Tito, then ruled Yugoslavia for more than four decades.

The 1980s coincided with the growing separatist and nationalist tensions emerging in Yugoslavia. In 1987, Slobodan Milosevic came to power and dismissed the separatist leadership of the Socialist Autonomous Province of Kosovo. Between 1991 and 1992, Slovenia, Croatia, Bosnia and Herzegovina and Macedonia seceded from Yugoslavia. The two remaining republics, Serbia and Montenegro, declared a new state, the FRY, in 1992. In 1997 the KLA initiated a campaign against FRY security forces seeking the separation of Kosovo from the FRY, leading to a war between the FRY security forces and the KLA which lasted from 1998 to 1999. NATO intervened in March 1999, sponsoring the NATO bombing campaign. In June 1999 the mandate of the UNMIK was established by the United Nations Security Council pursuant to UN Resolution 1244, and the NATO bombing campaign ceased.

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

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

In March 2002, each of Serbia and Montenegro signed the Belgrade Agreement, creating a joint State Union of Serbia and Montenegro (the "**State Union**"). The State Union's Constitutional Charter was ratified on 4 February 2003. The Belgrade Agreement provided for each of Serbia and Montenegro to hold a referendum on whether to maintain the State Union three years after its creation. In May 2006, Montenegro voted for full independence by a majority of 55.4% 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 the Kosovan Assembly (with 10 representatives of the Kosovo Serb community and one representative of the Kosovo Guarani community abstaining) issued a declaration of Kosovo's independence from Serbia purporting to establish the Republic of Kosovo. In early 2008 Serbia severed diplomatic relations with certain countries who formally recognised Kosovo as an independent state (including the United States, Canada, Australia and Japan, as well as several member states of the EU), but all of these diplomatic relationships have since been reinstated.

On 22 July 2010 following an application made to it by Serbia, the International Court of Justice ruled that the adoption of the declaration of independence of 17 February 2008 did not violate any applicable rule of international law because general international law contains no applicable prohibition of declarations of independence and the declaration was not issued by the Provisional Institutions of Self-Government of Kosovo (the local administrative bodies in Kosovo established by UNMIK), nor was it an act intended to take effect, or actually taking effect, within the legal framework under which those Provisional Institutions operated, and, therefore 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 to the legal consequences of the declaration, nor whether Kosovo had achieved the status of an independent state.

The Government has declared itself committed to the legal and political defence of Serbia's sovereignty in Kosovo. EU-sponsored, and UN-supported, dialogues between Belgrade and Pristina on a number of issues such as the civil registration of citizens of Kosovo, acceptance of academic diplomas, customs stamps and border management and telecommunications matters have taken place since March 2011. A round of discussions was held on 2 July 2011 in Brussels prior to a dispute at two customs posts on the Kosovo border. Discussions have resumed in September 2011. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Economic and political factors may make an investment in a developing country such as Serbia riskier than investing in a more developed country*".

The Constitution and Government Structure

The Constitution defines Serbia as an independent state for the first time since 1918 and also establishes the autonomy of its two administrative 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 and (iii) the judicial branch. The three branches have separate but equal powers and the judiciary is fully independent.

Executive Branch

The Government

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

In the most recent parliamentary elections held on 11 May 2008, the Serbian Radical Party received the largest number of votes, winning 77 seats in the Assembly, but this was not enough to form a majority government. Following agreement reached after the election, a governing coalition (the "**Coalition**") named "For a European Serbia" was formed. The Coalition took office on 7 July 2008 with Mirko Cvetkovic as Prime Minister, is led by the Democratic Party and includes the G17+ party, the Serbian Renewal Movement, the League of Social Democrats of Vojvodina, the Sanzak Democratic Party and the Democratic Union of Croats in Vojvodina. See "*— Legislative Branch — the Assembly*".

The Coalition has recently come under increasing political pressure, in particular after the resignation in February 2011 of the Economy Minister, Mladjan Dinkic, the leader of the G17+ party. The Government reshuffle that followed this resignation reduced the number of ministries from 24 to 17 and replaced the Finance Minister, Diana Dragutinovic, with Mirko Cvetkovic, who is also Prime

Minister. This reorganisation was approved by the Assembly by a clear majority, indicating that the Coalition is now likely to remain in power to the end of the current parliamentary term despite opposition protests calling for early elections in the spring of 2011, which were not well received. The next parliamentary elections are due to be held in March or early April 2012.

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

Name	Position
Mirko Cvetkovic	Prime Minister and Minister of Finance
Ivica Dacic	Deputy Prime Minister and Minister of Interior
Bozidar Djelic	Deputy Prime Minister
Jovan Krkobabic	Deputy Prime Minister
Verica Kalanovic	Deputy Prime Minister
Vuk Jeremic	Minister of Foreign Affairs
Dragan Sutanovac	Minister of Defence
Snezana Malovic	Minister of Justice

Source: The Government.

The President

The President of Serbia is elected 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 contains 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) pardon criminals.

The most recent presidential election was held on 20 January 2008. The Serbian Radical Party candidate, Tomislav Nikolic, won 40.0% of the total vote and the Democratic Party candidate and incumbent president, Boris Tadic, won 35.4% of the total vote. Since neither candidate won a majority of the total vote, a second round of voting was held on 3 February 2008 in order to decide between the first and second ranked candidates. In this second round, Boris Tadic won 50.3% of the vote and was duly elected President for another term.

The next presidential election is due to be held in January 2013.

Legislative Branch — the Assembly

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 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) 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 recently established 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 enact 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 the draft law has been harmonised with EU legislation, there is no obligation to harmonise the draft law with EU legislation or that the draft law cannot be harmonised with EU legislation. In addition to this, the Government may consider enacting a requirement to include an estimate of the financial effects for any draft legislation submitted to the Assembly that may potentially increase the deficit.

The following table shows the number and percentage of seats in the Assembly held by each political party as at the date of this Prospectus. Members of the Coalition have 99 seats or 39.6% of the number of total seats.

Name of Party	No. of seats	Share of total seats (%)
For a European Serbia	**99**	**39.6**
Democratic Party	64	25.6
G17+	21	8.4
Social Democrats' League of Vojvodina	5	2.0
Sandzak Democratic Party	4	1.6
Serbian Renewal Movement	4	1.6
Democratic Union of Croats in Vojvodina	1	0.4
Others	**151**	**60.4**
Serbian Radical Party	57	22.8
Democratic Party of Serbia	21	8.4
Serbian Progressive Party	21	8.4
Liberal Democratic Party	12	4.8
Socialist Party of Serbia	11	4.4
New Serbia	9	3.6
United Pensioners of Serbia Party	5	2.0
Other	15	6.0
Total	**50**	**100**

Source: The Assembly.

The Judiciary

Judicial system

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

Serbia has a Continental law system with an appellate judicial system. The judiciary is divided into courts of general and special jurisdiction. Courts of general jurisdiction comprise the Supreme Court of Cassation, appellate courts, high courts and basic courts. Courts of special jurisdiction comprise commercial courts, the Commercial Appellate Court, misdemeanour courts, the High Misdemeanour Court and the Administrative Court. In addition, Serbia has a Constitutional Court and special panels for prosecuting war crimes and organised crime within the Belgrade district court.

The Supreme Court of Cassation is the court of highest instance and its functions include the uniform application of laws. With the establishment of the new appellate courts, 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 conflicts of jurisdiction between courts and requests for transfer of jurisdiction.

A new appellate structure organised around four courts of appeal came into effect on 1 January 2010. The courts of appeal are located in Belgrade, Kragujevac, Niš, and Novi Sad. Decisions rendered by the high or basic courts in the first instance are reviewed and decided by one of these four appellate courts.

There are 34 basic courts and 26 high courts located throughout Serbia, which hear and 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 hearing appeals of basic court decisions concerning motions to secure the presence of a defendant, decisions in civil disputes, judgments in cases of small monetary value and enforcement and non-litigious proceedings. High courts also decide conflicts of jurisdiction between basic courts and conduct extradition proceedings, enforce criminal judgments of foreign courts and decide cases concerning the recognition and enforcement of foreign court and arbitration proceedings (unless these fall under the jurisdiction of another court).

Specialised panels on war crimes and organised crime were established within the Serbian court system in July 2003. Following the conclusion of the Yugoslav conflict, the special panel on war crimes was established in order to decide cases concerning alleged violations of crimes against humanity, international law, and related basic crimes. The special panel 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 special panel also has jurisdiction over cases related to the assassination of Prime Minister Zoron Djindjic in 2003.

The Administrative Court, established in January 2010 under Articles 13 and 89 of the Law on Organisation of Courts, has a seat in Belgrade and departments in Kragujevac, Niš and Novi Sad. Administrative cases concern matters such as customs, tax, inspections, pensions, elections, rights of prisoners, and market monopoly cases. 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 Appellate Commercial Court in Belgrade, following which they may be further appealed to the Supreme Court of Cassation.

Serbia also has 45 misdemeanour courts and one High Misdemeanour Court with a seat in Belgrade and departments in Kragujevac, Niš 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. 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 level. In addition, the Constitutional Court has jurisdiction to decide certain election-related disputes. 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

Following the adoption of the National Judicial Reform Strategy on 25 May 2006, the Government has been engaged in a comprehensive effort to reform the judiciary in order to uphold the principles of separation of powers, promote legal certainty and strengthen the rule of law. This reform is part of the Government's broader efforts to modernise Serbia's legal framework to bring it in line with European and other international standards governing the protection of human rights and minority rights. In particular, in 2009, the Government adopted laws establishing the High Judicial Council and the State Prosecutorial Council in order to ensure and guarantee the independence of judges and autonomy of public prosecutors, improve the process of electing judges and public prosecutors, and decide matters involving the transfer, suspension or dismissal of judges and public prosecutors. The High Judicial Council, made up of 11 members, makes recommendations to the Assembly regarding the election and dismissal of judges and otherwise acts to safeguard autonomy of the courts and judges. Grounds for judicial dismissal may include commission of a major felony, negligent or unprofessional performance of duties and conviction for a criminal offence punishable with an unconditional prison sentence of a minimum of six months. The State Prosecutorial Council, also with 11 members, has a similar role in the election and dismissal of public prosecutors and deputy public prosecutors and guarantees their independence. A Judicial Academy was also established in

2009. The Judicial Academy provides initial and continuous professional education and specialisation for all members of the judiciary throughout their careers.

Moreover, in order to improve the effectiveness of the judicial system, reduce the backlog of court cases and expedite enforcement of judgments, on 5 May 2011, the Assembly adopted the Law on Public Notaries and the Law on Enforcement and Security, introducing notaries and bailiffs to the court system. Additionally, an amended Civil Procedure Law and Criminal Procedure Code are scheduled to be considered for adoption by the Assembly in late September or early October 2011, each of which is meant to enhance the efficiency of the network of courts and expedite court procedures. For instance, the amended Criminal Procedure Code aims to decrease investigation time by replacing court-led investigations with prosecutorial investigations.

Regional Administration

Under the Law on Territorial Organisation passed by the Assembly in December 2007, Serbian territory is organised in three categories: autonomous provinces, municipalities and cities.

Serbia has two autonomous provinces: Vojvodina in the north and Kosovo and Metohija in the south. Vojvodina has 39 municipalities and six cities. The province has its own government, constituted by an executive branch as well as an Assembly. It enjoys autonomy on matters such as infrastructure, science, education and culture. Kosovo and Metohija has 28 municipalities and one city, Pristina. While according to the Serbian Constitution it remains part of Serbia, since June 1999, Kosovo and Metohija has been governed by UNMIK, established pursuant to UN Resolution 1244. Central Serbia, which contains 83 municipalities and 17 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 national authority and do not have any form of self-government.

Local government is primarily administered at the municipal and city level. Each municipality has its own president, municipal assembly and municipal council. Members of the municipal assembly are elected every four years in local elections. Once the assembly is elected, it will elect the president and council. Each city (except for Belgrade, which is considered a district) has a similar form of government to the municipal level, made up of a mayor and an assembly that adopts a separate city council.

Armed Forces

There are two branches of Serbia's armed forces: the air force and air defence and the army. As of 1 January 2011, the armed forces had approximately 36,000 serving professional (as opposed to conscript) personnel. The Ministry of Defence budget was approximately 2.6% of nominal GDP in 2010 and is budgeted at approximately 2.4% of nominal GDP (approximately RSD 79.9 billion) for 2011.

The principal roles of Serbia's armed forces include: (i) deterring armed threats and other military challenges, risks and security threats; (ii) defending the territory, territorial waters and air space of Serbia; (iii) participating in international military co-operation under UN patronage and the system of joint security; and (iv) providing support in the case of natural disasters and catastrophes. Under the authority of the Ministry of Defence, the Supreme Defence Council determines the organisational structure and number of members of the armed forces according to need and with a view to maintaining international standards.

Foreign Relations

European Union

Serbia's main foreign policy objective is to achieve candidate status for membership of the EU and, ultimately, 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.

Before applying for membership, Serbia signed the Stabilisation and Association Agreement (the "**SAA**") with the EU on 29 April 2008 to help prepare it for candidacy and eventual membership of the EU. Upon signing the SAA, Serbia undertook to harmonise its national legislation with the EU's *acquis communautaire* and to apply it consistently. Serbia has successfully adopted many new legislative initiatives in order to harmonise its national legislation with EU standards. In October 2008, the Government finalised a National Programme for EU Integration. From July 2008 to June 2011, of 799 proposed regulations, 630 regulations were incorporated into national law. In particular, Serbia has focused on judicial reform guaranteeing judicial independence, prevention of organised crime and corruption and co-operation with the ICTY. In addition, fiscal and monetary harmonisation measures include implementation of monetary policy to control inflation and stabilise prices, strengthening the prudential framework to ensure stability of the financial sector, enhancing the system of international payment transactions in line with international rules and standards implementation of a system of consumer protection laws and standards, and continued liberalisation of capital flows.

On 14 July 2011 the Government adopted and implemented recommendations made in the Report on the Implementation of the Action Plan for fulfilment of priorities under the European Commission's Annual Progress Report and the plan for accelerating candidate country status. According to the report prepared by the European Integration Office, approximately 73.0% of the requirements of the Action Plan have now been implemented; 30 out of the total of 96 recommendations contained in the Action Plan had been completely fulfilled and 46 recommendations had been partially fulfilled (i.e. half or more of the requirements of the relevant recommendation). Some important commitments that had not been implemented as of the date of this Prospectus relate to the adoption of the Law on Public Property (which includes the property of autonomous provinces and local governments) and the Restitution Law. Each of these laws deals with property rights and their provisions will have to be aligned. Additionally, an amended Civil Procedure Law and Criminal Procedure Code are scheduled to be considered for adoption by the Assembly. The Government currently expects to adopt these two laws in late September or early October 2011, as well as other remaining draft laws foreseen in the Action Plan.

On 22 December 2009 Serbia formally submitted its application for EU membership. When a country formally applies for membership, the Council of the European Union (the "**EU Council**") asks the European Commission to prepare an opinion on the country's readiness to begin negotiations. The EU Council can then either accept or reject the European Commission's opinion. On 25 October 2010 the EU Council formally forwarded Serbia's application for membership to the European Commission for consideration. The European Commissioner for Enlargement submitted the European Commission's Questionnaire to the Serbian Prime Minister and on 22 April 2011 Serbia sent the European Commission its final set of responses to the Questionnaire. The European Commission is expected to deliver its opinion on Serbia's candidate status on 12 October 2011.

Even if Serbia obtains candidate status in December 2011, it may take several years of negotiation and further reform for Serbia to satisfy all requisite criteria for full EU membership. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Serbia may not become a member of the European Union in the near to medium term or at all*". The EU Council will open negotiations on "chapters" of law for which it feels there is sufficient common ground to have constructive negotiations. The process from application for membership to full membership typically lasts close to ten years, although some countries, notably Sweden, Finland, and Austria, have gained EU membership in only a few years.

Serbia also has in place with the EU an Interim Trade Agreement (see "*External Sector — International Trade Agreements*") and further agreements concerning visa facilitation and readmission. Serbia's visa-free regime with the EU came into force on 19 December 2009. Under this regime, citizens of Serbia no longer need visas in order to travel to the 25 member states of the EU. However, an increase in the amount of asylum seekers from Serbia reaching EU member states has recently put some strain on this regime and increased the risk that it may be suspended.

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. Co-operation increased substantially after the assassination of Prime Minister Zoran Djindjic in 2003 and several people surrendered to the ICTY in 2004 and 2005.

Of a total 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 Bosnian Serb general, Ratko Mladic, and former Croatian Serb general, Goran Hadzic, in May and July 2011, respectively.

Since 2004, Serbia has responded to the majority of the 1,979 requests for assistance from the ICTY Prosecutor's Office's and 1,036 requests for assistance from defence counsel. Serbia has observed all of the ICTY's motions concerning the service of subpoenas and other notices on those in its territory and its motions for providing protection to witnesses located in its territory.

The Government believes that Serbia's extensive co-operation with the ICTY is an important factor in the context of the European Commission's assessment of its application for EU member candidate status.

***United Nations* ("UN")**

Following the independence of Serbia and Montenegro upon the dissolution of the State Union, the Government confirmed that UN membership of Serbia and Montenegro in 2006 would be continued by Serbia. Serbia is a member of several UN bodies and specialised agencies and participates in UN-sponsored activities in the areas of security, human rights, development and refugees, among others. In particular, Dr. Oliver Dulić, Serbia's Minister of Mining, Environment and Spatial Planning, is the current President of the Governing Council of the UN Environment Programme.

***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**"). Serbia's Memorandum on the Foreign Trade Regime was circulated in March 2005 and the Working Party held its first meeting in October 2005. Serbia has signed Bilateral Market Access Agreements on goods and services with the European Union, Honduras, Japan, Norway, the Republic of Korea, Canada and Switzerland. Bilateral market access negotiations remain in progress. Serbia attended its tenth Working Party meeting in Geneva on 17 March 2011 and the next Working Party meeting is expected to take place on 30 September 2011. Serbia expects to continue negotiations with certain member states specifically in the areas of agriculture and genetically modified food.

The Council of Europe

Serbia has been a member of the Council of Europe since 3 April 2003 and held a six-month Chairmanship of the Committee of Ministers of the Council of Europe in 2007. The Council of Europe consists of 47 member states across Europe, and seeks to develop common and democratic principles based on the European Convention on Human Rights and other conventions on the protection of the rights of individuals.

***Euro-Atlantic Partnership Council* ("EAPC")**

Serbia is a partner state in EAPC along with 49 other states. EAPC acts as a multilateral forum for dialogue and consultation on political and security-related issues among NATO and partner states. It provides the overall political framework for NATO's co-operation with partner states in the Euro-Atlantic area and for the bilateral relationships developed between NATO and individual partner states under the Partnership for Peace programme.

***Organisation for Security and Cooperation in Europe* ("OSCE")**

Serbia has maintained membership in the OSCE since 10 November 2000. The OSCE is the world's largest regional security organisation with participation by 56 states from Europe, Central Asia and North America. It offers a forum for political negotiations and decision-making in the fields of early warning, conflict prevention, crisis management and post-conflict rehabilitation, and also maintains a network of field missions. The OSCE has a mission in Serbia whose purpose is to advise on the implementation of laws and to monitor the proper functioning and development of democratic institutions and processes. It assists in training law enforcement bodies and the judiciary. The OSCE also seeks to support civil society and foster regional cooperation and reconciliation.

Other regional co-operation

One of the most important priorities for Serbia's foreign policy agenda is to maintain good relations with neighbouring countries, as the Government believes that this co-operation safeguards and strengthens stability in the region and is likely to enhance Serbia's progress towards EU integration. Serbia participates in several important regional initiatives and organisations discussed below. In 2011 and 2012, Serbia is expected to preside over regional initiatives such as the Central European Initiative, the Adriatic Ionian Initiative, the South-East Europe Cooperation Process and the

Migration, Asylum and Refugees Regional Initiative. Serbia is also expected to chair the Organisation of Black Sea Economic Cooperation from 1 January 2012 to 30 June 2012.

Russia

Serbia has developed a strategic political and economic relationship with Russia based on strong political ties at all levels of government between the two countries and successful cooperation in international and regional organisations such as the UN, OSCE and the Organisation of Black Sea Economic Cooperation. Russia is also one of Serbia's key trade partners and the two countries signed a bilateral free trade agreement in August 2000. See "*External Sector — International Trade Agreements*". Serbia has also developed solid relations with Russia in the energy sector. In January 2008 Serbia and Russia signed the Agreement on Cooperation in the Oil and Gas Industry and in December 2008 the two countries signed a contract on the takeover of Naftna Industrija Srbije ("**NIS**"), the Serbian state-owned oil company, by Gazprom Neft. See "*Economy of Serbia — Privatisation Process*". In addition, in June 2010 Russia and Serbia agreed to a visa-free regime for business and tourist trips.

Central European Free Trade Agreement ("**CEFTA**")

On 19 December 2006 Serbia signed the Agreement on Amendment of and Accession to the Central European Free Trade Agreement between Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia and UNMIK (on behalf of Kosovo). The main objectives of the CEFTA are to expand trade in goods and services, foster investment by means of fair, stable and predictable rules, eliminate barriers to trade between parties, protect intellectual property rights in accordance with international standards and harmonise measures on modern trade policies such as competition rules and state aid. The CEFTA also includes clear and effective procedures for dispute settlement.

South-East Europe Cooperation Process ("**SEECP**")

SEECP was established in 1996 in order to promote stability, safety and co-operation in South-East Europe, and its member states comprise Serbia, Romania, Bulgaria, Greece, Turkey, Montenegro, Albania, Bosnia and Herzegovina, Macedonia, Croatia, Slovenia and Moldova. Serbia became Chair of the Office of SEECP on 30 June 2011. Priorities of this chairmanship include promoting European values in SEECP countries, prevention of organised crime, co-operation in overcoming the global financial and economic crisis and co-operation in culture, education and science.

Regional Cooperation Council ("**RCC**")

RCC was established on 27 February 2008 as the successor to the Stability Pact for South Eastern Europe. RCC works under the political guidance of SEECP with a focus on priority matters of economic and social development, energy and infrastructure, justice and home affairs, security co-operation and parliamentary co-operation.

Central European Initiative ("**CEI**")

CEI is an initiative seeking to strengthen the capacities of non-EU countries to achieve cohesive economic and institutional development and to bring them in line with EU standards. The CEI Trust Fund at the EBRD, supported by the Italian government, has committed financial support for CEI technical co-operation projects in Serbia in sectors such as energy efficiency and sustainable agriculture.

Migration, Asylum and Refugees Regional Initiative ("**MARRI**")

MARRI was established in 2003 with Albania, Bosnia and Herzegovina, Croatia, Montenegro, Macedonia and Serbia as its member states. MARRI aims to promote co-operation between its member states to achieve EU standards in relation to migration, asylum and refugees. Projects realised within the Initiative include the Programme for the Enhancement of Anti-Trafficking Responses in South Eastern Europe and the establishment of a network for co-operation among border police at international airports and border crossing points in MARRI member states.

Adriatic Ionian Initiative ("**AII**")

AII was established in 2000. Its member states are Albania, Bosnia and Herzegovina, Croatia, Greece, Italy, Montenegro, 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.

South-East Europe Cooperative Initiative ("**SECI**")

SECI is a regional initiative established in 1996 which focuses on trans-border co-operation programmes in infrastructure, trade and traffic, security, energy, environment and development of the private sector. SECI has a regional centre for the prevention and combating of cross-border crime located in Bucharest, Romania.

Legal Proceedings

Serbia is a party to a number of legal proceedings mainly relating to commercial and investment disputes and foreign trade as well as claims against the Privatisation Agency. Serbia has not been involved in any litigation, administrative or arbitration proceedings (including any such proceedings which are pending or threatened of which Serbia is aware) during the 12 months preceding the date of this Prospectus that may have, or have had in the recent past, a significant effect on its financial position.

ECONOMY OF SERBIA

Historical Economic Policy and Developments

In the 1990s, the Serbian economy was negatively affected by the disintegration of the unified Yugoslav market, the Yugoslav conflict, the NATO bombing campaign and the resulting sanctions imposed by the international community. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Economic and political factors may make an investment in Serbia riskier than investing in a more developed country*". The adverse effects of these events had a negative effect on GDP and industrial output and aggravated existing economic and social conditions. During this period, the Serbian economy was characterised by a decline in economic activity, hyperinflation, low domestic savings, insolvency in the banking sector, frozen foreign exchange deposits, unstable exchange rates, lack of confidence in the national currency, restrictive foreign trade trends, a non-transparent taxation system, a "grey" market economy, high unemployment and low living standards. In January 2001, the first democratic Government introduced economic stabilisation measures and embarked upon a programme of reforms to create a market-led economy, with its key stated strategic priority being to gain accession for Serbia to the EU. In line with this objective, Serbia sought to adopt an economic policy that would achieve economic stability, sustainable growth, increased levels of employment and living standards and uniform regional development. Economic reforms undertaken included Serbia's programme with the IMF, debt rescheduling, development of a privatisation model, increasing the country's foreign exchange reserves and reforms in the banking sector, as well as to the country's taxation and foreign trade systems.

The average annual rate of real GDP growth in the period from 2001 to 2008 was 4.9% driven primarily by the services sector, which is unusual for an emerging market country such as Serbia. Growth in the services sector resulted in a higher demand for imported goods as compared to the supply of goods for export.

In early 2000, inflation was relatively high by international standards. The growing fiscal deficit and levels of public debt also posed a threat to economic stability and growth. The national currency was consolidated and the exchange rate stabilised towards the end of 2000. The Government carried out an initial phase of stabilisation using the exchange rate as the nominal anchor for slowing inflation. A managed, flexible exchange rate regime was introduced, followed by the convertibility of current transactions pursuant to Article VIII of the IMF Articles of Agreement. As a result, inflationary expectations were lowered and inflation reduced considerably. The National Bank increased the level of foreign exchange reserves and began auditing transactions. This was followed by the bankruptcy and liquidation of certain large insolvent domestic banks and the entry of foreign banks into the Serbian banking market.

The Government introduced reforms to the public finance system at the beginning of the transition period in order to improve efficiency of the collection of revenue and control of money flows and public expenditures. Sales tax rates were unified when VAT was introduced on 1 January 2005.

Liberalisation of foreign trade in this period resulted in the abolition of the non-tariff barriers to imports, the reduction and simplification of customs rates and the simplification of foreign trade transactions. However, the average tariff rate remained higher than that in other countries in the region. On 28 August 2000 Serbia signed a free trade agreement with the Russian Federation and in November 2000 Serbia established preferential treatment for trade with EU member states. Several years later, in October 2007, Serbia established free trade with other countries in the region, including Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova and Montenegro.

In 2005, the Government introduced a new Labour Law providing more flexibility in the formal labour market and a more effective employment policy. It reformed the pension and disability insurance system to provide for regular payment of pensions and payment of accumulated arrears. In addition, a voluntary pension insurance system was introduced by the adoption of the Law on Voluntary Pension Funds and Pension Schemes in September 2005.

As a result of the first decade of transition to a market-based economy, the Government believes that Serbia has made significant progress in adopting a "first generation" of financial sector reforms. However, in light of the macroeconomic trends and the overall macroeconomic environment, as well as its aim to achieve EU accession, the Government believes that Serbia must continue to work towards creating an attractive environment for domestic and foreign investment, providing for full protection of property and contractual rights, modernising its taxation system, 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 private sector job creation, improving relations between employers and employees, curbing corruption and reforming the public sector and banking system to make them more efficient. However, certain initiatives were delayed or suspended due to the onset of the global financial crisis in late 2008.

The following table shows key indicators of economic development for the years 2006 to 2010 and the three months ended 31 March 2011:

	Year ended 31 December					Three months ended 31 March
	2006	2007	2008	2009	2010	2011
Nominal GDP (*EUR billions*)(1)(2)	23.3	28.5	32.7	28.9	29.0	7.0
Real GDP growth (%)(2)	3.6	5.4	3.8	(3.5)	1.0	3.4
End of year retail price increase (%)	6.6	10.1	6.8	10.4	11.5	6.8(9) (10)
Trade balance (*% of GDP*)(2)(3)	(21.4)	(24.8)	(26.0)	(17.7)	(16.8)	(18.8)
Current account deficit (excluding grants) (*% of GDP*)(1)(2)	(15.5)	(18.3)	(22.1)	(7.9)	(7.8)	(11.6)
Net FDI (*EUR billions*)(4)	3.3	1.8	1.8	1.4	0.9	0.3
FDI (*% of GDP*)(2)	14.3	6.4	5.6	4.8	3.0	4.3
Average rate of employment (Y-O-Y)(%)(5)	(2.1)	(1.1)	(0.1)	(5.5)	(4.9)	(3.5)(9)
Real Growth in average net pay (%)	11.4	19.5	3.9	0.2	0.7	(2.2)(9)
Labour productivity real growth (%)	5.8	6.6	3.9	2.1	7.1	7.5
ILO unemployment rate (ages between 15-64) (%)(6)	21.6	18.8	14.4	16.9	20.0	22.9
Registered unemployment rate	31.2	29.8	27.5	28.2	29.2	30.2
Public spending consolidated financial statement balance (*% of GDP*)(2)	(1.6)	(2.0)	(2.6)	(4.5)	(4.7)	(3.6)
Foreign debt (*EUR billions*)(8)	14.2	17.1	21.1	22.5	23.8	22.7
Foreign debt (*% of GDP*)(2)	60.9	60.2	64.6	77.9	82.1	77.1(9)
Foreign debt/goods & services exports (%)	204.1	197.3	207.6	265.2	236.2	213.0(9)

Source: Office of Statistics; National Bank.

Notes:

(1) Recalculated by the Ministry of Finance based on the average RSD/EUR, RSD/U.S.$ or U.S.$/EUR exchange rate, as relevant, for the relevant period. See "*Exchange Rate History*".

(2) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "— *Gross Domestic Product*".

(3) Imports and exports of goods are presented as free on board (FOB).

(4) As of 1 January 2007, the National Bank records foreign exchange remittances as current account inflows. On this basis, it has adjusted the ratio of current account deficit to GDP for the years 2007 and 2008.

(5) In March 2009, the Office of Statistics adjusted the rate of employment as at January 2009 due to, among other things, the Office of Health Insurance records being updated.

(6) According to International Labour Organisation Methodology. See "— *Employment*" for a discussion of this methodology.

(7) According to "registered unemployment" rate. See "— *Employment*" for a discussion of this methodology.

(8) The foreign debt statistics methodology was changed in September 2010 in order to include as external public debt obligations under the IMF Special Drawing Rights allocation (EUR 442.9 million) as well as capitalised interest to Paris Club creditors (EUR 86.2 million) and to exclude from external debt of the private sector loans concluded before 20 December 2000, under which the payments have not been made (EUR 849.3 million, of which EUR 393.8 million relates to domestic banks and EUR 455.5 million to domestic enterprises).

(9) Figures are presented for the first six months of 2011 because three-month data is not available.

(10) In January 2011 the Office of Statistics began using the Consumer Price Index as its main measure of inflation rather than the Retail Price Index, which was previously used.

Current Economic Policy

The global financial and economic crisis which began in the second half of 2008 resulted in a decline in domestic and export demand and an overall reduction in output and trade. The crisis also impeded access to foreign capital, slowed the lending activity of banks, reduced spending and investment in the private sector and resulted in an increased number of corporate insolvencies. In the period from the end of 2008 through to mid 2011, the Government and the National Bank have implemented a programme of measures intended to alleviate these consequences, to protect the Serbian economy, banking system, free market and attempt to ensure that the burden imposed by the crisis was distributed in order to protect impoverished segments of the population. These measures included:

- in October 2008, when the first effects of the global financial and economic crisis began to be felt in Serbia, the Government and the National Bank introduced a series of measures aimed at strengthening Serbia's financial and macroeconomic stability and mitigating the effects of the crisis. These measures implemented by the National Bank were primarily aimed at improving the liquidity of banks, reducing currency risk exposure and mitigating depreciation and inflationary pressures (see "*Monetary System — Monetary Policy*");

- in January 2009, the Executive Board of the IMF approved a 15-month stand-by arrangement to support Serbia's economic programme aimed at maintaining macroeconomic and financial stability. In May 2009, the Executive Board agreed to increase its financial support and extend the stand-by-arrangement by one year to mid-April 2011. Further performance reviews were completed in December 2009 and March, June, September and December of 2010, with the IMF making additional special drawing rights available in each instance. Serbia only drew down 1,367.7 million special drawing rights (approximately EUR 1.5 billion or U.S.$2.1 billion), which amounted to 52% of the total amount available to Serbia under the stand-by-arrangement (see "*Public Debt — Multilateral and Bilateral Development Organisations*");

- in March 2009, the Government adopted the Plan for Economic Stability of Serbia and allocated funding of EUR 1.2 billion to implement the Plan. In late April 2009, on the recommendation of the Government, the Assembly adopted a revised 2009 Budget, which provided for a reduction of approximately RSD 100.0 billion (EUR 1.05 billion) in public spending, with the main fiscal policy change being the freezing of wages and pensions for public sector employees during 2009 and 2010, affecting approximately 725,000 public sector employees and approximately 1.6 million pensioners, as well as a significant reduction in a number of other categories of public expenditure;

- the IMF's approval of credit arrangements including a programme of measures seeking to maintain investor and market confidence made it possible for the Government to similarly secure considerable additional financial support from other international financial organisations, such as the World Bank, EBRD and the EU, as well as bilateral financial support to fund the Budget and infrastructure projects (see "*Public Debt — Multilateral and Bilateral Development Organisations*");

- in mid-April 2009, an agreement was reached in Vienna with the largest foreign banks operating in Serbia (the "**Vienna Initiative**") under which they agreed to maintain their level of exposure in Serbia as of December 2008 until the end of 2010 (see "*Monetary System — Banking Sector — The Vienna Initiative*");

- in June 2009, the Government implemented a plan for the maintenance of social security for newly unemployed persons who lost their jobs during the global financial and economic crisis through the Budget Fund for Resolving Problems Caused by the Negative Effects of the World Economic Crisis. This Fund was financed by a 10.0% tax on the wages of public sector employees who earned RSD 40,000 to RSD 100,000 monthly and a 15.0% tax on the wages of public sector employees who earned more than RSD 100,000 monthly;

- in October 2009, the Government implemented a plan for subsidising housing credits according to which the Government provided housing credits of up to 20.0% of real estate value to citizens earning salaries less than RSD 120,000. The Government loans were provided at 0.0% interest and the borrower is obliged to repay after 20 years in five-year instalments;

- in March 2010, a decision of the National Bank with respect to obligatory reserves came into force adopting a new reserve rate in order to stimulate bank lending activities as well as improve levels of deposits and foreign borrowing. The base for the calculation of required reserves was modified so that the Dinar base would include only non-indexed liabilities, while the base of foreign currency liabilities was extended by including foreign currency-indexed Dinar liabilities. The percentage allocation of foreign currency reserves in Dinar was reduced from 40.0% to 20.0%, thus allowing banks to allocate less than the Dinar equivalents of the calculated required reserve in Euro in order to improve Dinar liquidity in the banking sector;

- in July 2010, the Government implemented measures indirectly supporting the construction industry by directly subsidising interest rates on consumer loans for the purchase of construction material and short-term and long-term mortgages; and

- in June 2011, the Government made a recommendation to commercial banks to allow rescheduling of loans extended to enterprises for the purposes of reducing the risk of widespread insolvencies in certain industries.

As a result of these measures, the impact of the global financial and economic crisis on the Serbian economy and financial system was partially mitigated. In particular, the National Bank programme for increasing banking sector liquidity and Government measures for improving the liquidity of industries had a beneficial effect. The impact of the incentive measures for industries were reflected in the slower rate of decrease in industrial output and foreign trade and the stabilisation of macroeconomic indicators in the second half of 2009.

GDP decreased by 3.5% in real terms in 2009. The programme of measures outlined above began to produce positive results in 2010 with GDP increasing by 1.0% in real terms.

Beginning in January 2010, the Government phased out certain short-term measures adopted for the crisis period such as the tax on mobile phone usage (initially implemented in July 2009) and a programme to subsidise interest rates on the purchase of certain consumer goods produced in Serbia (initially implemented in 2009). In January 2011, the Government unfroze public sector wages and pensions. Public sector wages increased by 2.0% in January 2011 and by 5.5% in April 2011, due to high inflation. See also "*Public Finance — Medium Term Fiscal Policy*".

In 2011, reforms were introduced to stabilise the welfare system, ensure the regular payment of benefits and the payment of accumulated arrears, resulting in improvements to the system of financial support for families with children and disabled people. A reform-oriented Social Protection Law was also adopted in March 2011.

In July 2011, reform of the health care system improved the financial position of health care workers and secured investment in equipping health care institutions.

Serbia was the only country in Europe to have its credit rating increased in the period immediately following the global financial and economic crisis. On 16 March 2011, S&P upgraded Serbia's long-term credit rating from *BB-* (stable) to *BB* (stable).

On 31 August 2011, during the visit of the IMF mission to Serbia, an agreement was reached, subject to approval by IMF Management and the Executive Board, on an economic programme that could be supported by a total of 935 million special drawing rights (approximately EUR 1.0 billion) under an 18-month stand-by arrangement. See "*Public Debt — Multilateral and Bilateral Development Organisations — International Monetary Fund*". While loans from the IMF are not currently required, such additional funds may assist the National Bank to manage foreign exchange reserves.

The Government intends to continue to pursue appropriate fiscal and economic policies to facilitate the adoption of public sector reforms, restructure the economy in order to increase exports and develop the country's infrastructure. The Government believes that monetary and fiscal policy will play a key role in the achievement of Serbia's development-related aims. In particular, a low and stable inflation rate, reducing unemployment, creating attractive conditions for FDI and fiscal responsibility are important factors in the Government's approach going forward. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — The inability of the Government to adjust public spending to generate fiscal revenues may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes*". The Government also intends to present a supplementary Budget to the Assembly and implement structural reforms in order to guarantee property rights, improve the transparency of public enterprises increase labour market flexibility to support private sector job creation.

Privatisation Process

In 2001 a programme of restructuring and privatising the large public enterprise sector was introduced under the Law of Privatisation. A number of enterprises owned by all citizens of Serbia ("**Socially-Owned Enterprises**") and enterprises owned and managed by the Government ("**State-Owned Enterprises**") have been privatised, with foreign investors actively participating in the privatisation process. The privatisation programme is nearly complete, but is ongoing with a number of entities yet to be privatised when market conditions are suitable.

The Government plans to establish a working group to assess the viability, management and the ability of Socially-Owned Enterprises to operate without Budget subsidy. The Government also aims to improve the governance, transparency and efficiency of State-Owned Enterprises by requiring the regular publication of financial results and improving the management and accountability of Socially-Owned Enterprises with a view to an eventual sale of such enterprises to strategic investors.

The Ministry of Finance performs sales of state-owned capital, assets and property comprising power utilities, railways, road networks, airports and airlines, telecommunications and the gas network. The most recent significant privatisation was the sale of a 51.0% stake in NIS, an oil company, to Gazprom Neft in 2008. In April 2011, the Ministry of Finance cancelled its planned sale of a 51.0% stake in Telekom Srbije after it was unable to secure the EUR 1.4 billion it had set as a minimum bid. The Ministry of Finance may decide to sell further state-owned capital in the near to medium-term including JAT Airways and Galenika A.D.

The Privatisation Agency is a specialised agency of the Government authorised to perform activities necessary for selling socially-owned capital, assets and property. Its activities include the promotion, planning, implementation and monitoring of all privatisation projects in Serbia. The Privatisation Agency had sold a total of 985 Socially-Owned Enterprises as of 30 June 2011 and approximately 400 Socially-Owned Enterprises are yet to be privatised. There were approximately 18,000 employees of Socially-Owned Enterprises at the end of 2010. Some Socially-Owned Enterprises are not profit-making enterprises and rely on funding from the Government, which, together with prevailing macroeconomic conditions, may make it difficult to continue operating or privatise these enterprises in the future. Approximately 130 Socially-Owned Enterprises closed in 2010.

The Privatisation Agency performs several preparatory activities in advance of implementing a privatisation project. These activities include:

- analysing the financial standing, business operations, legal status, business organisation, management and human resource capacities of the candidate company;
- informing and educating company management and representatives of relevant trade unions about the privatisation process;
- deciding the method of privatisation and preparing a restructuring programme;
- registering the privatisation initiative and publicly disclosing the initiative in the press;
- inviting letters of interest from potential investors; and
- engaging financial and legal advisers.

The Privatisation Agency adopts one of two main privatisation methods — open tender or sale by auction. The Privatisation Agency's monitoring and control function includes activities such as eligibility control and verification of applications for auctions and open tenders, implementation of progress control for individual phases of open tender and auction sales, restructuring processes and invoicing of companies. The Privatisation Agency is also responsible for the execution of sales agreements and monitoring performance of obligations undertaken by the buyer once it has signed the sales agreement, which may include an investment plan, social programme, disposal of property of the privatised legal entity or an environmental protection programme.

Since the Law on Bankruptcy Procedure came into force on 1 February 2005, the Privatisation Agency also performs the tasks of a receiver in bankruptcy of state-owned companies. The Agency has been appointed as receiver in approximately 694 cases since the enactment of the Law on Bankruptcy Procedure. Privatisation of a bankrupt company will require financial, organisational and legal restructuring of the company.

The following table shows the results of the privatisation of Socially-Owned Enterprises for the years 2006 to 2010 and for the six months ended 30 June 2011:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
No. of companies sold	275	308	265	93	35	9	**985**
No. of employees	43,367	40,462	26,256	9,115	1,929	1,520	**122,649**
Selling price (*EUR millions*)	235.16	400.08	247.07	48.80	18.78	5.56	**955**
Investments (*EUR millions*)	124.39	85.73	61.85	24.58	1.23	3.55	**301**

Source: Privatisation Agency.

Gross Domestic Product

As of January 2011, the Office of Statistics published revised rates of GDP growth for the periods from 2001 to 2010. The data for nominal GDP (in RSD, U.S.$ and EUR) in the periods from 2006 to 2009 were also restated. This restatement was made due to a change in the classification of business activities made to bring the method of calculation of statistics in line with EU standards and standards of the European Statistical System. Harmonisation with these standards requires a larger number of categories in each classification level, transition from fixed base accounting to accounting in the previous year's prices and revision of the indicators used in accounting in permanent prices to meet international statistics recommendations.

Serbia's trade system monitoring now has a broader concept of exports and imports covering all goods that are imported and exported except goods in transit and transactions involving temporary goods. This change in methodology significantly increased the quality of statistical data and indicated that imports of goods were previously underestimated and GDP was previously overestimated. The new statistical methodology will include figures in relation to the ''grey'' market economy.

The following table shows Serbia's real and nominal GDP, as well as RSD/EUR and RSD/U.S.$ exchange rates, for the years 2006 to 2010 and for the three months ended 31 March 2010 and 2011, respectively:

	Year ended 31 December					Three months ended 31 March	
	2006	**2007**	**2008**	**2009**	**2010E(1)**	**2010E(1)**	**2011E(1)**
Nominal GDP (*RSD billions*)(2)	1,962.1	2,276.9	2,661.4	2,713.2	2,986.6	648.7	731.1
Nominal GDP (*EUR millions*)(2)(3)	23,304.9	28,467.9	32,668.2	28,883.4	28,984.9(3)	6,574.4	7,033.2
GDP per Capita (*EUR millions*)(2)(3)	3,144.4	3,856.6	4,444.5	3,945.4	3.966.9(3)	899.8	966.4
Real GDP growth (*%*)(2)	3.6	5.4	3.8	(3.5)	1.0	(0.6)	3.4
RSD/EUR (*end of period*)	79.00	79.24	88.60	95.89	105.50	99.76	103.60
RSD/EUR (*period average*)	84.11	79.96	81,44	93,95	103,04	98,67	103,95
RSD/U.S.$ (*end of period*)	59.98	53.73	62.90	66.73	79.28	74.38	73.22
RSD/U.S.$ (*period average*)	67.01	58.39	55.76	67.47	77.91	71.38	75.92
U.S.$/EUR (*end of period*)	0.76	0.68	0.71	0.70	0.75	0.74	0.71
U.S.$/EUR (*period average*)	0.80	0.73	0.68	0.72	0.76	0.72	0.73

Source: Office of Statistics; National Bank.

Notes:

(1) Office of Statistics estimate.

(2) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See ''— *Gross Domestic Product*''.

(3) Recalculated by the Ministry of Finance using average exchange rate for the period. See ''*Exchange Rate History*''.

In the second half of 2008, the global financial and economic crisis adversely affected trends in GDP. The crisis caused a slow down and then a decline in economic activity and foreign trade as a consequence of declining foreign and domestic demand. In 2008, the real GDP growth rate was 3.8%, which was 1.6% lower than in 2007. Following the high real growth rates registered in the first and second quarters of 2008, the rate of GDP growth decreased in real terms in the third and final quarters, in each case compared to the same periods in 2007. In addition to declining domestic and foreign demand, the crisis also led to lower foreign capital inflows because of increased investor caution and uncertain conditions in the global financial markets.

The negative trends in the Serbian economy towards the end of 2008 intensified in the first half of 2009, caused by further reduced external and domestic demand. Real GDP fell in the first and second quarters of 2009, however the rate of decrease in real GDP slowed in the third and final quarters of 2009, in each case compared to the same periods in 2008. Overall, in 2009, real GDP was 3.5% lower compared to 2008.

In the first quarter of 2010, real GDP continued to fall. Growth resumed, however, in the remaining three quarters of 2010. Overall, in 2010, real GDP grew by 1.0% compared with the previous year, with the growth primarily coming from increased exports, real RSD depreciation and a recovery in the level of private sector investments.

The Serbian economy continued to recover in the first half of 2011. In this period, real GDP grew by approximately 2.75% compared to the first half of 2010. This represented the largest inter-annual real

GDP growth rate experienced since the third quarter of 2008. The Government does however expect GDP growth to stall in the second half of 2011, resulting in projected annual growth of approximately 2.0% which will be dependent in part on investments and exports.

Gross Value Added

Serbia measures the value of goods and services produced in a sector of the economy using the measure of GVA. GVA plus taxes on products and services and less subsidies on products and services is equal to GDP. GVA is used to measure the growth in output of each sector of the Serbian economy because information about taxes and subsidies on products and services is not available for individual sectors.

The following table shows GVA in current prices of the sectors of the Serbian economy for the years 2006 to 2010 and for the three months ended 31 March 2010 and 2011:

	Year ended 31 December					Three months ended 31 March	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(RSD billions)			
Agriculture, forestry and fisheries	184.1	195.4	237.5	217.8	240.4	45.4	52.1
Industry	394.5	435.4	502.6	519.5	583.0	124.7	141.1
Building and construction	80.5	99.2	125.7	111.3	109.7	18.7	20.9
Wholesale and retail trading; motor vehicle and motorcycle repair	208.1	230.2	277.8	255.8	290.3	59.1	70.8
Transport and storage	93.0	107.9	122.5	126.2	144.7	33.3	38.3
Information and communications	72.8	85.5	106.1	114.1	128.3	29.3	33.2
Finance and insurance	48.3	62.9	77.9	85.1	102.1	23.8	27.5
Other(1)	592.5	717.4	839.8	896.7	987.1	228.0	253.9
Total GVA	**1,673.8**	**1,933.8**	**2,289.9**	**2,326.5**	**2,585.6**	**562.3**	**637.8**
FISIM (Financial Intermediation Service Indirectly Measured)	38.1	43.6	59.9	68.7	81.4	18.9	21.9
Gross value added	1,635.7	1,890.2	2,230	2,257.8	2,504.2	543.3	615.9
Taxes less subsidies for products	326.4	386.7	431.4	455.4	482.5	105.3	115.2
Total GDP	**1,962.1**	**2,276.9**	**2,661.4**	**2,713.2**	**2,986.6**	**648.7**	**731.1**

Source: Office of Statistics.

Note:

(1) Comprises: accommodation and meal services, real estate business, professional, scientific and technical business, administrative and supporting services, Government administration and national defence, obligatory social security, education, health care and social welfare, arts, entertainment and recreation; other services, households in the capacity of employer, households producing/ providing goods and services for own needs.

The following table shows nominal GVA growth rates measured in current prices of the sectors of the Serbian economy for the years 2006 to 2010 and for the three months ended 31 March 2010 and 2011:

	Year ended 31 December					Three months ended 31 March	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(%)			
Agriculture, forestry and fisheries	9.6	6.2	21.5	(8.3)	10.4	5.5	14.7
Industry	16.8	10.4	15.4	3.4	12.2	5.3	13.2
Building and construction	20.3	23.3	26.7	(11.4)	(1.5)	(17.5)	11.9
Wholesale and retail trading; motor vehicle and motorcycle repair	19.9	10.6	20.7	(7.9)	13.5	0.3	19.8
Transport and storage	18.0	15.9	13.6	3.0	14.7	12.7	15.1
Information and communications	11.2	17.4	24.2	7.5	12.4	7.1	13.3
Finance and insurance	28.1	30.2	23.9	9.2	20.0	15.4	15.9
Other(1)	19.4	21.1	17.1	6.8	10.1	6.3	11.3
Total GVA growth rate	**17.5**	**15.5**	**18.4**	**1.6**	**11.1**	**5.1**	**13.4**

	Year ended 31 December					Three months ended 31 March	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(%)			
FISIM (Financial Intermediation Service Indirectly Measured)	**23.3**	14.5	37.3	14.8	18.5	15.1	15.8
Gross value added	**17.4**	15.6	18.0	1.2	10.9	4.8	13.4
Taxes less subsidies for products	**12.5**	18.5	11.6	5.6	5.9	4.2	9.3
Total GDP growth rate	**16.5**	**16.0**	**16.9**	**1.9**	**10.1**	**4.7**	**12.7**

Source: Office of Statistics.

Note:

(1) Comprises: accommodation and meal services, real estate business, professional, scientific and technical business, administrative and supporting services, Government administration and national defence, obligatory social security, education, health care and social welfare, arts, entertainment and recreation; other services, households in the capacity of employer, households producing/providing goods and services for own needs.

The following table shows GVA in constant previous year prices, reference year 2005, of the sectors of the Serbian economy for the years 2006 to 2010 and for the three months ended 31 March 2010 and 2011:

	Year ended 31 December					Three months ended 31 March	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(RSD billions)			
Agriculture, forestry and fisheries	167.8	154.6	168.1	169.3	168.6	33.3	33.6
Industry	346.2	360.5	365.2	323.1	323.6	73.5	77.7
Building and construction	70.8	78.4	82.1	65.9	60.8	10.8	10.5
Wholesale and retail trading; motor vehicle and motorcycle repair	192.0	220.9	235.8	218.0	221.7	48.1	48.7
Transport and storage	85.4	88.8	86.5	77.9	84.4	19.7	21.6
Information and communications	83.3	97.2	107.7	118.5	125.3	29.4	31.1
Finance and insurance	44.4	48.2	54.7	57.7	60.5	14.7	15.7
Other(1)	495.6	501.9	520.8	532.8	536.9	130.9	132.0
Total GVA	**1,485.4**	**1,550.7**	**1,620.9**	**1,563.2**	**1,581.8**	**360.4**	**370.9**
FISIM (Financial Intermediation Service Indirectly Measured)	36.6	39.2	44.5	47.9	50.4	12.2	13.0
Gross value added	1,448.8	1,511.5	1,576.8	1,516.0	1,532.2	348.9	358.6
Taxes less subsidies for products	294.5	330.4	330.4	324.8	326.1	71.6	75.3
Real GDP	**1,743.4**	**1,837.2**	**1,907.4**	**1,840.5**	**1,858.0**	**419.6**	**433.7**

Source: Office of Statistics.

Note:

(1) Comprises: accommodation and meal services, real estate business, professional, scientific and technical business, administrative and supporting services, Government administration and national defence, obligatory social security, education, health care and social welfare, arts, entertainment and recreation; other services, households in the capacity of employer, households producing/providing goods and services for own needs.

The following table shows real GVA growth rates of the sectors of the Serbian economy for the years 2006 to 2010 and for the three months ended 31 March 2010 and 2011:

	Year ended 31 December					Three months ended 31 March	
	2006	2007	2008	2009	2010	2010	2011
				(%)			
Agriculture, forestry and fisheries	(0.1)	(7.8)	8.7	0.8	(0.4)	3.5	0.9
Industry	2.5	4.1	1.3	(11.5)	0.1	(1.2)	5.7
Building and construction	5.9	10.8	4.7	(19.7)	(7.8)	(16.1)	(2.9)
Wholesale and retail trading; motor vehicle and motorcycle repair	10.6	15.1	6.7	(7.5)	1.7	(4.0)	1.2
Transport and storage	8.3	4.1	(2.6)	(10.0)	8.3	4.9	9.8
Information and communications	27.1	16.7	10.8	10.0	5.7	4.2	5.7
Finance and insurance	17.8	8.6	13.4	5.5	4.9	3.5	6.2
Other(1)	(0.1)	1.3	3.8	2.3	0.8	0.1	0.9
Total real GVA growth rate	**4.0**	**4.3**	**4.5**	**(3.6)**	**1.2**	**(0.3)**	**2.9**
FISIM (Financial Intermediation Service Indirectly Measured)	18.5	7.2	13.6	7.6	5.1	3.9	6.4
Gross value added	4.0	4.3	4.3	(3.9)	1.1	(0.4)	2.8
Taxes less subsidies for products	1.5	10.7	1.4	(1.7)	0.4	(1.5)	5.2
Total real GDP growth rate	**3.6**	**5.4**	**3.8**	**(3.5)**	**1.0**	**(0.6)**	**3.4**

Source: Office of Statistics.

Note:

(1) Comprises: accommodation and meal services, real estate business, professional, scientific and technical business, administrative and supporting services, Government administration and national defence, obligatory social security, education, health care and social welfare, arts, entertainment and recreation; other services, households in the capacity of employer, households producing/providing goods and services for own needs.

Agriculture, forestry and fisheries

Serbia occupies approximately 88,361 square kilometres (including Kosovo and Metohija). Utilised agricultural land occupies over 5,000,000 hectares (0.69 hectares per capita, excluding Kosovo and Metohija).

Land and climate conditions are highly conducive to the development of agriculture. The plains of Vojvodina, Pomoravlje, Posavina, Tamnava, Krusevac and Leskovac provide favourable conditions for mechanised field crop farming and vegetable production. Rolling hills and foothills support fruit and wine production and livestock breeding. The mountains of Zlatibor, Rudnik, Stara Planina, Kopaonik and Sar are attractive for sheep and cattle production and forestry.

As of the last census in 2002, Serbia had a total agricultural labour force of 0.82 million, comprising 10.9% of the total population of Serbia in 2002. The agricultural labour force is employed as follows: livestock breeding (43.0%), field crop farming (42.0%), fruit and wine production (12.0%), other crops (3.0%).

The National Agricultural Programme of the Republic of Serbia for 2010-2013 and Serbia's National Agriculture Strategy, according to the Law on Government, define short-term and long-term agricultural initiatives, the strategies and deadlines for accomplishing these initiatives, expected results, and the form, purpose and volume of individual state incentives. The main areas of focus comprise technological modernisation of agricultural production, changes to production structure to create a greater share of large farms, adjustment to meet European market requirements and health and safety standards and the implementation of a system of support for agricultural producers. Other strategic goals include environmental protection related to the harmful effects of agricultural technology processes, preparation for WTO accession and reform of the corporate food production sector.

In 2009, the agriculture, forestry and fisheries sector represented 9.4% of total GVA measured in current prices. The GVA of this sector in 2009 fell by 8.3% (RSD 19.7 billion) measured in current prices but grew by 0.8% (RSD 1.2 billion) in real terms compared to 2008.

The share of GVA of the agriculture, forestry and fisheries sector in total GVA in 2010 fell slightly to 9.3% measured in current prices. In 2010, the GVA of this sector grew by 10.4% measured in current prices (a reduction of 0.4% in real terms), an increase from RSD 217.8 billion in 2009 to RSD 240.4 billion in 2010.

In the three months ended 31 March 2011, the agriculture, forestry and fisheries sector represented 8.2% of total GVA measured in current prices, as compared to 8.1% for the three months ended 31 March 2010. The growth of this sector's GVA measured in current prices in the three months ended 31 March 2011 was 14.7% (RSD 6.7 billion), or 0.9% (RSD 0.3 billion) in real terms, compared to the three months ended 31 March 2010.

Industry

Serbia aims to achieve dynamic growth and development of the industry sector, especially manufacturing. Development of this sector is in part dependent upon FDI. Despite the declining trend in FDI during the global financial and economic crisis, a number of foreign investors, including Italian car manufacturer Fiat Group Automobiles S.p.A., have recently announced the expansion of operations in Serbia. See "*External Sector — Foreign Direct Investment*" and "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under 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*". Strengthening medium and high tech business (including the chemical industry, equipment production, traffic equipment production, electronic industry and food production) would provide higher value added thus increasing the contribution of the Industry sector to GDP. Measures have the potential to stimulate growth include diversification of production, technological improvements to industrial fixed assets, increased efficiency and privatisation of state- and Socially-Owned Enterprises.

In addition, Serbia has 269 registered legal entities in the field of mineral extraction. Over 90.0% of registered entities are small- and medium-sized enterprises and the other 10.0% comprise major mining facilities operating as part of Bor copper mining basin, PE "Electric Power Industry of Serbia" and EPS "Public Enterprise for Underground Coal Mining".

Serbia seeks to improve the position of its mining sector by increasing security and safety and modernising technologies in order to provide conditions for higher inflow of foreign capital for the development of existing and the new mines and thermal power plants. Serbia also aims to adopt a strategy for restructuring mines that provides for the gradual closing of mines that no longer contain any reserves and the development of mines with current reserves.

The following table shows growth rates of industrial production (physical scope) for the years 2006 to 2010 and for the six months ended 30 June 2011 (as compared to same period of 2010):

	Year ended 31 December					Six months ended 30 June
	2006	2007	2008	2009	2010	2011
			(%)			
Industrial production, physical scope	4.2	4.1	1.4	(12.6)	2.5	4.8
Mining	4.2	0.2	5.3	(3.8)	5.9	12.3
Manufacturing	4.5	4.6	1.1	(16.1)	3.8	2.9
Electricity, gas, steam	2.4	3.2	2.0	0.8	(4.4)	9.9

Source: Ministry of Finance.

In 2009, the industry sector represented 22.3% of total GVA measured in current prices. The GVA of this sector in 2009 grew by 3.4% (RSD 16.9 billion) measured in current prices but fell by 11.5% (RSD 42.1 billion) in real terms compared to 2008.

The share of GVA of the industry sector in total GVA in 2010 fell to 20.5% measured in current prices. The growth of GVA in current prices in 2010 was 12.2% (0.1% in real terms), an increase from RSD 519.5 billion in 2009 to RSD 583.0 billion in 2010.

In the three months ended 31 March 2011, the Industry sector represented 17.9% of total GVA measured in current prices, as compared to 17.5% for the three months ended 31 March 2010. The growth of this sector's GVA measured in current prices in the three months ended 31 March 2011 was 13.2% (RSD 16.4 billion), or 5.7% (RSD 70.2 billion) in real terms, compared to the three months ended 31 March 2010.

Building and construction

Prior to the global financial and economic crisis, the building and construction sector experienced GVA growth in current prices and in real terms, principally as a result of modernisation of the nation's three largest cities — Belgrade, Niš and Novi Sad. This sector was, however, affected significantly by the crisis due to decreased domestic demand as well as reduced lending activity and FDI, resulting in an overall shortage of funds for existing and new investments. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under 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*". Growth in this sector going forward will be dependent upon the availability of multilateral and bilateral external funding in order to support national and regional infrastructure projects.

The project for the construction and refurbishing of "Corridor X", the transport route that runs from the Bulgarian to the Hungarian border, is expected to increase activity in this sector. The National Investment Plan calls for RSD 29.7 billion to be spent on infrastructure projects in 2011, comprising RSD 10.8 billion from Budget revenues and RSD 18.9 billion by way of loans from international financial institutions. Major projects include: construction of a section of Belgrade's South Adriatic highway (RSD 1.6 billion RSD); Corridor X (RSD 1.95 billion); projects in Vojvodina (RSD 1 billion); the National Programme of Municipal and Regional Infrastructure Building (RSD 4.3 billion); construction and reconstruction of a section of road from Novi Pazar to Sjenica (RSD 719 million); and construction and reconstruction of railroad tracks to the new Port of Smederevo on the Danube (RSD 200 million). Construction on these projects has started and funding is partly arranged. See "*External Sector — Foreign Direct Investment — Bilateral cooperation infrastructure projects*".

Potential growth in the building and construction sector in the coming years will in part depend upon appropriate future policy measures, which may include amendments to the Law on Planning and Construction aimed at facilitating the conversion of construction land from public into private ownership, and economic measures such as the Government short-term measures in 2010 aimed at indirectly supporting the construction industry by directly subsidising interest rates on consumer loans for the purchase of construction material and short-term and long-term mortgages. In addition, the Spatial Plan of the Republic of Serbia from 2010 to 2020 aims to ensure fast approval of construction permits and efficient project development by organising areas of urban planning and building and construction activity.

In 2009, the building and construction sector represented 4.2% of total GVA measured in current prices as compared to 5.1% in 2008. In 2009 GVA fell by 11.4% (RSD 14.4 billion) measured in current prices, or 19.7% (RSD 16.2 billion) in real terms, compared to 2008.

The share of GVA of the building and construction sector in total GVA in 2010 fell to 3.8% measured in current prices. In 2010, GVA measured in current prices fell by 1.5% (7.8% in real terms), a decrease from RSD 111.3 billion in 2009 to RSD 109.7 billion in 2010.

In the three months ended 31 March 2011, this sector represented 2.8% of total GVA measured in current prices, as compared to 3.0% in the three months ended 31 March 2010. GVA of the building and construction sector grew by 11.9% (RSD 2.2 billion) measured in current prices in the three months ended 31 March 2011 but fell by 2.9% in real terms (RSD 0.3 billion) compared to the three months ended 31 March 2010.

Wholesale and retail trade and motor vehicle and motorcycle repair

Despite the global financial and economic crisis, the wholesale and retail trade and motor vehicle and motorcycle repair sector grew in real and nominal terms from 2008 to 31 March 2011, with the exception of a fall in 2009 due to a decrease in domestic demand and employment and slow growth in average total wages.

Serbia's strategy for trade development aims to stabilise and develop the domestic market, promote market competition and enhance consumer protection and the quality of goods in line with EU standards. The Trade Law adopted in July 2010, which is in accordance with the EU regulations, governs trade in goods and services, trade conditions, new modes of trade (long distance trade, personal offering trade, auction and stock market trade), unfair market practice, trade limitations and trade supervision. Serbia's Consumer Protection Law harmonises consumer protection with EU standards and creates legal bases for the implementation of consumer protection instruments similar to those that exist in more developed EU countries.

In 2009, this sector represented 13.9% of total GVA measured in current prices. The GVA of the sector in 2009 fell by 7.9% (RSD 22 billion) measured in current prices, or 7.5% (RSD 17.8 billion) in real terms, compared to 2008.

The share of GVA of this sector in total GVA in 2010 grew slightly to 14.0% measured in current prices. In 2010, the growth of GVA measured in current prices was 13.5% (1.7% in real terms), an increase from RSD 255.8 billion in 2009 to RSD 290.3 billion in 2010.

In the three months ended 31 March 2011, this sector represented 11.1% of total GVA measured in current prices, as compared to 10.5% for the three months ended 31 March 2010. The growth of this sector's GVA measured in current prices in the three months ended 31 March 2011 was 19.8% (RSD 11.7 billion), or 1.2% (RSD 0.6 billion) in real terms, compared to the three months ended 31 March 2010.

Transport and storage

The transport and storage sector was affected significantly by the global financial and economic crisis due to a shortage of funds for renewing the road network and acquiring new means of transport. However, Serbia's geographic location as a transport route connecting Western Europe and Turkey and the Near East encourages the development of this sector including modernising transport infrastructure, increasing transport capacities, and enhancing traffic safety.

Transport activities include land transport, inland waterway transport and air transport. Land transport includes railway, road, urban and pipeline transport. In 2010 the physical volume of transportation services increased by 7.8% compared to 2009. In the first quarter of 2011 the physical volume of transportation service increased by 12.7% compared to the same period of 2010. All types of transportation recorded a growth in the volume of services in this period. Road transport grew by 16.1%, air transport grew by 16.0% and railway transport grew by 14.4%.

Serbia seeks to increase the scope and quality of transport services and efficiency of all types of transport by organising and developing modern traffic infrastructure and equipment. The construction and refurbishment of Corridor X, including another two roadways toward the south, a ring-road around Belgrade and part of a highway near Pirot, is an important part of achieving these aims. Serbia also seeks to modernise its existing railway network. Growth in this sector is partly dependent upon foreign investment and cooperation with neighbouring countries; the share of inter-modality transportation will increase in the overall transportation of goods by more intensive use of river and railway transportation. The Government has passed the General Transport Master Plan for Serbia, which aims to create modern pan-European transportation lines.

In 2009, the transport and storage sector represented 5.0% of total GVA measured in current prices. The GVA of the transport and storage sector in 2009 grew by 3.0% (RSD 3.7 billion) measured in current prices but fell by 10.0% (RSD 8.6 billion) in real terms, compared to 2008.

The sector recovered in 2010. The share of GVA of the transport and storage sector in total GVA in 2010 grew to 5.3% measured in current prices. This sector's GVA measured in current prices grew by 14.7% (8.3% in real terms), an increase from RSD 126.2 billion in 2009 to RSD 144.7 billion in 2010.

In the three months ended 31 March 2011, this sector represented 5.8% of total GVA measured in current prices, as compared to 5.5% for the three months ended 31 March 2010. For the period, this sector's GVA measured in current prices grew by 15.1% (RSD 5 billion), or 9.8% (RSD 1.9 billion) in real terms, compared to the three months ended 31 March 2010.

Information and communications

The information and communications sector comprises information technologies and construction, maintenance, use, and lease of public communication networks and equipment as well as electronic communication services. In February 2010, the Government, which previously held full ownership of the fixed telecommunication network, issued a license to Telenor Serbia to operate fixed telephone services. Mobile phones are the most profitable of all telecommunications and the Government introduced a tax on the use of mobile phones in July 2009 (which raised an additional RSD 2.7 billion) and was applied throughout 2010. The information and communications sector has grown in both nominal and real terms in each year since 2008 due to advances in the development of telecommunications. In particular, expansion of mobile phone services increased the total number of call minutes and SMS and MMS messages recorded. By the end of 2009, the number of mobile phone users in Serbia reached 9.9 million, and total generated traffic amounted to 8.2 billion call minutes which was 39.0% more than in 2008. Penetration is 132.2%. Signal coverage of the territory and the population is high but still not complete. More recently, strong growth of Internet service providers and users has also been recorded, resulting in higher revenues from Internet services and consequently growth in tax revenues.

In 2009, the information and communications sector represented 7.6% of total GVA measured in current prices. The GVA of this sector in 2009 grew by 7.5% (RSD 8 billion) measured in current prices, or 10.0% (RSD 10.8 billion) in real terms, compared to 2008.

The information and communications sector continued to grow in 2010 but at a slightly lower rate than in 2009. This is attributable to the rapid expansion of Serbia's mobile network in 2009 with the rate of expansion slowing in 2010 due to an already well-developed market. The share of GVA of the information and communications sector in total GVA in 2010 grew to 7.9% measured in current prices. In 2010, this sector's GVA growth measured in current prices was 12.4% (5.7% in real terms), an increase from RSD 114.1 billion in 2009 to RSD 128.3 billion in 2010.

In the three months ended 31 March 2011, this sector represented 8.4% of total GVA measured in current prices, as compared to 8.2% for the three months ended 31 March 2010. This sector's GVA growth measured in current prices in the three months ended 31 March 2011 was 13.3% (RSD 3.9 billion), or 5.7% (RSD 1.7 billion) in real terms, compared to the three months ended 31 March 2010.

Finance and insurance

According to National Bank statistics, at the end of the first quarter of 2011 Serbia had 33 banks, 26 insurance companies and 17 leasing companies. As of 31 March 2011, the balance value was RSD 2,453 billion for the banking sector, RSD 121.2 billion for insurance companies and RSD 88.7 billion for leasing companies. In the period from 2009 to the end of the first quarter of 2011 the finance sector has experienced consistent growth.

In 2009, the finance and insurance sector represented 3.7% of total GVA measured in current prices. The GVA of this sector in 2009 grew by 9.2% (RSD 7.2 billion) measured in current prices, or 5.5% (RSD 3 billion) in real terms, compared to 2008.

The share of GVA of the total GVA in 2010 grew slightly to 3.8% measured in current prices. In 2010, GVA growth measured in current prices was 20.0% (4.9% in real terms), an increase from RSD 85.1 billion in 2009 to RSD 102.1 billion in 2010.

The positive trends continued in the finance and insurance sector in the first three months of 2011. In the three months ended 31 March 2011, this sector represented 4.3% of total GVA measured in current prices, as compared to 4.2% for the three months ended 31 March 2010. This sector's GVA growth measured in current prices during this period was 15.9% (RSD 3.7 billion), or 6.2% (RSD 1 billion) in real terms, compared to the three months ended 31 March 2010.

Other sectors

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

In 2009, these sectors represented 34.1% of total GVA measured in current prices. The GVA of other sectors in 2009 grew by 6.8% (RSD 56.9 billion) measured in current prices, or 2.3% (RSD 12 billion) in real terms, compared to 2008.

The share of GVA of other sectors in total GVA in 2010 decreased slightly to 33.9% measured in current prices. In 2010, the growth of GVA in other sectors measured in current prices was 10.1% (0.8% in real terms), an increase from RSD 896.7 billion in 2009 to RSD 987.1 billion in 2010.

In the three months ended 31 March 2011, these sectors represented 35.6% of total GVA measured in current prices, as compared to 36.3% for the three months ended 31 March 2010. The growth of GVA in other sectors measured in current prices was 11.3% (RSD 25.9 billion), or 0.9% (RSD 1.1 billion) in real terms, compared to the three months ended 31 March 2010.

Wages

The following table shows the average gross wage in RSD and the average net wage in RSD and EUR for the years 2006 to 2010 and for the six months ended 30 June 2011:

	Year ended 31 December[(1)]					Six months ended 30 June
	2006	2007	2008	2009	2010	2011
	(period average)					
Average monthly gross wage (RSD)	31,745	38,744	45,674	44,147	47,450	50,755
Average monthly net wage (RSD)	21,707	27,759	32,746	31,733	34,142	36,540
Public sector employees (RSD)[(2)]	25,232	32,392	37,284	38,885	39,810	42,187
Private sector employees (RSD)	21,794	26,120	20,273	23,447	26,156	27,648
Average monthly gross wage (EUR)[(3)]	377	485	561	470	460	498
Average monthly net wage (EUR)[(3)]	258	347	402	338	331	359

Source: Office of Statistics.

Notes:

(1) Since January 2009, in addition to the wages paid to employees of legal entities, the wages of self-proprietors are now also taken into account in calculating the average wage.

(2) Excluding military and police.

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

The average monthly net wage per employee in 2009 was RSD 31,733, representing 0.2% real growth compared to 2008. In 2010, the average monthly net wage per employee was RSD 34,142, representing 0.7% real growth compared to 2009. However, in Euros, the average monthly net wage per employee amounted to EUR 331 in 2010, as compared to EUR 338 in 2009, representing a 2.1% decrease in real terms in Euros compared to 2009.

The real growth rates in wages in 2009 and 2010 were affected by frozen public sector wages. See "*Public Finance — Fiscal Developments in 2009*". As a result of this freeze, the average net wage per public sector employee in 2009 was RSD 38,885, representing a 4.0% decrease in real terms compared to 2008. In 2010, the average net wage per public sector employee was RSD 39,810, representing a 4.1% decline in real terms compared to 2009.

In 2009, the highest average net wages were in the following private sectors: financial services (RSD 67,899), production of electricity, gas and water (RSD 44,239) and ore and stone extraction (RSD 43,650). The lowest net wages in 2009 were in the following private sectors: hotels and restaurants (RSD 18,176) and fisheries (RSD 19,569). In 2010, the highest average net wage was again in the financial services sector (RSD 73,382) and the lowest average net wage was in the hotels and restaurants sector (RSD 18,910).

The fall in average net wages in real terms continued in the first six months of 2011 due to rising inflation driven mainly by increases in food prices. See "*Monetary System — Inflation and Interest Rates — Inflation policy and trends*". For this period, the average net wage amounted to RSD 36,540, representing a 2.2% decrease in real terms compared to the same period in 2010. The average net wage in the public sector decreased by 4.5% in real terms compared to the same period in 2010. The average net wage was equivalent to EUR 359, representing a 8.8% increase in real terms compared to the same period in 2010.

While the overall level of public sector employment has largely been maintained, the freeze on public sector wages combined with relatively high inflation since 2009 has severely affected the incomes and living standards of public sector employees. As a result, public sector wages, although they were unfrozen in January 2011 and have since increased in line with inflation, are on average lower than those in several other countries in the region. Ahead of the parliamentary elections scheduled for March or April 2012, public sector trade unions have been pressing for significant public wage increases which may also result in demands for higher pensions.

The Government's special fiscal rules set movements in wages in the public sector during the period from 2011 to 2015. Wages in the public sector in 2011 to 2015 will be indexed according to inflation plus half of real GDP growth in the previous year. This rule will be applied until wages in the public sector decrease to 8.0% of real GDP.

Employment

Since 2008, Serbia's domestic labour market has been characterised by growing levels of unemployment. Higher growth in wage rates when compared with productivity rates has resulted in decreased demand for labour and caused an increase in unemployment levels.

In 2010, the Government implemented several policy measures aimed at increasing employment levels, including:

- the implementation of an employment programme for first-time employees, "The First Chance 2010", with the aim of providing basic proficiency training to approximately 17,000 unemployed young people without previous relevant work experience;
- the attendance at training programmes by approximately 5,000 people (of which 54.6% were women);
- the allocation of a self-employment subsidy to approximately 3,000 people;
- the allocation of an employers' subsidy for the creation of approximately 6,000 new jobs; and
- the introduction of 352 public works projects and the hiring of approximately 5,000 people (of which 38.5% were women) for these projects.

The Government has also recently amended and supplemented the Labour Law to ensure equal wages for similar types of employment. The minimum wage as of June 2011 is RSD 102 per hour. The Government currently intends to submit to the Assembly in the near term amendments to the Labour Law that will base the calculation of severance pay on the duration of employment with the most recent employer instead of the entire employment period of a given employee and extend the duration of fixed-term contracts from one year to three years.

The following table shows key employment statistics for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December					**Six months ended 30 June**	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011E[(9)]**
			(Period average)				
Labour force[(1)]	2,938,918	2,852,347	2,755,410	2,635,690	2,539,996	2,588,690	2,524,833
Employed persons[(2)]	2,025,627	2,002,344	1,999,476	1,889,085	1,795,774	1,825,500	1,761,781
Public sector	479,823	475,985	481,335	475,883	470,660	472,164	469,621
Private sector[(3)]	1,420,804	1,401,359	1,393,141	1,288,202	1,200,114	1,228,336	1,167,160
Unemployed persons[(4)]	913,291	850,003	755,934	746,605	744,222	763,190	763,052
Persons actively seeking employment[(5)]	1,011,139	850,802	794,000	812,350	802,840	835,166	832,177
Change in average rate of employment (Y-O-Y) (%)[(6)]	(2.1)	(1.1)	(0.1)	(5.5)	(4.9)	(5.4)	(3.5)
Employment rate (%)[(7)]	49.8	51.5	53.7	50.4	47.2	47.2	45.5
Unemployment rate (%)[(7)]	21.6	18.8	14.4	16.9	20.0	20.0	22.9
GDP/employed person (*RSD*)[(8)]	968,625	1,149,760	1,361,588	1,490,140	1,663,127	352,916[(10)]	412,127[(10)]
GDP/employed person (*EUR*)[(8)]	11,505	14,375	16,713	15,863	16,141	3,577[(10)]	3,966[(10)]

Source: Office of Statistics.

Notes:

(1) Labour force includes employed and unemployed persons.

(2) Excludes the military and police.

(3) Ministry of Finance estimate.

(4) The term "unemployed" refers to a person aged 15 or older, until he or she has fulfilled the pension requirements or turns 65, who is capable and willing to work immediately, who has not established a work relation or exercised his or her right to work in any other form, who is registered in the unemployment register and who is actively seeking employment.

(5) "Persons actively seeking employment" are those persons who are actively seeking to change jobs or find employment.

(6) In March 2009, the Office of Statistics adjusted the rate of employment starting as at January 2009 due to, among other things, the Office of Health Insurance records being updated.

(7) Calculated based on persons of employable age (15-64 years).

(8) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "— *Gross Domestic Product*".

(9) Office of Statistics' estimates for 2011.

(10) Figures are presented for the first three months of 2011 because six-month data is not available.

In 2009, the average number of employed persons decreased by 5.5% compared to 2008. Due to a revision of certain employee data by the Office of Statistics in March 2009 (to include, as at January 2009, sole proprietors and their employees in the overall total), the number of employees of legal entities (excluding sole proprietors and their employees) provides a more accurate indicator of movements in the labour market in this period as compared to 2008, prior to the adjustment. According to this indicator, in 2009 employment decreased by 2.2% compared to 2008. In 2010, the average number of employed persons amounted to 1,795,774, representing a 4.9% decrease compared to 2009.

Both the public and private sectors experienced a decline, of 1.1% and 7.5%, respectively, in the average number of employed persons in 2009 compared to 2008. In 2010, the public sector again experienced a decline of 1.1% as compared to 2009, while the decline in the private sector was 9.3%.

According to the Office of Statistics Labour Force Survey conducted in 2009, the rate of unemployment of persons of employable age (15-64 years) was 16.9%, representing an increase of 2.5% compared to 2008, while the rate of employment of persons of employable age was 50.4%, representing a decrease of 3.3% compared to 2008. According to the Labour Force Survey conducted in 2010, the unemployment rate of persons of employable age was 20.0% in 2010, representing an increase of 3.1% compared to 2009. In 2010, the rate of employment of persons of employable age was 47.2%, representing a decrease of 3.2% compared to 2009. In 2011, job shedding in the private sector has continued. The unemployment rate according to the International Labour Organisation Methodology (discussed below) was estimated to be 22.9% in the six months ended 30 June 2011 and the "registered unemployment" rate was estimated to be 30.2% for this period.

The Office of Statistics does not currently keep official records or estimates of the "grey" market economy. The Government believes the "grey" market economy may employ a significant percentage of persons of employable age.

The Office of Statistics Labour Force Survey includes rates of unemployment based on the "registered unemployment" methodology. The main difference between the "registered unemployment" methodology and the International Labour Organisation Methodology is that only data on persons officially registered as unemployed is taken into account when using the "registered unemployment" methodology; whereas, in the case of the International Labour Organisation Methodology, data is obtained from surveys rather than the official registry.

The following table shows the average unemployment rates calculated using the "registered unemployment" methodology and the International Labour Organisation Methodology for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011E[(1)]
	(Period average)						
ILO unemployment rate (ages between 15-64)	21.6	18.8	14.4	16.9	20.0	20.1	22.9
Registered unemployment rate	31.2	29.8	27.5	28.2	29.2	29.5	30.2

Source: Office of Statistics.

Note:

(1) Office of Statistics estimates for 2011.

Social Insurance System

Unemployment

The Law on Employment and Insurance in Case of Unemployment, amended and supplemented in 2009, regulates active labour market policy, passive labour market policy and workers' right to unemployment insurance. 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.

The Law on Employment and Insurance in Case of Unemployment stipulates that in cases of unemployment the compulsory insurance shall be provided in respect of:

- unemployment benefits; and

- health insurance and pension and disability insurance.

A person covered by compulsory insurance is entitled to unemployment benefits if they were insured for at least 12 months continuously or intermittently within the past 18 months. Insurance with an interruption shorter than 30 days is also deemed continuous insurance.

An unemployed person is entitled to cash benefits where employment is terminated or compulsory insurance is terminated on the basis of:

- dismissal by the employer due to technological, economic or organisational changes, the need to discontinue a particular job or due to a decrease in the volume of business. The above is not valid for persons who have, pursuant to the Decision of the Government on Determining Programmes for Solving the Issue of Redundancies in the Process of Rationalisation, Restructuring and Preparation for Privatisation, out of their own free will, opted for cash allowance or special cash allowance in the amount higher than the amount of the dismissal payment stipulated by the Labour Law, or if the employee does not deliver working results, that is, has no necessary knowledge or skills for performing the activities stipulated by his position;
- termination of a time-limited employment, temporary employment or "odd job", as well as trial work;
- termination of office of an elected, nominated or appointed person, if rights to dormancy of employment or salary compensation are not exercised;
- transmission of founder's rights of a business owner or member;
- initiating bankruptcy, dissolution proceedings or other cases of cessation of the business of the employer;
- transferring a spouse to another post; and
- termination of employment abroad.

The contribution rate for unemployment insurance is 1.5% of gross wage deducted at source according to Article 44 of the Law on Contributions for Mandatory Social Insurance.

Monetary compensation provided to an unemployed person is 50.0% of the gross wage during the last six months prior to the month in which the person became unemployed. Additionally, this compensation cannot be higher than 160.0% or lower than 80.0% of the minimum wage.

Pensions and disability

The pension and disability system in Serbia is regulated by the Law on Pension and Disability Insurance.

Serbia currently has a system of compulsory pension and disability insurance based on current financing. The compulsory national system offers insurance against three basic types of risk: old age, occurrence of a disability and death. The employer pays half of this contribution and the employee pays the remaining half.

In 2006, Serbia introduced voluntary pension insurance based on individual capitalised savings. Currently, approximately 160,000 people participate in the voluntary pension insurance system. Serbia has not yet introduced a system of compulsory pension and disability insurance based on individual capitalised savings.

Prior to 2008, pension and disability insurance was organised in three separate state funds: the Fund for Pension and Disability Insurance of Employed Persons, the Fund for Pension and Disability Insurance of Self-Employed Persons and the Fund for Pension and Disability Insurance of Farmers. These three funds were merged for administration purposes in 2008 and complete financial consolidation occurred in 2011. Pension and disability insurance for those serving in the armed forces will be integrated into this fund from 1 January 2012.

The current retirement age in Serbia is 65 years for men with at least 15 years of service and 60 years for women with at least 15 years of service. As of the date of this Prospectus, men of 53 years and four months of age with at least 40 years of service are entitled to a pension and women of 53 years of age with at least 35 years of service are also entitled to a pension.

The total number of pensioners in Serbia in May 2011 was approximately 1.6 million. The contribution rate for pension and disability insurance is 22.0% of gross wage deducted at source.

The following table shows pension fund finances for the years 2006 to 2010 and the six months ended 30 June 2011:

	Year ended 31 December					Six months ended 30 June
	2006	2007	2008	2009	2010	2011
			(*RSD billions*)			
Current revenues	**291.31**	**316.04**	**375.55**	**459.46**	**466.47**	**239.72**
Social security contributions	171.24	196.89	228.13	235.41	261.68	121.68
Grants and transfers	111.18	110.06	137.79	213.77	193.48	113.26
Other revenues	8.89	9.09	9.63	10.28	11.32	4.78
Receipts	**2.91**	**4.27**	**12.99**	**3.24**	**1.09**	**0.30**
Current expenditures	**283.93**	**308.17**	**392.81**	**459.78**	**466.86**	**241.60**
Expenditures for employees	2.44	3.06	3.30	3.71	3.53	1.50
Purchase of goods and services	2.27	2.42	2.37	2.72	2.53	1.14
Interest	8.90	0.39	0.07	0.09	0.05	0.02
Grants and transfers	—	—	—	—	—	0.005
Social transfers	270.20	302.05	386.97	453.16	460.72	238.92
Other expenditures	0.12	0.24	0.10	0.10	0.03	0.01
Capital expenditures	**0.39**	**0.41**	**0.43**	**0.23**	**0.28**	**0.08**
Net lending	**0.07**	**2.20**	**2.17**	**3.52**	**0.38**	**0.13**
Repayment	**1.08**	**0.03**	**—**	**—**	**—**	**—**

Source: Ministry of Finance.

Primarily due to Serbia's aging population combined with a decrease in overall population, pension and disability fund revenues from contributions are currently not sufficient to cover liabilities of the fund. The fund is therefore subsidised by allocations from the Budget. In 2010, just over 45.0% of the fund's total expenditure (RSD 220.1 billion) was financed by allocations from the Budget (of which RSD 193.5 billion was allocated as a transfer and the remaining portion was allocated through the Special Government Programme for Unpaid Contributions to Pensions), compared to RSD 216.2 billion in 2009 and RSD 137.8 billion in 2008. The Government's expenditure on pensions from the Budget in 2010 was 7.4% of nominal GDP. Expenditure on public wages and pensions currently represents the largest single category of expenditure in the Budget. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — The inability of the Government to adjust public spending to generate fiscal revenues may have a material adverse effect on the ability of Serbia to fund payments on its debt obligations, including the Notes*" and "*Public Finance — Consolidated General Government Budget*". The Government aims to reduce the level of spending on pensions as a proportion of GDP to 10.0%.

Average pensions for 2011 to 2012 are indexed according to inflation plus half of real GDP growth in the previous year. Average pensions from 2013 to 2015 will be indexed according to inflation plus GDP growth over 4.0%.

Health insurance

The Law on Health Insurance regulates mandatory health insurance policy, voluntary health insurance policy, rights and obligations of patients, activities of participants and institutions providing health care services and other important health care issues. The Law on Health Insurance established the Republic Institute for Health Insurance, a national, public and non-profit organisation responsible for co-ordinating health insurance. The Institute is financed by mandatory health insurance contributions.

The contribution rate for mandatory health insurance is 12.3% of the gross wage. Article 22 of the Law on Health Insurance provides a list of categories of people for whom health insurance contributions are paid from the Budget if not otherwise covered including, all persons belonging to population groups with a high risk of illness, persons whose health care is necessary with respect to prevention and early-stage diagnoses and treatment of diseases of social and medical importance and persons belonging to socially vulnerable population groups. The Law on Health Insurance also provides that the insured persons shall include the persons to whom a competent authority has assigned the status of a refugee or a displaced person from one of the former Yugoslav republics if they meet legally prescribed conditions and reside within Serbia. In addition, the Law on Health Insurance provides health care to those with disabilities incurred during military service.

EXTERNAL SECTOR

Balance of Payments

The following table shows Serbia's current account, capital account and financial account balances for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011
	(EUR millions)						
Current account balance	**(2,356)**	**(5,052.5)**	**(7,054.2)**	**(2,084.4)**	**(2,081.9)**	**(1,374.9)**	**(1,381.6)**
Goods (net)	(4,981)	(7,068.7)	(8,501.2)	(5,118.5)	(4,773.3)	(2,356.8)	(2,544.0)
Services (net)	(41)	(261.1)	(184.7)	18.3	5.3	(13.2)	39.6
Income (net)	(330)	(598.7)	(921.8)	(502.5)	(669.9)	(371.7)	(364.6)
Current transfers	2,996	2,876.1	2,553.6	3,518.2	3,356.0	1,366.7	1,487.4
Capital account balance	**670**	**(313.9)**	**13.2**	**1.6**	**0.9**	**0.2**	**(1.2)**
Financial account balance	**1,957**	**5,175.6**	**7,133.3**	**2,206.9**	**2,031.6**	**1,294.1**	**1,193.5**
Direct investments (net)	3,323	1,820.8	1,824.4	1,372.5	860.1	419.5	566.1
Portfolio investments (net)	355	678.2	(90.9)	(51.0)	38.8	72.6	765.9
Other investments (net)	2,548	3,148.7	3,713.2	3,248.9	204.0	113.9	61.7
Reserves assets (net)	(4,269)	(742.1)	1,686.6	(2,363.5)	928.7	688.1	(200.2)
Errors and Omissions (net)	**(270)**	**190.8**	**(92.3)**	**(124.1)**	**49.4**	80.6	**189.3**

Source: Office of Statistics; National Bank.

The following table shows Serbia's current account, capital account and financial account balances as a percentage of nominal GDP for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December					Six months ended 30 June	
	2006(2)	2007(2)	2008(2)	2009(2)	2010(3)	2010(3)	2011(4)
	(% of GDP)(1)						
Current account balance	**(10.1)**	**(17.7)**	**(21.6)**	**(7.2)**	**(7.2)**	**(10.1)**	**(8.5)**
Goods (net)	(21.4)	(24.8)	(26.0)	(17.7)	(16.5)	(17.2)	(16.9)
Services (net)	(0.2)	(0.9)	(0.6)	0.1	0.0	(0.1)	0.3
Income (net)	(1.4)	(2.1)	(2.8)	(1.7)	(2.3)	(2.7)	(2.4)
Current transfers	12.9	10.1	7.8	12.2	11.6	10.0	9.9
Capital account balance	**2.9**	**(1.1)**	—	—	—	—	—
Financial account balance	**8.4**	**18.2**	**21.8**	**7.6**	**7.0**	9.5	**7.9**
Direct investments (net)	14.3	6.4	5.6	4.8	3.0	3.1	3.8
Portfolio investments (net)	1.5	2.4	(0.3)	(0.2)	0.1	0.5	5.1
Other investments (net)	10.9	12.0	11.4	11.2	0.7	0.8	0.4
Reserves assets (net)	(18.3)	(2.6)	5.2	(8.2)	3.2	5.0	(1.3)
Errors and Omissions (net)	**(1.2)**	**0.7**	**(0.3)**	**(0.4)**	**0.2**	**0.6**	**1.3**

Source: Office of Statistics; National Bank.

Notes:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

(2) Calculated using yearly nominal GDP figures in Euro provided by the Office of Statistics.

(3) Calculated using quarterly nominal GDP figures in Dinar converted into Euro.

(4) Calculated using nominal GDP figures based on National Bank projections.

Serbia has experienced an improving trend in the movement of its balance of payments since the global financial and economic crisis. The current account deficit has decreased as a result of a greater decline in import demand compared to the decrease in demand for exports and higher remittances, contraction in FDIs, large outflows of capital on account of the repayment of long-term credit in the corporate sector (accompanied by a small increase in short- and long-term borrowing by banks), and growth in the National Bank's foreign exchange reserves.

During the period between 2006 and 2008, Serbia's current account deficit increased from 10.1% of nominal GDP in 2006 to 21.6% in 2008. Serbia's current account deficit increased by 114.0% from EUR 2,356.0 million in 2006 to EUR 5,052.5 million in 2007 and by a further 39.6% to EUR 7,054.2 million in 2008, primarily due to a 41.93% and 20.3% increase in the trade deficit in 2007 and 2008, respectively.

Since 2009, Serbia's economy has undergone a substantial balance of payments adjustment as a result of lower domestic demand and reduced credit availability. Serbia's current account deficit decreased by 70.5% from EUR 7,054.2 million in 2008 to EUR 2,084.4 million in 2009 (or by 68.4%, excluding official grants (current transfers in cash or in kind with foreign governments and international organisations)) and amounted to 7.2% of nominal GDP in 2009 compared to 21.6% in 2008. The adjustment was primarily driven by a decline in Serbia's trade deficit of 39.8% as a result of imports falling more than exports, with a 30.3% decrease in imports compared to a 19.4% decrease in exports. The export-to-import ratio increased to 53.9%, and terms of trade improved by 4.9% relative to 2008 as a result of the global financial and economic crisis, which led to a decline in nominal GDP and external financing requirements. Net current transfers increased by EUR 964.6 million, or 37.8%, during the same year mainly due to remittances.

Serbia's loan and deposit disbursements increased in 2009, due to the disbursement of its IMF loan and the allocation of IMF special drawing rights. See "*Public Debt — Multilateral and Bilateral Development Organisations — International Monetary Fund*". Foreign currency savings withdrawn by households in late 2008 (approximately EUR 1.0 billion) were returned to deposits during 2009, and disbursement of financial loans decreased by 60.7% in the same year. Long-term borrowing decreased by 96.5%, excluding the IMF loan (EUR 1.1 billion). Under the Vienna Initiative, pursuant to which participating foreign-owned banks agreed to maintain their exposure to Central and Eastern Europe countries affected by the global financial and economic crisis, banks made a net disbursement of EUR 869.1 million, while enterprises registered a capital outflow of EUR 853.0 million by way of foreign debt repayments.

The National Bank's foreign exchange reserves increased by EUR 2.4 billion in 2009 as a result of the drawdown of the IMF loan (EUR 1.1 billion) and special drawing rights ("**SDR**") allocation (EUR 424.6 million), as well as an increase in banks' foreign exchange allocations in respect of reserve requirements. Foreign exchange reserves held by commercial banks rose by EUR 505.2 million during the year.

As a result of greater capital outflows, the maturity profile of banks' foreign sources of funding deteriorated and the share of short-term loans increased. Banks increased their short-term borrowing by EUR 395.0 million, while enterprises reduced their short-term liabilities in the same period by EUR 211.4 million.

During 2010, Serbia's current account deficit continued to decrease to EUR 2,081.9 million, primarily due to a 6.7% reduction in the trade deficit. Exports of goods and services were equivalent to approximately 34.7% of nominal GDP in 2010 and 29.4% in 2009, compared to 31.1% in 2008. The trade deficit also improved, albeit less markedly, to approximately 16.5% of nominal GDP from 17.7% in 2009. Furthermore, despite the impact of lower FDI flows during 2010, on which Serbia had relied to finance its current account deficit prior to the global financial and economic crisis, Serbia's gross external financing needs (current account payments plus short-term debt by remaining maturity) are estimated to have decreased to 118.0% of current account receipts and usable foreign exchange reserves from 131.0% in 2009. Serbia's total narrow net external debt position (which excludes non-bank private sector external assets) remained broadly flat in 2010, decreasing to 79.0% of current account receipts from 92.8% in 2009.

In the first six months of 2011, Serbia's current account deficit remained broadly flat at EUR 1,381.6 million compared to a current account deficit of EUR 1,374.9 million in the first six months of 2010. However, the current account deficit is expected to temporarily rise in the near term. Serbia's trade deficit rose by 7.9%, despite exports increasing in percentage terms more than imports (23.3% compared to 17.0%). The balance of services stood at EUR 39.5 million, primarily driven by a greater increase in revenues (15.4%) compared to expenditures (10.8%), resulting mainly from growth in the construction and transportation sectors. Serbia's net income deficit decreased by 1.9%, primarily due to a 19.5% decrease in the withdrawal of profit from FDI. Net inflows from current transfers increased by 8.8% over the same period, primary driven by a 9.0% increase in remittances.

For the remainder of 2011 and the first six months of 2012, the Government expects the current account deficit to remain broadly flat at around 7.0% of nominal GDP due to lower expected growth in imports compared to exports, driven by low economic growth expected in the Eurozone countries, reduced domestic demand (particularly personal consumption), and an expected slight decrease in the price of imports and exports. In particular, the policy of the Government to phase out subsidised loans is expected to continue to lower aggregate demand levels.

Foreign Trade

The following table shows Serbia's trade balance for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011
	(EUR millions)						
Trade balance	**(4,981.0)**	**(7,068.7)**	**(8,501.2)**	**(5,118.5)**	**(4,773.3)**	**(2,356.8)**	**(2,544)**
Exports of goods[(2)]	5,109.0	6,382.5	7,416.0	5,977.8	7,402.5	3,334.7	4,113.1
Imports of goods[(2)]	(10,090.0)	(13,451.3)	(15,917.2)	(11,096.3)	(12,175.8)	(5,691.5)	(6,657)

Source: Office of Statistics; National Bank.

Notes:

(1) Data prepared in accordance with the IMF Balance of Payments Manual, 5th Edition.

(2) Imports and exports presented on an F.O.B. basis.

The following table shows Serbia's trade balance as a percentage of nominal GDP for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006[(2)]	2007[(2)]	2008[(2)]	2009[(2)]	2010[(3)]	2010[(3)]	2011[(4)]
	(% of GDP)[(6)]						
Trade balance	**(21.4)**	**(24.8)**	**(26.0)**	**(17.7)**	**(16.5)**	**(17.2)**	**(16.9)**
Exports of goods[(5)]	21.9	22.4	22.7	20.7	25.6	24.4	27.3
Imports of goods[(5)]	(43.3)	(47.2)	(48.7)	(38.4)	(42.1)	(41.6)	(44.2)

Source: Office of Statistics; National Bank.

Notes:

(1) Data prepared in accordance with the IMF Balance of Payments Manual, 5th Edition.

(2) Calculated using yearly nominal GDP figures in Euro provided by the Office of Statistics.

(3) Calculated using quarterly nominal GDP figures in Dinar converted into Euro.

(4) Calculated using nominal GDP figures based on National Bank projections.

(5) Imports and exports presented on an F.O.B. basis.

(6) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

Serbia's foreign trade has been affected by the global financial and economic crisis. In 2009, foreign trade volumes were considerably lower than in 2008 as the result of lower aggregate demand and the depreciation of the Dinar in real terms. The value of exported and imported goods decreased in Euro terms by 19.4% and 30.3%, respectively. The greater decrease in imports compared to exports resulted in a reduction of the foreign trade deficit to EUR 5,118.5 million for 2009 and an export/import coverage ratio of 53.9%, compared to EUR 8,501.2 million and 46.6%, respectively, in 2008. Remittances amounted to EUR 3,247.8 million in 2009, as a result of financial system inflows (exchange office transactions through bank accounts and a net increase in foreign exchange savings), a 38.7% increase compared to 2008. The net capital inflows in 2009 were sufficient to cover the narrower deficit achieved in that year. In 2009, net financial credit inflows amounted to EUR 1,389.0 million and net foreign direct investment amounted to EUR 1,373 million. The banking sector's net debits in that period amounted to EUR 869.1 million, of which EUR 394.9 million were short-term loans (with a maturity of less than 12 months). In addition, the corporate sector made net repayments on foreign debt in an aggregate amount of EUR 853.0 million during 2009.

Since 2010, Serbia has experienced a gradual recovery of its foreign trade, primarily driven by an increase in foreign demand and rising export prices. The positive growth trend in foreign trade recorded in the last three months of 2009 continued through 2010. The value of exported goods in 2010 amounted to EUR 7,402.5 million, a 23.8% increase compared to 2009. The value of imported goods also increased by 9.7% from EUR 11,096.3 million in 2009 to EUR 12,175.8 million in 2010. The lower growth in imports relative to exports resulted in a reduction of the trade deficit in 2010 to EUR 4,773.3 million from EUR 5,118.5 million in 2009, as well as an increase in the export/import coverage ratio from 53.9% in 2009 to 60.8% in 2010. The increase in foreign demand and in the prices of exported products in the international markets were the main contributing factors to the greater growth in exports during 2009, while the slower growth in imports resulted primarily from a drop in domestic demand. Despite a decrease in the trade deficit of 43.9% between 2008 and 2010, the trade deficit continues at a level that requires significant external borrowing.

During the first six months of 2011, exports amounted to approximately EUR 4,113.1 million and imports amounted to approximately EUR 6,657.1 million, representing a 23.3% and 17% increase, respectively, compared to the same period in 2010. The trade deficit increased by 7.9% to approximately EUR 2,554.0 million relative to the same period in 2010, despite greater growth recorded in exports relative to imports, primarily driven by imports of fuel and energy supplies (oil, gas and coal) and equipment (road vehicles, miscellaneous machinery and telecommunication equipment). The food and live animals and manufactured goods sectors enjoyed the largest surpluses, with balances of EUR 354.0 million and EUR 129.0 million, respectively, while the mineral fuels, lubricants and related materials sector and the non-classified commodities sector accounted for the largest trade deficits (EUR 1,114.0 million and EUR 1,088.0 million, respectively). The current account deficit is expected to temporarily rise in the near term.

Serbia's largest foreign trade partners in 2010 were the EU member states, which accounted for 57.3% of total exports and 56.0% of total imports. Exports to Germany, Italy, Bosnia and Herzegovina and Montenegro represented 41.1% of total exports in 2010. Russia, Germany, Italy and China accounted for 39.2% of total imports. A surplus amounting to EUR 1,082.0 million was recorded in trade with Bosnia and Herzegovina, Montenegro, Romania and Macedonia. In contrast, a trade deficit was recorded with certain other countries, the most significant resulting from trade with Russia (EUR 1,227.0 million), largely due to imports of fuel and energy supplies.

In the first six months of 2011, trade with EU member states accounted for 59.6% of Serbia's total exports and 54.8% of total imports, compared to 58.0% of total exports and 56.4% of total imports in the first six months of 2010. Germany, Italy and Bosnia and Herzegovina were the largest export destinations, which together accounted for 32.8% of total exports during the first six months of 2011. The three countries from which Serbia imported the most goods were Russia, Germany and Italy, which together accounted for 32.0% of total imports. The largest trade deficits were recorded with Russia, China and Germany, which together amounted to a deficit of EUR 1,434 million, while a surplus was recorded in trade with Bosnia and Herzegovina, Montenegro and Macedonia, together amounting to a surplus of EUR 485.0 million. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under 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*".

Imports

The following table shows the value of Serbia's imports of goods by product category for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[1]:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011
				(EUR millions)			
Food and live animals	516	471	590	538	582	278	323
Beverages and tobacco	127	66	74	82	88	34	38
Crude materials (inedible), except fuels	499	442	571	328	490	200	299
Mineral fuels, lubricants and related materials	2,067	2,257	2,972	1,712	2,248	1,121	1,315
Animal and vegetable oils, fats and waxes	31	20	32	32	29	14	16
Chemicals and related products not elsewhere specified	1,484	1,551	1,769	1,456	1,577	732	865
Manufactured goods[2]	2,176	2,554	2,642	1,891	2,296	1,037	1,191
Machinery and transport equipment	2,679	2,958	3,232	2,321	2,251	1,013	1,274
Miscellaneous manufactured articles[3]	873	1,057	1,216	944	925	414	454
Commodities and transactions not specified in SITC Rev. 4[4]	11	2,576	3,380	2,201	2,136	1,058	1,117
Total	**10,463**	**13,952**	**16,478**	**11,505**	**12,622**	**5,901**	**6,892**

Source: Office of Statistics.

Notes:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

(2) Manufactured goods classified chiefly by material, including leather, leather manufactures not elsewhere specified and dressed fur skins, rubber manufactures not elsewhere specified, cork and wood manufactures (excluding furniture), paper, paperboard and articles of paper pulp of paper or of paper board; textile yarn, fabrics, made-up articles not elsewhere specified and related products, non-metallic mineral manufactures not elsewhere specified, iron and steel, non-ferrous metals and manufactures of metals not elsewhere specified.

(3) Includes prefabricated buildings; sanitary, plumbing, heating and lighting fixtures, furniture and parts thereof, bedding, mattresses, cushions and similar products, travel goods, handbags and similar containers, articles of apparel and clothing accessories, footwear, professional, scientific and controlling instruments and apparatus, photographic apparatus, equipment and supplies, optical goods not elsewhere specified and miscellaneous manufactured articles not elsewhere specified.

(4) Standard International Trade Classification, Revision 4; includes coins, gold (excluding gold ores and concentrates) and other unclassified goods including army goods, storage goods with no customs tariff marked and motor vehicle parts and aircraft parts for those imported/exported with the transport mean.

The following table shows the value of Serbia's imports of goods by product category as a percentage of total imports for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011(1):

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
			(% of total imports)				
Food and live animals	4.9	3.4	3.6	4.7	4.6	4.7	4.7
Beverages and tobacco	1.2	0.5	0.4	0.7	0.7	0.6	0.6
Crude materials (inedible), except fuels	4.8	3.2	3.5	2.9	3.9	3.4	4.3
Mineral fuels, lubricants and related materials	19.8	16.2	18.0	14.9	17.8	19.0	19.1
Animal and vegetable oils, fats and waxes	0.3	0.1	0.2	0.3	0.2	0.2	0.2
Chemicals and related products not elsewhere specified	14.2	11.1	10.7	12.7	12.5	12.4	12.5
Manufactured goods(2)	20.8	18.3	16.0	16.4	18.2	17.6	17.3
Machinery and transport equipment	25.6	21.2	19.6	20.2	17.9	17.2	18.5
Miscellaneous manufactured articles(3)	8.3	7.6	7.4	8.2	7.3	7.0	6.6
Commodities and transactions not specified in SITC Rev. 4(4)	0.1	18.5	20.5	19.1	16.9	17.9	16.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/ imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

(2) Manufactured goods classified chiefly by material, including leather, leather manufactures not elsewhere specified and dressed fur skins, rubber manufactures not elsewhere specified, cork and wood manufactures (excluding furniture), paper, paperboard and articles of paper pulp of paper or of paper board; textile yarn, fabrics, made-up articles not elsewhere specified and related products, non-metallic mineral manufactures not elsewhere specified, iron and steel, non-ferrous metals and manufactures of metals not elsewhere specified.

(3) Includes prefabricated buildings; sanitary, plumbing, heating and lighting fixtures, furniture and parts thereof, bedding, mattresses, cushions and similar products, travel goods, handbags and similar containers, articles of apparel and clothing accessories, footwear, professional, scientific and controlling instruments and apparatus, photographic apparatus, equipment and supplies, optical goods not elsewhere specified and miscellaneous manufactured articles not elsewhere specified.

(4) Standard International Trade Classification, Revision 4; includes coins, gold (excluding gold ores and concentrates) and other unclassified goods including army goods, storage goods with no customs tariff marked and motor vehicle parts and aircrafts parts for those imported/exported with the transport mean.

Serbia's imports for a significant number of major products have not yet recovered to the levels they were at before the global financial and economic crisis. Import values for certain products categories, such as non-classified commodities and machinery and transport equipment, recorded their lowest levels in 2010. While there was an increase in import demand for fuels, metals, ores, chemicals and other raw materials as a result of increasing industrial output driven by global demand for certain products, recovery in the imports of equipment and consumer goods has been slower.

The value of imported goods increased by EUR 1,117 million to EUR 12,622 million in 2010 from EUR 11,505 million in 2009. Mineral fuels, lubricants and related materials and manufactured goods experienced the highest levels of growth, increasing by 31.3% and 21.4%, respectively, while imports of animal and vegetable oils, fats and waxes and machinery and transport equipment decreased by 7.7% and 3.0%, respectively. Imports of capital goods decreased by 9.9%, indicating low capital investment activity in 2010. Mineral fuels, lubricants and related materials, manufactured goods and machinery and transport equipment accounted for 53.9% of total imports. The sectors of foods and live animals, beverages and tobacco, animal and vegetable oils, fats and waxes and various finished goods (furniture, apparel, footwear) generated an aggregate trade surplus of EUR 923.0 million.

During the first six months of 2011, imports amounted to EUR 6,891.9 million, increasing by 16.8% from EUR 5,900.6 million in the same period in 2010. The growth in imports was driven by increases in imports of mineral fuels, lubricants and related materials and machinery and transport equipment, which together accounted for 45.9% of import growth during the first six months of 2011.

Since 2009, there has been a significant increase in the value of imported energy supplies. Imports of mineral fuels, lubricants and related products (including coal, coke and briquettes, petroleum, petroleum products and related materials, natural and manufactured gas and electric current) reached EUR 2,248 million at the end of 2010, increasing by 31.3% from EUR 1,712 million in 2009. In the first six months of 2011, imports of mineral fuels, lubricants and related materials amounted to EUR 1,315 million, increasing by 17.3%from EUR 1,121 million in the same period in 2010. The value of petroleum-related products imported increased by 28.5% from EUR 885 million in 2009 to EUR 1,137 million in 2010. During the first six months of 2011, imports of petroleum-related products amounted to EUR 632 million, a 20.1% increase from EUR 526 million in the first six months of 2010.

The following table shows the value of Serbia's imports by country of origin for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(EUR millions)			
EU	**5,696**	**7,687**	**9,073**	**6,533**	**7,069**	**3,326**	**3,776**
Germany	1,145	1,629	1,970	1,409	1,334	622	734
Italy	979	1,349	1,505	1,111	1,079	524	557
Romania	357	309	489	376	450	206	337
Slovenia	378	522	505	377	383	179	204
France	315	439	514	375	363	172	181
Hungary	340	578	709	462	607	301	318
Other	2,182	2,861	3,381	2,423	2,853	1,322	1,445
CEFTA	**857**	**1,141**	**1,291**	**932**	**1,095**	**490**	**582**
Bosnia and Herzegovina	275	382	440	319	421	186	228
Montenegro	121	104	146	128	124	71	53
Croatia	290	405	410	305	323	139	164
Macedonia	160	230	259	165	206	86	107
Other	11	20	36	15	21	8	30
CIS	**2,053**	**2,384**	**2,983**	**1,666**	**1,959**	**908**	**1,174**
Russia	1,707	1,947	2,391	1,416	1,630	783	909
Other CIS countries	346	437	592	250	329	125	265
Other Countries	**1,857**	**2,741**	**3,131**	**2,375**	**2,499**	**1,177**	**1,360**
China	621	1,021	1,128	814	904	407	507
USA	192	274	314	256	193	85	96
Other	1,044	1,446	1,689	1,305	1,402	685	757
Total	**10,463**	**13,952**	**16,478**	**11,505**	**12,622**	**5,901**	**6,892**

Source: Office of Statistics.

Note:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/ imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

The following table shows the value of Serbia's imports by country of origin as a percentage of total imports for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[1]:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
			(% of total imports)				
EU	**54.4**	**55.1**	**55.1**	**56.8**	**56.0**	**56.4**	**54.8**
Germany	10.9	11.7	12.0	12.2	10.6	10.5	10.7
Italy	9.4	9.7	9.1	9.7	8.5	8.9	8.1
Romania	3.4	2.2	3.0	3.3	3.6	3.5	4.9
Slovenia	3.6	3.7	3.1	3.3	3.0	3.0	3.0
France	3.0	3.1	3.1	3.3	2.9	2.9	2.6
Hungary	3.2	4.1	4.3	4.0	4.8	5.1	4.6
Other	20.9	20.6	20.5	21	22.6	22.5	20.9
CEFTA	**8.2**	**8.2**	**7.8**	**8.1**	**8.7**	**8.3**	**8.5**
Bosnia and Herzegovina	2.6	2.7	2.7	2.8	3.3	3.2	3.3
Montenegro	1.2	0.7	0.9	1.1	1.0	1.2	0.8
Croatia	2.8	2.9	2.5	2.7	2.6	2.4	2.4
Macedonia	1.5	1.7	1.6	1.4	1.6	1.5	1.5
Other	0.1	0.2	0.1	0.1	0.2	—	0.5
CIS	**19.6**	**17.1**	**18.1**	**14.5**	**15.5**	**15.4**	**17.0**
Russia	16.3	14.0	14.5	12.3	12.9	13.3	13.2
Other CIS countries	3.3	3.1	3.6	2.2	2.6	2.1	3.8
Other Countries	**17.8**	**19.6**	**19.0**	**20.6**	**19.8**	**19.9**	**19.7**
China	5.9	7.3	6.8	7.1	7.2	6.9	7.4
USA	1.8	2.0	1.9	2.2	1.5	1.4	1.4
Other	10.1	10.3	10.3	11.3	11.1	11.6	10.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Note:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

Serbia sources the majority of its imports from EU member states, which together accounted for approximately 56.0% of Serbia's total imports in 2010. Within this group, Germany and Italy were the largest exporters to Serbia, with 34.1% of imports from EU member states and 19.1% of total imports. Serbia also has significant imports from CEFTA countries, representing an 8.7% share of Serbia's total imports in 2010, with Bosnia and Herzegovina and Croatia being the main exporters to Serbia, with 67.9% of total imports from CEFTA countries. Outside the EU and CEFTA countries, China was a significant exporter to Serbia in 2010, as well as Russia with respect to fuels and energy supplies, with shares of 7.2% and 12.9% of Serbia's total imports, respectively.

During the first six months of 2011, the share of Serbia's imports from EU member states decreased from 56.0% to 54.8%, while the share of imports from countries forming part of the Commonwealth of Independent States (the "**CIS**") increased from 15.5% to 17.0%, with Russia's share of Serbia's total imports increasing to 13.2%, primarily due to an increase in the value of fuels and energy supplies imported.

Exports

The following table shows the value of Serbia's exports of goods by product category for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011(1):

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
			(EUR millions)				
Food and live animals	845	987	1,016	1,076	1,331	531	677
Beverages and tobacco	90	128	170	178	176	78	85
Crude materials (inedible), except fuels	221	299	306	208	350	159	226
Mineral fuels, lubricants and related materials	180	168	254	276	379	197	201
Animal and vegetable oils, fats and waxes	24	69	100	86	109	47	68
Chemicals and related products not elsewhere specified	516	667	752	473	662	317	350
Manufactured goods(2)	1,919	2,257	2,423	1,557	2,147	1,003	1,320
Machinery and transport equipment	563	916	1,294	1,056	1,200	551	654
Miscellaneous manufactured articles(3)	735	909	1,048	959	931	420	508
Commodities and transactions not specified in SITC Rev. 4(4)	9	32	68	91	108	42	29
Total	**5,102**	**6,433**	**7,429**	**5,961**	**7,393**	**3,345**	**4,117**

Source: Office of Statistics.

Notes:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

(2) Manufactured goods classified chiefly by material, including leather, leather manufactures not elsewhere specified and dressed fur skins, rubber manufactures not elsewhere specified, cork and wood manufactures (excluding furniture), paper, paperboard and articles of paper pulp of paper or of paper board; textile yarn, fabrics, made-up articles not elsewhere specified and related products, non-metallic mineral manufactures not elsewhere specified, iron and steel, non-ferrous metals and manufactures of metals not elsewhere specified.

(3) Includes prefabricated buildings; sanitary, plumbing, heating and lighting fixtures, furniture and parts thereof, bedding, mattresses, cushions and similar products, travel goods, handbags and similar containers, articles of apparel and clothing accessories, footwear, professional, scientific and controlling instruments and apparatus, photographic apparatus, equipment and supplies, optical goods not elsewhere specified and miscellaneous manufactured articles not elsewhere specified.

(4) Standard International Trade Classification, Revision 4; includes coins, gold (excluding gold ores and concentrates) and other unclassified goods including army goods, storage goods with no customs tariff marked and motor vehicle parts and aircrafts parts for those imported/exported with the transport mean.

The following table shows the value of Serbia's exports of goods by product category as a percentage of total imports for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
				(% of total exports)			
Food and live animals	16.6	15.3	13.7	18.0	18.0	15.9	16.4
Beverages and tobacco	1.8	2.0	2.3	3.0	2.4	2.3	2.1
Crude materials (inedible), except fuels	4.3	4.7	4.1	3.5	4.7	4.7	5.5
Mineral fuels, lubricants and related materials	3.5	2.6	3.4	4.6	5.1	5.9	4.9
Animal and vegetable oils, fats and waxes	0.5	1.1	1.3	1.4	1.5	1.4	1.6
Chemicals and related products not elsewhere specified	10.1	10.4	10.1	7.9	9.0	9.5	8.5
Manufactured goods[(2)]	37.6	35.1	32.6	26.1	29.0	30.0	32.1
Machinery and transport equipment	11.0	14.2	17.4	17.7	16.2	16.4	15.9
Miscellaneous manufactured articles[(3)]	14.4	14.1	14.1	16.1	12.6	12.6	12.3
Commodities and transactions not specified in SITC Rev. 4[(4)]	0.2	0.5	0.9	1.5	1.5	1.3	0.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Notes:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

(2) Manufactured goods classified chiefly by material, including leather, leather manufactures not elsewhere specified and dressed fur skins, rubber manufactures not elsewhere specified, cork and wood manufactures (excluding furniture), paper, paperboard and articles of paper pulp of paper or of paper board; textile yarn, fabrics, made-up articles not elsewhere specified and related products, non-metallic mineral manufactures not elsewhere specified, iron and steel, non-ferrous metals and manufactures of metals not elsewhere specified.

(3) Includes prefabricated buildings; sanitary, plumbing, heating and lighting fixtures, furniture and parts thereof, bedding, mattresses, cushions and similar products, travel goods, handbags and similar containers, articles of apparel and clothing accessories, footwear, professional, scientific and controlling instruments and apparatus, photographic apparatus, equipment and supplies, optical goods not elsewhere specified and miscellaneous manufactured articles not elsewhere specified.

(4) Standard International Trade Classification, Revision 4; includes coins, gold (excluding gold ores and concentrates) and other unclassified goods including army goods, storage goods with no customs tariff marked and motor vehicle parts and aircrafts parts for those imported/exported with the transport mean.

In 2010, the majority of product categories recorded higher export values compared to periods before the global financial and economic crisis. The growth in exports was primarily driven by the recovery of sectors that had traditionally accounted for a substantial percentage of exports prior to the crisis, such as manufactured goods and machinery transport equipment, which together accounted for 45.2% of Serbia's total exports in 2010 and experienced increases of 37.9% and 13.6%, respectively, compared to 2009. Other sectors also experienced high growth during 2010, including, amongst others, crude materials (not including fuels) (68.2%), chemicals and related products (39.9%) and food and live animals (23.7%). These sectors together accounted for 40.9% of export growth in 2010. By contrast, exports of beverages and tobacco and miscellaneous manufactured articles decreased by 1.2% and 3.0% in 2010, respectively.

In the first six months of 2011, Serbia's total exports increased by 23.1% compared to the same period in 2010. Exports of crude materials (excluding fuels), animal and vegetable oils, fats and waxes and manufactured goods increased by 41.8%, 44.3% and 31.7%, respectively, compared to the same period in the previous year, while unclassified commodities and transactions decreased by 32.2%. The main products driving export growth during the first six months of 2011 were iron and steel, non-ferrous metals, cereals and electrical machines, appliances and devices, which together accounted for approximately 45.0% of export growth during the first six months of 2011.

The following table shows the value of Serbia's exports by destination for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
			(EUR millions)				
EU	**2,932**	**3,603**	**4,029**	**3,196**	**4,235**	**1,939**	**2,453**
Germany	524	684	773	624	760	359	460
Italy	741	799	763	586	844	384	500
Romania	140	193	273	343	491	181	316
Slovenia	201	298	339	245	321	148	186
France	188	212	233	178	209	112	119
Hungary	150	182	222	183	229	103	111
Other	988	1,235	1,426	1,037	1,381	652	761
CEFTA	**1,553**	**2,072**	**2,458**	**1,881**	**2,126**	**961**	**1,071**
Bosnia and Herzegovina	594	760	907	725	822	376	392
Montenegro	492	692	866	599	609	279	298
Croatia	199	241	294	199	232	99	152
Macedonia	238	318	334	306	360	165	183
Other	30	61	57	52	103	42	46
CIS	**368**	**455**	**545**	**408**	**599**	**259**	**358**
Russia	247	326	374	249	403	158	251
Other CIS countries	121	129	171	159	196	101	107
Other Countries	**249**	**303**	**397**	**476**	**433**	**186**	**235**
China	5	4	4	7	5	3	5
USA	57	58	44	48	53	29	27
Other	187	241	349	421	375	154	203
Total	**5,102**	**6,433**	**7,429**	**5,961**	**7,939**	**3,345**	**4,117**

Source: Office of Statistics.

Note:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

The following table shows the value of Serbia's exports by destination as a percentage of total exports for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011
	(% of total imports)						
EU	**57.5**	**56.0**	**54.2**	**53.6**	**57.3**	**58.0**	**59.6**
Germany	10.3	10.6	10.4	10.5	10.3	10.7	11.2
Italy	14.5	12.4	10.3	9.8	11.4	11.5	12.1
Romania	2.7	3.0	3.7	5.8	6.6	5.4	7.7
Slovenia	3.9	4.6	4.6	4.1	4.3	4.4	4.5
France	3.7	3.3	3.1	3.0	2.8	3.4	2.9
Hungary	2.9	2.8	3.0	3.1	3.1	3.1	2.7
Other	19.5	19.3	19.1	17.3	18.8	19.5	18.5
CEFTA	**30.4**	**32.2**	**33.1**	**31.6**	**28.8**	**28.7**	**26.0**
Bosnia and Herzegovina	11.6	11.8	12.2	12.2	11.1	11.2	9.5
Montenegro	9.6	10.8	11.7	10.0	8.2	8.3	7.2
Croatia	3.9	3.7	4.0	3.3	3.1	2.9	3.7
Macedonia	4.7	4.9	4.5	5.1	4.9	4.9	4.4
Other	0.6	1.0	0.7	1.0	1.5	1.4	1.2
CIS	**7.2**	**7.1**	**7.3**	**6.8**	**8.1**	**7.7**	**8.7**
Russia	4.8	5.1	5.0	4.2	5.5	4.7	6.1
Other CIS countries	2.4	2.0	2.3	2.6	2.6	3.0	2.6
Other Countries	**4.9**	**4.7**	**5.3**	**8.0**	**5.9**	**5.6**	**5.7**
China	0.1	0.1	0.1	0.1	0.1	0.1	0.1
USA	1.1	0.9	0.6	0.8	0.7	0.9	0.7
Other	3.7	3.7	4.6	7.1	5.1	4.6	4.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Office of Statistics.

Note:

(1) Data prepared in accordance with foreign trade statistics methodology of the Office of Statistics; International Merchandise Trade Statistics: Concepts and Definitions 2010, UN. As of 1 January 2010, the Office of Statistics became applicable to the general trade system, which includes all goods entering or leaving the country's economic territory. Goods in transit or temporary exports/imports (goods exhibited at fairs, samples, etc) were excluded. In accordance with these amendments, the Office of Statistics has released adjusted data from 2007 onwards. Data for 2006 is in accordance with the special trade system (customs warehousing is not included).

EU member states are the main importers of goods from Serbia, representing a combined share of 57.3% of Serbia's total exports in 2010, recovering from a decreasing trend during 2008 and 2009 as a result of the global financial and economic crisis. In 2010, the share of Serbia's exports to the CEFTA countries dropped to 28.8% of Serbia's total exports from 31.6% in 2009, primarily driven by a decrease in Montenegro's share of total exports from 10.0% in 2009 to 8.2% in 2010. Despite a small decrease, Bosnia and Herzegovina remained Serbia's main export destinations within the CEFTA countries, accounting for 38.7% of exports to the CEFTA group of countries and 11.1% of Serbia's total exports. Apart from the EU and the CEFTA countries, exports to Russia recorded the highest growth rate in 2010, increasing by 61.8% from EUR 249.0 million in 2009 to EUR 403 million in 2010, representing 5.5% of total exports. Serbia's exports to Russia consisted predominantly of industrial products, classified as intermediate goods, which recorded significant growth with nominal values up to three times higher than in the previous year, as well as parts and transport equipment, consumer durables and primary foods and food preparations. Exports to Romania also showed significant growth during 2010, increasing by 43.2% mainly as a result of growth in cereals and oil derivatives exports during the last three months of the year.

In the first six months of 2011, exports to EU member states increased to 59.6% of total exports with the share of exports to Germany, Italy and Romania increasing to 11.2%, 12.1% and 7.7%, respectively, compared to 10.7%, 11.5% and 5.4%, respectively in the same period in 2010. The share of exports to the CEFTA countries decreased to 26.0% in 2010 from 28.7% during the same period in 2010, primarily driven by a decline in the share of Serbia's total exports represented by Bosnia and Herzegovina and Montenegro, which decreased to 9.5% and 7.2% from 11.2% and 8.3% in the same period in the previous year, respectively. Russia's share of Serbia's exports also increased significantly, while the share of exports to China remained broadly flat in the first six months of 2011.

Trade Policy

Serbia's economic growth model focuses on the development of an export-oriented and competitive industry.

In the last few years, with a view to attracting foreign investments, the government introduced tax reliefs, abolished tax on income and retained earnings for a two-year period, and allowed tax reductions in payment of taxes and contributions. Since 2008, the Government has increased investment in construction and improvement of roads and infrastructure with the aim of attracting foreign investments. The Government also introduced significant subsidies to encourage the creation of new jobs by foreign employers (up to EUR 10,000 per each new employee) and incentives for business in free industrial zones. Serbia Investment and Export Promotion Agency ("**SIEPA**") is responsible for facilitating and financing the promotion of small and medium-sized enterprises in foreign markets, as well as providing assistance in relation to cluster formation, branding and obtaining the required certifications to participate in certain export markets, among other things.

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 achieved relatively high growth of exports of goods and services in the period from 2006 to 2010, increasing by 44.9% during that period. However, exports of goods as a percentage of Serbia's nominal GDP only increased by 16.9% from 21.9% as at 31 December 2006 to 25.6% as at 31 December 2010. As a result of the low growth in exports in proportion to nominal GDP, Serbia recorded a trade deficit of EUR 4,773.3 million (or 16.5% of nominal GDP) and a current account deficit of EUR 2,081.9 (or 7.2% of nominal GDP) in 2010, while the coverage of commodity imports with exports amounted to only 60.8% in the same year. The export structure of Serbia is typical of less developed countries. See "*External Sector — Foreign Trade*". Serbia's goal is to transition to a more export-oriented economy, increasing economic growth through growth in exports of goods and services.

In order to reduce its foreign trade deficit and increase the contribution of exports to GDP, Serbia is seeking to increase the contribution of higher value added tradable goods (such as motor vehicles, pharmaceutical products, metals and machinery, among others) to exports, while at the same time decreasing the share of food, beverages, tobacco and oil distillery. This is likely to result in an increase in the share of the machinery and transport equipment sector as a percentage of total exports, while other sectors are likely to remain broadly flat or experience a small decline, such as the beverages and tobacco sector. In addition, Serbia aims to strengthen small- and medium-sized enterprises, transnational companies seeking to invest in new projects and technologically developed large public production companies.

In relation to exports of services, tourism and transportation were the largest contributors to exports of services in Serbia in 2010, with a 22.7% and 22.1% share of total exports of services, respectively. The Ministry of Tourism, together with other tourism organisations, is responsible for the promotion of Serbia as an attractive leisure and entertainment destination for tourists. In addition to tourism and transport, other business services are also expected to contribute significantly to the growth of exports of services, having increased by 27.8% in 2010 from EUR 923.8 million to EUR 1,180.4 million.

While no significant changes are expected in Serbia's main import and export destinations, Serbia is seeking to strengthen economic relations with former Yugoslav republics as part of its trade policy, as well as rebuilding business relations and trade with the Near and Middle East countries and North Africa.

In order to achieve an increase in the share of exports of goods and services in GDP, Serbia will also continue to pursue other macro-economic policy goals, including: EU integration, intensification of economic cooperation with the CEFTA region maximising exports to Russia, OPEC and Mediterranean countries, attracting FDIs, simplifying conditions to doing business in Serbia and educating local producers about potential export markets.

International Trade Agreements

Serbia's has free trade agreements with its main trade partners, including the EU, CEFTA, the European Free Trade Association ("**EFTA**") and Turkey, under which Serbia benefits from the application of cumulation of origin principles. In 2009, Serbia entered into free trade agreements with CIS countries, including Russia, Belarus and Kazakhstan. In addition, Serbia is in negotiations to join the World Trade Organisation by the end of 2011.

Serbia signed the SAA with the EU in April 2008. In addition, on 16 October 2008, Serbia adopted a decision to unilaterally implement the Interim Trade Agreement and initiated its implementation in Serbia on 1 January 2009. The Interim Trade Agreement then came into force between the EU and Serbia on 1 February 2010. The Interim Trade Agreement provides for the establishment of a free trade area between the EU and Serbia, regulates certain aspects of economic activity, notably in relation to business competition and state aid, and guarantees that the EU market will remain open to most Serbian products. Full implementation of the Interim Trade Agreement involves gradually abolishing customs duties and other restrictions on the importation of products from the EU, which are classified in three groups by degree of sensitivity, in addition to a group of industrial products for which restrictions on trade have already been removed as part of the implementation process. Implementation also allows Serbia to benefit from the principle of "diagonal cumulation of origin", which allows products with their originating status in one partner country to be further processed or added to products originating in another participating country as if the products had been originated in the latter country. This principle is particularly important as preferential conditions for exports to the EU market may be enjoyed only for goods of known origin, which would otherwise cause potential problems in connection with goods produced in more than one country within the region. The Interim Trade Agreement then came into force between the EU and Serbia on 1 February 2010. The Government expects the Interim Trade Agreement and the SAA to attract foreign investment and strengthen economic links with the EU, as well as increasing the productivity and competitiveness of Serbia's export sector.

Serbia's free trade agreement with Russia was entered into in August 2000. The trade agreement stipulates that the importing country regulates the rules of origin, in accordance with WTO principles, meaning that goods produced and with prevailing value added in Serbia are considered to be of Serbian origin, and are therefore free of customs when entering the Russian market. The list of products not covered by the duty-free agreement is updated annually and it currently includes fresh and processed produce, poultry, sugar, chocolate, alcoholic beverages, soap, cotton, carpets, wooden furniture, household appliances, and motor vehicles. This free trade agreement is the first such agreement Russia has signed with any country outside the CIS.

Foreign Direct Investment ("FDI")

The following table shows the net FDI in Serbia for the years 2006 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December					Six months ended 30 June	
	2006	**2007**	**2008**	**2009**	**2010**	**2010**	**2011**
FDI (net) (*EUR millions*)	3,323	1,821	1,824	1,372	860	420	566
FDI (net) *(% of nominal GDP)*(1)	14.3	6.4	5.6	4.8	3.0	3.1	3.8

Source: Office of Statistics; National Bank.

Note:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

Prior to the global financial and economic crisis, net FDI into Serbia reached approximately EUR 3,323 million in 2006. In 2007, net FDI decreased by 45.2% to EUR 1,821 million, primarily driven by the privatisation of Mobile Telecommunication Company, MOBI063 in the previous year. In 2008, net FDI remained broadly flat at EUR 1,824 million. The crisis had an adverse impact on FDI levels, with net FDI decreasing by 24.8% to EUR 1,372 million in 2009 and by a further 37.3% to EUR 860.0 million in 2010. For the first six months of 2011, net FDI amounted to EUR 566 million, increasing by 34.9% from EUR 420 million compared to the same period in 2010.

In contrast to earlier years, when investment flowed primarily into the financial sector, trade and telecommunications, Serbia's manufacturing industry (production of food and beverages, motor vehicles and base metals) accounted for 29.4% of FDI in 2009, with mining and quarrying, real estate and trade accounting for 22.4%, 13.2% and 12.3% of total FDI. Portfolio investment outflows continued in 2009, as accounting foreign capital outflows totalled EUR 51.0 million.

During the first six months of 2011, FDI levels experienced some recovery and the Government expects that there will be further recovery by the end of the year.

Despite the declining trend in FDI, a number of foreign investors, including Italian car manufacturer Fiat Group Automobiles S.p.A., United States Steel Corporation and Ball Packaging Europe Belgrade Ltd, have recently announced the expansion of operations in Serbia. The most significant announced FDI in Serbia for 2011 is the project by Fiat Automobiles Serbia, involving the launch of new automobile manufacturing facility set for 2012, which is expected to be almost entirely export-oriented and to target predominantly the EU market. The Government estimates that this investment will reduce Serbia's current account deficit as a percentage of nominal GDP by 1.5% annually between 2011 and 2016, increasing export growth rates by 1.8% on an annual basis. On this basis, the Government estimates that Serbia's current account deficit will decrease from 7.0% of nominal GDP in 2011 to 6.3% in 2016, compared to a projected deficit of 7.6% of nominal GDP without taking into account the expected effects of this investment. The Government estimates that the increase in net exports resulting from the investment in Fiat Automobiles Serbia will result in an increase in nominal GDP by an additional 0.4% per annum between 2012 and 2016.

The following table shows the net inflow of FDI in Serbia by industry for the years 2008 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December			**Six months ended 30 June**	
	2008	**2009**	**2010**	**2010**	**2011**
			(EUR millions)		
Agriculture	38	21	11	3	2
Fishing	—	—	5	4	2
Mining and quarrying	20	405	4	1	45
Manufacturing	388	533	338	167	236
Electricity, gas and water supply	2	5	8	4	12
Construction	56	28	29	14	25
Wholesale and retail trade, repair	276	222	194	103	88
Hotels and restaurants	16	5	2	1	5
Transport, storage and communications	168	118	75	48	59
Financial intermediation	861	156	285	159	93
Real estate, renting and business activities	588	240	177	70	68
Public administration and defence; compulsory social security	2	—	—	—	1
Education	—	—	1	1	16
Health and social work	—	—	—	—	—
Other communal, social and personal	18	18	10	2	1
Unclassified(1)	0	58	—	—	16
Total investment by non-residents	**2,434**	**1,810**	**1,139**	**577**	**669**
Total inflow from withdrawing resident investment abroad	96	58	33	13	33

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
			(EUR millions)		
Outflow from withdrawing non-resident investment in Serbia	(416)	(400)	(136)	(56)	(73)
Investment of domestic capital abroad	(289)	(96)	(176)	(116)	(63)
Total FDI	**1,824**	**1,372**	**860**	**420**	**566**

Source: Office of Statistics; National Bank.

Note:

(1) Includes FDI in kind not otherwise included in another category.

The following table shows the net inflow of FDI in Serbia by country of origin for the years 2008 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December			Six months ended 30 June	
	2008	2009	2010	2010	2011
			(EUR millions)		
Austria	267	234	146	89	61
Belgium	26	2	3	1	4
British Virgin Islands	27	13	(2)	(1)	1
Bulgaria	14	13	9	9	—
Croatia	97	19	42	22	14
Cyprus	44	29	52	16	(3)
France	53	5	16	1	45
Germany	58	41	34	11	33
Greece	34	46	24	21	7
Hungary	21	19	15	1	15
Ireland	1	11	5	5	—
Italy	330	167	41	24	14
Lithuania	4	—	2	3	—
Luxembourg	49	6	6	2	(2)
Montenegro	29	7	1	(1)	5
Netherlands	359	178	206	126	168
Poland	15	1	2	—	—
Romania	12	1	—	—	3
Russia	19	401	3	2	45
Slovakia	—	24	32	1	8
Slovenia	72	39	96	22	20
Spain	11	6	14	3	52
Switzerland	82	63	53	25	25
United Kingdom	12	51	54	51	15
United States of America	34	12	54	48	12

Source: National Bank.

The Netherlands are the largest contributor to FDI in Serbia, accounting for 17.8%, 12.6% and 20.5% of total FDI in Serbia in the years ended 31 December 2008, 2009 and 2010, respectively. Historically, Dutch companies have invested predominantly in Serbia's manufacturing industry (basic metals and production of food and beverage). In the first six months of 2011, FDI from the Netherlands accounted for 28.2% of total FDI in Serbia, increasing by four percentage points compared to the same period in the previous year.

Bilateral co-operation infrastructure projects

The Government has inter-governmental contracts for bilateral co-operation in infrastructure projects that are designed to facilitate the development and financing of infrastructure projects in Serbia.

Through these agreements, Serbia aims to promote co-operation and attract foreign investment in infrastructure development.

China

The Agreement on Economic and Technical Cooperation in the Area of Infrastructure between Serbia and China was signed on 20 August 2009 in Beijing and came into force in June 2010. The following documents have been signed pursuant to this Agreement:

- Agreement on Construction (design and construction works) of the Zemun — Borca Bridge entered into on 15 April 2010 between Serbia as the Contracting Authority, the City of Belgrade as the beneficiary and the China Road and Bridge Corporation (CRBC) as the subcontractor party tasked with the construction works, for total consideration amounting to U.S.$255 million (EUR 182.1 million);
- Agreement on Supply of X-Ray Inspection System for Serbia's Customs Administration, entered into in December 2009 between Serbia (acting through the Ministry of Finance) and NUCTECH CO. Ltd. Beijing, in December 2009 in Beijing, for total consideration amounting to U.S.$45 million (EUR 32.0 million); and
- Memorandum of Understanding for The Package Project Kostolac Implementation, entered into in February 2010 between the Electric Power Industry of Serbia Public Enterprise and China National Machinery & Equipment Import & Export Corporation, for total consideration amounting to U.S.$1.2 billion (EUR 0.86 million).

Turkey

The Agreement on Cooperation in the area of infrastructure projects was signed between Serbia and Turkey on 26 October 2009 and it came into force in July 2010. The main project under this agreement is the construction and reconstruction of sections of main roads in the Raska Region (Sjenica–Novi Pazar (M8) and Novi Pazar–Tutin (P 118A)) for a total amount of U.S.$30 million (EUR 21.4 million).

Serbia is in negotiations with several companies in Turkey, including Makyol, Yuksel and Kolin, regarding their participation in the construction of certain sections of the Belgrade–South Adriatic Highway (Corridor Eleven). In June 2010, a memorandum of understanding was signed with Kolin to carry out a construction project on the section of the Belgrade–South Adriatic Highway connecting Belgrade to Ljig. In July 2010, two Memoranda of Understanding were signed with Makyol and Yuksel to carry out construction projects on the sections connecting Ljig to Cacak and Cacak to Pozega. At the same time, a framework agreement was also signed in connection with rehabilitation project relating to the M8 state road from Novi Pazar to Aljinovic.

Czech Republic

On 4 May 2010, Serbia signed the Protocol on Cooperation in the Area of Infrastructure Projects with the Czech Republic, which came into force in July 2010, accompanying the Bilateral Agreement on Economic Co-operation with the Czech Republic. In November 2010, Serbia signed a framework agreement for the Pilot Project, which involved the modernisation and upgrade of the railroad infrastructure along the Nis–Dimitrovgrad section of Corridor Ten. The contractor for this Project is the Czech Consortium Inekon-Eniksus, with the support of a credit line from the Czech Export Bank ("**CEB**") amounting to EUR 120 million. In early December 2010, negotiations began for the harmonisation of the Framework Agreement text on the loan between the Public Company Zeleznice Srbije and CEB with the Agreement on Guarantees between Serbia and CEB, and in early 2011, discussions began to harmonise the text of the first individual contracting agreement. It is expected the first individual contracting agreement, which would pertain to the Cele Kula–Stanicenje phase will be harmonised and signed by the autumn of 2011.

MONETARY SYSTEM

National Bank

The status, organisation, mandate and functions of the National Bank, as well as the relationship between the National Bank and other Serbian governmental bodies and international organisations and institutions, are regulated by the Law on the National Bank of Serbia.

The National Bank is independent and autonomous in fulfilling its functions as stipulated by the Law on the National Bank (and other related legislation) and is accountable for its work to the Assembly. The governing bodies of the National Bank consist of the Executive Board, the Governor and the Council of the Governor. The National Bank's headquarters are located in Belgrade and the National Bank also has branch offices in Belgrade, Novi Sad, Nis, Kragujevac and Uzice and is responsible for the Institute for Manufacturing Banknotes and Coins in Topcider. The primary objective of the National Bank is to achieve and maintain price stability and contribute to the safeguarding and strengthening of the stability of the financial system.

The National Bank has 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 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 Leasing Operations;
- issuing banknotes and coins and managing cash flows;
- regulating, controlling and promoting the uninterrupted functioning of the payment system; and
- other matters prescribed under Serbian law or by treaties.

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, and, in particular, it determines the conditions applicable to, and method for issuing securities, the terms and manner in which the National Bank carries out open market operations and discount operations, short-term lending policy, Dinar exchange rate policy, strategy foreign currency reserves management, 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 banks, insurance companies, financial leasing companies and voluntary pension fund management companies.

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 By-Laws and the National Bank's development strategy, and monitors its implementation. The Council of the Governor 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 and supervises and adopts its annual internal audit plan. In addition, the Council of the Governor submits to the Assembly a report on its operations, at least once a year, as well as the annual statement of accounts along with the certified auditor's report by no later than 30 June of the following year.

Monetary Policy

Overview

Serbia's monetary policy during recent years has focused on stabilising the inflation rate and maintaining the stability of the foreign exchange markets and the country's financial system.

The main monetary policy instrument used by the National Bank to achieve its inflation targets is the interest rate on two-week repo transactions, which represents the key policy rate. The key policy rate is set in response to changes in economic developments and the inflation outlook. Other monetary policy instruments have a supporting role, including modifying reserve requirements and intervening in the foreign exchange market.

Prior to the introduction of formal inflation targeting in January 2009, the National Bank's monetary policy focused on core inflation, which is calculated on the basis of changes in retail prices, excluding regulated prices and the prices of agricultural products. The National Bank sought to maintain price stability within its predetermined inflationary corridor and achieve its core inflation targets by modifying the key policy rate based on an analysis of the then current economic situation coupled with assessments of inflation movements and mid-term inflation projections. By modifying its key policy rate and interest rate corridors, the National Bank was able to influence short-term interest rates in the interbank market and, as a consequence, aggregate demand, production and prices.

Between 2006 and October 2008, Serbia experienced significant capital and investment inflows from abroad. As a result, there was an increase in the foreign exchange reserves held by the National Bank, as well as an appreciation of the Dinar. In order to prevent the increase in capital inflows from affecting the overall domestic demand and leading to an increase in price levels, the National Bank sought to restrict the usage of bank surpluses of liquid funds by engaging in extensive open market operations, as well as through its mandatory reserves mechanism.

In October 2008, when the first effects of the global financial and economic crisis were experienced in Serbia, the National Bank introduced a series of measures aimed at strengthening Serbia's financial and macroeconomic stability and mitigating the effects of the crisis. These measures were primarily aimed at improving the liquidity of banks, reducing currency risk exposure and mitigating depreciation and inflationary pressures. At the end of 2008, the National Bank signed the Agreement on Inflation Targeting with the Government. Pursuant to this Agreement, the National Bank adopted a *Memorandum on Inflation Targeting as Monetary Strategy*, which defined the main principles of the inflation targeting regime as the official monetary policy strategy from January 2009 onwards. The setting of inflation targets through to 2012 in a range between 2.0% and 4.0% per annum was an attempt to achieve mid-term price stability, given Serbia's commitment to work towards EU prices and income levels.

In 2009, the National Bank began to address headline inflation, as opposed to focusing only on core inflation, by planning changes to regulated prices. By targeting headline inflation, the National Bank sought to improve communication with the public in order to influence and stabilise inflation expectations, which are crucial to decision-making in the corporate and financial sectors, as well as in households. Inflation targets are set by the National Bank in co-operation with the Government, on the basis of an analysis of the current and expected macroeconomic movements and the medium-term expectations of changes in prices under direct or indirect Government regulation. As a result, responsibility for control of inflation is shared between the National Bank and the Government.

In 2009, the National Bank also switched from Retail Price Index to Consumer Price Index targeting, an approach that had been adopted internationally by other countries with inflation targeting policies. For the first time in January 2009, the inflation target was set as a linearly declining band of annual changes in consumer prices. The band was set with a midpoint for each month of the year, in order to assess whether inflation targets were being met throughout the year, rather than only at year end.

Implementation of Serbia's Monetary Policy

The instruments presently used by the National Bank to implement Serbia's targeted inflation monetary policy can be divided into three main categories: (i) open market operations; (ii) reserve requirements; and (iii) standing and other loan facilities.

Open market operations

The National Bank uses open market operations to manage banks' liquidity and short-term interest rates in the money markets.

In the period from 2006 to October 2008, the National Bank restricted the surplus of Serbian banks' liquid funds, generated from the massive inflow of capital and investment from abroad, by selling substantial amounts of its own securities in the open market. From September 2006 to October 2008, the amount outstanding under securities issued by the National Bank increased by RSD 167.2 billion. At the end of the first nine months of 2008, the aggregate amount outstanding under securities of the National Bank stood at RSD 242.7 billion.

From September 2006 to February 2009, the National Bank sold six-month T-Bills in order to stimulate the secondary market for such securities and to influence the yield curve of transactions with longer maturities in the interbank market. The sale of six-month bills by the National Bank stopped in February 2009, with the sale of three-month bills issued by the Ministry of Finance.

Between October 2008 and December 2010, there was a decrease of RSD 195.8 billion in the outstanding amount under bills issued by the National Bank, which stood at RSD 46.9 billion as at 31 December 2010. As at 30 June 2011, the amount outstanding under National Bank bills stood at RSD 73.9 billion, increasing by 57.6% from the end of 2010. The increase in sales was primarily driven by the appreciation of the Dinar as a result of foreign exchange inflows against portfolio investments.

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. Reserve requirements are used when the effects of all other market-based measures for monetary regulation have been exhausted.

During the period between 2006 and 2008, the National Bank used the reserve requirements as a means to encourage banks to hold local currency assets by applying lower reserve requirements to Dinar exposures relative to foreign-currency exposures. In order to contain foreign capital inflows and control the resulting increase in lending by banks, the National Bank increased the required reserve ratio and expanded the base for its calculation to include foreign currency liabilities, subordinated foreign currency liabilities, foreign currency deposits and credits received from abroad with repayment terms of up to two years. Furthermore, the mandatory deposits required to be maintained by leasing companies with banks was increased from 10.0% to 20.0%, while banks were required to calculate the required reserves on such funds at the rate of 100.0%. The required reserve ratio on Dinar deposits and loans with terms of over two years, received from abroad, was also increased. In addition, the limit on the daily usage of the required reserve funds was abolished, allowing banks to manage liquid funds without any restrictions. In order to promote strengthening and increased use of the Dinar, the National Bank also reduced reserve requirements on the Dinar liabilities of the banks and introduced a differentiated ratio which was lower on Dinar term deposits for a period of over one month.

In October 2008, the National Bank introduced certain changes in reserve requirements for banks, prompted by the withdrawals of foreign savings deposits and overall outflow of foreign capital as a result of the global financial and economic crisis. The new measures allowed banks to use, as a base for calculating reserve requirements in respect of deposits and loans originated abroad and subordinated foreign currency liabilities, the average daily net book value of such liabilities in September 2008, should the average daily average net book value of such liabilities in the preceding month be lower than that in September 2008. This measure was applied until March 2010. In addition, in order to mitigate depreciation pressures, banks were required to allocate a specified portion of the foreign currency required reserve in Dinar (40.0%).

In the first three months of 2009, the Government introduced the Government Programme of Measures for Mitigating Negative Effects of the Global Economic Crisis in the Republic of Serbia (the "**Government Programme**"). In conjunction with the Government Programme, the National Bank made certain changes to the calculation of required reserves, including, among other things, reducing the base for the calculation of required reserves by the amount of credits granted to the corporate sector to finance investments and the amount of consumer loans granted for the purchase of durables produced in Serbia. Furthermore, the percentage allocation of foreign currency reserves in Dinar was reduced from 40.0% to 20.0%, thus allowing banks to allocate less than the Dinar equivalent of the calculated required reserve in Euro in order to improve Dinar liquidity in the banking sector.

In March 2010, the National Bank modified the base for the calculation of required reserves so that the Dinar base would include only non-indexed liabilities, while the base of foreign currency liabilities was extended by including foreign currency indexed Dinar liabilities. In addition, the rate at which banks calculated required reserves was unified and reduced, to 5.0% on Dinar amounts and 25.0% on the foreign currency base. The new model for the calculation reserves was introduced after a one-year transition period.

In January 2011, the National Bank proposed several changes to the required reserve ratios in order to increase liquidity in the banking system, including: (i) differentiating the required reserves ratio in accordance with the maturity structure of the source in accordance with the policy of the European Central Bank; and (ii) differentiating rates of required foreign currency reserves allocated in Dinar.

Standing and other loan facilities

Standing facilities involve the use of collateralised loans to maintain daily liquidity and depositing banks' excess liquid balances with the National Bank. Interest rates on the standing facilities are set to create a symmetrical interest rate corridor, which enables liquidity control and eases fluctuations of short-term interest rates in the interbank money markets. The symmetrical interest rate corridor was implemented in September 2006. During the period between September 2006 and March 2007 interest rates on standing facilities were 4 percentage points above or below the key policy rate. At the end of March 2007, the corridor was narrowed to 2.5 percentage points above or below the key policy rate, following a reduction of the key policy rate.

From 2006 to mid-2008, the National Bank permitted banks the use of short-term loans collateralised with certain securities (known as "Lombard" loans) in order to maintain liquidity. Banks were permitted to use such loans for up to 45 business days continuously and/or up to 60 days intermittently during a period of 120 days. Banks used these loans mainly on a daily basis by withdrawing and repaying the loan on the same day, since this form of loan withdrawal was interest-free. In early June 2008, the National Bank implemented the *Decision on the Conditions and the Manner of Extending Daily Liquidity Loans against a Collateral of Securities* (the "**Decision**"). According to the Decision, banks were allowed to use a liquidity loan as an intra-day liquidity loan or as an overnight liquidity loan. On the portion of the withdrawn and repaid intra-day loan, banks paid no interest to the National Bank, while on the amount of overnight loan, banks paid interest equal to the key policy rate plus 2.5%.

Other Instruments

Other instruments used by the National Bank to implement Serbia's monetary policy include operations in the foreign exchange market, foreign exchange swaps, intervention loans, short-term Dinar loan auctions and issuance of securities of the National Bank, as well as changes in other interest rates.

Liquidity and 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 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June
	2006	2007	2008	2009	2010	2011
			(RSD millions)			
Liquid Assets (core)[(1)]	316,780	350,715	412,757	430,224	436,700	392,569
Liquid Assets (broad measure)[(2)]	461,640	558,766	490,595	581,965	483,626	466,480
Short-term liabilities	138,130	182,163	152,696	166,493	173,166	165,912
Total loans	644,067	853,451	1,145,224	1,425,203	1,850,888	1,894,551
Loans to public sector	57,026	44,261	55,082	180,974	281,611	293,443
Loans to private sector (excluding loans to other financial institutions)[(3)]	572,642	802,529	1,070,609	1,225,453	1,533,844	1,561,328
Loans to other financial institutions[(3)]	14,399	6,659	19,533	18,776	35,433	39,780

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.

(3) Pursuant to the new Decree on the Classification of Activities that came into force in August 2010, loans to financial holding corporations were reclassified from loans to the private sector to loans to other financial institutions.

In 2009, total loans increased by 24.4% to RSD 1,425,203 million as at 31 December 2009, primarily driven by a 14.5% increase in loans to the private sector. Loans to the public sector also recorded significant growth, increasing by 228.6% from RSD 55,082 million as at 31 December 2008 to RSD

180,974 million as at 31 December 2009, primarily due to an increase in the outstanding amount of Government debt resulting from the issuance of T-bills and bank credit facilities. In contrast, loans to other financial institutions stood at RSD 18,776 million at the end of 2009, decreasing by 3.9% from RSD 19,533 million at the end of 2008. Liquid assets (broad measure) increased by 18.6% in 2009, reaching RSD 581,965 million as at 31 December 2009 compared to RSD 490,595 million as at 31 December 2008, driven by increased investment in repo transactions. Short-term liabilities also increased by 9.0% reaching RSD 166,493 at the end of 2009.

In 2010, total loans increased by 29.9% to RSD 1,850,888 million as at 31 December 2010, primarily driven by a 25.2% increase in loans to the private sector. Loans to other financial institutions grew significantly, increasing by 88.7% to RSD 35,433 million at the end of 2010 from RSD 18,776 million at the end of 2009, due to an increase in their financing needs and the reclassification of loans to financial holding companies as loans to other financial institutions. Loans to the public sector also increased by 55.6% from RSD 180,974 million as at 31 December 2009 to RSD 281,611 million as at 31 December 2010, primarily due to the continuing rise in the amount of Government debt outstanding and, to a lesser extent, due to an increase in the debt of public enterprises and local governments. Liquid assets (broad measure) decreased by 16.9% to RSD 483,626 million as at 31 December 2010, driven by withdrawals from repo transactions. Short-term liabilities also increased by 4.0% reaching RSD 173,166 million at the end of 2010.

In the first six months of 2011, total loans increased by 2.4% to RSD 1,894,551 million as at 30 June 2011, primarily driven by a 1.8% increase in loans to the private sector. Loans to other financial institutions increased by 12.3% to RSD 39,780 million at the end of June 2011. Loans to the public sector also increased by 4.2% from RSD 281,611 million as at 31 December 2010 to RSD 293,443 million as at 30 June 2011, primarily due to an increase in borrowings by public enterprises. Liquid assets (core) decreased by 10.1% to RSD 392,569 million as at 30 June 2011 from RSD 436,700 million at the end of 2010, driven by a decrease in foreign currency and Dinar deposits held by the National Bank. Short-term liabilities decreased by 4.2% reaching RSD 165,912 million at the end of June 2011.

Monetary Aggregates

The following table shows certain statistics relating to monetary aggregates as at 31 December for the years 2007 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June
	2006	2007	2008	2009	2010	2011
	(RSD millions, unless otherwise indicated)					
Narrow Money (M1).	200,090	248,873	240,744	258,427	253,286	236,881
Broad Money (M2) ...	278,966	390,485	395,025	436,768	410,495	401,970
Broad Money (M3) ...	634,470	903,871	992,151	1,205,570	1,360,777	1,344,773
Broad Money (M3) year-on-year growth rate (%).....	38.3	42.5	9.8	21.5	12.9	3.8
Broad Money (M3) share of GDP(1)(%)	32.3	39.7	37.3	44.4	45.6	40.1
Reserve Money..........	396,972	439,172	514,125	533,776	537,338	487,809
Growth rate (%)........	60.2	10.6	17.1	3.8	0.7	(9.2)
Deposits in RSD	212,536	319,435	301,401	338,315	313,791	315,355
Deposits in foreign currencies	359,025	517,009	599,180	769,925	961,977	951,692
Loans in RSD(2)........	233,479	777,655	1,054,569	1,332,339	1,717,322	1,753,561
Loans in foreign currencies(2)...........	97,889	84,060	90,655	92,864	133,566	140,990

Source: National Bank.

Notes:

(1) Calculated as a percentage of Nominal GDP. Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

(2) Includes claims on public non-financial corporations, other non-financial corporations and individuals.

In 2009, narrow money (M1) increased by 7.3% from RSD 240,744 million as at 31 December 2008 to RSD 258,427 million as at 31 December 2009. Broad money supply (M2) increased by 10.6% from RSD 395,025 million at the end of 2008 to RSD 436,768 million at the end of 2009, while the broader money supply (M3) measure increased by 21.5% from RSD 992,151 million to RSD

1,205,570 million in the same period. Foreign currency deposits experienced greater growth than Dinar deposits in 2009, recording increases of 28.5% and 12.2% and reaching RSD 769,925 million and RSD 338,315 million, respectively, at the end of 2009. In contrast, Dinar-denominated loans recorded a greater growth rate than loans denominated in foreign currencies, increasing by 26.3% and 2.4%, respectively. Dinar-denominated loans stood at RSD 1,332,339 million at the end of 2009, while loans denominated in foreign currencies amounted to RSD 92,864 million.

In 2010, narrow money (M1) decreased by 2.0% to RSD 253,286 million at the end of the year. Broad money M2 fell by 6.0% to RSD 410,495 million and broad money M3 increased by 12.9% to RSD 1,360,777 million as at 31 December 2010. Foreign currency deposits continued to record positive growth in 2010, increasing by 24.9% to RSD 961,977 million as at 31 December, whereas Dinar deposits decreased by 7.2% to RSD 313,791 million in the same year. Foreign currency loans exhibited significantly greater growth relative to Dinar-denominated loans increasing by 43.8% and 28.9%, respectively. As at 31 December 2010, foreign currency loans and Dinar loans stood at RSD 133,566 million and RSD 1,717,322 million, respectively.

In the first six months of 2011, narrow and broad money measures continued to decline, with M1, M2 and M3 decreasing by 8.1%, 2.1% and 1.2% to RSD 236,889 million, RSD 401,970 million and RSD 1,344,773 million, at the end of the period, respectively. Dinar deposits remained broadly flat, standing at RSD 315,355 million as at 30 June 2011, while foreign currency deposits decreased by 1.1% to RSD 951,692 million. Foreign currency loans and dinar-denominated loans increased by 5.6% and 2.1%, reaching RSD 140,990 million and RSD 1,753,561 million as at 30 June 2011.

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 2007 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December				Six months ended 30 June	
	2007	2008	2009	2010	2010	2011
			(% change)			
Fruits and Vegetables	46.5	4.2	2.8	20.4	31.5	13.9
Regulated Prices	12.3	8.3	11.2	12.0	7.7	9.1
Electricity	15.0	12.5	—	11.5	11.5	13.5
Gas for households	(2.5)	57.2	(0.6)	—	—	—
Utility-housing services	9.4	6.6	22.7	22.9	5.6	5.1
Social welfare services	14.2	4.8	15.4	6.5	4.0	0.3
Transport services (regulated)	4.8	8.0	27.2	4.2	2.5	13.7
Postal and telecommunications services	0.5	0.7	12.2	0.5	0.5	—
Cigarettes	24.7	10.4	15.0	16.3	10.2	16.0
Medications	5.8	(2.9)	16.7	10.2	5.2	6.4
Other	13.4	9.9	10.5	14.3	13.3	0.3
Petroleum Products	16.5	(18.8)	45.9	12.3	10.0	11.1
Core Inflation(1)	**7.9**	**10.8**	**3.6**	**8.6**	**0.6**	**5.2**
Total Inflation	**11.0**	**8.6**	**6.6**	**10.3**	**4.5**	**6.8**
Food	20.1	14.7	(0.2)	10.9	3.4	10.0
Energy	13.3	2.5	14.0	11.8	10.0	11.2
Services	4.8	6.5	10.6	9.8	4.6	2.2

Source: Ministry of Finance.

Note:

(1) Calculated on the basis of changes in retail prices, excluding changes in regulated prices and the prices of agricultural products.

The following table shows the contribution by product or service to the year-on-year change in consumer prices for the years 2007 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December				Six months ended 30 June	
	2007	**2008**	**2009**	**2010**	**2010**	**2011**
			(% change)			
Fruits and Vegetables	2.2	0.3	0.2	1.3	2.0	0.8
Regulated Prices	2.6	1.8	2.4	2.5	1.6	1.9
Electricity	1.0	0.9	—	0.8	0.8	0.9
Gas for households	—	0.2	—	—	—	—
Utility-housing services	0.3	0.2	0.6	0.6	0.2	0.2
Social welfare services	0.1	—	0.1	—	—	—
Transport services (regulated)	0.1	0.1	0.3	—	—	0.1
Postal and telecommunications services	—	—	0.2	—	—	—
Cigarettes	1.0	0.5	0.6	0.6	0.4	0.6
Medications	0.2	(0.1)	0.4	0.3	0.1	0.2
Other	0.1	0.1	0.1	0.1	0.1	—
Petroleum Products	0.7	(0.8)	1.5	0.6	0.5	0.4
Core Inflation	**5.6**	**7.3**	**2.5**	**5.9**	**0.4**	**3.6**
Total Inflation	**11.0**	**8.6**	**6.6**	**10.3**	**4.5**	**6.8**
Food	6.1	4.9	(0.1)	3.6	1.1	3.5
Energy	1.7	0.3	1.6	1.5	1.3	1.4
Services	1.0	1.2	2.1	2.0	0.9	0.4

Source: Ministry of Finance.

Note:

(1) Calculated on the basis of changes in retail prices, excluding changes in regulated prices and the prices of agricultural products.

Serbia's inflation rate in 2009, measured by reference to the CPI, was 6.6%, against an inflation target of 8.0% (with a tolerance band of 2.0%), and was driven primarily by a 11.2% increase in regulated prices, particularly in petroleum product prices, which increased by 45.9%, representing 22.7% of the overall increase in regulated prices during that year. Prices remained relatively stable throughout 2009, primarily due to low aggregate demand and decreasing food prices. The deflationary pressure of such factors was set against the inflationary impact of short-lived fluctuations in the exchange rate of the Dinar and inflation expectations.

In 2010, Serbia's inflation rate increased to 10.3%, against an inflation target of 6.0% (with a tolerance band of 2.0%), driven by the cumulative impact of a 10.9% increase in food prices (representing 35.0% of the overall increase in Serbia's inflation rate) as well as a nominal depreciation of the Dinar due to an increase in Serbia's country risk premium. The increase in prices experienced in 2010 resulted primarily from an increase in core inflation, which reached 8.6%, and a 12.0% increase in regulated prices. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Relatively high and sustained inflation may have a material adverse effect on the Serbian economy*".

The rising trend in Serbia's inflation rate continued in the first six months of 2011, driven by an increase in regulated prices and food prices. Inflation peaked at 14.7% in April 2011 and stood at 12.7% at the end of June. Compared to prices as at 31 December 2010, consumer prices remained 6.8% higher in 30 June 2011 mainly as a result of a 10.0% increase in food prices, which accounted for approximately 3.5 percentage points of Serbia's total inflation during the first six months of 2011.

The National Bank targets annual inflation continuously based on the CPI, with the two-week repo rate as its main policy instrument. See "*— Monetary Policy — Overview*". Targets are also defined for every month, so that the success in reaching the target can be continuously monitored.

The following table shows the monthly inflation targets and tolerance bands for the years 2011 and 2012:

	2011		2012	
	Inflation Target	Tolerance Band	Inflation Target	Tolerance Band
		(%)		
January	5.9	±2.0	4.5	±1.5
February	5.8	±1.9	4.4	±1.5
March	5.6	±1.9	4.4	±1.5
April	5.5	±1.8	4.3	±1.5
May	5.4	±1.8	4.3	±1.5
June	5.3	±1.8	4.2	±1.5
July	5.1	±1.7	4.2	±1.5
August	5.0	±1.7	4.2	±1.5
September	4.9	±1.6	4.1	±1.5
October	4.8	±1.6	4.1	±1.5
November	4.6	±1.5	4.0	±1.5
December	4.5	±1.5	4.0	±1.5

Source: National Bank.

Interest Rates

The following table shows the monthly weighted average interest rates for total deposits in Serbian banks for each month for the years 2006 to 2010 and for the first six months of 2011[(1)]:

	2007	2008	2009	2010	2011
			(%)		
January	5.31	4.33	7.67	4.94	6.05
February	5.34	5.04	8.39	5.48	6.72
March	4.69	5.20	8.05	4.94	6.17
April	4.60	5.63	7.68	4.98	6.77
May	4.32	5.82	7.30	4.57	6.42
June	3.59	6.14	6.90	4.60	6.51
July	3.83	6.31	6.42	4.44	
August	3.96	6.31	6.30	4.44	
September	3.96	6.40	6.51	4.85	
October	4.44	6.69	6.30	4.81	
November	4.60	7.18	5.87	5.49	
December	4.08	7.32	5.06	5.55	

Source: National Bank.

Note:

(1) These figures include interest rates on deposits for both Dinar and foreign currency deposits, as well as interest rates for both individual depositors and institutional and corporate depositors.

During the period from August 2010 to April 2011, the National Bank responded to rising inflation with a series of increases in the policy interest rate. In May 2011, the National Bank lowered the key policy rate by 0.75% in two stages. See "— *Inflation policy and trends*". The result was a record-high monthly inflow of portfolio investments of EUR 299.4 million (U.S.$399.8 million) and EUR 185.4 million (U.S.$258.2 million) in February 2011 and March 2011, respectively (compared with monthly averages of EUR 3.2 million and EUR 4.2 million in 2010 and 2009, respectively). Most of these investment funds were used to purchase T-bills.

During the first six months of 2011, new business interest rates on Dinar-denominated loans to households decreased by 1.2% to 21.5%, while the price of Euro-indexed loans increased from 8.3% to 9.7%. Interest rates for housing and consumer loans decreased by 0.3% and 2.5%, respectively, primarily driven by greater activity in the subsidised loans market. The price of Dinar-denominated loans to enterprises increased by 1.7% to 18.3%, compared to 31 December 2010, and by 0.4% to 8.7% for Euro-indexed loans. Investment loans enjoyed the highest increase during the period. Interest rates on the most expensive loans (revolving, overdrafts and convenience and extended credit card debt) decreased for both sectors, especially for credit card debt.

As of 30 June 2011, interest paid on Dinar-denominated households term deposits remained broadly flat at 10.7% compared to the same period during the previous year, while the rates on deposits denominated and indexed in Euro decreased by 0.4% to 4.2%. Interest rates on non-financial corporation deposits denominated in Dinar increased by 0.9% to 12.4%, while the rates on new deposits denominated and indexed in Euro increased by 3.8% compared to the same period in 2010.

Exchange Rates and Exchange Rate Policy

Serbia operates a managed floating exchange rate regime, under which the exchange rate of the Dinar is not fixed against the exchange rate of any other foreign currency or basket of currencies. The Dinar exchange rate is determined by demand and supply forces operating in the foreign exchange markets. While the National Bank does not set a specific range of exchange rate values within which the Dinar must be maintained, it may intervene in the interbank foreign exchange market in order to mitigate excessive exchange rate volatility and preserve the financial stability of Serbia by conducting open market operations affecting foreign exchange rates or through the use of other monetary policy instruments, such as modifying reserve requirements for banks.

The National Bank aims to maintain the stability of the Dinar/Euro exchange rate in order to meet its primary monetary policy objective of maintaining price stability in Serbia. There are significant Euro capital inflows into Serbia and the role and circulation of the Euro is substantial in the Serbian economy. As a result, domestic prices are very sensitive to movements in the exchange rate of the Dinar against the Euro and exchange rate movements materially impact inflationary expectations.

The following table shows the exchange rate history for the years 2006 to 2010 and for the period ended 16 September 2011, expressed in Dinar per Euro and not adjusted for inflation:

	Serbian Dinar to Euro(1)			
	Low	High	Average	Period End
2011 (up to and including 16 September 2011)	96.7007	106.4947	101.9274	100.7651
2011 (up to and including 30 June 2011)	96.7007	106.4947	101.8757	102.4631
2011 (up to and including 31 March 2011)	102.5674	106.4947	103.9546	103.5951
2010	95.9679	107.5216	103.0431	105.4982
2010 (up to and including 30 June 2010)	95.9679	104.3704	100.0290	104.3704
2010 (up to and including 31 March 2010)	95.9679	99.8848	98.6685	99.7604
2009	89.5436	96.5657	93.9517	95.8888
2008	75.7543	91.6317	81.4405	88.6010
2007	76.8093	84.7540	79.9640	79.2362

Source: National Bank.
Note:
(1) Not adjusted for inflation.

The following table shows the exchange rate history for the years 2007 to 2010 and for the period ended 16 September 2011, expressed in Dinar per U.S.$ and not adjusted for inflation:

	Serbian Dinar to U.S.$(1)			
	Low	High	Average	Period End
2011 (up to and including 16 September 2011)	66.6387	82.4106	72.3577	72.6811
2011 (up to and including 30 June 2011)	66.6387	82.4106	72.6689	70.6398
2011 (up to and including 31 March 2011)	72.4060	82.4106	75.9238	73.2224
2010	66.8376	86.7278	77.9066	79.2802
2010 (up to and including 30 June 2010)	66.8376	86.7278	75.6856	85.4794
2010 (up to and including 31 March 2010)	66.8376	74.9469	71.3752	74.3814
2009	61.9332	75.6297	67.4731	66.7285
2008	48.9974	72.2647	55.7641	62.9000
2007	52.8478	62.0940	58.3934	53.7267

Source: National Bank.
Note:

(1) Not adjusted for inflation.

In 2009, the Dinar depreciated against the Euro by 7.6% in nominal terms. Given the domestic inflation rate of 6.6% and Eurozone inflation of 0.9%, it lost 2.4% in real terms (as compared to 4.4% in 2008). At the same time, the Dinar depreciated against the US dollar by 5.7% in nominal terms or 2.2% in real terms, taking account of inflation in Serbia of 6.6% and in the United States of 2.7%. Real depreciation of the Dinar against the US dollar, including the concurrent depreciation of the Dinar against the Euro, was achieved against the background of a weakened US dollar against the Euro in global markets at 2.0% in 2009.

In January and February of 2009, the National Bank intervened in the foreign exchange market in an attempt to minimise the spill-over effects of the global financial and economic crisis on the local currency, selling EUR 556.4 million of Euro reserves in order to reduce excessive daily volatility of the foreign exchange rate.

In the period from March to December 2009, the stability of foreign exchange rates was restored, primarily as a result of lower demand for foreign currencies and thus lower pressure on the foreign exchange liquidity of Serbian banks. The Dinar experienced strong depreciation pressures again in early December 2009, as well as a considerable increase in Dinar liquidity at the end of that month, primarily due to the conversion into Dinar of the funds received from the IMF in order to make payments to Budget beneficiaries, leading to several interventions in the foreign exchange market for a total amount of EUR 100.5 million.

The value of the Dinar fluctuated in 2010, reflecting the uncertainties of the financial markets triggered by the emerging sovereign debt crises of Greece and other Eurozone countries. During 2010, the Dinar experienced a nominal depreciation of 9.1% against the Euro compared to the end of the previous year, whereas the depreciation in real terms was 1.9%, based on inflation figures for Serbia and the Eurozone. During the year, the National Bank intervened in the interbank foreign exchange market by selling foreign exchange in the amount of EUR 2,569.7 million and purchasing EUR 236.5 million in order to ease excessive daily fluctuations of the Dinar foreign exchange rate. At the end of the year, the Dinar strengthened due to increased foreign exchange inflows from non-residents, driven by the change in the outlook of Serbia's credit rating by Fitch from "negative" to "stable" and a reduction in Serbia's country risk premium.

During the first six months of 2011, the Dinar appreciated against the Euro by 3.0%, primarily driven by higher capital inflows in the form of portfolio investment and the decrease in Serbia's country risk premium from 18 March 2011, when S&P raised its long-term local and foreign-currency sovereign credit rating from *BB-* to *BB* (reaffirming the *B* short-term local and foreign-currency credit ratings). The strengthening of the Dinar against the Euro was followed by depreciation pressures in early June, driven by market uncertainty as a result of the economic difficulties suffered in the Eurozone periphery and the rise in Serbia's country risk premium, as well as the Government's decision not to renew the issue of six-month Euro-indexed bonds amounting to about EUR 200 million. These factors impacted the exchange rate of the Dinar, which depreciated on average 1.6% against the Euro in June.

De-euroisation strategy

In order to reduce the euroisation of the Serbian economy, the National Bank carries out a three-pillar de-euroisation strategy.

The first pillar of Serbia's strategy focuses on strengthening the macroeconomic environment by lowering and stabilising inflation through a flexible exchange rate, alongside sustainable economic growth and a stable financial system. In this respect, the National Bank will continue to maintain its inflation targeting regime.

The second pillar consists of measures aimed at creating favourable conditions for the development of Dinar-denominated instruments and markets, many of which have already been implemented. The Government increases the Dinar share in the Government by issuing securities denominated in Dinar on a regular basis. Since May 2010, state-subsided cash and liquidity loans are also granted in Dinar. In addition, monetary policy favours the local currency, for example, by applying a significantly lower required reserve ratio on Dinar sources of funding.

The third pillar of the strategy consists of promoting the use of hedging instruments, both in the inter-bank market and in client transactions against foreign exchange risk. The National Bank has also introduced regular foreign exchange swap auctions, organised a series of foreign exchange risk hedging conferences, launched a website for the promotion of foreign exchange risk hedging and has produced a Report on Dinarisation of the Serbian Financial System on a quarterly basis.

The combination of the measures and activities undertaken by the National Bank since 2009 have led to an increase in credit Dinarisation, with the share of Dinar-denominated loans in corporate and household lending increasing from 24.5% as at 31 January 2010 to 33.3% as at 31 May 2011.

Foreign Assets

As at 30 June 2011, the gross official reserves of the National Bank stood at RSD 1,021.2 billion (U.S.$14,456.9 million), representing an increase of 43.3% since 2007, primarily due to the impact of the depreciation of the Dinar against the Euro. Gross official reserves denominated in Euro recorded a lesser increase of 10.5%

The following table shows the foreign assets of the National Bank as at 31 December for the years 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June
	2006	2007	2008	2009	2010	2011
	(RSD millions, except where otherwise indicated)					
Net foreign assets	405,877	561,232	480,171	570,504	507,330	488,003
Gross official reserves	712,580	763,330	723,144	1,016,603	1,055,151	1,021,239
Use of IMF resources	—	—	—	106,434	161,654	155,029
Gold	14,497	17,369	22,274	31,078	47,126	46,713
Foreign exchange reserves (months of imports)(1)	9.04	7.22	5.20	9.36	8.09	7.51

Source: National Bank.

Note:

(1) Calculated as Gross Official Reserves excluding holdings of SDRs, in months of imports of goods and services.

The National Bank's net foreign assets are predominantly composed of foreign currency reserves, which are held in a mixture of foreign currencies. SDRs and reserves from the IMF also contribute to net foreign assets. In the first six months of 2011, the foreign exchange reserves of the National Bank decreased by RSD 3,565.7 million (EUR 34.8 million). As at 30 June 2011, foreign exchange reserves stood at RSD 1,021,229.2 million (EUR 9,966.8 million), covering Narrow Money (M1) by 431.0% and more than seven months of imports. The net effect of foreign exchange transactions was positive in the amount of RSD 20,523.4 million (EUR 200.3 million), while net negative market effects measured RSD 29,089.1 million (EUR 235.1 million). The most significant foreign exchange inflows came from the sale of Euro-denominated bonds issued by Serbia in the amount of RSD 40,483.2 million (EUR 395.1 million), a disbursement of loan by Serbia through the National Bank in the amount of RSD 34,519.8 million (EUR 336.9 million) and the drawdown of part of the last tranche under the stand-by arrangement with the IMF (RSD 5,297.3 million or EUR 51.7 million). See "*Public Debt — Multilateral and Bilateral Development Organisations — International Monetary Fund*". There was also an inflow of RSD 13,975.9 million (EUR 136.4 million) from payment transactions with Kosovo and Metohija, increasing by RSD 1,926.3 million (EUR 18.8 million) compared with the same period of the previous year driven by higher trade volumes in the first six months of 2011, and RSD 4,016.6 million (EUR 39.2 million) in grants. Interest income on deposits, current accounts and coupons provided an inflow of RSD 6,588.4 million (EUR 64.3 million).

On the other hand, the largest foreign exchange outflows were those driven by the withdrawal of required reserves imposed on the banks (RSD 41,712.7 million or EUR 407.1 million) compared to an inflow of RSD 18,668.8 million (EUR 182.2 million) registered in the same period last year), payment of liabilities to foreign creditors (RSD 22,582.9 million or EUR 220.4 million) and liabilities under frozen foreign exchange savings (RSD 17,224.0 million or EUR 168.1 million). In contrast to the previous year, during which National Bank interventions in the foreign exchange market resulted in a significantly high outflow (RSD 139,524.0 million or EUR 1,361.7 million between January and June 2010), in the first six months of 2011, these accounted for a net inflow of RSD 2,561.6 million (EUR 25 million).

The upward trend in foreign exchange reserves of the National Bank experienced since 2001 came to an end in 2008 as a result of the impact of the global financial and economic crisis on Serbia. In 2008, the National Bank responded to the decreasing foreign exchange liquidity of banks resulting from bank deposit withdrawals and tightening credit conditions experienced during the global financial and economic crisis by allowing banks to withdraw RSD 118,396.1 million (EUR 1,155.5 million) from previously allocated required reserves.

This was a key driver of the decrease in foreign exchange reserves recorded in 2008, from RSD 987,088.5 million (EUR 9,633.6 million) at the end of 2007 to RSD 836,283.3 million (EUR 8,161.8 million) at the end of 2008. Another factor contributing to the decrease in foreign exchange reserves was the foreign exchange outflow resulting from the net sale of foreign currency in the interbank foreign exchange market by the National Bank amounting to RSD 121,060.2 million (EUR 1,181.5 million), aimed at increasing supply in the foreign exchange market and countering excessive daily oscillations of the Dinar exchange rate against the Euro. Foreign exchange reserves were also lowered by the servicing of international debts in the amount of RSD 27,521.6 million (EUR 268.6 million), as well as obligations under frozen foreign currency savings and the Economic Development Loan of RSD 22,705.8 million (EUR 221.6 million).

In 2009, foreign exchange reserves increased by RSD 250,020.2 million (EUR 2,440.1 million) primarily due to the disbursement of two tranches of the IMF loan totalling RSD 116,510.8 million (EUR 1,137.1 million). The inflow was also generated based on the allocation of special drawing rights ("**SDR**") to Serbia amounting to RSD 43,505.8 million (EUR 424.6 million), while another RSD 24,888.3 million (EUR 242.9 million) came from the loans extended by EIB, World Bank, Council of Europe Development Bank and domestic banks. Privatisation was also a significant source of foreign exchange inflow. Out of RSD 42,112.3 million (EUR 411 million) of privatisation receipts, RSD 40,985.2 million (EUR 400 million) came through the privatisation of NIS.

In 2010, foreign exchange reserves decreased by RSD 61,508.3 million (EUR 600.3 million) primarily due to the interventions of the National Bank in order to dampen volatility in the foreign exchange markets, resulting in outflows amounting to RSD 240,962.5 million (EUR 2,351.7 million). Another factor leading to the decline in foreign exchange reserves included a decrease in privatisation receipts (from RSD 42,009.9 million or EUR 411.0 million to RSD 471.3 million or EUR 4.6 million), allocation of banks' required reserves (RSD 33,689.9 million or EUR 328.8 million), the National Bank's full withdrawal from exchange operations (RSD 594.3 million or EUR 5.8 million), and an increase in loan repayments (from RSD 27,859.7 million or EUR 271.9 million to RSD 40,370.5 million or EUR 394.0 million).

Banking Sector

Overview

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 June 2011:

	Pre-tax result	Assets (net)	Equity (book value)	Loans and advances	Deposits	Number of employees
			(% of sector total)			
Greek banks	(1.3)	16.2	16.0	16.0	18.1	19.6
Italian banks	46.9	21.1	18.7	22.1	21.1	13.8
French banks	2.6	9.0	7.4	9.9	6.5	8.9
Austrian banks	30.2	17.9	22.1	17.3	14.0	14.0
German banks	4.2	2.4	1.8	2.8	2.2	4.4
Belgian banks	0.1	1.2	0.8	1.3	1.6	1.8
Slovenian banks	1.2	2.3	1.9	1.6	2.6	3.4
Hungarian banks	(6.2)	1.5	1.1	(1.7)	0.9	2.4
Cypriot banks	(2.0)	1.0	1.2	1.2	1.3	15
USA banks	—	0.2	0.2	0.3	0.2	0.6
Russian banks	(0.1)	0.1	0.1	0.1	0.1	0.2
Serbian banks	24.4	27.1	28.7	25.7	32.4	29.4
Total banks	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank.

As at 30 June 2011, there are 33 banks operating in Serbia, of which 21 banks were under foreign-ownership (i.e. have a foreign majority owner or a foreign single largest shareholder), four banks were under domestic ownership and eight banks were Government-owned. Foreign-owned banks account for 73.0% of total assets, 76.0% of total loans and 67.0% of total deposits. Foreign-owned banks are members of banking groups from 11 countries and significantly contributed to the growth and development of the banking sector in Serbia, introducing new banking products and rationalising operational costs.

As at 30 June 2011, Serbia's banking sector assets and capital amounted to EUR 24,168 million and EUR 5,073 million, respectively, and employed approximately 30,000 people within the entire banking network, which comprised approximately 2,500 business units, branches, branch offices and teller units.

With a large number of banks holding small shares in total assets, lending, deposits and income, the Serbian banking sector is fragmented. The market share of the top five banks in Serbia is 45.0% for assets, 47.0% for lending and 49.0% for deposits. The share of the top 10 banks is 70.0% for assets, 70.0% for lending and 72.0% for deposits.

The average regulatory liquidity ratio for the Serbian banking sector as at 30 June 2011 was 2.1, indicating that the liquid assets (core and receivables maturing in the next 30 days) are twice as large as liabilities without maturity and liability maturity within 30 days. Liquid assets comprised over 36.0% of total assets and amounted to 59.0% of total short-term liabilities. At the same time, the loan-to-deposit ratio for the banking sector is believed to be at a conservative level, since Dinar lending is nearly fully financed from deposits.

With growth rates of 44.0% in 2007, 7.0% in 2008, 27.0% in 2009 and 16.0% in 2010, total deposits amounted to RSD 1,415 billion in 2010. At the same, the growth rate of own funding sources was sufficient to maintain the proportion of own funds to total liabilities at 21.0%, while the capital adequacy ratio amounted to 19.7% as at 30 June 2011.

The nominal growth of lending activities was considerably higher in the period before the global economic and financial crisis (48.0% in 2007 and 25.0% in 2008) but was significantly reduced in 2009 (12.0%). Lending activities accelerated again in 2010, with the nominal growth rate amounting to 36.0% in that year. The increase in lending activities was driven by an increase in loans to households and enterprises, as well as by the Government's fiscal stimulus programme, which consisted of interest rate subsidies for bank loans granted for liquidity, subsidised investment and consumer loans.

Loans to households showed relatively high growth during the period between 2007 and June 2011. Out of total household loans in June 2011, 47.0% were housing loans, 24.0% cash loans and 6.0% were consumer loans. The share of housing loans out of the total household loans increased significantly (by more than five times in the last four years) making these, together with the growth of consumer loans (particularly loans subsidised by the Government), the main factors that caused the increase in total household loans.

Securities continue to gain in importance, experiencing growth rates that exceed growth in total assets. Their share in total assets came to over 6.0%. Banks' investment in Government securities (T-bills) represented the key driver of growth in the overall position.

Serbia's banking sector recorded an overall pre-tax net profit of RSD 17.8 billion (approximately EUR 170 million) for the first six months of 2011, a 16.8% increase compared to RSD 15.2 billion in the previous year. The increase in profitability was primarily driven by a decrease in net loan loss provisions of 5.8% and an increase in gross operating income of 4.7%, mainly as a result of a significant increase in net interest income (12.6%). Net interest income and net fees are key components and drivers of operating income, comprising 93.0% of its volume (72.0% and 21.0%, respectively). Operating expenditures also grew during the same period by 4.4%, decreasing the overall potential for a more significant recovery in profitability.

The net interest margin (as a percentage of total average assets) remained broadly flat at 4.7% in the first six months of 2011, compared to the same period in the previous year. The net interest margin has steadily decreased since the onset of the global financial and economic crisis. As at 31 December 2008, the net interest margin was 5.7% and as at 31 December 2009 it was 5.1%. By way of contrast, the efficiency of the sector has improved by reference to the cost-to-income ratio, which as at 30 June 2011 stood at 63.0%, compared to 70.0% in December 2009. Along with lower credit risk related losses, return-on-assets increased to 1.4%, while return-on-equity stood at 7.0%, a slight improvement compared to a return on assets of 1.1% and a return on equity of 5.4% in the previous year. Significantly low levels of leverage in the banking sector on average is making it more difficult for banks to substantially increase their return on invested capital. On the other hand, large amounts of capital reserves are making the system more stable and resilient against adverse movements in macroeconomic variables.

Non-performing loans

Serbia classifies a loan as non-performing where (i) payments of principal or interest are past due by 90 days or more; (ii) at least 90 days of interest payments 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 good reasons to doubt that payments will be made in full.

The following tables shows certain information in relation to non-performing loans in the banking sector in Serbia as at 31 December 2010 and as at 30 June 2011:

	Gross NPLs *(RSD billions)*			Gross NPL ratio *(%)*		
	As at 31 December 2010	**As at 30 June 2011**	*% Change*	**As at 31 December 2010**	**As at 30 June 2011**	*% Change*
Sector breakdown						
Total	273.5	311.0	13.7	16.9	18.6	1.6
Corporate(1)	197.6	209.8	6.1	20.7	22.0	1.3
Households	39.6	41.5	4.9	7.9	8.1	0.2
Other sectors	36.3	59.7	64.7	22.9	28.9	6.0
NPLs in relation to bank size						
Large(2)	125.6	152.0	21.1	12.8	14.9	2.1
Medium(3)	142.2	152.8	7.5	23.8	24.9	1.1
Small(4)	5.7	6.2	7.6	14.5	14.5	—
NPLs in relation to ownership structure						
State owned	58.6	67.3	15.0	21.2	23.0	1.9
Privately held	23.0	34.1	48.1	18.9	26.7	7.8
Foreign owned	191.8	209.5	9.2	15.8	16.7	0.9
NPLs in relation to country of origin						
Austria	51.7	57.8	11.8	17.8	19.8	1.9
France	19.4	23.2	19.5	12.6	14.4	1.8
Germany	50.8	51.4	1.1	19.7	19.2	(0.5)
Italy	34.9	40.7	16.7	9.6	10.8	1.2
Other foreign countries	35.0	36.3	3.9	22.8	23.0	0.2
Serbia	81.6	101.5	*24.3*	20.5	24.1	*3.7*
NPL of corporate sector (privately owned) — industry breakdown						
Agriculture	20.3	17.3	(14.5)	36.8	32.0	(4.7)
Manufacturing	73.5	75.5	2.7	23.0	24.3	1.4
Trade	57.8	60.8	5.3	20.2	21.4	1.2
Construction	19.0	25.7	35.6	19.0	26.3	7.3
Other	27.0	30.0	11.2	18.9	22.2	3.3
Total	197.5	209.4	6.0	21.8	23.7	1.9
NPLs of retail products						
Cash loans	11.5	11.2	(2.5)	9.3	8.8	(0.5)
Credit cards	4.2	4.3	2.3	10.8	11.6	0.8
Overdrafts	2.7	2.9	7.0	14.9	14.0	(0.9)
Consumer loans	3.0	2.8	(8.2)	6.4	5.9	(0.4)
Mortgage loans	14.1	15.5	9.7	5.5	5.9	0.5
NPLs coverage overview (% covered)						
NPL IFRS provisions	—	—	—	47.2	44.4	(2.7)
Total IFRS provisions	—	—	—	53.9	49.8	(4.1)
Regulatory provisions (balance sheet)	—	—	—	133.6	127.1	(6.5)
Total regulatory provisions	—	—	—	149.4	141.3	(8.1)

Source: National Bank.

Notes:

(1) Including public and private companies.

(2) Banks with assets accounting for more than 5.0% of total assets in Serbia's banking sector.

(3) Banks with assets accounting for between 1.0% and 5.0% of total assets in Serbia's banking sector.

(4) Banks with assets accounting for less than 1.0% of total assets in Serbia's banking sector.

As at 30 June 2011, non-performing loans in the Serbian banking sector amounted to RSD 311 billion, or approximately EUR 3.0 billion, an increase of 13.7% from RSD 274 billion as at 31 December 2010. During the same period, the non-performing loan ratio increased by 1.6 percentage points to 18.6%. While all sectors recorded an increase, corporate borrowers (in private ownership) represented the primary driver of growth in non-performing loans in Serbia's banking sector, comprising 67.5% of total non-performing loans outstanding (excluding bankrupt entities), with a non-performing loan ratio of 22.0%, increasing by 1.3 percentage points in comparison to 31 December 2010. Household payment delinquencies are also on an increasing trend, having increased by 0.2 percentage points during the first six months of 2011 and reaching a non-performing loans ratio of 8.1%. Entities undergoing bankruptcy procedures also had a significant impact, with a non-performing loans ratio of 28.9%.

Privately-held banks (a subcategory of domestic banks) recorded severe asset quality deterioration, increasing the non-performing loans ratio by 7.8 percentage points (48.1% to the non-performing loans stock) to 26.7%. State-owned banks were in a similar position to privately-held banks by reference to their non-performing loans ratio, with 23.0% out of the total outstanding loans in the non-performing category. On average, foreign-owned banks appeared better equipped to manage the quality of their lending portfolio than domestic banks, with an increase in non-performing loans ratio of 0.9 percentage points to 16.7% during the period, which was below the sector average.

By country of origin, all banks recorded an increase in their non-performing loans ratio during the first six months of 2011, except for the group of Greek banks, which decreased by 0.5 percentage points to a ratio of 19.2%. Serbian banks, on average, had the poorest and fastest deteriorating lending portfolio quality, evidenced by an increase in the non-performing loans ratio of 3.7 percentage points to 24.1%. All other banks (excluding Austrian, French, Greek and Italian banks) performed similarly, with an average non-performing loans ratio of 23.0%, with the exception of French and Italian banks, which recorded better than average non-performing loan ratios of 14.4% and 10.8%, respectively, despite an increase in the non-performing loans stock of 19.5% and 16.7%, respectively, primarily as a result of strong gross lending expansion.

The trade and manufacturing sectors together accounted for 65.0% of the outstanding non-performing loans stock. The construction sector suffered the largest increase in non-performing loans stock over first six months of 2011, with a 35.6% increase, while the non-performing loans ratio for the construction sector over the same period increased by 7.3% to 26.3%. Agriculture is the only sector that enjoyed decreased delinquencies over the same period, with the ratio decreasing by 4.7% and non-performing loans stock decreasing by 14.5%. Nevertheless, the agriculture sector has the highest non-performing loans ratio, with nearly one in every three loans shown as non-performing (32.0%).

Non-performing loans in the households sector are significantly below the aggregate sector average. Overdrafts and credit cards which are the worst performing categories, had non-performing loans ratios of 14.0% and 11.6%, respectively. As at 30 June 2011, cash loans, consumer loans and mortgage loans had non-performing loan ratios of 8.8%, 5.9% and 5.9%, respectively.

During the first six months of 2011, credit cards and mortgage loans recorded an increase in the non-performing loans ratio of 0.8% and 0.5%, or by 2.3% and 9.7% in outstanding stock, respectively. The deterioration of mortgage loans was primarily driven by the significant increase in the unemployment rate which, in April 2011, stood at 22.2%, up by 3.0% from October 2010 and nearly 8.0% since the beginning of the crisis in 2008, as well as the continuous rise in the value of the Swiss Franc against the Dinar (with almost half of the mortgage loans being indexed to the Swiss Franc).

Despite the relative size of the non-performing share of lending portfolios in Serbia's banking sector, significant provisioning has been established both by means of International Financial Reporting Standards ("**IFRS**") rules and local asset classification rules. Banks have provisioned, according to IFRS, close to 44.0% of non-performing loans. Additionally, according to National Bank asset classification rules, banks are required to set up a potential loan losses reserve out of their regulatory capital, in order to sufficiently cover potential losses due to troubled loans. As a result, non-performing loans are fully provisioned (approximately 100.0%) given that loan loss reserves for categories D (receivables from a borrower whose financial position indicates significant problems in operation and receivables overdue by 91 to 180 days) and E (doubtful or disputable receivables, receivables from a borrower in liquidation or bankruptcy proceedings, receivables past due for more than 181 days, among others) are approximately equal to the outstanding balance of non-performing loans.

As of 30 June 2011, the amount of established total regulatory provisions covered 141.0% of the outstanding stock of non-performing loans, and the five largest banks in Serbia have indicators of large exposures significantly below the prescribed regulatory maximum.

The following table shows selected banking sector performance indicators as at 31 December for the years 2007 to 2010 and as at 30 June 2011:

	As at 31 December				As at 30 June
	2007	2008	2009	2010	2011
Capital Adequacy					
Regulatory capital to risk-weighted assets	27.9	21.9	21.4	19.9	19.7
Capital to assets	21.0	23.6	20.7	19.7	21.0
Asset Quality					
Gross non-performing loans to total loans	—	11.3	15.7	16.9	18.6
Specific provisions to gross non-performing loans	—	56.9	50.9	47.1	44.4
Total provisions to gross non-performing loans(1)	—	189.1	168.1	149.4	141.3
Non-performing loans net of provisions to tier I capital	—	14.8	24.5	31.7	37.1
Loans to shareholders and parent companies to total loans	2.1	2.3	2.2	0.8	0.3
Large exposures to tier I capital	46.1	36.6	37.4	43.4	46.9
Specific provisions to gross loans	8.4	7.1	7.9	7.2	7.8
Profitability					
Return on assets (ROA)	1.7	2.1	1.0	1.1	1.4
Return on equity (ROE)	8.5	9.3	4.6	5.4	7.0
Net interest margin to gross operating income(2)	—	60.5	62.6	64.3	67.4
Non-interest expenses to gross operating income(3)	—	77.9	87.5	84.8	79.7
Non-interest expenses to average assets	—	6.9	7.1	6.1	5.6
Personnel expenses to non-interest expenses	—	29.4	28.0	28.9	29.2
Liquidity and Foreign Exchange Risk					
Core liquid assets to total assets(4)	37.3	30.3	31.9	21.1	21.2
Core liquid assets to short-term liabilities	58.9	48.0	48.8	33.9	34.6
Liquid assets to total assets(5)	46.7	43.3	41.5	35.1	36.5
Liquid assets to short term liabilities	73.7	68.6	63.6	56.4	59.4
FX-denominated loans and FX-indexed loans to total loans	—	78.0	84.2	79.4	73.8
FX- deposits to total deposits	64.2	69.0	73.1	75.5	73.8
FX- liabilities to total liabilities	67.8	72.1	75.9	78.9	77.5
Deposits to assets	61.4	57.7	60.2	59.4	57.2
Loans to deposits	89.3	104.3	92.3	108.4	111.7
FX- loans to FX-deposits (including indexed)	—	113.3	103.2	109.0	107.3
Sensitivity to Market Risk					
Net open FX position (overall) as % of tier I capital	14.5	6.8	3.1	3.4	2.5
Off-balance sheet operations as % of assets(6)	49.2	56.2	43.3	33.9	32.6

Source: National Bank.

Notes:

(1) Ratio of total provisions for potential losses for on and off-balance sheet exposures to gross NPLs.

(2) Gross operating income in this ratio excludes FX gains due to their volatility and distorting impact.

(3) Non-interest expenses in the calculation of this ratio abstracts from FX losses.

(4) Cash, repos, T-bills, and mandatory reserves.

(5) Sum of first- and second-degree liquid receivables of the bank.

(6) Includes only risk-classified off-balance sheet items.

The Vienna Initiative

Following the successful financial sector coordination meeting on Serbia held in Vienna on 27 March 2009, and in accordance with Serbia's arrangement with the IMF, the National Bank drew up special facilities in support of the country's financial stability with the aim of upholding confidence in its banking sector and preserving financial and macroeconomic stability. The facilities are designed to enable continuous access to sources of Dinar and foreign exchange liquidity, stabilise the foreign exchange market, maintain the quality of bank assets by establishing the framework for the rescheduling of loan repayment terms for bank clients, as well as to reduce the outflow of foreign exchange and alleviate depreciation pressures.

Special facilities are available to those banks that, together with their majority shareholders, assume certain commitments. The majority shareholders of signatory banks, under this agreement, committed to maintain their level of exposure in Serbia as of December 2008 until the end of 2010 and to keep bank capital adequacy and liquidity ratios at the levels prescribed, while the National Bank will asses the future movements in capital adequacy ratios in accordance with the IMF methodology. In return, banks had to commit to enable borrowers to convert their foreign currency loans and foreign currency clause-indexed loans into Dinar loans, and to provide for the rescheduling of loan repayment terms under the framework defined.

Banks that met these conditions gained access to new liquidity sources, including Dinar loans with a repayment period of no longer than 12 months, and short-term foreign exchange swap transactions, including the abolition of reserve requirements for deposits and loans received from abroad from October 2008 to December 2010 until their maturity date. Banks could also include in their capital, for regulatory purposes, subordinated liabilities of up to 75.0% of their core capital. In addition, when calculating arrears on loans whose repayment terms were rescheduled under the framework defined, and for the purposes of their classification requirements, banks were permitted to apply the subsequently agreed maturity date and raise foreign exchange risk ratio from 10.0% to 20.0% of their capital.

In the first six months of 2011, the aggregate net exposure of the participating banks decreased by 10.0%, with five of the participating banks, which accounted for 16.0% of the initial aggregate net exposure, reducing their exposures to Serbia by more than 15.0% of the agreed exposure level. In spite of this, the aggregate net exposure of the participating banks remained within the agreed 80.0% of the net aggregate exposure of the participating banks at the end of 2008.

Banking Supervision

In 2009, the National Bank took measures to mitigate the effects of the global financial and economic crisis on the Serbian banking sector and to ensure the stability of its banks and the country's overall financial structure. The National Bank's goals were to increase lending activity, to improve public confidence and to increase the levels of foreign exchange deposits available in the banking system.

In 2009, the regulatory activities of the National Bank within its supervision remit centred on the creation of a legal framework adapted to support the new macroeconomic environment. Regulatory measures were aimed at giving support to banks to overcome the global financial and economic crisis, particularly to ensure a solid liquidity position and manage increasing credit and foreign exchange risks. In addition to regular off-site supervision activities (monitoring operations and the financial position of banks, via bank reports and other externally and internally available) and on-site supervision, the National Bank also focused on enhancing the monitoring of bank liquidity and included stress tests in relation to credit risk. The following specific measures were introduced:

- In June 2011, the Executive Board of the National Bank adopted a new set of regulations (or decisions) harmonising capital adequacy and risk management rules with Basel II standards and strengthening the transparency of bank operations;
- Decision on Reporting on Bank Capital Adequacy, which prescribes frequent reporting requirements for banks to the National Bank in connection with capital adequacy, bringing Serbia in line with the COREP (Common Reporting) regime implemented by all EU member countries;
- Decision on Bank Risk Management, which implements Pillar 2 of Basel II standards and prescribes the obligations of banks to manage all risks to which they are exposed or may be exposed to in their operations, as well as requiring banks to maintain their capital reserves at a level that covers such risks. The key changes introduced by decision include: (i) establishing a comprehensive and reliable risk management system for banks; (ii) prescribing a strategy for risk

management, strategy, policy and procedure for banks; (iii) imposing an obligation on banks to implement the internal capital adequacy assessment process ("**ICAAP**"), precisely defined requirements regarding maintaining business continuity of the bank (a Business Continuity Plan and Disaster Recovery Plan) and the responsibilities of bank management in the process; (iv) setting out criteria relating to risk management arising from outsourcing activities; and (v) introducing remuneration policies governing wages and bonuses;

- Decision on Disclosing Bank Data and Information, which promotes market transparency by imposing an obligation on banks to disclose data and information relating to their capital and risk exposures, among other things, in accordance with Pillar 3 of Basel II standards; and
- Decision on Consolidated Supervision of Banking Group, which permits the implementation of new regulation based on Basel II, on a consolidated level.

The new set of regulations (or decisions) will be applicable as of 31 December 2011. Furthermore, to prepare for fully-fledged implementation of new regulations, banks are required to submit trial reports to the National Bank by 30 September 2011.

In addition, Serbia has increased its cooperation with foreign supervisory authorities, particularly through its participation in supervisory colleges. During 2010, the bank distress resolution framework was reviewed and updated in line with sound international practices.

Capital adequacy

The Decision on Capital Adequacy of Banks, which sets out the method of calculating the capital of a bank, as well as its capital adequacy ratio and all elements thereof, defines the capital adequacy ratio of a bank as the ratio between the bank's capital and the sum of credit risk-weighted assets plus capital requirement relating to foreign exchange risk multiplied by the reciprocal value of the capital adequacy ratio and capital requirements relating to other market risks multiplied by the reciprocal value of the capital adequacy ratio. Other market risks include price risks (on debt securities and equity securities), settlement/delivery risk and counterparty risk. Banks are currently required to maintain their capital adequacy ratio at a level of at least 12.0%. In addition, the National Bank has introduced a capital conservation buffer of 2.5%, which allow the National Bank the discretion to preclude any bank with a capital ratio below 14.5% from distributing profits.

The National Bank may set a higher capital adequacy ratio if the type and level of the bank's risks and business activities have been caused by:

- strong expansion in its lending activity;
- inadequate internal procedures and control mechanisms of the bank;
- inadequate risk management;
- decline in deposit potential;
- expansion of long-term investment into its own fixed assets or in other legal entities;
- inadequate maturity or currency structure of the bank's sources of financing and lending; and
- inadequate interest rate policy of the bank.

The Decision on Liquidity Risk Management, which sets out the method to terms and manner of identifying, measuring and assessing liquidity risk to which banks are exposed in their operations, as well as liquidity levels, defines the liquidity ratio for a bank as the ratio of the sum of first- and second-degree liquid receivables of the bank and the sum of prescribed percentages of liabilities payable on demand with no agreed maturity and liabilities falling due within a month from the date of the liquidity ratio calculation.

Banks are required to maintain a liquidity ratio equal to at least (i) 1.0, if calculated as the average liquidity ratio for all business days in a month; (ii) 0.9, if calculated for more than three consecutive business days; and (iii) 0.8, if calculated for one business day only. A critically low level of liquidity is indicated by the liquidity ratio below these levels in which case the bank is under an obligation to notify the National Bank within one business day.

In accordance with Article 33 of the Law on Banks, a bank's exposure to one person represents the total amount of receivables and off-balance sheet items relating to such person or a group of related persons (including credits, investments in debt securities, ownership investments and participations, issued guarantees and sureties etc.). A bank is deemed to have a large exposure where the exposure of the bank to a single person or a group of related persons is equal to or exceeds 10.0% of the bank's capital. The exposure of a bank to a single person or a group of related persons must not exceed 25.0% of the bank's capital. The exposure of a bank to a person related to the bank must not exceed 5.0% of the bank's capital. The aggregate exposure of the bank to persons related to the bank may not exceed 20.0% of the bank's capital. The National Bank prescribes minimum and maximum aggregate amounts of large exposures that a bank may hold, which may not be less than 400.0% nor may be more than 800.0% of the bank's capital.

In accordance with Article 34 of the Law on Banks, an investment by a bank in a single non-financial sector person must not exceed 10.0% of the bank's capital. Total investments by a bank in non-financial persons and fixed assets of the bank must not exceed 60.0% of the bank's capital. Such investments do not include acquisition of shares with a view to their further sale in the period of six months after the date of acquisition.

Enforcement of financial regulation

Where a bank has breached applicable laws or regulations of the National Bank or other regulations or standards of prudent banking activities, and/or the safety and soundness of such bank is at risk, the National Bank has power to impose orders and measures on such bank in order to eliminate the established irregularities and, under certain circumstances, may revoke the operating license of such bank or invoke receivership, where appropriate.

In determining the appropriate action to be taken in respect of a bank where irregularities in operation have been established of the National Bank may take into account: (i) the gravity of the irregularities; (ii) the demonstrated readiness and competence of the bank's bodies to eliminate the established irregularities; and (iii) the extent to which such bank jeopardises financial discipline and unimpeded operation of the banking system.

The National Bank shall revoke a bank's operating licence if it establishes that (i) a bank is critically undercapitalised and has not been placed into receivership; (ii) a bank has been placed into receivership and its shareholders have failed to devise or implement an adequate and effective plan of activities to improve the financial condition of the bank within the prescribed deadline; or (iii) a bank ceases to receive deposits or grant loans continuously over the period of six months (unless this was ordered by the corrective measure imposed by the National Bank), among other things.

The National Bank also has discretion to revoke a bank's operating licence if, among other things, it determines that: (i) an undercapitalised bank fails to meet any of the performance indicators set forth by the Law on Banks or a regulation of the National Bank; (ii) a bank has committed gross or persistent violations of the law or other regulation or fails to act in compliance with orders issued by the National Bank; (iii) a bank has failed to pay deposit insurance premium in compliance with the law governing deposit insurance; (iv) a bank will not be able to settle its obligations to depositors and other creditors; or (v) the bank fails to enable the National Bank to perform prudential supervision and verify the legality of the bank's operations.

In addition, the National Bank may impose a fine on a bank or on a member of the board of directors or executive board of a bank. Under the Law on Banks, fines imposed on banks must be declared for an amount between 1.0% and 5.0% of the prescribed pecuniary portion of the initial capital, while fines imposed on a member of the board of directors and executive board of a bank must be declared for an amount between one and twelve times the salary of the person being fined.

Receivership

In accordance with Article 117 of the Law on Banks the National Bank shall render a resolution on placing a bank into receiveship if:

- it is likely that a bank will be critically undercapitalised;
- it is established that a systemic important bank is critically undercapitalised;
- supervision of business activities of such bank has established acting and/or failure to act, which are in breach of regulations or standards of safe and sound banking business activities that have jeopardised its financial condition or interests of depositors;
- the financial situation of the bank has deteriorated during the period before the deadline for carrying out the orders in the resolution on orders and measures.

The National Bank shall render the resolution if it assesses that a change in a manner of governing and managing the bank might result in elimination of irregularities in its business activities, improve its financial situation and secure interests of its depositors. Official receivership may last for no longer than six months, but the National Bank may prolong the duration of a receivership in a bank for another three months if it assesses that such prolongation is necessary for completing activities initiated in order to achieve goals of the receivership. Official receivership in a bank may be terminated before expiry of the deadline specified in the resolution if official receivers or the National Bank assesses that the introduction of receivership has not caused an improvement of the bank's financial situation or that the financial situation of that bank has improved to such an extent that the official receivership is no longer needed.

The Government believes that the Serbian banking sector is highly liquid and well capitalised. Currently, the main reason for some concern is the declining trend in banks' assets quality, including the growth in non-performing loans. Overall, so far there has been no need for the adoption of any action plans to support individual banks, nor has there been a need to provide public funds to secure safe and sound operations of banks. The National Bank is continuously monitoring the performance of banks through off-site supervision and prepares a plan for on-site examination based on a risk assessment of each individual bank. All five largest banks fulfil the prescribed regulatory ratios. During the last year only one of them was subject to full-scope on-site examination. See "*Risk Factors — Factors that May Affect the Issuer's Ability to Fulfil its Obligations Under the Notes — Other risks associated with the banking sector*".

Money Laundering

The Administration for the Prevention of Money Laundering (the "**Administration**") is a financial intelligence unit established in 2009 under the Law on the Prevention of Money Laundering and Financing of Terrorism that sits within the Ministry of Finance. The Administration collects and analyses data and information from financial institutions, banks and other entities in order to identify potential money laundering or terrorist financing and notify competent state authorities, as necessary. The Administration actively participates in the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**Moneyval**") of the Council of Europe. Moneyval performs mutual evaluations of member states to ensure that they have in place effective systems to counter money laundering and terrorist financing and comply with the relevant international standards in these fields. The Administration has also been a member of an international association of financial intelligence units called the Egmont Group of Financial Intelligence Units since July 2003. As part of its membership, the Administration is able to efficiently and safely exchange financial intelligence with global counterparties. All data provided to counterparties is confidential and may be used solely as prescribed by law.

In addition, a Special Prosecutor's Office for Organised Crime, a special branch within the Ministry of Justice, called the Directorate for Management of Seized and Confiscated Assets and an independent body called the Anti-Corruption Agency have been established in an effort to combat organised crime and corruption.

The following table shows Serbia's ranking in Transparency International's 2010 Corruption Perceptions Index as compared to other countries in the region:

Overall Rank	Regional Rank	Country/Territory	Corruption Perceptions Index 2010 Score
56	1	Turkey	4.4
62 (equal)	2 (equal)	Croatia	4.1
62 (equal)	2 (equal)	FYR Macedonia	4.1
68	4	Georgia	3.8
69	5	Montenegro	3.7
78	**6**	**Serbia**	**3.5**
87	7	Albania	3.3
91	8	Bosnia and Herzegovina	3.2

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.

The following table shows certain statistics regarding trading on the BSE and the over-the-counter market reported to the BSE for the years 2007 to 2010 and for the six months ended 30 June 2010 and 2011:

	Year ended 31 December				Six months ended 30 June	
	2007	**2008**	**2009**	**2010**	**2010**	**2011**
Number of Trades at BSE	301,210	119,001	77,215	725,550	27,912	2,509,096
Average Number of Trades Per Month	25,101	9,917	6,435	60,463	4,652	418,183
Average Number of Trades Per Trading Session	1,200	469	304	2,891	235	20,566
Securities Traded at BSE *(millions of shares)*	249.7	111.1	87.5	67.7	24.9	32.6
Average Securities Traded Per Month *(millions)*	20.8	9.3	7.3	5.6	4.1	5.4
Average Trade Size *(millions)*	0.99	0.44	0.34	0.27	0.21	0.27
Trading Volume at BSE *(RSD millions)*	164,991	71,854	41,779	23,017	9,573	17,312
Year-on-Year change *(%)*	64.0	(56.4)	(41.9)	(44.9)	16.4	80.8
Average Trading Volume Per Month	13,749	5,988	3,482	1,918	1,596	2,885
Average Trade Size	657.3	282.9	164.5	91.7	80.4	141.9
BSE Total Market Capitalisation *(RSD millions)*	1,440,485	916,595	932,333	933,466	853,507	899,142
Year-on-Year Change *(%)*	78.1	(36.4)	1.7	0.1	(4.9)	5.3
BSE Total Market Cap/ GDP[(1)] *(%)*	63.3	34.4	34.4	31.2	—	—
Number of Trading Sessions	251	254	254	251	119	122
Stocks Traded on the BSE	1,742	1,841	1,775	1,604	1,720	1,455
Year-on-Year Change *(%)*	49.7	5.7	(3.6)	(9.6)	(6.2)	(15.4)
Trading Volume on the OTC Market *(RSD millions)*	143,319	62,159	33,871	14,431	7,107	8,401
Year-on-Year change *(%)*	64.2	(56.6)	(45.5)	(57.4)	(6.6)	18.2
Average Trading Volume Per Month *(millions)*	11,943	5,180	2,823	1,203	1,184	1,400
Securities Traded on the OTC Market *(number of shares, millions)*	40.9	19.5	14.8	11.5	6.6	5.8
Year-on-Year change *(%)*	49.3	(52.3)	(24.3)	(21.9)	14.4	(11.5)
Average Securities Traded Per Month (*millions*)	3.4	1.6	1.2	1.0	1.1	1.0

Source: Ministry of Finance.

Note:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

The capital market in Serbia is regulated predominantly by the Law on the Market of Securities and Other Financial Instruments. The Securities Commission regulates participants involved in the trading process, including the Belgrade Stock Exchange, Central Securities Depository, commercial banks, brokerage companies and the public enterprises whose shares are traded on the BSE.

Shares are traded on the BSE, from both the regulated and the unregulated market. The regulated market is further segmented into the prime and standard market, according to a specific set of requirements. The most frequently traded companies on the Belgrade stock exchange are blue-chip companies which comprise the reference index "Belex 15".

Government frozen foreign currency savings bonds are traded both on the Belgrade stock exchange and over the counter, with a majority of trading carried out over-the-counter. These bonds are zerocoupon, denominated in EUR, and issued by the Republic of Serbia to settle obligations arising from citizens' foreign currency savings. Bonds mature on 31 May every year, until 2016.

Following the impact of the world financial crisis, all major indices on the Belgrade stock exchange have been decreasing. In comparison with other regional capital markets, liquidity is still very low. However, there are a few signs of modest recovery. The volume of traded securities has been gradually increasing since the beginning of 2011, as has the participation of foreign investors.

Insurance Sector

Overview

In the overall financial sector (which includes banks, leasing, insurance and voluntary pension funds), the insurance sector ranked second based on its balance sheet total, capital and employment levels in 2010. As at 30 June 2011, a total of 27 insurance companies were operating in the Serbian insurance market. Of these, 23 were engaged only in insurance and four also engaged in reinsurance activities. Seven companies carried on life insurance business and 10 in non-life insurance business, while six engaged in both life and non-life insurance businesses. Twenty insurance companies were majority foreign-owned, while seven were majority domestically-owned.

Foreign-owned insurance companies (of which 12 have been established since 2005) had the dominant market shares in the second quarter of 2011, with 92.1% of the total life insurance premiums, 59.0% of the total non-life insurance premiums and 66.6% of total assets, and also employing 64.9% of total employees in the insurance sector.

Insurance portfolio structure

In 2010, the total insurance premiums for the Serbian insurance sector amounted to RSD 56.5 billion (EUR 536 million), an increase of 5.6% compared to the previous year. The total premium generated by the insurance sector during the first six months of 2011 reached RSD 30.6 billion (EUR 298 million). The share of non-life insurance out of the total premium during the first six months of 2011 was 84.6%, while the share of the life insurance premium was 15.4%.

The insurance premium structure in the first six months of 2011 changed little from the same period in the previous year. Vehicle liability insurance accounted for the largest share of the total insurance premiums at 29.2%, followed by property insurance against fire and other hazards and other property insurance and full coverage motor vehicle insurance, with shares of 27.2% and 12.4%, respectively.

The following table shows a breakdown of the total insurance premium in Serbia by type of insurance for the years 2008 to 2010 and the first six months of 2010 and 2011:

	Year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
			(%)		
Property insurance	24.7	22.6	22.1	28.6	27.2
Motor vehicle insurance	16.2	14.2	13.5	13.0	12.4
Life insurance	12.2	14.7	16.5	14.2	15.4
Motor vehicle liability	31.7	34.1	33.3	29.3	29.2
Other non-life insurance	15.3	14.5	14.6	14.9	15.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Bank.

Balance sheet total and balance sheet structure

The balance sheet total of the Serbian insurance sector amounted to EUR 1.22 billion (RSD 125,147 million) as at 30 June 2011, representing an increase of 8.7% compared with 30 June 2010. As at 30 June 2011, current assets represented 54.1% of total assets in the insurance sector, of which 24.9% were short-term financial investments and 12.2% were premium receivables. Fixed assets accounted for 45.9% of total assets, of which 28.8% were long-term financial investments and 15.8% were property and equipment.

As at 30 June 2011, technical reserves accounted for 61% and capital and reserves for 26.2% of total liabilities. A year-on-year comparison of the composition of liabilities indicates that technical reserves kept their dominant share. Allocation to technical reserves in the first six months of 2011 rose by 6.7% from EUR 0.68 billion (RSD 71,047 million) to EUR 0.74 billion (RSD 75,835 million). Mathematical reserves grew at the rate of 20.4% compared to the same period in the previous year.

The substantial growth in technical reserves is a result of activities taken by the National Bank, including the establishment of technical reserves calculation criteria, the strict monitoring of the adequacy of allocations into technical reserves, as well as the acceptance of a more realistic assessment of these reserves by the insurance companies and, as a result, better protection of the interests of insured persons and insurance beneficiaries.

Performance indicators

As at 30 June 2011, the solvency margin for the Serbian insurance sector was EUR 0.14 billion (RSD 14,515 million) and the guarantee reserve amounted to EUR 0.27 billion (RSD 27,751 million). The ratio of guarantee reserve to solvency margin stood at 201.28% for non-life insurance companies and at 181.23% for life insurance companies.

Coverage of technical reserves by prescribed types of assets as at 30 June 2011 was 101.67% for non-life insurance and 102.39% in life insurance.

The ratio of short-term assets (current assets less inventories) to short-term liabilities for companies engaged primarily in non-life insurance as at 30 June 2011 was 104.58%, while for companies engaged primarily in life insurance the ratio was 130.84%. Movement in this indicator indicates the adequacy of liquid assets for the settlement of short-term liabilities.

PUBLIC FINANCE

Introduction

The consolidated general Government budget (the "**Budget**") comprises: (i) the central Government budget and extra budgetary funds of the central Government consisting of the Fund for Pension and Disability Insurance, the Institute for Health Insurance and National Employment Service and Public Enterprise Roads of Serbia ("**PE Putevi Srbije**"), an extra-budgetary fund entirely financed from fuel excises and toll roads that is part of the Government, and (ii) the local government budgets. Reports in relation to the consolidated fiscal position are prepared on a cash basis. The Budget is passed in accordance with the Budget System Law.

Serbia operates a rule-based fiscal responsibility framework that seeks to balance the pace of further fiscal adjustment with the avoidance of an excessively pro-cyclical stance. While higher deficits and spending are typically of concern in a country during a pre-election period, Serbia's fiscal deficit rule prescribes the minimum fiscal adjustment required by the fiscal responsibility framework. In 2010, amendments and supplements to the Budget System Law introduced general and special fiscal rules applicable to the Government sector. These amendments and supplements were discussed and prepared in joint cooperation between the Ministry of Finance and the IMF. Amendments to the 2011 Budget in connection with a potential new stand-by arrangement with the IMF are expected to be submitted to the Assembly in the second half of September 2011 for its approval. See "*— Medium Term Fiscal Policy*" and "*Public Debt — Multilateral and Bilateral Development Organisations — International Monetary Fund*". General rules require the maintenance of a target annual fiscal deficit and set a maximum debt-to-GDP ratio. The special fiscal rules prescribe a system for regulating wages and pensions in the Government sector, which currently accounts for the highest individual category of Government expenditure. The special fiscal rules also restrict the deficit that may be incurred by local governments. Specific policy measures for limiting the Government deficit and debt levels in the medium-term future are described below.

Budgetary Process

The integrity of the Serbian Budget system is ensured by uniform Budget classification, the use of Budget documentation for the preparation of draft budgets and financial plans, an appropriate system of budgetary accounting and strict criteria for budgetary 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 budget actions by central and local authorities, respectively. The Report on Fiscal Strategy is delivered to the Fiscal Council in mid-May. If approved by the Fiscal Council, the Government adopts the Report in mid-July and delivers it to the Assembly for further consideration.

After the adoption of the Report on Fiscal Strategy, the Ministry of Finance commences preparation of a detailed Budget for the next fiscal year. At the beginning of October, the Government adopts a revised Report on Fiscal Strategy containing an updated macroeconomic framework. The Government has until 1 November to adopt the Draft Budget Law and Decisions on Approving Financial Plans of Organisations for Mandatory Social Insurance. The Assembly then has until 15 December to adopt the Budget Law and approve these Financial Plans. The deadline for the assemblies of local authorities to adopt the Decision on the Budget of Local Authorities is 20 December, following which the adopted Decision is delivered to the Ministry of Finance.

Consolidated General Government Budget

The following table shows the actual consolidated general Government Budget revenues and expenditures for the years 2006 to 2010, and the preliminary execution figures for the first six months of 2011 compared to the actual revenues and expenditures for the first six months of 2010[(1)]:

	Year ended 31 December					Six months ended 30 June	
	2006	2007	2008	2009	2010	2010	2011
				(RSD millions)			
Public Revenues	**867,681.6**	**1,002,047.5**	**1,143,437.7**	**1,146,509.5**	**1,223,402.7**	**559,502.1**	**604,969.9**
Current Revenues	865,526.4	995,415.2	1,140,370.0	1,139,849.2	1,214,494.3	558,590.5	603,449.7
Tax Revenues	755,968.9	870,036.0	1,000,368.0	1,000,321.2	1,056,460.3	491,676.7	531,075.4
Personal Income Tax	118,591.0	115,772.0	136,450.8	133,481.8	139,051.5	65,641.3	70,598.2
Corporate Income Tax	18,313.4	29,686.4	39,006.9	31,213.1	32,593.0	18,120.7	21,888.5
Value Added Tax	225,137.2	265,464.7	301,689.5	296,927.2	319,369.4	149,185.9	160,216.5
Excise Tax[(2)]	86,850.1	98,600.6	110,137.0	134,781.1	152,166.6	62,295.5	75,244.6
Customs	45,375.0	57,380.9	64,784.3	48,039.8	44,285.5	20,495.7	18,511.1
Other Tax Revenues	30,282.7	32,820.0	35,567.7	37,072.2	45,979.6	21,592.0	20,723.7
Social Contributions	231,419.5	270,311.4	312,731.8	318,806.1	323,014.8	154,345.7	163,892.9
Non-Tax Revenues	109,557.5	125,379.2	140,002.0	139,528.0	158,034.0	67,040.6	72,374.3
Capital Revenues	277.4	5,330.4	1,538.2	187.0	1,518.8	255.9	616.9
Grants	1,877.8	1,301.9	1,529.6	6,473.3	7,389.6	655.7	703.2
Public Expenditures	**899,287.0**	**1,046,848.4**	**1,213,888.8**	**1,267,906.9**	**1,359,872.3**	**614,850.2**	**674,938.6**
Current Expenditures	807,018.2	919,453.6	1,088,803.2	1,154,156.1	1,224,773.2	573,101.9	622,121.7
Expenditures for Employees	204,398.2	238,325.3	293,132.5	301,846.3	308,051.2	148,674.9	161,920.3
Purchase of Goods and Services	135,873.8	168,130.3	181,075.5	186,412.0	202,544.6	87,652.3	97,253.1
Interest Repayments	30,210.7	17,893.5	16,324.3	22,377.9	34,193.0	16,299.8	21,995.5
Subsidies	55,554.9	63,697.5	77,984.4	63,075.9	77,858.6	29,552.2	30,549.4
Social Welfare and Transfers	360,442.1	409,284.3	496,805.4	555,632.2	579,184.2	281,100.3	294,437.5
From: Pensions	227,735.4	259,858.2	331,027.9	387,306.0	394,035.4	194,589.3	204,594.0
Unemployment Benefits	11,889.1	14,694.1	16,718.5	19,348.5	21,865.1	10,830.4	8,923.1
Sick Leave Benefits	6,897.2	4,997.4	6,070.7	6,767.0	6,770.1	3,094.8	3,131.8
Other Transfers to Households	113,920.4	129,734,6	142,988.3	142,210,8	156,513.6	72,585.8	77,788.6
Other Current Expenditures	20,538.5	22,122.6	23,481.0	24,811.8	22,941.7	9,822.4	15,965.9
Capital Expenses	81,337.0	112,061.0	105,906.3	93,270.8	105,105.1	30,776.4	37,365.2
Net Lending	10,931.8	15,333.8	19,179.3	20,478.0	29,993.9	10,972.0	15,451.7
Consolidated Balance	**(31,605.4)**	**(44,800.9)**	**(70,451.1)**	**(121,395.5)**	**(136,469.6)**	**(55,348.2)**	**(69,968.7)**
Other Receivables	**195,671.2**	**61,654.3**	**70,715.7**	**330,586.4**	**382,377.1**	**175,202.9**	**276,050.3**
Privatisation	157,891.4	49,761.0	49,061.4	39,776.2	6,976.1	4,401.6	1,829.8
Receivables Stemming from Approved Loans	55.3	78.1	11,534.5	1,907.3	1,287.2	157.8	1,152.6
Domestic Borrowings[(3)]	27,149.2	5,683.8	15,475.8	243,196.7	304,777.5	145,373.0	230,308.2
Foreign Borrowings	10,630.6	6,209.5	6,178.6	6,725.1	70,623.0	25,270.5	42,759.7
Proceeds withdrawn from IMF	—	—	—	40,888.4	—	—	—
Other Expenditures	**58,185.6**	**38,779.4**	**44,784.7**	**164,543.1**	**256,595.2**	**129,139.4**	**160,586.4**
Repayment of Principal to Domestic Creditors[(4)]	27,109.3	32,964.1	32,533.9	155,348.1	229,912.0	114,989.0	146,966.0
Repayment of Principal to Foreign Creditors	31,076.3	5,694.2	9,000.8	22,079.8	25,683.2	14,150.4	13,620.3
Procurement of Financial Assets	—	121.1	3,250.0	3,553.0	1,000.0	—	—

Source: Ministry of Finance.

Notes:

(1) The consolidated balance sheet of the Government is prepared on a cash basis using the Government Finance Statistics Manual (the "**GFSM**") 1986 methodology.

(2) Excise tax revenues include excises on oil derivatives that have been assigned to the PE "Putevi Srbije" since 1 January 2006.

(3) Out of RSD 39.5 billion of domestic borrowing in July 2009, RSD 16.9 billion comprises the debt of PE "Putevi Srbije" which used these proceeds to repay debts to suppliers from previous years.

(4) Includes repayment of frozen foreign currency saving deposits and loan for economic revival as well as RSD 21.1 billion payment to PE "Putevi Srbije" which used these proceeds in 2009 to repay debts to suppliers from previous years.

The following table shows the actual public revenues and expenditures against the central Government Budget for the years 2008 to 2010 and actual public revenues and expenditures for the first six months of 2011 against the central Government budget for 2011:

	Year ended 31 December							Six months ended 30 June
	2008		2009		2010		2011	2011
	Budget	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**	**Budget**	**Executed**
	(RSD millions)							
Public revenues	**650,174**	**626,138**	**614,987**	**626,700**	**659,600**	**664,550**	**726,400**	**327,962**
Current Revenues	650,174	626,138	614,987	626,700	654,600	659,232	726,400	327,962
Tax Revenues	606,465	582,630	570,914	574,480	613,000	616,412	677,200	307,452
Personal Income Tax	76,047	74,695	71,000	71,308	73,500	75,175	79,100	38,051
Corporate Income Tax	36,087	34,968	29,500	29,495	29,100	29,892	35,000	19,698
Value Added Tax	315,642	301,620	296,514	296,862	321,000	319,271	355,800	160,174
Excise Tax	102,315	100,627	117,400	119,820	133,600	135,589	160,100	66,607
Customs	70,448	64,784	47,500	48,040	43,300	44,285	39,600	18,511
Other Tax Revenues	5,926	5,935	9,000	8,956	12,500	12,200	7,600	4,410
Non-Tax Revenues	43,709	43,508	44,073	52,220	41,600	42,820	49,200	20,510
Capital Revenues	—	—	—	—	—	—	—	—
Grants	—	—	—	—	5,000	5,381	—	—
Public Expenditures	**695,959**	**666,646**	**719,854**	**713,167**	**779,723**	**769,565**	**846,920**	**399,663**
Current Expenditures	615,093	600,372	674,965	672,505	726,086	722,081	788,497	378,977
Expenditures for Employments	177,571	173,017	180,690	177,662	184,029	182,890	196,626	98,977
Purchase of Goods and Services	45,943	42,605	35,967	37,846	45,101	43,877	47,216	22,436
Interest Repayments	16,437	13,880	30,483	20,076	30,247	30,127	45,636	19,846
Subsidies	48,910	47,797	34,527	37,199	45,134	44,649	56,052	19,855
Social Welfare and Transfers	315,208	315,017	392,187	400,104	421,574	420,537	442,966	208,945
To other levels of government (Other transfers to Pensions	137,921	137,900	213,200	216,184	220,100	220,037	230,900	114,273
Unemployment	15,614	15,614	22,000	19,975	21,800	21,800	18,350	7,400
Sick leave benefits	4,000	4,000	588	2,035	588	588	615	326
Other transfers	89,266	88,440	93,783	97,212	112,197	111,545	114,289	54,243
Other current expenses	11,023	8,056	6,650	7,194	7,604	7,756	11,756	8,919
Capital Expenses	58,970	45,961	27,788	23,849	26,449	22,423	31,848	5,438
Net Lending	21,896	20,313	17,101	16,814	27,188	25,060	26,575	15,248
Budget Balance	**(45,785)**	**(40,508)**	**(104,867)**	**(86,467)**	**(120,123)**	**(105,014)**	**(120,520)**	**(71,702)**

Source: Ministry of Finance.

The following table shows year-on-year nominal changes in certain Government revenues and expenditures for the years 2009 to 2010 and for the first six months of 2010 and 2011:

	Year ended 31 December		Six months ended 30 June	
	2009	2010	2010	2011
	(% change)			
Personal Income Tax	(2.2)	4.2	2.0	7.6
Corporate income tax	(20.0)	4.4	(1.6)	20.8
Value added tax	(1.6)	7.6	8.6	7.4
Excise tax	22.4	12.9	13.1	20.8
Customs duties	(25.8)	(7.8)	(11.5)	(9.7)
Other tax revenues	4.2	24.0	39.7	(4.0)
Social contributions	(1.9)	1.3	0.8	6.2
Non-tax revenues	(0.3)	13.3	14.9	8.2
Capital revenues and grants	117.1	33.7	48.3	60.2
Public expenditures	4.4	7.3	5.4	9.8
Expenditures for employees	3.0	2.1	1.9	8.9
Purchase of goods and services	2.9	8.7	6.8	11.0
Interest repayments	37.1	52.8	58.3	34.9
Subsidies	(19.1)	23.4	14.9	3.4
Social welfare and other transfers to citizens	11.8	4.2	3.5	4.7
Capital expenses	(11.9)	12.7	(4.0)	21.4
Net lending	6.8	46.5	51.0	40.8

Source: Ministry of Finance

The following table shows year-on-year real changes in certain Government revenues and expenditures for the years 2009 to 2010 and for the first six months of 2010 and 2011:

	Year ended 31 December		Six months ended 30 June	
	2009	2010	2010	2011
	(% change)			
Personal Income Tax	(9.8)	(2.2)	(2.2)	(4.9)
Corporate income tax	(26.2)	(2.0)	(5.7)	6.8
Value added tax	(9.2)	1.0	4.2	(5.0)
Excise tax	12.9	6.0	8.4	6.8
Customs duties	(31.6)	(13.4)	(15.2)	(20.1)
Other tax revenues	(3.8)	16.5	33.9	(15.1)
Social contributions	(6.0)	(4.9)	(3.3)	(6.1)
Non-tax revenues	(8.1)	6.4	10.1	(4.4)
Capital revenues and grants	108.0	25.6	42.0	41.6
Public expenditures	(3.6)	0.7	1.0	(2.9)
Expenditures for employees	(5.0)	(4.2)	(2.3)	(3.7)
Purchase of goods and services	(5.0)	2.0	2.4	(1.9)
Interest repayments	26.5	43.5	51.8	19.3
Subsidies	(25.4)	15.9	10.2	(8.6)
Social welfare and other transfers to citizens	3.2	(2.1)	(0.8)	(7.4)
Capital expenses	(18.8)	5.8	(7.9)	7.3
Net lending	(1.5)	37.5	44.8	24.5

Source: Ministry of Finance.

Fiscal Developments in 2009

The global financial and economic crisis affected Serbia severely in the last quarter of 2008. In 2009, the fiscal position of Serbia deteriorated further due to the large fall in revenues which, together with the high volume and unfavourable structure of public spending, resulted in a substantial increase in the fiscal deficit and Public Debt (as defined below). Serbia negotiated and then revised a stand-by arrangement ("**SBA**") with the IMF. As part of this arrangement, the general Government deficit was planned at 4.5% of GDP. The increased level of deficit, combined with a freeze on public sector salaries and pensions, allowed the Government to introduce some incentives for companies (such as subsidised liquidity loans and investment loans) and citizens (such as subsidised consumer loans for domestic products and subsidised housing loans), as well as some increases in unemployment and social welfare benefits.

The deficit stood at RSD 121.4 billion, or 4.5% of GDP, by the end of 2009, which was the targeted level for the year. Increased borrowings for the purpose of debt servicing led to the growth in Public Debt as a proportion of GDP, from 29.2% at the end of 2008 to 34.8% at the end of 2009.

In 2009, general Government revenues fell sharply due to reduced tax receipts as a consequence of the effects of the downturn in the Serbian economy. The Government acted to offset the overall fall in revenues by increasing excise taxes on oil derivatives and the introduction of a tax on the use of mobile phones, thereby having, in the Government's opinion, a smaller negative impact on overall growth than if it had increased VAT or decreased public sector wages.

Current revenues in 2009 were 7.8% lower than in 2008 in real terms. Tax revenues fell in real terms by 7.8%, whereas non-tax revenues fell by 8.1%. Revenues were boosted by financial aid from the EU of RSD 4.8 billion (see "*Description of Serbia — Foreign Relations — European Union*"). Revenues from direct taxes and contributions for mandatory social insurance represented a lower proportion of GDP (17.8%) than in relation to the previous year (18.3%). Frozen public sector wages, as well as the growth of unemployment, were the main reasons for this decrease.

Personal income tax. The real level of generated income arising from personal income taxes fell by 2.2% in nominal terms (9.8% in real terms) compared with 2008, primarily due to a decline in the overall level of employment in 2009. A decline in other types of income taxes (revenues from self-employed persons, royalties, annual income tax, etc.) also contributed to the fall in personal income tax collections.

Corporate income tax. The nominal fall in the corporate income tax (which comprised approximately 84.0% of total income tax) was 20.0% (26.2% in real terms) compared with 2008. Other income taxes (tax on distributed profits, tax on corporate profits, tax on interest, royalties and capital gains paid to non-residents and tax on profits from rented or leased movable or immovable property) recorded a nominal decrease of 5.3% (13.6% in real terms) compared with 2008.

Value added tax. Revenues from value added tax ("**VAT**") fell by 1.6% in nominal terms and 9.2% in real terms in 2009 compared with the previous year, primarily due to a decline in trade volumes leading to lower VAT collections on imports and exports.

Excise tax. Excise tax recorded a nominal increase of 22.4% (12.9% in real terms) and was the only tax which increased as a proportion of GDP compared with the previous year as a result of changes in the excise tax policy in the course of 2009. The increase in 2009 was primarily driven by higher revenues from excise taxes on oil derivatives (22.9% in nominal terms and 13.3% in real terms) and from excise taxes on tobacco products (28.6% in nominal terms and 18.7% in real terms), resulting from increases to the excise tax charged on these products in 2009.

Customs duties. Revenues from customs duties decreased by 25.8% in nominal terms (31.6% in real terms) in 2009 compared to the previous year, primarily as a result of the decrease in import volumes in the first half of the year and the loss in customs revenues resulting from the unilateral implementation of the terms of the SAA relating to trade.

Other tax revenues. In 2009, other tax revenues increased nominally by 4.2% but decreased by 3.8% in real terms, primarily driven by a decrease in revenues from property tax by 11.7% in nominal terms (19.4% in real terms), resulting from lower collections of annual taxes on real estate and a decrease in tax receipts from property transfers due to a downturn in real estate sales.

Social contributions. In 2009, the nominal level of revenues from social contributions was 1.9% (6.0% in real terms) less than in 2008, in line with the decrease in revenues from taxes on salaries.

Non-tax revenues. Non-tax revenues fell by 0.3% in nominal terms (8.1% in real terms) compared with 2008, primarily driven by a decrease of 15.1% in nominal terms (21.7% in real terms) in non-tax revenues collected at the local government level (such as various stamp duties and commissions), which comprise the largest portion of non-tax revenues. The largest fall was in commissions for the development of city construction land affected by the decline in the building industry.

Capital revenues and grants. Capital revenues and grants recorded a nominal increase of 117.1% (108.0% in real terms); but do not ordinarily contribute a significant proportion of total revenues at the Government level. In December 2009, however, the EU contributed non-returnable financial aid for financing the Budget deficit in the amount of RSD 4.8 billion.

Public expenditures. Public expenditures increased nominally by 4.4% (a 3.6% decline in real terms) in 2009. However, public expenditure was reduced by 0.4% of GDP in nominal terms compared with 2008, as part of the reduction in the Budget deficit targeted under the SBA with the IMF (see "*Public Debt — Multilateral and Bilateral Development Organisations — International Monetary Fund*"). All categories of expenditures recorded reductions in real terms compared with 2008, with the exception of interest repayments and social welfare and benefit payments.

Expenditures for employees. In 2009, the overall amount of public sector wages increased by 3.0% in nominal terms but decreased by 5.0% in real terms compared with the previous year as a consequence of savings measures agreed in the programmes with the IMF, which included freezing of salaries and restrictions on new recruitment.

Purchase of goods and services. The level of expenditure on the purchase of goods and services in 2009 was 2.9% higher in nominal terms but decreased by 5.0% in real terms compared to 2008. These savings were achieved not only at the Government level, but also at the local government level by limiting transfers of funds.

Interest repayments. Interest repayments in 2009 nominally increased by 37.1% (26.5% in real terms) compared with 2008 as a result of the payment of interest on Government bonds issued to finance the deficit.

Subsidies. Subsidies recorded a nominal decrease of 19.1% (25.4% in real terms) compared with 2008, primarily due to a significant decrease in subsidies paid from the central Government budget.

Social welfare and other transfers to citizens. Transfers to citizens increased by 11.8% in nominal terms (3.2% in real terms) compared with 2008, mainly as a result of the growth of pensions in the previous year, with the largest portion of transfers to citizens comprising pensions, as well as by an increase in unemployment benefits paid as a result of an increase in the number of unemployed.

Capital expenses. Capital expenses for 2009 nominally decreased by 11.9% (18.8% in real terms) compared with the previous year. The greatest falls in capital expenses were recorded at the Government and AP Vojvodina levels with the other local authorities recording capital expenditure at levels similar to those of 2008.

Net lending. Net lending increased nominally by 6.8%, but decreased by 1.5% in real terms. Net lending recorded the lowest real fall of all categories of expenditures, although there was a significant difference in purpose of lending in 2009 compared with 2008. In 2008, a greater proportion of Budget lending went towards the recapitalisation of some banks and financial institutions owned by the Government, while in 2009, lending was principally to provide support to companies and industries affected by the global financial and economic crisis.

The largest deficit was at the Government level, amounting to RSD 93.6 billion, with the deficits of local authorities such as cities and municipalities amounting to RSD 15.2 billion and with that of AP Vojvodina standing at RSD 10.2 billion. The Mandatory Social Insurance Fund generated a deficit of RSD 0.8 billion and PE "Putevi Srbije" recorded a deficit of RSD 1.6 billion.

In previous years, privatisation proceeds had been the main source of deficit financing, but in 2009, the main source of financing was domestic borrowing in the form of the issuance of T-Bills, with RSD 202.8 billion being borrowed and RSD 107.9 billion repaid, leaving a net increase in debt of RSD 94.9 billion. Privatisation revenues of RSD 39.8 billion, principally from the sale of NIS Jugopetrol, were applied to finance the Budget deficit of AP Vojvodina. The deposit growth at the end of the year was the result of substantial inflows in December as the result of withdrawal of funds allocated by the IMF for special drawing rights and the payment of non-refundable financial aid by the EU.

Both the public debt and acquired financial assets in the amount of RSD 171.6 billion have been repaid. The repayment of debt to domestic creditors amounted to RSD 155.3 billion, out of which the repayment of debt arising from Government bonds was RSD 107.9 billion and payment of obligations for frozen foreign currency saving deposits and the loan for economic revival were RSD 22.1 billion.

In 2009, arrears were reduced, primarily as the result of the reduced debts of the PE "Putevi Srbije", whose liabilities fell from RSD 28.7 billion at the end of 2008 to RSD 1.1 billion at the end of 2009. The increased amount of arrears was mostly the result of arrears of the Republic Institute for Health

Insurance, whose debt increased from RSD 4.4 billion at the end of 2008 to RSD 9.5 billion at the end of 2009.

Fiscal Developments in 2010

The recovery of revenues in the second half of 2010 and the freezing of the largest categories of public spending, together with careful control of expenditures and improved collection of revenues in the last quarter of 2010, resulted in a Government deficit at the end of 2010, which was lower than had been budgeted. The deficit amounted to RSD 136.5 billion or 4.6% of GDP, which was less than the planned deficit of 4.8% of GDP.

Positive macroeconomic movements, including growth in GDP, industrial production, foreign trade and average wages, in the second half of the year gave rise to fiscal improvements. Revenues recorded moderate growth compared with 2009 and the recovery in economic activities had a positive effect on indirect taxes (in particular, VAT and excise tax). In 2010, the Government made no further significant changes to its taxation policy or its expenditure policy (other than those adopted in the course of 2009) as described above.

Public revenues grew by 6.7% in nominal terms (staying almost flat in real terms) compared with 2009. Current revenues grew only by the level of average inflation, with no growth in real terms. Tax revenues fell by 0.8% in real terms while non-tax revenues grew by 6.4% in real terms.

Personal income tax. Revenues from personal income tax grew by 4.2% in nominal terms (although falling by 2.2% in real terms) compared with the previous year, despite decreasing numbers of employed persons in 2010, driven by an increase in nominal wages of 7.6%. Growth in other types of income taxes (revenues from self-employed persons, royalties, annual income tax, etc.) also contributed to the overall increase in personal income tax collections.

Corporate income tax. Corporate income tax accounted for approximately 84.0% of total income tax revenues in 2010 and grew in nominal terms by 4.4% (a 2.0% decrease in real terms) compared with 2009. Revenues from other income taxes grew by 20.0% in nominal terms (10.5% in real terms).

Value added tax. Revenues from VAT nominally increased by 7.6% (1.0% in real terms) in 2010, mainly due to VAT collections on increasing exports volumes driven by strong growth in foreign demand in 2010. VAT from imports also recorded nominal growth of 19.8% (12.4% in real terms)

Excise tax. Revenues from excise taxes grew in both nominal (12.9%) and real terms (6.0%) in 2010, largely as a result of an increase in the rate of excise tax applied to tobacco products in accordance with Serbia's action plan for the implementation of CEFTA, an increase in the amount of excise tax collected on oil derivatives and tobacco in the second half of 2009, and as a result of the regular process of synchronisation in January 2010 (whereby in January of each year excise taxes are indexed to the inflation rate in the previous year).

Customs duties. In 2010 revenues from customs duties fell by 7.8% in nominal terms (13.4% in real terms) compared with the previous year as a result of lower imports and the effects of the Interim Trade Agreement with the EU.

Other tax revenues. Other tax revenues grew by 24.0% in nominal terms (16.5% in real terms) compared with 2009, primarily driven by an increase in property tax collected by local authorities of 17.6% in nominal terms (10.4% in real terms), which is the largest component of other tax revenues. The introduction of the tax on the use of mobile telephones in July 2009 also contributed to the increase in other tax revenues.

Social contributions. Social contributions in 2010 grew in nominal terms by 1.3% but decreased by 4.9% in real terms compared with 2009, primarily driven by a decline in social contributions for pension and disability insurance of employees.

Public expenditures. In 2010 public spending nominally increased by 7.3% (0.7% in real terms). The modest growth came from the increase in the level of public investments while current public spending was lower in real terms than the previous year as a result of nominal "freezing" of salaries and pensions which make up the two largest categories of current public spending. The reductions in these categories of expenditures created capacity in the Budget for an increase in fiscal incentives such as subsidies and "soft" budgetary credits for businesses and citizens.

Expenditures for employees. Total public sector wages increased by 2.1% in nominal terms (a 4.2% decrease in real terms) compared with 2009, as the result of the salary freeze.

Purchase of goods and services. Expenditure on the purchase of goods and services increased by 8.7 in nominal terms (2.0% in real terms) compared with the previous year. This growth came across the Budgets of the Government, local governments and the Republic Institute for Health Insurance, with expenditure for PE "Putevi Srbije" decreasing.

Interest repayments. Total interest repayments were 52.8% higher in nominal terms (43.5% in real terms) compared with 2009 as a result of the increase in the interest-servicing costs of Government bonds issued to finance the deficit.

Subsidies. Subsidies increased by 23.4% in nominal terms (15.9% in real terms) compared with 2009. Subsidies paid from the Budget increased 21.1% in nominal terms (13.7% in real terms) while subsidies at the local government level grew by 29.3% in nominal terms (21.4% in real terms), largely as a result of subsidies provided by the City of Belgrade to the city's thermal power plants in order to repay an overdue debt to PE "Srbijagas", a Serbian gas company, in an amount of RSD 3.0 billion.

Social welfare and other transfers to citizens. Transfers to citizens nominally increased by 4.2% (a 2.1% decrease in real terms) compared with 2009. The largest part of transfers to citizens was accounted for by pensions. In the course of 2009 and 2010, individual state pensions were frozen at the levels which applied at the end of 2008. As a result, expenditures for pensions recorded in 2010 fell by 4.5% compared with the previous year. Other transfers to citizens and various types of social welfare benefits increased by 10.0% in nominal terms (3.3% in real terms).

Capital expenses. Capital expenses for 2010 increased by 12.7% in nominal terms (5.8% in real terms) compared with the previous year as a result of increased public investment in the country's road infrastructure financed by the Government Budget and the budget of AP Vojvodina. The highest rates of growth were recorded by PE "Putevi Srbije".

Net lending. Net lending increased significantly by 46.5% in nominal terms (37.5% in real terms) with a major portion of the expenditure being targeted towards mitigating the effects of the global financial and economic crisis.

The largest deficit was at the central Government level amounting to RSD 10.1 billion, with significant deficits also in the budget of the AP Vojvodina, budgets of the local authorities and PE "Putevi Srbije", while the social security funds showed a small surplus.

In the course of 2010, in addition to the regular Budget expenses, RSD 229.9 billion of outstanding public debt was repaid with almost 90.0% of this amount accounted for by the repayment of debt owed to domestic creditors, of which RSD 185.6 billion comprised repayment on maturity of Government bonds. A further RSD 392.1 billion was required for deficit financing and debt repayment in the first half of the year, the largest part of which was funded by the issue of Government securities.

In the course of 2010, arrears remained virtually unchanged.

Fiscal Developments in the first half of 2011

For the first half of 2011, the deficit stood at RSD 70.0 billion. Revenues increased by 8.1% in nominal terms, although both revenues and expenditures were lower in real terms compared with the first half of 2010. Revenue collections have so far underperformed in 2011, particularly with regard to VAT and social contributions.

Personal income tax. Revenues from personal income taxes increased by 7.6% in nominal terms (a decrease of 4.9% in real terms) compared with the first half of 2010, primarily driven by an increase in revenues from taxes on salaries of 8.5% in nominal terms (4.1% in real terms), which comprised approximately 60.0% of the total personal income tax revenue, despite a decline in overall levels of employment during this period. Other types of income tax (including revenue from self-employed persons, royalties and annual income tax) also increased by 3.9% in nominal terms (8.1% in real terms).

Corporate income tax. Corporate income tax accounted for approximately 86.0% of total income tax for the period and increased in nominal terms by 20.8% (6.8% in real terms) compared with the same period in 2010. Revenues from other types of income taxes decreased by 9.2% in nominal terms (19.7% in real terms).

Value added tax. Revenues from VAT increased by 7.4% in nominal terms (a decrease of 5.0% in real terms) compared with the same period in 2010. Gross collections underperformed in the first half of 2011, decreasing by 4.6% in real terms (a 7.9% increase in nominal terms), with the 38.0% increase in

VAT returns leading to a decline in revenues from domestic VAT of 11.7% in nominal terms and 22.0% in real terms. The increase in returns was primary driven by a significant increase in the value of exports and imports of intermediate and capital goods.

Excise taxes. Revenues from excise taxes increased by 20.8% in nominal terms (6.8% in real terms) compared with the first six months of 2010, mainly due to an increase in nominal excise taxes on tobacco products at the end of 2010 and amendments to the structure of excise rates on oil derivatives.

Customs duties. In the first half of 2011, the reduction of customs rates required by the Interim Trade Agreement with the EU led to a decrease in revenues from customs duties of 9.7% in nominal terms (20.1% in real terms) despite the growth in imports during the period.

Other tax revenues. Other tax revenues decreased by 4.0% in nominal terms (15.1% in real terms) compared with the same period in 2010. The largest portion of other tax revenues was accounted for by property taxes collected by local authorities, which remained broadly flat in nominal terms but decreased by 11.7% in real terms. Another contributing factor to the decrease of other tax revenues was the abolition of the tax on mobile phones, which had been introduced in the second half of 2009 and was applied throughout 2010.

Social contributions. Revenues from social contributions increased by 6.2% in nominal terms but fell by 6.1% in real terms compared with the same period in the previous year, primarily driven by an increase in social contributions for pension and disability insurance of employed persons, health insurance and unemployment insurance.

Public expenditures. Public spending grew by 9.8% in nominal terms but decreased by 2.9% in real terms, compared with the first half of 2010. The nominal increase in public spending was driven by nominal growth in current spending (8.6% in nominal terms) and capital expenses (21.4% in nominal terms).

Expenditures for employees. The total for public sector wages increased by 8.9% in nominal terms (a decrease of 3.7% in real terms) compared with the first half of 2010. The freeze on public sector salaries came to an end in January and a result the trend of a nominal increase is expected to continue for the rest of 2011.

Purchase of goods and services. Expenditure on the purchase of goods and services increased by 11.0% in nominal terms (a decrease of 1.9% in real terms) compared with the first six months of the previous year.

Interest repayments. Interest repayments increased by 34.9% in nominal terms (19.3% in real terms) as a result of the continued increase in the amounts required to service the outstanding amount of Government debt.

Subsidies. Subsidies increased by 3.4% in nominal terms (a decrease of 8.6% in real terms) compared with the first six months of 2010. Subsidies paid from the Budget increased by 5.6% in nominal terms (a decrease of 6.6% in real terms) while the subsidies paid out of local government budgets increased by 6.6% in nominal terms (a decrease of 5.7% in real terms), with a small fall recorded in the relevant amount paid out of the AP Vojvodina budget which represented a relatively small proportion of the total amount of subsidies in the consolidated Budget.

Social welfare and other transfers to citizens. Transfers to citizens increased by 4.7% in nominal terms but decreased by 7.4% in real terms, driven by a decrease in the overall public sector pension bill of 7.0% in real terms compared to the previous year. The largest proportion of the overall amount of transfers to citizens comprised pensions which had been frozen for the previous two years but were effectively unfrozen by special fiscal rules relating to public sector salaries and pensions implemented in January 2011. However, in the course of 2011, it is expected that there will be moderate growth both in nominal and real terms. Nominal falls were also recorded in sickness and unemployment benefits.

Capital expenses. Capital expenses increased by 21.4% in nominal terms (7.3% in real terms) compared with the first six months of the previous year. Nominal growth was recorded at both the central Government Budget and local government Budget levels.

Net lending. Net lending increased significantly by 40.8% in nominal terms (24.5% in real terms).

The Government aims to monitor arrears more closely in order to reduce accumulation of arrears at the local government level. Potential policy may include reporting of arrears on a monthly basis by all consolidated general government entities, and the requirement to pay all outstanding loans overdue by more than 60 days, by law and sanctioning mechanisms.

Medium Term Fiscal Policy

The Government's main fiscal objectives for the medium term are the preservation of macroeconomic stability and the creation of conditions to enhance and facilitate the continued recovery of the Serbian economy and promote stable economic growth. The Government's general fiscal rules under the current 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 general fiscal objectives are to:

- achieve an annual fiscal deficit of 1.0% of GDP; and
- ensure that the ratio of Public Debt (as defined below), excluding obligations arising from restitution, to GDP remains below 45.0%.

The Government currently intends to make necessary fiscal adjustments focused on reducing spending in order to achieve an annual fiscal deficit of 4.5% of GDP and 4.0% of GDP in 2011 and 2012, respectively, to be reflected in any supplemental budget, which is expected to be submitted to the Assembly for approval in the second half of 2011.

The special fiscal rules set movements in pensions and wages in the public sector and the way in which public investments will be covered in calculating the fiscal deficit and public expenditures during the period from 2011 to 2015. Wages in the public sector and pensions in 2011 and 2012 are indexed according to inflation plus half of real GDP growth in the previous year. Wages in the public sector from 2013 to 2015 will be indexed according to inflation plus half of real GDP growth in the previous year and average pensions will be indexed according to inflation plus GDP growth over 4.0%.

The special fiscal rules also restrict the deficits that may be incurred by local governments.

Taxation Policy

Serbia's tax structure includes both direct taxation through personal income taxes and corporation taxes and indirect taxation through value added tax. In addition, Serbia collects excise duties, taxes on property, taxes on non-life insurance premiums and taxes on the usage, storage and transportation of certain commodities. Income taxes are assessed on an individual basis.

From 1 October 2011, 20.0% of wage tax collected will be used to finance the central Government Budget and 80.0% of wage tax will be used to finance local government budgets. This is expected to reduce Government revenue by approximately RSD 10.6 billion and increase local government revenue by the same amount.

The current Government intends to reform its tax system in order to stimulate investment and exports, increased employment and overall growth by reducing the tax burden on labour and increasing tax on consumption. A reduction in the rate of pension contributions and an increase in VAT are potential measures which may be considered for adoption to achieve these objectives. Property tax reform may include tax based harmonisation with the market value of property and replacing proportional tax credits with fixed amounts. However, this is a long-term goal that could be affected by a change in Government. Serbia also seeks to improve the efficiency of its customs and tax administration.

Personal Income Tax

A resident taxpayer is required to pay tax on income generated in Serbia or in any other country, whereas a non-resident taxpayer is taxed only on income generated in Serbia. Personal income is taxed regardless of whether the income is generated in money, in kind, in services or otherwise. The tax is levied on private individuals whether Serbian resident or non-resident. The Law on Personal Income Tax also provides for an annual personal income tax, which is an additional tax levied on Serbian residents who generate income in any calendar year exceeding the non-taxable threshold. The threshold is reset each year and is equal to three times the average annual salary per employee in Serbia. In 2010, the threshold amount was RSD 1.7 million. Annual personal income is taxed in bands at rates between 10.0% and 15.0%.

As of March 2010, personal income tax was levied on the sources of income and at the rates indicated in the following table:

Source of income	Rate
Salary	12.0% (with a fixed non-taxable monthly total of RSD 7,310 in 2011)
Agriculture and forestry	10.0%
Independent entrepreneurship	10.0%
Copyrights and similar rights and industrial property rights	20.0% (with recognition expenses totalling 50.0%, 43.0% or 34.0% of the gross income depending on the copyrighted work)
Capital yield	10.0%
Immovables	20.0% (with recognition expenses totalling 20.0%)
Capital gains	10.0%
Other income	20.0% (with recognition expenses totalling 20.0% (income from lease of movable property and other income) or 50.0% (athletes and experts))

Source: Ministry of Finance.

Corporate Income Tax

Corporate income tax is payable by resident and non-resident legal entities, including any company or enterprise incorporated as a joint stock company or partnership. A co-operative or other legal entity that generates income by marketing its own products or by providing services for a fee is also required to pay corporate income tax.

Legal entities resident in Serbia are liable to pay corporate income tax on all profits generated in Serbia and/or any other country, while non-resident legal entities are liable to pay corporate tax only on profits generated through a branch located in Serbia.

Non-resident entities are also required to pay withholding tax at a rate of 20.0% of gross income (unless otherwise regulated under an applicable international double taxation agreement) where this income is generated directly from a Serbian resident taxpayer (without intermediation by a permanent branch office) by means of dividend distribution, company profit sharing, copyright royalties and similar rights, industrial property rights and interest and fees from the lease of immovable or movable property. Withholding tax is also levied and charged on income generated by non-resident taxpayers through entertainment, artistic activities, sports or any similar performance in Serbia that is not taxable as personal income in accordance with personal income tax regulations. In addition, non-residents are required to pay tax on certain capital gains at a rate of 20.0%. The Law on Corporate Income Tax also provides for tax incentives in order to stimulate economic growth, small business development and concession investments.

Property tax

Static property tax, inheritance and gift tax and tax on the transfer of absolute rights is regulated by the Law on Property Tax (the "**LPT**").

Static property tax rates are determined at the local level, with the maximum rate set by the LPT. In 2010, the maximum rates were 0.4% for property rights on immovable property for taxpayers that keep business books, 0.3% for land rights for taxpayers that do not keep business books, and progressive tax rates up to 2.0% apply for rights on other immovable property for taxpayers that do not keep business books depending on the tax base.

Inheritance and gift tax is levied on public building land lease rights, state-owned agricultural land lease rights and public building land usage rights regardless of the surface area. Inheritance and gift tax is also levied on the total surface area of immovable property that is subject to static property tax. In addition, inheritance and gift tax is levied on cash, savings deposits, bank deposits, cash receivables, intellectual property rights, title to most categories of second-hand motor vehicles, second-hand boats and second-hand self-powered aircraft (except state-owned), and other movable objects, except equity in a company or securities that are VAT-exempt.

The inheritance and gift tax rate for heirs or other beneficiaries who are second in the order of inheritance is 1.5%, while the tax rate for heirs or other beneficiaries who are third place or lower in the order of inheritance and not related to the bequeather or gift-giver is 2.5%. Beneficiaries who are first in the order of inheritance are not taxed.

Tax on the transfer of absolute rights is levied at a rate of 2.5% on transfers, for a fee, of title to immovable property, intellectual property rights, title to most categories of second-hand motor vehicles, second-hand boats and second-hand self-powered aircraft (except state-owned), building land usage rights regardless of the surface area, and rights to expropriated immovable property if granted to enable the construction of residential or commercial buildings, and is VAT-exempt. In addition, this type of tax is charged on any lease of a public building land for a period longer than one year or indefinitely for building construction. The LPT also lists other types of transfers subject to the tax.

Tax on usage, storage and transportation of certain commodities

Taxes on motor vehicle usage, boat usage, aircraft usage and the ownership of registered guns is regulated by the Law on Taxes on Usage, Keeping and Carrying of Commodities.

Value added tax

VAT is a general consumption tax levied on the supply of goods and services in Serbia for a fee as part of the taxpayer's regular business, as well as on the supply of goods imported into Serbia, unless otherwise regulated. VAT is regulated by the Law on Value Added Tax (the "**VAT law**").

The general VAT rate for the supply of goods and services or import of goods is 18.0%. A special VAT rate of 8.0% applies to certain goods and services and imports of goods, including specified foodstuffs, drinking water (except bottled water), medicines, orthodontic and prosthetic devices, fertilisers and pesticides, textbooks and teaching aids, utility services, personal computers and daily newspapers, cinema and theatre tickets, natural gas, and initial transfers of rights to dispose of residential units. The VAT law specifies three categories of tax exemption: (i) exemptions on goods and services supplied after deduction of previous tax, international sales where the contract contains a clause under which tax expenses are not settled from the contract fee; (ii) exemptions on goods and services supplied before deduction of previous tax, such as turnover of cash and capital; and (iii) exemptions on certain imported goods, such as humanitarian aid or goods previously exported and then returned to Serbia unsold.

Excise taxes

Excise taxes are regulated by the Law on Excise Tax, which was adopted in 2001. Excise taxes are currently levied on oil derivatives, tobacco products, alcoholic beverages and coffee produced in Serbia or imported into the country. Domestic and imported excise products are treated equally.

The following table shows the rate of excise tax by type of product as of January 2011:

Product	Excise Rate
Oil derivatives	
Engine fuel	49.50 RSD/litre
Diesel	37.00 RSD/litre
Other oil derivatives with a distillation range of up to 380°C	53.34 RSD/kg
Liquid petroleum gas for motor vehicles	17.95 RSD/kg
Alcoholic beverages	
Schnapps (rakija)	
fruit based, grape based, special types	97.68 RSD/litre
grain based and other agricultural products	247.82 RSD/litre
Strong alcoholic drinks and liqueurs	158.84 RSD/litre
Low-alcohol drinks	16.31 RSD/litre
Beer	18.47 RSD/litre
Coffee	
All coffee products	30.0%
Tobacco products	
Cigarettes until 31 December 2011	35.0% on MSRP + 26.00 RSD/pack
From 1 January 2012	35.0% on MSRP + 30.00 RSD/pack
Cigars and cigarillos	7.55 RSD/pc.
Smoking tobacco and other tobacco products (i.e. cut tobacco, pipe tobacco, chewing tobacco and snuff)	35.0% on MSRP

Source: Republic of Serbia Official Gazette No. 4/11 issued 27 January 2011.

PUBLIC DEBT

Introduction

The Public Debt Law defines the state debt of Serbia (the "**Public Debt**") as all direct and indirect liabilities incurred or guaranteed by the Government on the domestic and foreign markets. The Government may incur or guarantee debt on the domestic and foreign markets for the purposes of financing the Budget or a current account deficit, refinancing outstanding debts, financing capital projects or settling liabilities arising out of guarantee obligations.

In the period from 2009 to 2010, Serbia increased its borrowings in order to finance the increased Budget deficit as the global financial and economic crisis had a negative impact on the Serbian economy. During this period, the Ministry of Finance also 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 — Medium Term Fiscal Policy*".

The Public Debt excludes Serbia's restitution commitments on which Serbia will begin making payments in 2015. The Draft Law of Property Restitution and Compensation regulates the terms and conditions and method and procedure of Serbia's restitution commitments to citizens whose property was nationalised after World War II. The property will be returned in kind or by means of compensation in the form of Government bonds ("**restitution bonds**") or cash. It is expected that Serbia's total restitution commitments will amount to approximately RSD 200 billion. A special law is expected to be passed by 31 December 2014 regulating the issue, circulation and use of restitution bonds as well as the total amount of these bonds. The restitution bonds are expected to mature within twenty years and be repaid in annual instalments starting from 2015. The current draft law envisages a cap of approximately 6.0% of GDP on financial compensation where restitution in-kind is not possible. Serbia may also make advance payment of compensation up to the amount of RSD 1 million per individual decision.

The following table shows Serbia's outstanding internal and external debt, and internal and external debt as a percentage of nominal GDP, as at 31 December for the years 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June 2011
	2006	2007	2008	2009	2010	
			(RSD billions)			
Public Debt	**738.8**	**703.2**	**778.0**	**944.4**	**1,282.5**	**1,361.4**
Internal Public Debt	303.1	270.5	280.1	401.4	518.2	611.5
External Public Debt	435.7	432.8	497.9	543.1	764.4	750.0
			(% of nominal GDP)[1]			
Public Debt	**37.7**	**30.9**	**29.2**	**34.8**	**42.9**	**40.6**[2]
Internal Public Debt	15.4	11.9	10.5	14.8	17.3	18.2[1]
External Public Debt	22.2	19.0	18.7	20.0	25.6	22.4[1]

Source: Ministry of Finance.

Notes:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

(2) Nominal GDP figures used in the computation of public debt as a percentage of GDP are based on Ministry of Finance estimates.

The following table shows certain key statistics with regard to Serbia's outstanding direct and indirect liabilities, and direct and indirect liabilities as a percentage of nominal GDP, as at 31 December in the years 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June 2011
	2006	2007	2008	2009	2010	
			(RSD billions)			
Public Debt	**738.8**	**703.2**	**778.0**	**944.4**	**1,282.5**	**1,361.4**
Direct liabilities, *of which:*	678.0	636.2	695.8	810.9	1,101.9	1,186.5
Internal Public Debt	303.1	270.5	280.1	388.4	482.3	578.3
External Public Debt	374.9	365.7	415.6	422.5	619.5	608.2
Indirect liabilities, *of which*	60.8	67.0	82.3	133.5	180.7	174.9
Internal Public Debt	—	—	—	12.9	35.8	33.1
External Public Debt	60.8	67.1	82.3	120.6	144.8	141.8
			(% of nominal GDP)(1)			
Public Debt	**37.7**	**30.9**	**29.2**	**34.8**	**42.9**	**40.6**(1)
Direct liabilities, *of which:*	34.6	27.9	26.1	29.9	36.9	35.4(2)
Internal Public Debt	15.5	11.9	10.5	14.3	16.1	17.3(2)
External Public Debt	19.1	16.0	15.6	15.6	20.8	18.1(2)
Indirect liabilities(3), *of which:*	3.1	3.0	3.1	4.9	6.0	5.2(2)
Internal Public Debt	—	—	—	0.5	1.2	1.0(2)
External Public Debt	3.1	3.0	3.1	4.4	4.8	4.2(2)

Source: Ministry of Finance.

Notes:

(1) Figures adjusted according to the new methodology for calculating GDP applied as of January 2011. See "*Economy of Serbia — Gross Domestic Product*".

(2) Nominal GDP figures used in the computation of public debt as a percentage of GDP are based on Ministry of Finance estimates.

(3) Serbia issues guarantees of loans to publicly owned enterprises. If the publicly owned enterprise is unable to repay the relevant loan, it becomes a direct obligation of Serbia. As at 30 June 2011, these guarantees amounted to EUR 1,700 million (RSD 174,905 million). As at 30 June 2011, EUR 726.8 million (RSD 74.5 billion) of loans related to the road network and EUR 306 million (RSD 31.2 billion) of loans related to the state railway. In the first seven months of 2011, Serbia repaid EUR 55 million (RSD 5.6 billion) by way of guaranteed loans related to the road network and the state railway.

Pursuant to the 2011 Budget Law, Serbia expects to borrow an additional RSD 513.1 billion, comprising RSD 382.6 billion of Government securities and RSD 130.5 billion of other debt (including loans from commercial banks, international organisations and foreign governments), which will be used to refinance existing debt and finance the Budget deficit.

Internal Public Debt

According to the Public Debt Law, Internal Public Debt comprises direct and indirect liabilities originally issued, incurred or guaranteed by the Government on the domestic market. The following table shows the composition of Serbia's outstanding Internal Public Debt as at 31 December for the years 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June 2011
	2006	2007	2008	2009	2010	
			(RSD billions)			
Internal Public Debt	**303.1**	**270.5**	**280.1**	**401.4**	**518.2**	**611.5**
Government Securities	280.1	253.8	265.5	363.8	430.8	529.9
T-bills and T-bonds	5.0	3.8	1.4	100.7	178.2	304.9
Frozen foreign currency bonds	255.7	238.3	252.7	251.6	251.8	224.2
Long-term Securities (Debt- NBS)	16.7	10.7	10.7	10.7	—	—
Loans for rehabilitation	2.7	1.0	0.7	0.8	0.8	0.8
Others	23.0	16.7	14.6	37.6	87.4	81.6

Source: Ministry of Finance.

As at 30 June 2011, Internal Public Debt comprised mainly treasury securities (T-bills and T-bonds) (RSD 304.9 billion) and frozen foreign currency bonds (RSD 224.2 billion), which are foreign currency deposits converted into Government bonds issued under the Law on the Settlement of the Public Debt of the FRY Arising from the Citizens' Foreign Exchange Savings.

The Government first issued securities in 2003 but the overall amount of Government securities outstanding remained relatively low until the end of 2008. However, in 2009 the volume of issuance increased substantially, as the Budget deficit grew and proceeds of privatisation decreased, largely as a result of the negative effects on the Serbian economy of the global financial and economic crisis.

The share of Internal Public Debt held by foreign investors increased from 0.0% at the end of 2009 to 0.8% (EUR 38.9 million or RSD 4.1 billion) at the end of 2009. As at 30 June 2011, the share of Internal Public Debt held by foreign investors reached 15.4% (EUR 0.92 billion or RSD 94.2 million) of total outstanding Internal Public Debt.

The following table shows the total nominal value of T-bills and T-bonds outstanding as at 31 December for the years 2009 and 2010 and as at 30 June 2011:

	As at 31 December				**As at 30 June**	
	2009		**2010**		**2011**	
	(Nominal value)					
	(%)	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*
T-bills (3-month maturity)......	25.8	26.0	12.1	21.5	5.7	17.3
T-bills (6-month maturity)......	56.6	57.0	30.9	55.1	14.1	42.9
T-bills (6-month maturity (EUR indexed))..................	—	—	11.8	21.0	6.7	20.4
T-bills (12-month maturity)....	17.6	17.7	34.0	60.6	8.3	25.2
T-bills (53-week maturity)	—	—	—	—	18.4	56.1
T-bills (53-week maturity (EUR denominated))..........	—	—	—	—	6.7	20.5
T-bills (18-month maturity)....	—	—	8.4	14.9	20.5	62.4
T-bills (24-month maturity)....	—	—	2.8	5.0	10.4	31.8
Government bonds (3-year maturity)	—	—	—	—	2.5	7.5
Government bonds (3-year maturity (EUR denominated))	—	—	—	—	2.0	6.0
Government bonds (15-year maturity (EUR denominated))	—	—	—	—	4.8	14.9
Total	**100.0**	**100.7**	**100.0**	**178.2**	**100.0**	**304.9**

Source: Ministry of Finance.

In mid-2009, with the aim of financing the Budget deficit, the Government issued T-bills, with an initial maturity of three months, followed by issuances of six- and 12-month maturities. The total market value of issued bills was RSD 202.8 billion, with the total amount outstanding at the end of 2009 amounting to RSD 100.7 billion. As a result of the increased issuance volume of T-bills, the share of External Public Debt as a proportion of total Public Debt decreased to 57.5%, while the share of Internal Public Debt increased to 42.5% (from 36.0% at the end of 2008).

During 2010, the outstanding amount of debt represented by T-bills and T-bonds increased further and stood at RSD 178.2 billion as at 31 December 2010. Twelve-month T-bills comprised 34.0% of this total, and six-month and three-month T-bills comprised 30.9% and 12.1%, respectively. In order to expand the domestic capital market, the Ministry of Finance began issuing 18-month and 24-month T-bills in March 2010. In February 2011, the Ministry of Finance issued a 15-year bond denominated in Euros, while in March 2011, an RSD bond with three-year maturity was issued for the first time.

As of 30 June 2011, the outstanding amount of T-bills and T-bonds was RSD 304.9 billion. Eighteen-month T-bills comprised 20.5% of this total and one-year (12-month and 53-week) T-bills comprised 26.7% of the total.

External Public Debt

According to the Public Debt Law, 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 2006 to 2010 and as at 30 June 2011:

	As at 31 December					As at 30 June 2011
	2006	2007	2008	2009	2010	
			(RSD billions)			
Multilateral creditors	**367.2**	**357.6**	**405.5**	**404.0**	**532.8**	**497.8**
Paris Club	139.2	132.7	148.2	153.8	170.6	158.5
IBRD	127.7	127.0	140.7	118.7	143.3	137.6
EIB	4.1	6.4	8.4	15.2	38.8	39.6
London Club	64.5	57.8	67.7	71.8	79.6	68.4
IDA	31.8	33.7	40.5	44.5	53.1	49.5
IMF	—	—	—	—	47.4	43.8
EBRD	—	—	—	—	—	0.4
Bilateral creditors	**5.9**	**6.4**	**7.6**	**14.7**	**63.3**	**58.1**
Switzerland	0.8	0.5	0.3	—	—	—
Italy	1.2	2.0	2.9	3.2	3.5	3.3
EU	3.9	3.9	4.4	4.7	5.2	5.1
China	—	—	—	6.8	8.9	8.7
Russia	—	—	—	—	15.9	14.1
Other(1)	—	—	—	—	29.8	26.9
Other Indebtedness(2)	**1.7**	**1.7**	**2.5**	**3.8**	**23.5**	**52.2**
Guaranteed External Public Debt(3)	**60.8**	**67.1**	**82.3**	**120.6**	**144.8**	**141.8**
Total External Public Debt	**435.7**	**432.8**	**497.9**	**543.1**	**764.4**	**750.0**

Source: Ministry of Finance.

Notes:

(1) Other bilateral creditors comprise Kuwait, France and Poland.

(2) Other indebtedness comprises debt from commercial banks, Council of Europe Development Bank and Kreditanstalt fur Wiederaufbau.

(3) Serbia issues guarantees of loans to publicly owned enterprises. If the publicly owned enterprise is unable to repay the relevant loan, it becomes a direct obligation of Serbia. As at 30 June 2011, these guarantees amounted to EUR 1,700 million RSD 174,905 million. As at 30 June 2011, EUR 726.8 million (RSD 74.5 billion) of loans related to the road network and EUR 306 million (RSD 31.2 billion) of loans related to the state railway. In the first seven months of 2011, Serbia repaid EUR 55 million (RSD 5.6 billion) by way of guaranteed loans related to the road network and the state railway.

The following table shows Public Debt by currency as at 31 December in the years 2006 to 2010 and as at 30 June 2011:

	As at 31 December										As at 30 June 2011	
	2006		2007		2008		2009		2010			
	(RSD billions)	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*	*(RSD billions)*	*%*
Special Drawing Rights	32.8	4.4	33.7	4.8	40.9	5.3	45	4.8	101.4	7.9	94.4	6.9
EUR	539.7	73.0	532.0	75.7	586.6	75.4	625.8	66.3	770.0	60.0	795.7	58.4
U.S.$	106	14.4	97.0	13.8	112.5	14.5	124.5	13.2	188.7	14.7	166.8	12.2
CHF	—	—	—	—	—	—	18.1	1.9	22.4	1.7	20.6	1.5
RSD	44.8	6.1	25.7	3.7	19.9	2.6	120.7	12.8	187.1	14.6	272.3	20.0
Other	15.5	2.1	14.7	2.1	18.2	2.3	10.5	1.1	13.0	1.0	11.7	0.9
Total	**738.8**	**100**	**703.2**	**100**	**778.0**	**100**	**944.4**	**100**	**1,282.5**	**100**	**1,361.4**	**100**

Source: National Bank.

Debt Service

The following table shows the historic Public Debt service payments with respect to principal and interest for the years 2006 to 2010:

	Year ended 31 December				
	2006	2007	2008	2009	2010
			(RSD billions)		
Principal Payments	38.5	35.9	42.6	144.0	245.1
Interest Payments	19.3	14.8	13.7	20.1	30.1
Total	**57.8**	**50.7**	**56.3**	**164.1**	**275.3**

Source: Ministry of Finance.

The following table shows the projected Public Debt service payments with respect to principal and interest (before taking account of any payment obligations in respect of the issue of the Notes described in this Prospectus) for the years 2011 to 2015:

	Year ended 31 December				
	2011	2012	2013	2014	2015
			(RSD billions)		
Principal	288.2	212.1	113.2	109.3	94.9
Interest	42.9	47.6	33.9	26.3	21.7
Total	**331.1**	**259.7**	**147.1**	**135.6**	**116.6**
% of Public Debt as at 30 June 2011	24.3	19.1	10.8	10.0	8.6

Source: Ministry of Finance.

Multilateral and Bilateral Development Organisations

International Monetary Fund

During the IMF mission to Serbia in November 2008, the IMF staff and Serbia reached a preliminary agreement, subject to approval by IMF Management and the Executive Board, on an economic programme supported by a precautionary loan for a total of 350.8 million SDRs (equivalent to approximately EUR 394.0 million). In January 2009, the Executive Board of the IMF approved a 15-month Stand-By Arrangement ("**SBA**") for a total of 350.8 million SDRs (equivalent to approximately EUR 402.5 million) to support Serbia's economic programme aimed at maintaining macroeconomic and financial stability. Pursuant to the SBA, 233.9 million SDRs (approximately EUR

268.4 million) became immediately available. Serbia treated the arrangement as precautionary and did not draw on the amounts made available at the time.

In May 2009 the Executive Board completed the first review of Serbia's performance under the SBA and agreed to increase its financial support to 2.62 billion SDRs (approximately EUR 2.9 billion), equivalent to 560.0% of Serbia's quota and close to 10.0% of its GDP. The Executive Board also extended the SBA by one year to mid-April 2011. A total of 701.6 million SDRs (approximately EUR 788.0 million) were made immediately available. Further performance reviews were completed in December 2009 and March, June, September and December of 2010, with the IMF making an additional 319.6 million SDRs (approximately EUR 360.0 million) available in each instance. The seventh and last IMF mission to Serbia under the SBA was completed in February 2011.

Serbia only drew down 1,367.7 million SDRs (approximately EUR 1.5 billion), which amounted to 52% of the total amount available to Serbia under the SBA. The disbursements under the SBA were used to finance foreign exchange reserves of the National Bank.

In addition, Serbia has disbursed funds under allocations of SDRs for an amount of 388.4 million in order to finance its budget deficit and service its debt.

On 31 August 2011 during the visit of the IMF mission to Serbia, an agreement was reached, subject to approval by IMF Management and the Executive Board, on an economic programme that could be supported by a total of 935 million special drawing rights (approximately EUR 1.0 billion) under an 18-month stand-by arrangement. The Executive Board is expected to make a decision on whether to approve the new arrangement by the end of September 2011.

In connection with any such new stand-by arrangement, the Government and the National Bank may implement a number of measures and policies, which may include, among others:

- making necessary fiscal adjustments focused on reducing spending in seeking to achieve an annual fiscal deficit of 4.5% of GDP and 4.0% of GDP in 2011 and 2012, respectively, which are expected to be reflected in any supplemental budget, which is expected to be submitted to the Assembly for approval in the second half of 2011;
- reforming the public pension system by, among other things, increasing the retirement age and improving labour market incentives to increase the number of contributors per pensioner;
- introducing a Law of Property Restitution and Compensation providing for restitution in kind where possible. The current draft law envisages a cap of approximately 6.0% of GDP on financial compensation where restitution in kind is not possible;
- considering the implementation of a revenue-neutral tax reform that trades direct tax cuts for increases in VAT and possibly also property taxes; and
- introducing reforms to the Labour Law that base the calculation of severance pay only on the duration of employment with the last employer instead of the entire employment period of a given employee and extend the duration of fixed-term contracts from one to three years.

International Bank for Reconstruction and Development ("IBRD")

The current programme of assistance by the IBRD for 2008-2011, the "Country Partnership Strategy for the Republic of Serbia", is consistent with Serbia's EU accession agenda. The outstanding debt to the IBRD as at 30 June 2011 stood at EUR 1.34 billion, of which EUR 1.1 billion was outstanding under loans disbursed in the 1970s and 1980s.

In 2011, the IBRD provided U.S.$100 million under its Second Programmatic Public Expenditure Development Loan. In 2011, Serbia and the IBRD reached an agreement on a six-year guarantee for up to U.S.$400 million of programme-based borrowing by Serbia.

European Bank for Reconstruction and Development

Since 2001 the EBRD has approved nearly EUR 1.0 billion by way of funding to Serbia. As at 30 June 2011, the total amount of outstanding debt under EBRD loans was EUR 380.0 million, of which EUR 5.0 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. During 2010 and 2011 Serbia also issued guarantees for a total amount of EUR 370.0 million in respect of loans to Railways of Serbia, Srbijagas and Electric Power Industry of Serbia.

European Investment Bank

From the start of co-operation with the EIB in 2001 through to the end of 2009, the EIB had approved approximately EUR 1.6 billion by way of funding to Serbia. As at 30 June 2011 the total amount of outstanding debt under EIB loans was EUR 890.0 million, of which EUR 387 million comprised direct liabilities. The funds disbursed were used to finance projects involving the construction and improvement of schools, hospitals, research centres, roads and railways.

Paris Club

As at 30 June 2011 liabilities to Paris Club creditors amounted to EUR 1.55 billion (RSD 158.5 billion).

Following dissolution of the State Union of Serbia and Montenegro in 2006, the National Bank has continued efforts to conclude new agreements with Paris Club creditors. New bilateral agreements have been concluded with the United States, the Swiss Confederation and Japan Bank for International Cooperation. The National Bank has also participated in the negotiations of amendments to the agreements already concluded with France and Finland.

London Club

As at 30 June 2011 liabilities to London Club creditors amounted to EUR 667.4 million (RSD 68.4 billion).

In 2009, an agreement was reached regarding the regulation of Serbia's outstanding debt under API bonds that remained unregulated following the restructuring of Serbia's debt to London Club creditors in 2005. Pursuant to the restructuring agreement, Serbia paid RSD 2.1 billion (EUR 21.4 million) on the API bonds.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.$1,000,000,000 7.25 per cent. Notes due 2021 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of the Republic of Serbia (acting through its Ministry of Finance) (the "**Issuer**") are (a) subject to, and have the benefit of, a deed of covenant dated 28 September 2011 (as amended or supplemented from time to time, the "**Deed of Covenant**") of the Issuer and (b) are issued pursuant to a fiscal agency agreement dated 28 September 2011 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Issuer, Deutsche Bank AG, London Branch, as fiscal agent and principal paying agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent and principal paying agent appointed from time to time in connection with the Notes) and as transfer agent, the other paying and transfer agents named therein (together with the Fiscal Agent, the "**Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes), Deutsche Bank Trust Company Americas, in its capacity as U.S. paying agent, U.S. transfer agent and U.S. registrar (the "**U.S. Registrar**") and Deutsche Bank Luxembourg S.A., in its capacity as registrar (the "**Luxembourg Registrar**") (the U.S. Registrar and the Luxembourg Registrar, each a "**Registrar**", which expression shall mean both the Luxembourg Registrar and the U.S. Registrar taken together, as the context so requires and which expression shall be deemed to include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1 Form, Denomination and Title

(a) Form and denomination

The Notes are in registered form, serially numbered and will be issued in minimum denominations of U.S.$200,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (an "**Authorised Holding**").

(b) Title

Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

In these Conditions, "**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality, "**Noteholder**" or "**holder**" means the Person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly. A Definitive Note Certificate (as defined below) will be issued to each Noteholder in respect of its registered holding.

*Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by a Rule 144A Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Regulation S Global Note). Interests in the Regulation S Global Note and the Rule 144A Global Note will be exchangeable for notes in definitive form ("**Definitive Note Certificates**")* *in the limited circumstances specified in the Regulation S Global Note and the Rule 144A Global Note, respectively. The Regulation S Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Rule 144A Global Note will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of DTC.*

Ownership of beneficial interests in the Rule 144A Global Note will be limited to persons that have accounts with DTC or persons that may hold interests through such participants. Ownership of beneficial interests in the Regulation S Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) *Third party rights*

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

2 Registration

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of each Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3 Transfer of Notes

(a) *Transfer*

Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the relevant Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the relevant Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) *Formalities Free of Charge*

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(c) *Closed Periods*

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) *Business Day*

In this Condition 3 (*Transfer of Notes*), "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Specified Office of the relevant Registrar or, as the case may be, the Fiscal Agent is located.

(e) *Regulations Concerning Transfer and Registration*

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar.

(f) *Authorised Holdings*

No Note may be transferred unless each of the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred is an Authorised Holding.

4 Status

The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer.

5 Negative Pledge

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public Indebtedness or any Guarantee of any Public Indebtedness of any other person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or providing such other security or other arrangement for the Notes as may be approved by an Extraordinary Resolution (as defined in Condition 14(c) (*Modifications*)).

6 Definitions

For the purposes of these Conditions:

"**Guarantee**" means in relation to any indebtedness, any guarantee or indemnity given by the Issuer in respect of such indebtedness or any arrangement having the same or substantially the same effect;

"**Public Indebtedness**" means any indebtedness which:

(a) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument;

(b) which is for the time being, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any automated trading system or over-the-counter market);

(c) has a maturity date falling more than one year after its issue date; and

(d) for the purposes only of Conditions 12(c) and 12(e), is either (i) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Issuer (provided that, if at any time the lawful currency of the Issuer is the euro, the any indebtedness otherwise falling within the other sub-paragraphs of this definition which is denominated or payable, or at the option of the holder thereof payable, in euro, shall be included in "Public Indebtedness") or (ii) denominated or payable, or at the option of the holder thereof payable, in the lawful currency of the Issuer and originally issued in a form which enables secondary market trades to be settled through one or more international clearing systems.

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything having an equivalent effect to any of the foregoing under the laws of any jurisdiction.

7 Interest

(a) Interest Accrual

Each Note bears interest from 28 September 2011 (the "**Issue Date**") at the rate of 7.25 per cent. per annum (the "**Rate of Interest**") payable semi-annually in arrear on 28 March and 28 September in each year (each, an "**Interest Payment Date**") commencing on 28 March 2012, subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**".

(b) Cessation of Interest

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (Notices).

(c) Calculation of Interest for an Interest Period

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) Calculation of Interest for any other period

Where interest is to be calculated in respect of a period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and Condition 7(d) (*Calculation of Interest for any other period*) by the Fiscal Agent shall, in the absence of manifest and proven error, be binding on all parties.

8 Payments

(a) Principal

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the relevant Registrar or of the Paying and Transfer Agents.

(b) Interest

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) Record Date

"**Record Date**" means the fifteenth day before the due date for the relevant payment.

(d) Payments

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest*) will be made by United States dollar cheque drawn on a branch of a bank in New York mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the relevant

Registrar or any Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in the City of New York.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (Principal), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (Principal) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest on the due date for payment.

(e) *Agents*

The names of the initial Agents and each Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of any Agent or Registrar and to appoint successor or additional Agents or Registrar, provided that it will at all times maintain:

(i) a Fiscal Agent;

(ii) a Paying and Transfer Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(iii) a Luxembourg Registrar and a U.S. Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with the provisions of the Fiscal Agency Agreement and Condition 15 (Notices) as soon as practicable.

(f) *Payments subject to Fiscal Laws*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) *Delay in Payment*

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day, (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail, or (iii) if the holder is late in surrendering (where so required) the relevant Definitive Note Certificate.

(h) *Business Days*

In this Condition 8 (*Payments*), "**business day**" means any day (other than a Saturday or Sunday) on which the commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits in New York and London) and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the relevant Registrar or relevant Agent, to whom the relevant Definitive Note Certificate is surrendered.

9 Redemption and Purchase

(a) Scheduled redemption

Unless previously purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 28 September 2021, subject as provided in Condition 8 (*Payments*).

(b) No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 9(a) (*Scheduled redemption*).

(c) Purchase

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States or, in the case of any Notes resold pursuant to Rule 144A, is only made to QIBs and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(d) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (Meetings of Noteholders).

(d) Cancellation of Notes

All Notes which are submitted for cancellation pursuant to Condition 9(c) (Purchase) will be cancelled and may not be reissued or resold.

10 Taxation

(a) 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:

(i) Other Connection

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Republic of Serbia other than the mere holding of the Note;

(ii) Presentation more than 30 days after the Relevant Date

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) Payment to Individuals

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) Payment by another Agent

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Agent in a Member State of the European Union; or

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to *principal* and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

11 Prescription

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12 Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) Non payment

The Issuer fails to pay any amount in respect of the Notes when the same becomes due and payable and such failure continues for a period of 15 days; or

(b) Breach of other obligations

The Issuer defaults in the performance or observance of any of its other obligations under the Notes and such default is incapable of remedy or, if capable of remedy, remains unremedied for 30 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-Default

(i) The maturity of any Public 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 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 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 Indebtedness in respect of which one or more of the events mentioned in this sub-paragraph (c) have occurred equals or exceeds U.S.$50,000,000 or its equivalent; or

(d) Unenforceability

For any reason whatsoever, any of the Issuer's obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer or for any other reason any such obligation ceases to be in full force and effect; or

(e) 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 Indebtedness; or

(f) Validity

The Republic of Serbia or any of its political sub-divisions (on its behalf) repudiates or contests the validity of the Notes; or

(g) *IMF*

The Republic of Serbia ceases to be a member, or becomes ineligible to use the resources, of the International Monetary Fund,

then the holders of not less than 25% in the aggregate principal amount of the Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes due and payable immediately. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. Upon any declaration of acceleration, the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives written notice of the declaration. No delay or omission of any Noteholder shall impair any such right or remedy or constitute a waiver of any such Event of Default.

If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the relevant declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

13 Replacement of Notes

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the relevant Registrar or any Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14 Meetings of Noteholders and Modification

(a) *Meetings of Noteholders*

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Fiscal Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Fiscal Agent at any time upon the request in writing by Noteholders holding not less than 10% in principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing at least 50% of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders holding at least 25% of the aggregate principal amount of the Notes for the time being outstanding so held or represented; provided, however, that any proposals relating to any Reserved Matter (as defined below) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than 75% of the principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) *Reserved Matters*

In these Conditions, "**Reserved Matter**" means any proposal whereby:

(i) the principal amount of, or interest on, or other amounts in respect of the Notes is to be reduced or cancelled or the Rate of Interest on the Notes is to be reduced; or

(ii) the status of the Notes under Condition 4 (*Status*) is to be amended; or

(iii) the Events of Default set out in Condition 12 (*Events of Default*) are to be amended; or

(iv) the currency of payment of the Notes or the due date or date for any payment in respect of the Notes is to be changed; or

(v) the provisions contained in Schedule 3 (*Provisions for Meetings of Noteholders*) to the Fiscal Agency Agreement concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or any of the definitions "Extraordinary Resolution", "Written Resolution" or "outstanding" is to be modified; or

(vi) this definition of Reserved Matter is to be amended; or

(vii) the Deed of Covenant is to be modified or cancelled.

(c) Modifications

Any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution (as defined below). In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least:

(i) in the case of a Reserved Matter, three-quarters of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, two-thirds of the aggregate principal amount of the outstanding Notes which are represented at that meeting.

Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not and whether they voted in favour or not.

(d) Written resolutions

A resolution in writing ("**Written Resolution**") will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Fiscal Agency Agreement or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three quarters of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter, or two-thirds of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter. A Written Resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders, and the date of such resolution shall be the date of the latest such document. A Written Resolution shall be binding on all Noteholders, whether or not signed by them.

(e) Modification without Noteholders' consent

The Fiscal Agent may agree, without the consent of the Noteholders, to any modification of the Notes or the Fiscal Agency Agreement which is in the opinion of the Issuer of a formal, minor or technical nature or is made to correct a manifest error. Any such modification shall be binding on the Noteholders and, if the Fiscal Agent so requires, shall be notified to the Noteholders as soon as practicable thereafter.

(f) Noteholders' Representative Committee

(i) Appointment

The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50% in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent at its Specified Office) signed by or on behalf of the holders of at least 50% in aggregate principal amount of the Notes then outstanding, appoint any person or persons as a committee (if appointed, a "**Noteholders' Representative Committee**") to represent the interests of the Noteholders if any of the following events shall have occurred:

(A) an Event of Default;

(B) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 12 (*Events of Default*) become an Event of Default;

(C) any official public announcement by the Issuer to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise);

provided, however, that no such appointment shall be effective if the holders of more than 25% of the aggregate principal amount of the outstanding Notes have either (x) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent at its Specified Office) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the Noteholders' Representative Committee may, acting in good faith, determine to be appropriate in the circumstances, or (y) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement. Such Noteholders' Representative Committee shall if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable after the notice is delivered to the Issuer.

(ii) Powers

Such Noteholders' Representative Committee in its discretion may, among other things, (A) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (B) adopt such rules as it considers appropriate regarding its proceedings and (C) enter into discussions with the Issuer and/or other creditors of the Issuer. The Issuer shall pay any fees and expenses which are incurred by any such Noteholders' Representative Committee (including, without limitation, the fees and expenses of the Noteholders' Representative Committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

15 Notices

Notices to Noteholders will be sent to them by mail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing.

So long as any of the Notes are represented by the Regulation S Global Note, notices required to be published in accordance with Condition 15 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders. So long as any of the Notes are represented by the Rule 144A Global Note, notices required to be published in accordance with Condition 15 (Notices) may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders.

16 Further Issues

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**").

Noteholders should note that additional securities that are treated as a single series for non tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

17 Currency Indemnity

An amount received or recovered in a currency other than U.S. dollars (the "**Contractual Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the liquidation of the Issuer or otherwise), by any Noteholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder pursuant to these Conditions, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the relevant Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

18 Governing Law and Jurisdiction

(a) Governing law

The Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The Issuer agrees for the benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with the Notes ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

(c) Appropriate Forum

For the purposes of Condition 18(b) (*Jurisdiction*), the Issuer has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(d) Service of Process

The Issuer agrees that the process by which any Proceedings are commenced in England pursuant to Condition 18(b) (*Jurisdiction*) may be served on it by being delivered to the Ambassador of the Republic of Serbia to the Court of St. James's at 28 Belgrave Square, London, SW1X 8QB. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further person in England to accept service of process on its behalf.

(e) Enforcement of Judgments; Waiver of Immunity

The Issuer agrees that any final judgment in any Proceedings commenced in a court to the jurisdiction of which the Issuer is or may be subject may be enforced in that or any other such court by appropriate proceedings and if and to the extent that the Issuer may in respect of any Proceedings be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably consents to the enforcement of any judgment or award and agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of the jurisdiction, subject to Condition 18(f) (*Exclusions — Waiver of Immunity*).

(f) Exclusions — Waiver of Immunity

Notwithstanding any of the provisions of Condition 18(e) (*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 or (iii) military property or military assets or property or assets of the Republic of Serbia relating to any of the assets referred to in the foregoing sub-paragraphs (i) and (ii).

FORM OF THE NOTES AND TRANSFER RESTRICTIONS

Form of the Notes

All Notes will be in definitive fully registered form, without interest coupons attached. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Regulation S Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Issue Date with Deutsche Bank AG, London Branch, as common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Rule 144A Global Note, in definitive fully registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Issue Date with Cede & Co, as custodian (the "**Custodian**") for, DTC. The Rule 144A Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth under paragraph 3 below.

The Regulation S Global Note will have an ISIN number and a Common Code and the Rule 144A Global Note will have a separate CUSIP number, ISIN number and Common Code.

For the purposes of the Rule 144A Global Note and the Regulation S Global Note, any reference in the Conditions to "**Note Certificate**" or "**Note Certificates**" shall, except where the context otherwise requires, be construed so as to include the relevant Rule 144A Global Note or, as the case may be, the relevant Regulation S Global Note and interests therein.

Notices

So long as the Notes are represented by a Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders required to be published in the *Financial Times* may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders.

Transfer Restrictions

A beneficial interest in a Rule 144A Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the relevant Regulation S Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the relevant Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Rule 144A Global Note or Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a QIB within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and

(iii) the Rule 144A Global Note and any Rule 144A Note Certificates (as defined below) issued in exchange for an interest in the Rule 144A Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

Each purchaser of Notes outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and is located outside the United States (within the meaning of Regulation S);

it understands that such Notes have not been and will not be registered under the Securities Act and will not offer, sell pledge or otherwise transfer such Notes except in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and

the Issuer, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Exchange of Interests in Global Notes for Note Certificates

The Rule 144A Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form ("**Rule 144A Note Certificates**") if DTC (a) notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Rule 144A Global Note or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Rule 144A Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Regulation S Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note Certificates in definitive form ("**Regulation S Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Regulation S Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Rule 144A Global Note is to be exchanged for Rule 144A Note Certificates or the Regulation S Global Note is to be exchanged for Regulation S Note Certificates (together "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*" above. Rule 144A Note Certificates issued as described above will not be exchangeable for beneficial interests in the Regulation S Global Note and Regulation S Note Certificates issued as described above will not be exchangeable for beneficial interests in the Rule 144A Global Note.

In addition to the requirements described under "*Transfer Restrictions*" above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (*Transfer of Notes*) of the Notes.

Upon the transfer, exchange or replacement of a Rule 144A Note Certificate bearing the legend referred to under "*Transfer Restrictions*" above, or upon specific request for removal of the legend on a Rule 144A Note Certificate, the Issuer will deliver only Rule 144A Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

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

Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement, the Deed of Covenant and the Notes. Payments of principal, interest and additional amounts, if any, in respect of Global Notes will be made to DTC, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from an Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from an Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the 15th day before the due date for such payment (the "**Record Date**"). Principal and interest with respect to the Rule 144A Note Certificates and the Regulation S Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Rule 144A Global Note and the relevant Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the Common Depositary and Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

Interests in a Regulation S Global Note and the Rule 144A Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

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.

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 the Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the relevant Regulation S Global Note (subject to such certification procedures as are provided in the relevant Fiscal Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 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 accountholder. On the settlement date, the Custodian will instruct the Registrar to (a) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note and (b) increase the amount of Notes registered in the name of the nominee of the Common Depositary and evidenced by the relevant Regulation S 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. See above concerning the Record Date for payment of interest.

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 the Rule 144A Global Note (subject to such certification procedures as are provided in the relevant 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 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 account holder, as the case may be. On the settlement date, the Common Depositary will (a) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the Common Depositary and evidenced by the relevant Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of Euroclear, Clearstream Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any other Agent or any of the Joint Lead Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

Prescription

Claims against the Issuer in respect of principal, premium and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

Meetings

The holder of a Global Note will be treated at any meeting of Noteholders as having one vote in respect of each U.S.$1,000 in principal amount of Notes, for which the relevant Global Note may be exchanged.

Purchase and Cancellation

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

Settlement of Pre-Issue Trades

It is expected that delivery of Notes will be made against payment therefor on the Issue 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 three business days (T+3), 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 three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, 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 Issue Date should consult their own advisers.

TAXATION

Serbian Taxation

The following is a general summary of the Serbian tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.

Tax Implications for Non-Residents of Serbia

Under existing Serbian laws and regulations, payments of principal and interest on the Notes to any individual or legal entity which is not resident or incorporated in Serbia will not be subject to taxation in Serbia and no withholding of any Serbian tax will be required on any such payments. In addition, Noteholders will not be subject to taxation in respect of any capital gains (determined as the difference between the sale price and the acquisition price and, in some cases, the transaction costs) realised on the transfer outside the territory of Serbia of any Notes between non-residents.

Tax Implications for Residents of Serbia

Payments of interest under the Notes to any individual who is resident in Serbia will not be subject to taxation and any such Noteholder will also not be subject to taxation in respect of any capital gains realised on the transfer of any Notes. Similarly, Noteholders which are legal entities resident in Serbia will not be subject to taxation in respect of any capital gains realised on the transfer of any Notes.

Additional Amounts Payable under the Notes

In the event that a payment of interest in respect of the Notes is subject to withholding or deduction for any taxation pursuant to Condition 10 (*Taxation*) of the Notes, the Issuer has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to certain exceptions set out in the relevant Condition. One such exception is that if a Noteholder is subject to Serbian taxation by reason of his having some connection with Serbia other than the mere holding of the Note, that Noteholder would not be entitled to payment of any additional amounts under the relevant Condition.

U.S. Federal Income Taxation

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (1) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (2) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (3) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Notes

Payments of Interest

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale and Retirement of the Notes

A U.S. Holder will generally 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 and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

Backup Withholding and Information Reporting

Payments of principal, and interest on, and the proceeds of sale or other disposition of Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Foreign Financial Asset Reporting

Recently enacted legislation imposes new reporting requirements on the holding of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds $50,000. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are in an account at a domestic financial institution. U.S. Holders should consult their tax advisors regarding the application of this legislation.

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes.

Prospective purchasers of the Notes should consult their own tax advisers concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed above, as well as the application of state, local, foreign or other tax laws.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate following the conclusion of certain other agreements relating to information exchange with certain other countries.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding measures) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment is made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent (as defined in the Conditions) nor any other person is obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Under the Conditions, the Issuer is required to maintain an Agent in a Member State that would not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, and J.P. Morgan Securities Ltd. (the "**Joint Lead Managers**") have, pursuant to a Subscription Agreement dated 26 September 2011, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 98.263 per cent. of their principal amount less a combined management, underwriting and selling commission of 0.0375 per cent. of such principal amount plus accrued interest, if any. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, to offer the 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 by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may through their respective U.S. affiliates resell a portion 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 Joint Lead Manager has represented, warranted and agreed that 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.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and each Joint Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes prior to the date of this Prospectus. The issue of the Notes has been duly authorised pursuant to the Decision of the Government of the Republic of Serbia dated 26 September 2011.

Listing and Admission to Trading

It is expected that listing of the Notes on the Official List and admission of the Notes to trading on the Market will be granted on or about 28 September 2011, subject only to the issue of the Global Notes. The Notes are expected to be issued on or about 28 September 2011. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third working day after the day of the transaction. The expenses related to the admission to trading of the Notes are expected to be approximately £225.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2010.

Clearing Systems

The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code and ISIN for the Regulation S Notes and the Common Code, ISIN and CUSIP number for the Rule 144A Notes are as follows:

Regulation S Notes

Common Code:	068023190
ISIN:	XS0680231908

Rule 144A Notes

Common Code:	068086370
ISIN:	US817477AB81
CUSIP:	817477AB8

Indication of Yield

The indication of yield in relation to the Notes is 7.5 per cent. per annum. This yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Litigation

The Issuer has not been involved in any litigation, administrative 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 Prospectus that may have, or have had in the recent past, significant effects on the Issuer's financial position.

Joint Lead Managers doing business with the Issuer

Each Joint Lead Manager and its 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.

Documents available for inspection

Copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent, as set forth on the back cover of this Prospectus, for 12 months from the date of this Prospectus:

- the Budgets of Serbia for the fiscal years 2009, 2010 and 2011;
- the Fiscal Agency Agreement;
- the Deed of Covenant; and
- this Prospectus and any supplements hereto.

THE ISSUER

Republic of Serbia
(acting through the Ministry of Finance)
20 Kneza Milosa Street
11 000 Belgrade
Serbia

JOINT LEAD MANAGERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 4AJ
United Kingdom

FISCAL AGENT AND PAYING AND TRANSFER AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

REGISTRAR AND PAYING AND TRANSFER AGENT

Deutsche Bank Luxembourg S.A
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

U.S. REGISTRAR, U.S. TRANSFER AGENT AND U.S. PAYING AGENT

Deutsche Bank Trust Company Americas
60 Wall Street
New York, New York 10005
United States

LEGAL ADVISERS

To the Issuer as to English and United States law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

To the Issuer as to Serbian law

Ministry of Justice of the Republic of Serbia
Nemanjina 22-26
11000 Belgrade
Serbia

To the Joint Lead Managers as to English and United States law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Joint Lead Managers as to Serbian law

Harrisons LLP
Bul. Mihajla Pupina 6
PC Usce
11070 Belgrade
Serbia

imprima — C105464