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This document is being distributed only to, and is directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

This Offering Memorandum has been sent to you in an 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, Arranger or Dealers (each as defined in the base prospectus dated 20 November 2020 as supplemented by the offering memorandum dated 24 February 2021), any person who controls any such persons, or any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version.

REPUBLIC OF SERBIA

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

Global Medium Term Note Programme

This offering memorandum (the "**Offering Memorandum**") has been prepared in order to reflect certain recent developments to the information contained in the Base Prospectus (*as defined below*).

This Offering Memorandum is supplemental to, forms part of and should be read and construed in conjunction with, the base prospectus dated 20 November 2020 as supplemented by the offering memorandum dated 24 February 2021 (the "**First Offering Memorandum**") (the base prospectus as so supplemented, the "**Base Prospectus**"), and is prepared in connection with the Global Medium Term Note Programme (the "**Programme**") established by the Republic of Serbia (represented by the Government of the Republic of Serbia, acting by and through the Ministry of Finance) (the "**Issuer**"). Terms defined in the Base Prospectus have the same meaning when used in this Offering Memorandum. Any reference in this Offering Memorandum to the Base Prospectus shall be to such Base Prospectus as supplemented by this Offering Memorandum, unless the context otherwise requires.

This Offering Memorandum does not comprise or constitute a supplementary prospectus for the purposes of Regulation (EU) 2017/1129 as it forms part of the United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**") (as amended, the "**UK Prospectus Regulation**"). Accordingly, this document has not been, and will not be, submitted for review and approval to any competent authority within the meaning of the UK Prospectus Regulation, and in particular the Financial Conduct Authority in its capacity as the competent authority for the purposes of the UK Prospectus Regulation.

This Offering Memorandum constitutes neither an offer to sell nor a solicitation of an offer to buy any Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Issuer, and having taken all reasonable care to ensure that such is the case, the information contained in this Offering Memorandum is in accordance with the facts and this Offering Memorandum makes no omission likely to affect the import and completeness of such information. The opinions, assumptions, intentions, projections and forecasts expressed in this Offering Memorandum with regard to the Issuer are held honestly by the Issuer, have been reached after considering all relevant circumstances and are based on reasonable assumptions.

None of the Dealers or the Arranger (each as defined in the Base Prospectus) makes any representation, express or implied, regarding, or accepts any responsibility for, the contents of this Offering Memorandum.

The date of this Offering Memorandum is 14 September 2021

The purpose of this Offering Memorandum is to provide updates based on recent developments and effect certain other amendments to the information contained in the Base Prospectus and to provide updates required for the issuance of green and/or sustainable bonds by the Issuer, all as set out in more detail below. All references in the Base Prospectus to the European Union law should, save where the context otherwise requires, be construed as references to such European Union law as it forms part of the United Kingdom domestic law by virtue of the EUWA.

Where there is any inconsistency between the information contained in the Base Prospectus and the information contained herein, the information contained herein shall prevail.

Save as disclosed in this Offering Memorandum, there has been no other significant new factor, material mistake or material inaccuracy relating to information included in the Base Prospectus, which may affect the assessment of the Notes issued under the Programme since the publication of the First Offering Memorandum.

AMENDMENTS OR ADDITIONS TO THE BASE PROSPECTUS

With effect from the date of this Offering Memorandum, the information appearing in the Base Prospectus shall be amended and/or supplemented in the manner described below.

1. Important Notices

(a) The following shall be added after *"The Issuer is not required to effect equal or rateable payment(s) with respect to the Notes or any other unsecured obligations of the Issuer*" in the section titled "*Important Notices*" on page (iii) of the Base Prospectus:

"Neither the Issuer, the Arranger nor any of the Dealers makes any representation as to the suitability of any Green Bonds (as defined herein) to fulfil any green criteria required by any prospective investors. If any Green Bonds will be admitted to listing (including the listing or admission to trading thereof on any dedicated "green" or other equivalently-labelled segment of any stock exchange or securities market), no representation or assurance is given by the Issuer, the Arranger or any of the Dealers that such listing or admission satisfies any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. The Arranger and the Dealers have not undertaken, nor are they responsible for, any assessment of the eligibility criteria for Eligible Green Expenditures (as defined herein), any verification of whether such projects meet such criteria or the monitoring of the use of proceeds of any Green Bonds (or amounts equal thereto). Investors should refer to the Issuer's Green Bond Framework (as defined herein) which the Issuer may publish from time to time, any second party opinion delivered in respect thereof, and any public reporting by or on behalf of the Issuer in respect of the application of the proceeds of any issue of Green Bonds for further information. Any such green framework and/or second party opinion and/or public reporting – which will be made available in the "Issued Eurobonds Overview" section of the Issuer's website at http://www.javnidug.gov.rs/eng/default.asp?P=101 – will not be incorporated by reference in this Base Prospectus and neither the Arranger nor any of the Dealers makes any representation as to the suitability or contents thereof."

2. Risk Factors Related to the Notes Generally

(a) The following shall be added after *"Structure of a Particular Issue of Notes*" in the section titled "*Risk factors – Risks related to the Notes Generally*" on page 34 of the Base Prospectus:

"***In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor***.

The Final Terms relating to any specific Tranche may provide that it will be the Issuer's intention to apply the proceeds (or amount equivalent to the proceeds) from an offer of those Notes specifically for projects and activities that promote climate-friendly and/or other environmental purposes ("**Eligible Green Expenditures**") (such Notes, "**Green Bonds**").

Prospective investors in any Green Bonds should have regard to the information in "Use of Proceeds" regarding the use of the net proceeds of those Green Bonds and should determine for themselves the relevance of such information for the purpose of any investment in such Green Bonds together with any other investigation such investor deems necessary.

In particular no assurance is given by the Issuer, the Arranger or the Dealers that the use of such proceeds for any Eligible Green Expenditures will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental or sustainability impact of any projects or uses, the subject of or related to, any Eligible Green Expenditures.

Furthermore, it should be noted that there is currently no clearly defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "green" or "sustainable" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time.

Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, or the eligibility criteria for, any Eligible Green Expenditures will meet any or all future legislative or regulatory requirements, or any present or future investor expectations or requirements with respect to investment criteria or guidelines with which any investor or its investments are required to comply under its own governing rules or investment portfolio mandates, or regarding such "green", "sustainable" or other equivalently-labelled performance objectives or that any adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Expenditures.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Green Bonds and in particular with any Eligible Green Expenditures to fulfil any environmental, sustainability and/or other criteria. For the avoidance of doubt, any such report, assessment, opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer, the Arranger, the Dealers or any other person to buy, sell or hold any such Green Bonds. Any such report, assessment, opinion or certification is only current as of the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Green Bonds. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

In the event that any such Green Bonds are listed or admitted to trading on any dedicated "green", "environmental", "sustainable" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer, the Arranger, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green Expenditures. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Arranger, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Green Bonds or, if obtained, that any such listing or admission to trading will be maintained during the life of the Green Bonds.

While it is the intention of the Issuer to apply the proceeds (or amount equivalent to the proceeds) of any Notes so specified for Eligible Green Expenditures in, or substantially in, the manner described in 'Use of Proceeds', there can be no assurance that the relevant project(s) or use(s) will be the subject of, or related to, any Eligible Green Expenditures which will be capable of being implemented in or substantially in such manner and/or in accordance with any timing schedule and that accordingly such proceeds will be totally or partially disbursed for such Eligible Green Expenditures. Nor can there be any assurance that such Eligible Green Expenditures will be completed within any specified period or at all or with the results or outcome (whether or not related to the environment) as originally expected or anticipated by the Issuer. Neither the failure by the Issuer to allocate the proceeds of any Green Bonds or to report on the use of proceeds or Eligible Green Expenditures as anticipated or a failure of a third party to issue (or to withdraw) an opinion or certification in connection with an issue of Green Bonds or the failure of the Green Bonds to meet investors' expectations or requirements regarding any "green", "sustainable" or similar labels will constitute an Event of Default or breach of contract with respect to any of the Green Bonds. None of such failure will create an obligation or incentive on the Issuer to redeem the Green Bonds, nor an option for the Noteholders to redeem the Green Bonds.

Any such event or failure to apply the proceeds (or amount equivalent to the proceeds) of any issue of Green Bonds for any Eligible Green Expenditures as aforesaid and/or withdrawal of any such report, assessment, opinion or certification or any such report, assessment, opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such report, assessment, opinion or certification is reporting, assessing, opining or certifying on and/or any such Green Bonds no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of such Green Bonds and also potentially the value of any other Green Bonds which are intended to finance Eligible Green Expenditures and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose."

(b) The following shall be added after *"Holders of Notes held through DTC, Euroclear and Clearstream, Luxembourg must rely on procedures of those clearing systems to effect transfers of Notes, receive payments in respect of Notes and vote at meetings of Noteholders*" in the section titled "*Risk factors – Risks related to the Notes Generally*" on page 36 of the Base Prospectus:

"***Notes subject to optional redemption by the Issuer.***

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

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

3. Form of Final Terms

(a) In the section titled "Form of Final Terms" on page 77 of the Base Prospectus, the following shall be added as a new line item after item 15 (with any cross-references and subsequent line items renumbered accordingly as necessary):

"**15A**	Issuer Residual Call:	[Applicable – If, at any time, the outstanding aggregate principal amount of the Notes is 25 per cent. or less of the aggregate principal amount of the Series issued, the Issuer may, having given not less than the minimum period of notice as specified in item 15A(c) below (or, if none is so specified, 10 days' notice) nor more

than the maximum period of notice specified in in item 15A(c) below (or, if none is so specified, 60 days' notice) to the Noteholders in accordance with Condition 20 (Notices) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all, but not some only, of the Notes then outstanding on any Residual Call Redemption Date specified in item 15A(a) below at the Residual Call Early Redemption Amount specified in item 15A(b) below together, if appropriate, with interest accrued to (but excluding) the relevant Residual Call Redemption Date/Not Applicable]

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

[(a)	Residual Call Redemption Dates:	[Any day from and including the Issue Date to but excluding the Maturity Date/[●]]
(b)	Residual Call Early Redemption Amount:	[●] per Calculation Amount
(c)	[Notice periods:	[Minimum period: [●] days Maximum period: [●] days]]]"

(b) In the section titled "Form of Final Terms" on page 80 of the Base Prospectus, the line item "**REASONS FOR THE OFFER AND ESTIMATED NET PROCEEDS**" shall be deleted in its entirety and replaced with the following:

"4 REASONS FOR THE OFFER

Reasons for the offer:	[●] / [Green Bonds: an amount equal to the net proceeds of the issue of the Notes will be used to finance and/or re-finance Eligible Green Expenditures.] [See "Use of Proceeds" in Base Prospectus [and the Issuer's Green Bond Framework]/*Give details*]

[Fixed Rate Notes only - YIELD

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

4. General Information

(a) In the section titled "General Information" on pages 248 and 249 of the Base Prospectus, the paragraph "**No significant change**" shall be deleted in its entirety and replaced with the following:

"**No significant change**

Save as disclosed in the "Overview", "Risk Factors", "Description of Serbia", "Economy of Serbia", "External Sector", "Monetary System", "Public Finance" and "Public Debt" sections of the Base Prospectus, there has been no significant change in the tax and budgetary systems, gross Public Debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources, and income and expenditure figures of the Issuer since 31 December 2020."

RECENT DEVELOPMENTS

The following developments have taken place since 24 February 2021, the date of the First Offering Memorandum.

Where applicable, the page(s) on which the primary original disclosure in respect of the relevant item appeared in the Base Prospectus or the First Offering Memorandum, as applicable, has been indicated in brackets.

1. General *(cover page and page 27 of the Base Prospectus)*

On 12 March 2021, Moody's upgraded Serbia's rating from "Ba3" to "Ba2" and changed the outlook from positive to stable in light of Serbia's relative economic resilience to the adverse effects of COVID-19.

2. Overview

COVID-19 *(pages 2 - 5 of the Base Prospectus and pages 14 - 16 of the First Offering Memorandum)*

Despite the fact that the COVID-19 pandemic has affected Serbia and its major trade partners, Serbia's trade flows have showed a positive trend, recording faster export and import recovery in the first half of 2021, compared to the EU, as Serbia's main trade partner (in the first six months of 2021, EU exports grew by 13.8 per cent. and imports by 13.9 per cent. compared to the same period in 2020, while in the same period, Serbia recorded growth of exports and imports of 28.5 per cent. and 21 per cent. respectively). This is largely due to increased demand for agricultural products and basic foodstuffs, such as cereals and fruits and vegetables, which are among Serbia's top 10 export products. In addition, the vaccination programmes in place internationally have jumpstarted the recovery of the economy, particularly in the industrial production and the services sector. The share of the population vaccinated in Serbia is constantly rising, which has contributed to recuperation of economic activity in the country, as well as its foreign trade flows.

To aid the survival of unemployed persons who were particularly impacted by COVID-19, the Government in June 2021 provided an additional onetime payment in the amount of EUR60 to per unemployed person who were on the records of the National Employment Service as of 15 April 2021. In total, approximately 575 thousand persons received support in the amount of EUR 34.5 million through these Government measures.

In August 2021, as part of its multilateral response to the pandemic, the IMF implemented a general allocation of Special Drawing Rights ("**SDRs**") equivalent to approximately US$650 billion (representing 456 billion SDRs). Of this, Serbia was allocated 672.6 million SDRs, which is equivalent to USD 890.22 million or EUR 759.61 million. SDRs are international reserve assets, defined and maintained by IMF to supplement its member countries' official reserves. SDRs are allocated to each country according to their paid-in quota shares at the IMF. IMF members enjoy a large degree of freedom in how to manage the SDRs allocated to them, including to what extent central banks are involved in their management and whether the budget can directly use them for budget support. Institutional arrangements among members differ in terms of holding SDRs. For many members, SDRs are administered by the central bank. Some of these central banks can on-lend resources related to the SDRs to the government, while others cannot. From the IMF's perspective, SDRs are allocated and held by the member and instructions for its use are provided by the fiscal agency of the member. This guidance normally applies to all members irrespective of the institutional arrangements but in a number of areas, institutional arrangements are taken into account in the guidance on how to treat SDRs and their use in relevant areas of policy advice. The SDR allocation is expected to have important macroeconomic benefits for the global economy and for member countries. It is a unique instrument that supports all IMF members, boosts reserves, and helps liquidity-constrained countries to address the adverse effects of the COVID-19 crisis by limiting the need for adjustment through contractionary and/or distortionary policies. As at the date of this Offering Memorandum, Serbia is in the process of defining the use of the funds allocated to it pursuant to the SDRs.

The National Vaccine Programme *(page 16 of the First Offering Memorandum)*

From 17 August 2021, booster doses of the COVID-19 vaccine have been made available to the population of Serbia, with all citizens being given the option to choose between one of the four vaccines approved by the Government: Sinopharm, Sputnik V, Pfizer-BioNTech and AstraZeneca. The Government has indicated that it is safe for citizens to receive a third dose from a manufacturer that is different from the one that they were vaccinated with initially, so elections can be made at the vaccination site. All vaccinated citizens in Serbia are eligible for the third booster dose 180 days after receiving the second dose, and eligibility for the vaccine will be communicated through SMS or through the Serbian e-Government portal.

The third, booster dose of the vaccine is being recommended, in particular, to the following population groups:

(i) persons with impaired immunity including those with immunodeficiency and conditions of immunosuppression, recipients of bone marrow and solid organ transplants, persons on hemodialysis and persons living with primary or secondary immunosuppressed patients;

(ii) persons older than 70 years of age;

(iii) persons older than 60 years of age who permanently reside in nursing homes and other institutions of social welfare;

(iv) persons employed at health care institutions and social welfare institutions; and

(v) citizens of Serbia who travel frequently abroad, whether for work or privately.

To support its nationwide inoculation efforts, the Government signed an agreement with China and the UAE to locally produce the Sinopharm vaccine in Serbia.

Economic Performance *(pages 5 to 7 of the Base Prospectus and page 16 of the First Offering Memorandum)*

Recovery of economic activity started in the second half of 2020 continued in the first half of 2021. See "*Recent Developments—Economy of Serbia*" for certain statistical and economic information in respect of 2021, based on the quarterly or monthly provisional data published by Serbia. Serbia's real GDP registered an increase of 1.8 per cent. year-on-year in the first quarter of 2021 exceeding its pre-pandemic level. Positive economic developments continued in the second quarter of 2021, where GDP growth accelerated to 13.7 per cent. year-on-year, resulting in increased economic activity of 7.6 per cent. in the first half of 2021 compared to the same period last year. Such quarterly dynamics are expected to result in a 6.5 per cent. growth in real GDP in 2021, while nominal GDP is expected to amount to RSD 6,037 billion. The above projected GDP dynamic is provisional or otherwise based on estimates that the Republic and/or its agencies believe to be based on reasonable assumptions. Whilst this information contains an element of estimated economic performance for 2021, these figures may differ materially from the final GDP data or actual numbers once published as an element of this data is estimated and may change or continually be revised. Accordingly, prospective investors should be aware such projected levels and other estimated figures cited in this Offering Memorandum are subject to some degree of uncertainty and may be further adjusted, amended or revised, whether as part of regular review or otherwise, and may differ materially from previously published financial and economic information depending on the most recent information available to the Republic and/or its agencies.

3. Description of Serbia

Interstate agreement on investment promotion with the USA *(page 91 of the Base Prospectus and page 17 of the First Offering Memorandum)*

Following the establishment of an office by the U.S. International Development Finance Corporation ("**DFC**") in Belgrade, Serbia's Minister of Finance, Mr Sinisa Mali, signed a new Investment Incentive Agreement (the "**Interstate Agreement**") on 21 January 2021 with the U.S. Ambassador of Serbia, Mr.

Anthony F. Godfrey, thereby enabling the DFC to offer and deploy its full range of financial products (including guarantee schemes, debt financing, capital investments and political risk insurance) to businesses in Serbia in a more efficient manner. This Interstate Agreement also serves as a prerequisite to, and forms the basis for the realisation of a guarantee scheme of USD 1.0 billion proposed to be implemented by DFC in cooperation with other commercial banks in Serbia for the benefit of, and to support the growth and development of, SMEs in light of the COVID-19 pandemic and its related economic impact. The Government expects the first DFC guarantee scheme, worth around USD 400 million, to be finalised by the end of the end of 2021, and for investment and working capital loans guaranteed by DFC to be made available to SMEs and commercial banks in Serbia at the end of 2021. Despite the execution of the Interstate Agreement, there can be no assurance that DFC will implement such guarantee scheme within any given timescale or at all. The two sides are currently finalising the regulatory framework under which the DFC guarantee scheme will be implemented, with the assessment that the preconditions for the commencement of due diligence of commercial banks are met, pending the finalisation of such framework.

The Judiciary

Judicial reform (pages 96-98 of the Base Prospectus)

Amendments to the Constitution

The Government of Serbia has been making comprehensive efforts to reform and develop the judiciary in order to support the principles of independence, impartiality, expertise and efficiency of the judiciary, as well as the principle of legal certainty in order to improve the rule of law in Serbia. These efforts, aimed at reforming the judiciary, are part of the Government's efforts to modernise the legal framework in Serbia in order to comply with European and other international standards, including those that regulate the protection of human and minority rights. The National Assembly approved the National Judicial Reform Strategy ("**NJRS**") in 2013, after which a series of discussions and consultations took place, resulting in a set of proposed constitutional amendments to strengthen judicial independence that were sent to the Venice commission (the "**Venice Commission**") for review. Following the review process, the Committee on Constitutional and Legislative Issues, at its 111th sitting held on 14 June 2019, formally confirmed that the Government's proposal to amend the Constitution was duly submitted within the prescribed statutory timeframe and, accordingly, extended its approval for the constitutional amendments to be placed before the National Assembly.

On 4 December 2020, the Government submitted a proposal for amending the Constitution to the National Assembly. The Committee on Constitutional Affairs and Legislation of the National Assembly discussed the initiative to change the Constitution at its session on 16 April 2021. The session was also attended by representatives of the Government, including the Prime Minister, the Minister for European Integration, the Minister of Justice and the Minister for Human and Minority Rights and Social Dialogue.

The Committee on Constitutional Affairs and Legislation held a further session on 6 May 2021 where it was confirmed that the proposal to change the Constitution, and the corresponding explanation, was submitted by the authorised proposer in the prescribed form. However, before considering the proposal at the National Assembly session, the Committee on Constitutional Affairs and Legislation conducted an extensive consultation process on the changes to the Constitution and organised seven public hearings from April to June 2021 in order to obtain expert opinions on the proposal with the relevant stakeholders.

The first public hearing was held on 29 April 2021 and was attended by judges of the Constitutional Court, public prosecutors, members of the High Judicial Council, members of the State Council of Prosecutors, representatives of the Judicial Academy, and representatives of the professional associations of judges and public prosecutors: Judges' Association of Serbia, Association of Prosecutors of Serbia, Association of Judges and Public Prosecutors of Serbia, Forum of Judges of Serbia, Alumni Club of the Judicial Academy, Association of Judges' and Prosecutors' Assistants of Serbia.

This was followed by the second public hearing held on 19 May 2021, attended by professors from the Faculty of Law in Belgrade, the Faculty of Law in Novi Sad, the Faculty of Law in Nis and the Faculty of Law in Kragujevac, as well as representatives of the bar associations. The third public hearing held on 24 May 2021 was attended by representatives of civil society organisations, whereas the fourth public hearing held on 26 May 2021 in Niš was attended by judges and public prosecutors from the Court of Appeals in Niš and the fifth public hearing held on 27 May 2021 was attended by representatives from the Delegation of the European Union in Serbia, representatives from the Council of Europe and the Organisation for Security and Cooperation in Europe, as well as representatives from the embassies for the EU countries, the United States, Great Britain and Canada. This was followed by the sixth public hearing held on 31 May 2021 in Novi Sad, which was attended by judges and public prosecutors from the Court of Appeals in Novi Sad, and subsequently the seventh public hearing held on 2 June 2021 in Kragujevac, which was attended by judges and public prosecutors from the Court of Appeals in Kragujevac.

If the proposal for amending the Constitution is accepted in the National Assembly by a two-thirds majority vote of all deputies, the Committee on Constitutional Affairs and Legislation would proceed to prepare a draft Act setting out the proposed amendments to the Constitution (the "**Draft Act**"), together with explanations for the changes. The National Assembly adopted the proposal for amending the Constitution during its session on 7 June 2021.

On 23 June 2021, the Committee on Constitutional Affairs and Legislation of the National Assembly formed a working group (the "**Working Group**") for the preparation of the Draft Act and the text of the draft constitutional law for the implementation of the Constitution. Representatives of the National Assembly, the Ministry of Justice, professors of law faculties, scientific institutes and professional associations of judges and public prosecutors were included in the Working Group. The Working Group used the text of the constitutional amendments prepared by the Ministry of Justice as a starting point for preparing the Draft Act, which received a positive assessment by the European Commission for Democracy through its opinion of October 2018.

In parallel with the determination of the Draft Act, the Committee on Constitutional Affairs and Legislation prepared a draft proposal for the implementation of the Constitution (the "**Implementation Plan**") in June and July 2021, while the Ministry of Justice prepared laws relating to the organisation of courts, seats and the territorial jurisdiction of courts and the public prosecutor's office, judges, the public prosecutor's office, the High Judicial Council, the State Prosecution Council, and the Judicial Academy.

On 20 July 2021, an online consultative meeting was held between the members of the Working Group and the experts of the Venice Commission. The meeting was held to prepare the Draft Act and the Implementation Plan.

The work of the Working Group is scheduled to be completed in September, with public hearings on the Draft Act and the Implementation Plan to be held on 13 September 2021, 14 September 2021, 16 September 2021 and 17 September 2021. Additionally, once the public hearings are finished, it is expected that the delegation of the Venice Commission – led by the President of the Venice Commission, Gianni Buquicchio, and the Secretary of the Venice Commission, Simon Granata Menghini – will visit Serbia in September in order to hold a meeting on amending the Constitution and providing constitutional assistance to Serbia.

It is also expected that the Draft Act and the Implementation Plan are to be sent to the Venice Commission for an urgent opinion, which is to be presented at the Venice Commission Plenary Session that will be held from 14 – 16 October 2021.

In parallel with preparing the Draft Act and the Implementation Plan, the Committee on Constitutional Affairs and Legislation of the National Assembly will organise public hearings with relevant stakeholders in order to determine the final text. If the Draft Act differs from the text of the act amending the Constitution, for which a positive opinion of the Venice Commission has been obtained, the text of the Draft Act shall be resubmitted for evaluation by the Venice Commission. Thereafter, the Committee on Constitutional Affairs and Legislation of the National Assembly shall submit the Draft Act to the National Assembly for its consideration and decision. If the Draft Act is adopted in the National Assembly by a two-thirds majority vote of all deputies, it shall be submitted for confirmation in a referendum.

In a referendum, the Draft Act should be confirmed by a majority vote of all eligible voters who cast their votes, regardless of the total number of eligible voters. If the Draft Act is confirmed in a referendum, the process for the promulgation of the Constitution in the National Assembly shall begin. Following the promulgation of the Constitution in the National Assembly, the enactment of the Implementation Plan shall begin.

Mediation

Following the adoption, in 2018, of the Law on Amendments to the Law on Peaceful Settlement of Labour Disputes to provide for alternative dispute resolution by extending the scope of jurisdiction of the Republic Agency, in August 2021, 1,564 mediators were registered in the Register of Mediators and 21 organisations had obtained licences for conducting training for mediators.

Foreign Relations

European Union

EU accession process (pages 98-101 of the Base Prospectus)

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

Since 2015, the Republic of Serbia has been participating on a yearly basis with EU institutions and EU member states for coordination of economic policies under the framework of the European Semester "light" for the Western Balkans and Turkey. In this respect, every year the Government prepares and publishes a strategic Economic Reform Programme ("**ERP**") for the following three-year period, aimed at further harmonising economic policy with the EU. This document sets out in detail the fiscal and monetary policies for the next three years, and outlines the key structural reforms planned for improving and developing the Serbian economy. The Government is currently in the eighth cycle of this policy coordination and the ERP for the period 2022 to 2024 is expected to be adopted by the Government in January 2022.

On 6 February 2018, the EU adopted its EU-Western Balkans strategy, which sets out certain indicative steps that Serbia will need to complete in order to potentially be ready for membership by 2025. On 25 March 2020, the European Council reaffirmed its commitment to enlargement by endorsing the communication of the European Commission on "*Enhancing the accession process – A credible EU perspective for the Western Balkans*" of 5 February 2020, introducing a new methodology for the accession process which aims to reinvigorate the accession process (including the negotiating framework of Serbia) by making it more predictable, credible, dynamic and subject to stronger political steering. The new methodology envisages the grouping of 35 negotiation chapters into six clusters: 'Fundamentals'; 'Internal Market'; 'Competitiveness and Inclusive Growth'; 'EU Green Deal and Sustainable Connectivity'; 'Resources, Agriculture and Cohesion'; and 'External Relations'. Instead of opening each chapter in the negotiation process, the new methodology now requires all chapters in a cluster to be opened at once. Serbia accepted the new negotiation methodology in July 2020 and adjusted its coordination structure for the accession process to the EU in April 2021, in line with the Government's decision on the Establishment of the Coordination for Conducting Negotiations on Serbia's Accession to the EU.

The Twelfth Intergovernmental Conference on the Accession of the Republic of Serbia to the European Union was held on 22 June 2021 in Luxembourg. The meeting marked the official start of the implementation of the new methodology in the process of negotiations on the accession of the Republic of Serbia to the European Union. The Republic of Serbia opened the 'Fundamentals' cluster, and all of the chapters within this cluster have been opened in the negotiations accordingly. The 'Fundamentals' cluster consists of the following chapters: 23 – judiciary and fundamental rights, 24 – justice, freedom and security, 5 – public procurement, 18 – statistics, 32 – financial control, and the following areas: economic criteria, functioning of democratic institutions and public administration reform.

In the accession negotiations thus far, the Republic of Serbia has opened 18 chapters. As at the date of this Offering Memorandum, the Republic of Serbia has prepared and submitted to the European Union nine negotiating positions and has met the conditions for the opening of two further clusters: the 'Competitiveness and Inclusive Growth' cluster and the 'Green Deal and Sustainable Connectivity' cluster.

In relation to economic integration in the EU accession process, in accordance with the European Commission's assessment from the Annual Progress Report for 2020 for Serbia, prior to the COVID-19 crisis, the pace of GDP growth picked up as domestic demand strengthened, and external imbalances widened but their financing remained healthy due to high inflows of foreign direct investment. Price pressures remained subdued and inflation expectations contained. By reducing the budgetary deficit and maintaining a prudent fiscal stance, Serbia has improved its debt sustainability. Labour market performance has improved, with the lowest unemployment rates in the last decade. The structure of the economy has therefore improved further and economic integration with the EU remains on target.

Overall, the economic policy in the Republic of Serbia has provided an adequate response to a crisis triggered by the COVID-19 crisis and GDP has remained fairly steady in the circumstances. In 2020, an economic contraction of only 1.0 per cent. was recorded, and in the first quarter of 2021, the economic activity reached the pre-pandemic level. The main objectives set by the adopted Program of Economic Measures to Support the Serbian Economy have been met. Economic capacities have been preserved and support has been provided in maintaining the liquidity of the economy during these extraordinary circumstances. As a result of the macroeconomic and fiscal stability achieved in the previous period, the Republic of Serbia had sufficient capacity to help the economy with monetary and fiscal measures in mitigating the negative effects of the coronavirus pandemic.

In its spring economic forecast for 2021, the European Commission predicted GDP growth of 5.3 per cent. for Serbia this year, which is an improvement of 0.5 per cent. compared to the autumn projection. This level of growth would mean Serbia is in a better position than average in the European Union and the Eurozone when it comes to economic growth, given that the EU is projected to grow by 4.2 per cent., while the Eurozone is projected to grow by 4.3 per cent. (*source: European Economic Forecast, Spring 2021*).

Finally, in its spring economic forecast, the European Commission has predicted that the unemployment rate in Serbia will reach 9.3 per cent. in 2021, while a further decline is expected in 2022, reaching 8.5 per cent., which brings Serbia closer to the projected average unemployment rate in the Eurozone in 2021 of 8.4 per cent. Last year, the unemployment rate in Serbia was at 9 per cent., which is significant given this was in the height of the pandemic. In the first quarter of 2021, the employment rate amounted to 46.3 per cent., while unemployment rate, in the same period, was at 12.8 per cent.

*Instrument for Pre-Accession Assistance ("**IPA**") (page 101 of the Base Prospectus)*

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

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

In April 2020, Serbia joined the public procurement programme of the EU to procure medical supplies essential for combatting COVID-19 by signing the EU Joint Procurement Agreement and nominating representatives for the Steering Committee. The EU Joint Procurement Agreement has been signed by Serbia and was ratified by the parliament of Serbia in December 2020. The European Commission offered Serbia access to the Early Warning and Response System for all information related to the COVID-19 outbreak and Serbia nominated its representatives to access the system. Serbian national reference laboratories received positive control materials for COVID-19 tests from the EU's Joint Research Centre.

As part of its global response to the pandemic, the EU has allocated EUR 15 million to Serbia for immediate needs such as the procurement and aerial cargo transport of medical equipment, the support to vulnerable groups in society, and the hiring of 200 extra medical workers for the second half of 2020 to alleviate the pressure on medical personnel.

Serbia also received support from the European Union Solidarity Fund in the amount of EUR 12 million, which will be used to cover the costs of health care already provided to Serbian citizens (procurement of medicines, medical equipment and apparatus, the procurement of protective equipment for medical staff, as well as for the employment of additional medical and other staff).

The European Centre for Disease Prevention and Control ("**ECDC**") shares all of its COVID-19 related guidance and assessments with Serbia. The ECDC focal point in Serbia was active before the start of the epidemic and prompt reporting on the status of the pandemic took place daily using this channel along with regular reporting on the outbreak to the WHO in accordance with the International Health Regulations.

In August 2020, the Government of Serbia adopted a Government Conclusion for the purpose of signing a letter of intent to obtain access to the COVID-19 Global Vaccine Access Instrument (the "**COVAX Instrument**") in order to provide doses of vaccines for COVID-19. As of 25 August 2021, in total 292,800 vaccines (*AstraZeneca*) have been delivered to Serbia from the COVAX instrument.

Aside from the EU's extensive emergency support, regular, already programmed IPA-funded projects have enabled a productive environment to strengthen healthcare, public procurement, small-and-medium businesses and other system that are crucial towards ending the crisis and minimizing its effects upon citizens and the economy. The European Union intends to continue to support the development of a resilient healthcare system through IPA III funding, building upon past successful IPA-funded projects.

Serbia has already commenced preparing projects to be financed by the IPA III, and expects to sign the new IPA III 2021-2027 Financial Framework Partnership Agreement with the EU within the next six months.

Co-operation with the ICTY *(page 101-102 of the Base Prospectus)*

The former FRY government established a commission to assist in co-operation with the ICTY in 2002. Out of 46 accused persons, whose extradition was requested by the ICTY, Serbia has extradited all except one, who died prior to extradition. Serbia completed its extradition obligations with the arrest of Ratko Mladić.

On 8 June 2021, the Appeals Chamber affirmed the sentence of life imprisonment imposed on Mr. Mladić by the Trial Chamber. On 30 June 2021, the Trial Chamber sentenced Jovica Stanišić to a single sentence of 12 years of imprisonment, with Franko Simatović serving the same sentence.

As of August 2021**,** the Republic of Serbia has processed more than 1700 documents to the International Residual Mechanism for Criminal Tribunals.

United Nations ("UN") *(page 102 of the Base Prospectus)*

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

The Sustainable Development Goals ("**SDGs**") of the Agenda formally came into effect on 1 January 2016, following the adoption of a resolution at the UN Sustainable Development Summit in September 2015. The Republic of Serbia has played an active role and demonstrated commitment to the Agenda from its inception, as a member of the Open Working Group on Sustainable Development Goals and the Intergovernmental Committee of Experts on Sustainable Development Financing.

Subsequent to the adoption of the Agenda, the Republic of Serbia began to establish national mechanisms to implement it. By the end of 2015, the Government had established the Inter-Ministerial Working Group for the Implementation of the United Nations 2030 Agenda for Sustainable Development, composed of high-ranking representatives of 27 line ministries and other institutions. In addition to this crucial mechanism, established under the executive branch at national level, in 2017, the Focus Group of the Serbian National Assembly was established to develop oversight mechanisms and oversee the SDG implementation. This mechanism oversees and supports the implementation of the Agenda.

In July 2019, the Government of the Republic of Serbia submitted its first Voluntary National Review at the United Nations High-level Political Forum meeting, describing all its achievements in implementing the SDGs, with a special focus on local communities and youth. The first Voluntary National Review by the Republic of Serbia was a cornerstone of the inclusive, tangibly productive and action-oriented process of review which required the ambitious cooperation of the whole of the Serbian Government and society in order to make concerted progress towards the national vision of growing into sustainable economy by creating equal sustainable opportunities accessible to all across Serbia.

In December 2020, the Progress Report on the Implementation of Sustainable Development Goals by 2030 in the Republic of Serbia was published. The progress on 17 SDGs has been monitored through 83 indicators. Mapping results show that, under its existing strategic framework, Serbia is already committed to the achievement of the Sustainable Development Goals.

NATO Partnership for Peace Program *(page 102 of the Base Prospectus)*

Serbia has been a member of the Partnership for Peace Program ("**PfP**") since December 2006 and the first Individual Partnership Action Plan ("**IPAP**") which represents the highest form of partnership cooperation with NATO without implying membership in the alliance, came into force on 15 January 2015. The procedures for adopting the new Serbia-NATO IPAP cycle for the period 2019-2021 were completed on 7 November 2019. The adoption of this new IPAP was another confirmation of the upward trend in the Republic of Serbia's partnership and cooperation with NATO, creating conditions to continue a regular, structured dialogue on all issues of mutual interest, and facilitating the coordination of the Republic of Serbia's bilateral cooperation with NATO members and partners.

Like the first IPAP cycle, the new document was designed in line with the principles of the Partnership for Peace: voluntariness, flexibility and transparency, and its basis was a clearly-defined policy of Serbia's military neutrality.

Other regional relations

*Central European Free Trade Agreement ("**CEFTA**") (page 103-104 of the Base Prospectus)*

On 19 December 2006, Serbia signed the Agreement on the Amendments and Accession to the CEFTA, which came into force in 2007. The CEFTA is a regional free trade agreement that provides the legal basis for policy formulation and implementation of trade and investment in the CEFTA region.

The CEFTA region is Serbia's second most important foreign trade partner, after the EU. In 2020, Serbia had a trade surplus of USD 2108.5 million, which is mainly the result of the following exports: agricultural products (cereals and products thereof), electrical machinery and apparatus, oil and petroleum products, road vehicles and beverages. Serbia's exports amount to USD 3109.6 million for the observed period, while imports amount to USD 1001.1 million. The coverage of imports by exports is 310.6 per cent. Expressed in Euros, exports amount to EUR 2721.5 million and imports to EUR 875.4 million (with a surplus of EUR 1846.1 million and a coverage of imports by exports of 310.9 per cent.).

The CEFTA activities were integrated within the Common Regional Market ("**CRM**") 2021-2024 Action Plan, which was endorsed by the leaders of the economies comprising the Western Balkans Six, namely Albania, Bosnia and Herzegovina, Kosovo*, North Macedonia, Montenegro and Serbia ("**WB6**") at the Berlin Process Summit held on 10 November 2020. The CRM envisages the establishment of a Regional Trade Area based on the free movement of goods, services, capital and people.

The implementation of the CRM 2021-2024 Action Plan remains within the realm of responsibility of public institutions in each of the Western Balkans economies, in particular ministries and institutions leading the implementation effort at the wider economy level.

The Regional Co-operation Council ("**RCC**") and CEFTA Secretariats are leading regional organisations to facilitate the implementation of the CRM 2021-2024 Action Plan, while other regional and/or international structures are engaged in specific actions in line with their scope of work and programme. The CEFTA Secretariat will provide support in carrying out the actions which seek to implement the CEFTA, and will also seek to extend commitments and benefits to the EU and other trading partners.

*Regional Co-operation Council ("**RCC**") (page 104 of the Base Prospectus)*

The RCC was established on 27 February 2008 as the successor to the Stability Pact for South Eastern Europe. The RCC works under the political guidance of the South East European Co-operation Process ("**SEECP**").

The RCC Secretariat has been facilitating the implementation of the CRM 2021-2024 Action Plan by supporting the implementation of actions which seek to increase the attractiveness of the region to foreign investors, integrate the Western Balkans into the pan-European digital area, upgrade the industrial base and innovation infrastructure, and advance towards the free movement of people and capital.

The SEECP leaders tasked the RCC at the SEECP Summit held in 2019 to develop a long-term strategy for the South East European ("**SEE**") region, following the successes and lessons learned from the previous SEE 2020 Strategy and based on the UN SDGs. The RCC has since developed the SEE 2030, with inputs from public authorities of all thirteen SEECP participants, as well as their civil society, public sector, think tanks and academia representatives, led by the principles of a bottom-up approach. The aim is to achieve regionally sustainable economic growth in order to reduce poverty and inequalities, improve social inclusion, empower women, decelerate depopulation, enhance the overall quality of life for citizens and accelerate the green and digital transition without disrupting competitiveness and private sector development. Furthermore, it aims to complement the recovery of the region following the outbreak of the COVID-19 pandemic and contribute to strengthening the resilience of societies to external shocks and challenges. The SEE 2030 Strategy was adopted at the SEECP Summit in Antalya in June 2021.

Berlin Process (pages 106 - 107 of the Base Prospectus)

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

The last summit on the Western Balkans within the Berlin Process (also known as the "**Sofia Summit**") was organised and jointly chaired by Bulgaria and North Macedonia by way of a video-conference on 10 November 2020. During the Sofia Summit, leaders of the Western Balkans signed the Western Balkans Leaders Declaration of Common Regional Market (for the establishment of a Regional Trade Area based on the freedom of movement of goods, services, capital and people) and the Sofia

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

Declaration on the Green Agenda for the Western Balkans. The Action Plan for the CRM is made up of targeted actions in four key areas:

- Regional trade area: free movement of goods, services, capital and people, including crosscutting measures, such as the Green Lanes, to align with EU-compliant rules and standards and provide opportunities for companies and citizens;
- Regional investment area: to align investment policies with the EU standards and best international practices and promote the region to foreign investors;
- Regional digital area: to integrate the Western Balkans into the pan-European digital market; and
- Regional industrial and innovation area: to transform the industrial sectors, shape the value chains they belong to, and prepare them for the realities of today and challenges of tomorrow.

In addition, by signing the Sofia Declaration on the Green Agenda for the Western Balkans (the "**Declaration**"), Serbia acknowledged the need to set the basis for a major transformation to turn sustainability and resilience challenges into opportunities and to transpose elements of the EU Green Deal in all interrelated priority sectors. The Republic of Serbia committed to implement the following five pillars:

- Climate, energy, mobility – to work towards the 2050 target of a carbon-neutral continent;
- Circular economy – to commit to the process of transition from a linear to a circular economy, being fully aware of the necessity for a research and innovation system to support such a transition;
- Depollution - Depollution of air, water and soil in the Western Balkans; a joint interest stemming from the primary concern for the health of citizens;
- Sustainable agriculture and food production – to commit to work towards ensuring transformation of the agriculture sector, minimizing its negative environmental and climate impact and safeguarding affordable and healthy food; and
- Biodiversity – defining the post-2020 biodiversity framework and developing a long-term strategy for halting biodiversity loss, protection and restoration of ecosystems and abundant biological diversity.

The Green Agenda for the Western Balkans should enable Serbia and the EU to create stronger links between climate and environment actions, policy reforms and EU approximation. The EU and its member states have pledged to support the implementation of the Green Agenda for the Western Balkans financially, through the Instrument for Pre-Accession ("**IPAIII**"), the Western Balkans Investment Framework, the Western Balkans Guarantee Facility, the European Fund for Sustainable Development Plus, the European Investment Bank, the Structural Reform Support Facility and other sources.

This year's summit, under the presidency of Germany, was held online on 5 July 2021.

Other regional cooperation (page 108 of the Base Prospectus)

Since October 2019, regular meetings have taken place between the President of the Republic of Serbia, the Prime Minister of the Republic of North Macedonia and the Prime Minister of the Republic of Albania with the aim of significantly increasing economic integration within the region. During a "Mini-Schengen" online conference held on 9 November 2020, a Memorandum of Understanding and Cooperation was signed between the Republic of Serbia, the Republic of North Macedonia and the Republic of Albania on cooperation in the fight against COVID-19 and an interstate agreement was reached between the Republic of Serbia and the Republic of Albania on the free movement of citizens with identification cards.

On 29 June 2021, the President of the Republic of Serbia participated via video-link in a further "Mini Schengen" conference with the Prime Minister of the Republic of Albania and the Prime Minister of the Republic of North Macedonia. The officials discussed further steps in regional cooperation, as a process vital to the progress of the Western Balkans and the European Union as a whole. The parties agreed that the countries of the Western Balkans need membership in the European Union, but also that the European Union needs the membership of the Western Balkans since the region is surrounded by EU borders and the countries aspiring to attain membership share common European values. The seventh, and last, meeting was held in Skopje on 28 and 29 July 2021 when, in addition to discussing the achieved results and signing the agreements, the name of the initiative was changed to "Open Balkan". Accordingly, the leaders signed three documents on 29 July 2021:

(i) Memorandum of Understanding and Cooperation to Facilitate Imports, Exports and Movement of Goods in the Western Balkans;

(ii) Memorandum of Understanding and Cooperation on Free Access to the Labor Market in the Western Balkans; and

(iii) Agreement on Cooperation in Disaster Protection in the Western Balkans.

The main goal of the "Open Balkan" initiative is to serve as a catalyst for strengthening regional economic and trade integration, and supporting the overall economic and social development of the WB6. The three leaders also emphasised that the initiative is open to all of the participants in the WB6.

Other key bilateral relations

China (page 108 of the Base Prospectus)

Serbia enjoys amicable relations with China and strategic partnership relations between the two countries were established in 2009, further deepened in 2013, and then raised to the level of a comprehensive strategic partnership in 2016.

Recently, along with good bilateral political relations, the two countries have increased their economic cooperation, in particular in the areas of investments, and infrastructure and energy projects. China is Serbia's most important trading partner in Asia: the trade volume between the two countries in 2020 reached EUR 3.2 billion, whereof the exports from Serbia amounted to EUR 329 million and the imports from China amounted to EUR 2.87 billion. In the first six months of 2021, trade volume between Serbia and China amounted to EUR 1.9 billion (with exports at EUR 336.8 million and imports amounting to EUR 1.568 billion).

Germany (pages 108 - 109 of the Base Prospectus)

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

Germany remains the most important foreign trade and economic partner of Serbia. In the first six months of 2021, the trade exchange of goods amounted to EUR 2.98 billion (with exports at EUR 1.25 billion and imports amounting to EUR 1.73 billion).

United Kingdom (page 110 of the Base Prospectus)

Serbia and the United Kingdom ("**UK**") have a strategic political relationship and their economic cooperation is improving with Serbia's increased efforts to attract foreign investments from the UK. In the first six months of 2021, foreign trade between the two countries reached EUR 287.38 million (with exports at EUR 170.8 million and imports amounting to EUR 116.58 million).

Following its withdrawal from the EU, one of the UK's priorities for deepening its bilateral relations with Serbia was to reach an agreement which regulates trade relations between the two countries. This was achieved through the Partnership, Trade and Cooperation Agreement, which was signed on 16 April 2021 and has provisionally applied since 20 May 2021. Defence and security, in particular, are perceived as key cooperation areas: the latest round of bilateral consultations in the field of security policy and defence between the UK and Serbia were held in Belgrade on 17 and 18 May 2021.

Belgrade's relationship with Pristina (*pages 90 - 92 of the Base Prospectus and pages 17 - 18 of the First Offering Memorandum*)

The dialogue between Belgrade and Pristina was largely deadlocked over the past six months due to a change of the PISG in the Pristina government in February 2021, following the parliamentary elections. Key posts in the PISG in the Pristina executive branch are now filled by politicians who hold an opposing stance regarding the EU-facilitated negotiations with Belgrade, which meant that discussions were at a standstill for a while. However, Pristina's position significantly shifted once the president of the PISG was elected, which was followed by the constitution of all of the executive bodies of the PISG in the province. Thereafter, Pristina accepted participation in the resumed dialogue. Accordingly, a total of three sessions of the dialogue were held during this reporting period: two at a political high level and one at a technical level.

The first meeting took place on 15 June 2021, after a standstill period of more than half a year. During this first meeting, the two sides came to some understanding and initiated talks on the fate of missing persons and improving the security situation in Kosovo and Metohija. The security situation had drastically deteriorated in the interim, affecting Serbian citizens, the Serbian Orthodox Church and its property, and monuments of Serbian cultural and spiritual heritage. Talks on these topics later continued at technical and high-level meetings held on 7 and 19 July 2021 respectively. Throughout the meetings, Belgrade insisted on fully implementing all agreements reached within the dialogue thus far, primarily those concerning the Community of Serbian Municipalities. In addition, Belgrade called for urgent engagement on the part of EU facilitators towards suppressing a surge of escalating ethnically-motivated violence exercised against the Serbs in Kosovo and Metohija. Such incidents became more frequent after the government of Albin Kurti took over the management of the PISG in Pristina.

Due to the on-going tension between the parties to the discussion, the future of the negotiation process remains uncertain. Nevertheless, Pristina's participation did have some impact on a broader scale: the interaction with the authorities in the PISG and their developing understanding of the importance of this process for the stability of the entire region, forced the Pristina authorities to change the position they presented at the meeting of 15 June 2021 (which was to deny any legitimacy to the previously reached agreements). By contrast, at the next meeting that was held at a technical level on 7 July 2021, the Pristina delegation explicitly stopped denying the validity of the agreements reached before 14 February 2021 and agreed with the need to implement them.

Against such a political context, repeated failures to comply with the agreement on the part of Pristina continued during this reporting period, most notably in the areas of energy, justice, freedom of movement and visits by officials, all of which are more fully described below.

Energy

Pristina is yet to license the Serbian energy companies "EPS Trade" and "Elektrosever", which are to be tasked with handling wholesale and retail (supply), import/export as well as distribution of electricity in Kosovo and Metohija. Belgrade has fulfilled its obligations relating to energy supply and will continue to insist that Pristina enables Serbian energy companies to carry out all steps as agreed in the dialogue. This is a key condition for preserving the security of electricity supply in the north of Kosovo and Metohija, and preventing the potentially grave political, security and humanitarian risks stemming from Pristina's possible continued refusal to comply with the agreement. On this basis, the PISG in the Pristina Assembly finally elected new members to the Energy Regulatory Office ("**ERO**") Board in July 2021, which is the body that is solely competent to pass final decisions on these licenses. There are now no further procedural reasons for further delaying the fulfilment of Pristina's obligations, as per the agreements brokered in the dialogue.

Justice

The period from February 2021 to date has been marked by violations of the provisions of the agreements made in the area of the judiciary, which Pristina mostly violates in respect of the exclusive jurisdiction held by the Mitrovica Appellate Department of the Court of Appeals. In particular, Pristina overlooks Article 10 of the First Agreement, which stipulates, *inter alia*, that only the Mitrovica Appellate Department is competent to act in the second instance on all cases emerging from the basic courts located in the 10 Serbian majority municipalities of Kosovo and Metohija. The same article also stipulates that the adjudicating panels of the said Appellate Department must be composed of a majority of Serbian judges.

Freedom of movement

As for freedom of movement, Pristina's decision to abolish the validity of status-neutral "KS" license plates in September 2020 remains in force, which violates the 2011 agreement of freedom of movement which was agreed in Brussels. Pristina has also been preventing the free movement of people by imposing unfounded bans against pilgrims and other citizens who wish to visit the province. In addition, the existing agreement stipulates that the only categories of persons whose visits are to be announced are the officials listed in the 'agreement on visits of officials' signed between Belgrade and Pristina. Pristina violated this agreement by regularly imposing bans on visits for certain Serbian officials without providing any rationale, despite these visits being announced in a timely manner and in accordance with the procedures provided for in the agreement.

4. Economy of Serbia

Macroeconomic Policy

Economic Reform Programme for 2021-2023 ("ERP 2023") *(page 128 of the Base Prospectus and pages 19-20 of the First Offering Memorandum)*

Since 2015, the Republic of Serbia has been participating on a yearly basis with EU institutions and EU member states for coordination of economic policies. In this respect, every year the Government publishes a strategic Economic Reform Programme ("**ERP**") for the following three-year period, aimed at further harmonising economic policy with the EU in connection with Serbia's candidacy for EU membership.

The ERP for the period 2021 to 2023 was adopted on 28 January 2021 and submitted to the European Commission on 29 January 2021. During this cycle of ERP drafting, the Government organised a series of consultations with representatives of the European Commission as well as representatives of the civil society, including the National Convention on the European Union, the United Nations Development Programme and the United Nations Children's Fund, to discuss in depth the areas and structural reforms which will mark Serbia's economic development in the coming three-year period. The Policy Guidance for the ERP 2021-2023 stated that the Joint Conclusions were adopted at the ECOFIN Council meeting on 12 July 2021.

The ERP program for the period 2021 to 2023, influenced by the outbreak of the COVID-19 pandemic, aims to, in the short and medium term, mitigate the negative impact of COVID-19 and, in the long term, transform and build up the Serbian economy's resilience to external shocks. Along with extending support to mitigate the impact of the COVID-19 pandemic on businesses in the medium term, the ERP provides for gradual stabilisation of public finances and making use of the available fiscal space for the growth of public investments in order to support faster economic recovery and to create the basis for strong, sustainable and broad-based economic growth. The medium-term fiscal framework envisages a cautiously moderate expansionary fiscal policy, which aims to ensure the continuity of development and social programmes and the sustainability of public finances whilst continuously reducing the level of Public Debt in terms of GDP. To achieve this objective, the fiscal policy will continue to focus on reducing the overall tax burden on the labour force to increase competitiveness within the private sector. Alongside this, priority will be given to infrastructure investment, capital projects, and pension and salary policies on the expenditure side. In addition, to achieve a sustainable fiscal framework, the proposed changes to the Budget System Law, among other things, envisages redesigning a set of fiscal rules and defining consequences for non-compliance with fiscal policies. An emphasis will also be placed on amending the general fiscal rules related to Public Debt and general government deficit, as well as modifying the special fiscal rules related to sustainable expenditure spending in respect of salaries and pensions.

More specifically, the ERP for the period 2021 to 2023 sets out the Government's broad economic growth strategies and contains a mid-term framework for its macroeconomic and fiscal policies as well as structural reform plans, which are designed to be implemented using a series of more detailed measures. The macroeconomic and fiscal policies outlined in the ERP were prepared in line with the priorities set out in Serbia's medium-term fiscal strategy of 2021 and reflects the provisions of the 2021 Budget. In addition, a number of key reforms outlined in this year's ERP reflects the Policy Guidance stated in the Joint Conclusions adopted at the ECOFIN council meeting on 19 May 2020. The key structural reforms under the ERP are set out in respect of eight thematic areas: (1) energy and transport markets, (2) agriculture, industry and services, (3) business climate and 'grey' economy, (4) research, development and innovations including digital transformation, (5) economic integration, (6) education and skills, (7) employment and labour market, and (8) social protection and inclusion (including health care). The key targets of the ERP during the 2021-2023 period include (i) achieving general government fiscal deficit of 3 per cent., 1.6 per cent. and 1 per cent. of GDP in 2021, 2022 and 2023, respectively; (ii) reducing general government debt to 58.7 per cent, 57.9 per cent. and 56.0 per cent. of GDP in 2021, 2022 and 2023, respectively; and (iii) realising real GDP growth of 6 per cent., 4 per cent. and 4 per cent. in 2021, 2022 and 2023, respectively. There can be no assurance that such objectives in fact will be achieved. Moreover, these targets may be further adjusted, amended or revised as part of regular review or otherwise, to take into account the prevalent economic and fiscal indicators, which are evolving based on numerous factors that are highly uncertain, rapidly changing and cannot be accurately predicted.

The Government launched the eighth cycle of the ERP 2022-2024 policy coordination in July 2021.

Policy Coordination Instrument of the IMF *(pages 115 - 116 of the Base Prospectus and pages 19 - 20 of the First Offering Memorandum)*

On 18 June 2021, Executive Board of the IMF concluded the Article IV consultation with Serbia on 18 June 2021 and approved a new 30-month Policy Coordination Instrument (the "**2021 PCI**"). The 2021 PCI will build on the previous PCI successfully completed in January 2021 and aims at supporting Serbia's recovery from the COVID-19 pandemic, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework, while pushing ahead with structural reforms to deliver more inclusive and sustainable growth.

In its report on the Article IV consultation, the IMF commented that Serbia had coped well with the COVID-19 pandemic and the economic recovery was expected to continue in 2021, with fiscal policy appropriately focused on providing support to the economy and an accommodative monetary policy. The IMF estimated the economic contraction in 2020 at around 1 per cent., one of the smallest in Europe. However, the IMF also noted that high uncertainty surrounds Serbia's prospects for an ongoing swift recovery and that further structural and institutional reforms are needed to underpin high, inclusive, and greener growth, as well as accelerate income convergence with the EU.

Serbia's real GDP growth is projected to reach 6 per cent. in 2021, while over the medium term, growth is projected to gradually converge to 4 per cent. The focus of the structural and institutional reforms is on strengthening the governance and management of state-owned enterprises, developing the domestic capital market, promoting green growth and enhancing social safety.

Gross Domestic Product *(pages 1 - 2 and 118 - 121 of the Base Prospectus and page 20 of the First Offering Memorandum)*

Following a sharp contraction in the second quarter of 2020, economic activity within Serbia started to recover in the third quarter of 2020, supported by the businesses and households support program jointly adopted by the Government and the National Bank of Serbia, resulting in the real decline of GDP of only 1 per cent. compared to 2019. In 2020, the most significant negative impact on the GDP growth rate occurred in the service sector, which recorded a decline of 1.4 per cent. due to the negative effects of the coronavirus pandemic, primarily in the tourism and transport sectors, but in the entertainment and recreation, and professional and technical services sectors as well. The construction industry recorded a decrease in activity of 5.1 per cent. as a consequence of the extremely high value of activity in the sector in 2019. Net taxes decreased by 1.6 per cent. due to lower household consumption, however, due to strong recovery in the second half of the year, the industry managed to avoid recessionary trends and recorded increase of 0.4 per cent., while the most significant positive contribution was made by agriculture with a growth of 4.2 per cent. observed from expenditure side of GDP, the most significant negative contribution was made by private consumption due to the reduction of expenditures for some service needs due to the prolonged effect of the epidemic, which resulted in a decline of 2.5 per cent. in 2020 compared to 2019. The shock in foreign trade resulted in a significant reduction in export-import activity with a slightly smaller decline in imports than exports due to increased imports of medical equipment and materials. This resulted in negative contribution of net exports of 0.9 percentage points to GDP growth. Despite a significant increase in public investment, total investment activity nevertheless recorded a slight decrease of 2.8 per cent. in 2020 compared to 2019 due to lower private investment. Increased government expenditures due to the fight against the pandemic have resulted in an increase in government consumption of 5.6 per cent. in 2020 compared to 2019, and stocks have also made a positive contribution, primarily due to the growth of agricultural production.

In 2020, private consumption declined by 2.5 per cent. and negatively contributed to GDP with 1.7 percentage points, while government consumption increased by 5.6 per cent. and registered a positive contribution to GDP of 0.9 percentage points. In the same period, investments declined by 2.8 per cent. with a negative contribution to GDP of 0.6 percentage points, and represented 21.5 per cent. of the total GDP (with the share of private investment at 16.1 per cent and government investment at 5.4 per cent). In 2020, calculated as the sum of four quarters, nominal GDP amounted to RSD 5,463.5 billion, while GDP per capita amounted to EUR 6,730.

Macroeconomic developments at the beginning of 2021 were better than expected, with GDP exceeding its pre-pandemic level in the first quarter of 2021. According to SORS data, real GDP grew by 1.8 per cent. year-on-year in the first quarter. Economic growth in this period was driven by industrial production, which achieved an increase of 4.0 per cent. year-on-year, thus contributing to GDP growth with 0.8 percentage points. The same positive contribution came from the construction sector, which recorded vigorous growth of 17.8 per cent. year-on-year, due to an increase of infrastructure projects along with the recovery of private construction operations. Service-based activities diverged, with trade, IT and financial services continuing to grow, while tourism, catering and transport all contributed negatively to economic developments. Overall, the service sector increased by 1.1 per cent. year-on-year in the first quarter of 2021 and contributed positively to the GDP growth by 0.6 percentage points. Agricultural production decreased year-on-year by 1.9 per cent., while net taxes declined by 1.3 per cent. compared to the same quarter last year. Investments were the most significant development in terms of contribution to GDP, as they recorded an increase in the first quarter of 9.0 per cent. year-on-year, and contributed positively by 1.8 percentage points to GDP growth. New export-oriented capacities, as a result of FDIs from the previous period, along with the recovery of external demand and increase in exports of agricultural products, influenced the strong growth of real exports in the first quarter of 2021. At the same time, import activity recorded a moderate decrease, which contributed to net exports being the main driver of economic growth in the first quarter by 4.8 percentage points. Private consumption, which was most negatively affected by the pandemic due to restrictions and health measures, and consequently lower use of tourist, catering and transport services, in the first quarter fell by 1.8 per cent. year-on-year, while at the same time government consumption decreased by 0.6 per cent.

The 13.7 per cent. year-on-year growth of GDP in the second quarter of 2021 was influenced by continued favourable economic trends, as well as a lower base from the same period last year due to the pandemic. All production sectors except agriculture recorded an increase in production. The most significant positive contribution of 7.5 percentage points was made by the service sector which grew by 15.1 per cent. year-on-year. Industrial production increased by 13.5 per cent. year-on-year and positively contributed to GDP growth by 2.6 percentage points, while construction activity continued with positive trends resulting in strong growth of 17.7 per cent. in the second quarter compared to the same quarter last year. Production by the agricultural sector declined by 1.6 per cent. year-on-year, while at the same time net taxes contributed positively to the GDP growth with increase of 16.0 per cent. year-on-year. The largest contributor to GDP growth in the second quarter was private consumption, with year-on-year growth of 17.4 per cent. The GDP growth was also driven by strong investment activity, which increased by 22.5 per cent. year-on-year. Exports and imports activity recorded strong growth in the second quarter due to the impact of a low base from the same quarter last year, but also due to the continued recovery of external and domestic demand. Higher growth of imports than exports activity resulted in a negative contribution of net exports of 5.9 percentage points. In addition, government consumption recorded a decline of 3.8 per cent. year-on-year, due to the last year's higher expenditures in the fight against the pandemic. Taking into account the trends from the first two quarters, GDP in the first half of 2021 was 7.6 per cent. higher in real terms, compared to the same period of the previous year.

Gross Value Added

Agriculture, forestry and fishing *(pages 124-125 of the Base Prospectus)*

In 2020, calculated as the sum of four quarters, the agriculture, forestry and fishing sector accounted for 7.8 per cent. of the total GVA at current prices. The GVA of this sector increased by 10.0 per cent., measured at current prices, while in real terms it increased by 4.2 per cent. compared to 2019.

Industry *(pages 125-127 of the Base Prospectus)*

The Government is strongly committed to fighting the multiple global challenges related to climate change, extinction of flora and fauna, endangered ecosystems, continuous growth of waste and pollution, and shortages of natural resources that result from climate change and pollution. Analysis of climate change in the Balkans Peninsula shows that human health, safety and quality of life are highly vulnerable to the effects of natural hazards and sectorial weather-related losses. Over the past two decades, droughts, floods, exceptionally harsh winters and other weather-related extreme events have caused major physical damage and financial losses in the country, with significant impacts on the economy, especially in the agricultural sector. In light of such effects, Serbia has joined the global efforts to confront the threat of climate change through participation in global and regional initiatives in order to shift to a green economy.

In March 2021, the National Assembly of Serbia adopted the Law on Climate Change, which shows that environmental protection and climate change issues are high on the Governments' priority list. The goal of this law is to establish a system to reduce greenhouse gas ("**GHG**") emissions in a cost-effective way, thus contributing to the achievement of necessary reductions of GHG emissions to avoid adverse effects of climate change. The law establishes mechanisms for timely, transparent, accurate, consistent, comparable and complete reporting and verification of information on fulfilment of Serbia's international obligations, such as the UN Framework Convention on Climate Change, the Paris Agreement and the Kyoto Protocol. It also harmonizes domestic legislation with European Union regulations and directives.

Further to the adoption of the Law on Climate Change, the following strategies and initiatives shall be implemented:

- Low Carbon Development Strategy; prepared for a period of at least ten years; policy documents must contain a quantitative assessment of the effects on changing GHG emission levels;

- Action Plan for the Implementation of the Strategy; prepared for a period of at least five years; prescribes general goals, measures and activities in the sectors; and

- Programme of Adaptation to Changing Climatic Conditions; to identify the impacts of climate change on sectors and systems and determine adaptation measures in accordance with the law governing the Serbian planning system.

The law further establishes the National Council for Climate Change (as an advisory body to the Government) and the National GHG Inventory System. In order to achieve the intended aims of this legislation, public bodies, in addition to the adoption of specific by-laws and ordinances, should also adopt appropriate sectoral policies and measures.

In April 2021, the National Assembly of Serbia adopted the Law on Renewable Energy Sources, which is seen as a catalyst for major investment in the construction of energy utilities using renewable energy sources, with emphasis on solar power plants and wind farms, which will accelerate the decarbonisation of Serbia's energy sector. Within the same package of laws, the Assembly adopted the Law on Energy Efficiency and Rational Use of Energy ("**LEERUE**"). The purpose of this legislation is to improve energy efficiency, aiming, among other things, to reduce the negative impact of the energy sector on the environment and to support climate change mitigation. LEERUE is the legal basis for the establishment of Directorate that will provide financial support for improving energy efficiency. Within this legislative package, an amendment to the Law on Energy was also passed, which creates a legal basis for the adoption of the National Energy and Climate Plan. The Plan sets out the goals relating to renewable energy sources, energy efficiency and the reduction of GHG emissions along with measures which will support achieving these.

Energy Strategy for 2040

The Government's approach to environment and climate change is strategically defined in various policies pertaining to the water management, sustainable use of resources, renewable energy resources and energy efficiency, and risk management, including the Water Management Strategy of the Republic of Serbia for the period 2016 to 2034, Strategy for Agriculture and Rural Development for the period 2014 to 2024, the National Programme for Environmental Protection, the Spatial Plan for the Republic of Serbia for the period 2010 to 2020, the National Strategy for Sustainable Use of Natural Goods and Resources, the National Sustainable Development Strategy, the National Environmental Approximation Strategy for the Republic of Serbia, the Energy Sector Development Strategy until 2025, the National Renewable Energy Action Plan for the period 2013 to 2020, Energy Strategy of the Energy Community and the National Energy Efficiency Action Plans (2010 – 2012, 2013 – 2015 and 2016 – 2018). The Republic of Serbia is currently developing its energy strategy for 2040.

The Turkish Stream Pipeline (*page 127 of the Base Prospectus and pages 20 - 21 of the First Offering Memorandum*)

The construction of the linear part of the Balkan Stream gas pipeline has been completed and has been operational in 2021 (supplying the Republic of Serbia with natural gas from Bulgaria). By October 2021, it is expected that works on the compressor station will be completed and the transit of natural gas from the direction of Bulgaria through the Republic of Serbia to Hungary and other European countries will commence.

Industrial Production *(pages 129 - 130 of the Base Prospectus and page 21 of the First Offering Memorandum)*

In 2020, calculated as the sum of four quarters, GVA of the industry sector (mining and quarrying; manufacturing; electricity, gas and steam supply; water supply, sewerage, waste management and remediation activities) recorded a decline of 1.1 per cent. in nominal terms, while it recorded an increase of 0.4 per cent. in real terms, compared to 2019. The GVA information is not yet available for the industry sub-sectors. The share of this sector in the total GVA measured in current prices decreased from 24.0 per cent. in 2019 to 23.5 per cent. in 2020.

The physical volume data on industrial production from the Office of Statistics has been used for identifying growth indicators in the industry sector. Favourable dynamics of industrial activity started in the second half of 2020 continued during 2021. Based on the short-term indicators of physical volume in July alone, the industry sector recorded an increased production of 1.7 per cent., compared to the corresponding period in 2020. This growth was driven by increased production in all three sectors of industry. The largest positive contribution came from the manufacturing industry, in which production increased by 1.2 per cent. year-on-year, while the sectors of mining and quarrying and electricity, gas and steam grew by 7.1 per cent. and 1.6 per cent., respectively. In the first seven months of 2021, the level of industrial production increased by 7.8 per cent., relative to the same period of 2020, with a positive contribution from manufacturing industry which grew by 8.6 per cent., and electricity, gas and steam which increased by 7.4 per cent. In addition, the mining and quarrying with an increase of 0.7 per cent. registered a slight positive contribution to the overall production growth.

Construction *(pages 130 - 132 of the Base Prospectus)*

In 2020, calculated as the sum of four quarters, the construction sector's GVA decreased by 5.8 per cent. in current terms, or by 5.1 per cent. in real terms compared to 2019. The share of these sectors in the total GVA measured in current prices decreased from 6.9 per cent. in 2019 to 6.4 per cent. in 2020.

Construction activity in the first six months of 2021 registered a year-on-year growth of 19.2 per cent, in terms of the real value of construction work completed. The number of building permits issued in the first six months of 2021 increased by 33.9 per cent. compared to the corresponding period in 2020.

Retail trade turnover *(pages 132 - 133 of the Base Prospectus and page 21 of the First Offering Memorandum)*

Since the GVA information for 2020 is not yet available in respect of the trade subsector, the aggregate data from the Office of Statistics has been used for identifying growth indicators. In 2020, calculated as the sum of four quarters, the GVA of wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food services witnessed a decline, with negative nominal growth of 5.6 per cent., or negative real growth of 5.2 per cent. compared to 2019. The share of these sectors in the total GVA measured in current prices was 18.7 per cent. in 2020, which is a decrease from 20.0 per cent. in 2019.

For the first seven months of 2021, the retail trade turnover data from the Office of Statistics has been used for identifying growth indicators in retail trade. In the first seven months of 2021, the retail trade turnover increased by 14.9 per cent. in nominal terms, and by 11.9 per cent. in real terms, compared to the corresponding period of 2020. In this period, retail trade turnover of automotive fuel recorded the highest real growth of 16.8 per cent., followed by 13.7 per cent. of real growth in non-food products, while food products recorded a real increase of 8.7 per cent.

Transport and communications *(pages 133 - 137 of the Base Prospectus and page 21 of the First Offering Memorandum)*

According to the physical volume data on transportation services from the Office of Statistics, transportation activity decreased by 19.9 per cent. in the first quarter of 2021 compared to the corresponding period in 2020, owing to the decrease in the physical volume of land transportation (1.7 per cent.), air transportation (60.0 per cent.), while inland waterway transportation increased by 289.2 per cent. Due to the pandemic, the physical volume of transported passengers in 2020 decreased by 51.0 per cent. compared to 2019, while the physical volume of transported freight decreased by 5.2 per cent.. In the first quarter of 2021, the physical volume of transported passengers decreased by 42.8 per cent. compared to the same period in 2020, while the physical volume of transported freight increased by 15.2 per cent. According to the physical volume data on telecommunication services from the Office of Statistics, the physical volume of postal activities decreased by 13.5 per cent. in 2020, while telecommunications increased by 15.8 per cent.. In the first quarter of 2021, the physical volume of postal activities decreased by 3.6 per cent. compared to the same period of 2020, while telecommunications increased by 5.8 per cent.

Information and communications *(pages 136-137 of the Base Prospectus)*

In 2020, calculated as the sum of four quarters, the GVA of information and communications sector continued to grow, increasing its share in total GVA measured in current prices from 5.9 per cent. in 2019 to 6.5 per cent. in 2020. The GVA of this sector increased by 11.8 per cent., measured at current prices, while in real terms it increased by 7.3 per cent. compared to 2019.

Finance and insurance *(pages 137-138 of the Base Prospectus)*

In 2020, calculated as the sum of four quarters, the finance and insurance sector's GVA grew by 4.8 per cent. in current terms, or 4.1 per cent. in real terms compared to 2019. In 2020, this sector represented 3.9 per cent. of total GVA when measured in current prices.

Tourism and Catering Trade *(pages 138 - 139 of the Base Prospectus and page 22 of the First Offering Memorandum)*

As a result of the ongoing recovery after the disruption caused by the outbreak of COVID-19, tourist arrivals and overnight stays in the first seven months of 2021 increased by 36.9 per cent. and 31.0 per cent., respectively, compared to the corresponding period in 2020. Domestic tourist arrivals in the first seven months of 2021 increased by 37.3 per cent. while foreign tourist arrivals increased by 35.8 per cent., compared to the corresponding period in 2020. Domestic overnight stays increased by 26.8 per cent. in the first seven months of 2021, while foreign overnight stays increased by 43.8 per cent. compared to the corresponding period of 2020. The tourism sector was one of the industries most affected by COVID-19, and as a result of this, the performance of this industry will be highly dependent on the trajectory of the virus and the extent to which travel restrictions may remain in place throughout Europe.

Labour Market – Employment and Wages *(pages 140 - 145 of the Base Prospectus and page 22 of the First Offering Memorandum)*

According to a Labour Force Survey[1] conducted in the second quarter of 2021, the year-on-year unemployment rate increased by 3.2 percentage points to 11.1 per cent. as at 30 June 2021. At the same time, the year-on-year employment rate increased by 2.0 percentage points to 48.3 per cent. Within the female population, the unemployment rate increased by 3.6 percentage points to 11.8 per cent. The long term unemployment rate (which represents the share of unemployed for one year and more in the total labour force in the age group of 15 or more) totalled 5.4 per cent. and the informal employment rate reached 13.2 per cent. GDP per employed persons in the first six months of 2021 totalled EUR 8,836, representing an increase of EUR 849 compared to the corresponding period in 2020.

In 2020, the average monthly net wage amounted to RSD 60,073 (EUR 511), reflecting an increase of 9.4 per cent. in nominal terms, and 7.7 per cent. in real terms, compared to 2019. At the same time, the average monthly gross wage amounted to RSD 82,984 (EUR 706), reflecting an increase of 9.5 per cent. in nominal terms, and 7.8 per cent. in real terms, compared to 2019. Real wage growth in the public sector amounted to 8.9 per cent., and was supported by private sector wage growth of 7.2 per cent. Additionally, since the beginning of 2020, the greatest contribution to the growth of average earnings stemmed from the health, manufacturing and trade sectors. GDP per employed persons in 2020 totalled EUR 16,740.

Projects of importance (*pages 22 - 23 of the First Offering Memorandum)*

Set out below are details of recent large-scale infrastructure projects of national and regional importance that the Government is actively pursuing as at the date of this Offering Memorandum:

Belgrade Metro Project

The Belgrade Metro Project represents the largest line infrastructure project in Serbia which is particularly important for the growth of the Serbian economy as it is expected to contribute towards sustained mobility and greatly improve the transport offering available to residents in Serbia. For the realization of this project, and construction of phase 1 of the first line of the metro, the Republic of Serbia and the City of Belgrade through the PUC Belgrade Metro and Train signed a Memorandum of Understanding (the "**MoU**") on 22 January 2021 with two French companies (ALSTOM Transport SA and Egis Rail) and one Chinese company (Powerchina International Group Limited). Under the MoU, ALSTOM Transport SA has agreed to provide the trains and transport system and Egis Rail has agreed to undertake all necessary studies and prepare the project design, while Powerchina International Group Limited has agreed to undertake the civil works in respect of the metro project. The estimated value for civil works and transport equipment for the first line (i.e. Phase 1: Zeleznik – Karaburma with a length of 16.7 kilometers) is approximately EUR 1.6 billion, a part of which will be funded by way of provisions through the Budget and project loans in phases starting as of 2021. Official works on phase

[1] Statistical office of the Republic of Serbia has changed the Labour Force Survey methodology according to which it presents data on the labour market. Given that the revision of data was done only for basic indicators, there was no possibility of a deeper and more precise structural analysis of changes.

1 of the first line of the metro is expected to commence in December 2021, with preparation for the construction on Makish depot.

Belgrade to Niš Railway Line

One of the projects of importance to Serbia is the reconstruction and modernisation of the existing main railway line from Belgrade to Niš (between Belgrade and Niš), the construction of which will commence in November 2021.

The existing main railway line from Belgrade to Niš is 243 km long and connects Central and Western Europe with Greece, Turkey and the Middle East. The anticipated project includes works on the reconstruction and modernisation of the railway, which will ensure that the railway has two-tracks throughout its entire length, which will result in projected train speed of up to 200 km/h and will enable the traffic and passenger and freight trains to be routed more efficiently. The project also includes the reconstruction of various stations and stops, as well as the installation of modern signalling and traffic management systems. Redevelopment of all road crossings and junctions on the railway line is also planned.

The exact value of the works will be determined after the development of preliminary designs for different sections of the railway, given that the project is intended to have a phased implementation. The project will be financed by a loan from the European Investment Bank, grants from European Union funds and the budget of the Republic of Serbia.

The project also incorporates the reconstruction and modernisation of the section of the railway between Stalać and Đunis (17.7 km, estimated value EUR 164.5 million). A preliminary design feasibility study and study on the environmental impact has been prepared for this section of the railway line by WBIF Funds.

Peace Highway

Construction works for the highway from Niš to Pločnik are due to commence in November 2021. This highway connects Serbia with the Albanian coast via Pristina, and will represent the connection of Corridor X with Route 6 (Skopje-Pristina) and Route 2b (Sarajevo-Podgorica-Vlora). The goal of the project is, in addition to better regional connectivity, to save travel time and operating travel costs and increase safety.

Wastewater treatment plant

Project “Pure Serbia” is due to commence in the third quarter of 2021, and shall cover 65 local governments with a total investment of EUR 2.7 billion. The project includes quality construction of wastewater treatment plants and a sewage network. Project “Pure Serbia” will also cover the construction of landfills for solid waste in four districts in the territory of the Republic of Serbia with a total investment of 264.7 million euros. These initiatives are intended to significantly improve environmental living conditions.

Privatisation process (*pages 148 - 149 of the Base Prospectus)*

Serbia adopted the Law on Privatization in August 2014, with 556 public sector companies and 90,000 employees in the portfolio, of which 17 state enterprises were protected from forced collection by creditors. This is an on-going process, and as of 15 August 2021, 70 out of the initial 556 companies, with a total of around 28,000 employees, remain non-privatised.

In March 2020, the Government adopted a conclusion for the privatisation of HIP Petrohemija, through the transfer of shares from state-owned companies and local governments to the Republic of Serbia with the aim of a structural reorganisation prior to electing a strategic partner via a tender process. The Ministry of Economy received a majority of decisions for the free transfer of shares to the Republic of Serbia from local municipalities. The free transfer of shares was realised in Central Securities Depository and the Republic of Serbia is now a majority shareholder of HIP Petrohemija, holding 75 per cent. of share capital.

Following the state of emergency imposed on Serbia in March 2020, privatisation activities slowed down and the Government only announced three privatisation tenders in 2020. A tender for the equity sale of VPD Smederevo Ltd. (a water management company) was successfully completed in March 2021. Privatisation procedures are intended to be suspended in respect of companies where there are circumstances that prevent the sale of capital or assets. On 9 September 2021, the Ministry of Economy announced a public invitation for the privatization of HIP Petrohemija, with the intent to select a strategic investor that would receive a maximum of 90 per cent. stake in HIP Petrohemija in the form of new shares pursuant to a capital injection in the amount of EUR 150 million.

As at the date of this Offering Memorandum, and since the adoption of the Law on Privatisation in 2014, the Government has announced 263 public invitations for the sale of equity and assets of certain state-owned companies, of which 234 invitations related to the sale of equity and 24 related to the sale of assets, while there were five public invitations for strategic partnership. The Government expects that privatisation of the remaining state-owned companies will improve the competitiveness and productivity of the economy and is, therefore, focused on completing the process. In collaboration with the ERBD, Serbia has also adopted a policy on state-owned enterprises.

The following table shows the results of the privatisation process for the years 2015 to 2020 and for the seven months ended 31 July 2021:

	Year ended on 31 December						Seven months ended 31 July 2021
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Number of sold companies	39	4	7	10	5	4	1
Number of employees.......	4,229	4,818	1,908	6,521	526	928	47
Sale price (EUR millions)..	28.1	47.6	27.8	127	13.6	14.5	0.6

Source: Ministry of Economy

Organised Crime, Corruption and Money Laundering *(pages 163 - 166 of the Base Prospectus and page 24 of the First Offering Memorandum)*

GRECO Recommendations

The second compliance report within the fourth evaluation round adopted by the Group of States Against Corruption ("**GRECO**") at its 86th Plenary Meeting of October 2020 concluded that Serbia's overall level of compliance with the outstanding recommendations of GRECO is "globally unsatisfactory", since the vast majority of GRECO recommendations remain partly implemented as they require constitutional amendments that are currently underway. Hence, Serbia will be able to fulfil these recommendations only after amendments to the Constitution are adopted by Parliament via a two-thirds majority vote, pursuant to the procedure specified in Article 203 of the Constitution, and confirmed in a referendum via a majority vote of all eligible voters.

The Government submitted a proposal to the National Assembly to amend the Constitution of Serbia on 4 December 2020. The proposal in part relates to the courts and public prosecutor's offices in Serbia as well as the election of members of the High Judicial Council, in line with the recommendations of GRECO.

According to the findings of the second compliance report, from the 13 total recommendations by GRECO, 10 have been partly implemented, two have been fully implemented, and one remained unimplemented at the time by Serbia. The two fully implemented GRECO recommendations were met by adopting the Law on Lobbying in 2018 and the Law on Prevention of Corruption in 2019.

Since the report, Serbia undertook further measures to implement the outstanding GRECO recommendations. As a result, *inter alia*:

- The Code of Conduct for the Members of the National Assembly was adopted on 24 December 2020;

- The new improved Code of Ethics for Public Prosecutors and Deputy Public Prosecutors ("*Official Gazette of the RS*" no. 42/2021) was adopted on 23 April 2021, together with the Guidelines for the Application of Ethical Principles;

- Amendments to the Law on Judges ("*Official Gazette of the RS*" no. 76/21) and amendments to the Law on High Judicial Council ("*Official Gazette of the RS*" no. 76/21) were adopted in line with GRECO recommendations. In this regard, for instance, Article 63 of the Law on Judges was deleted and, therefore, an "Unsatisfactory" performance evaluation mark may no longer lead to dismissal of the judges concerned. Another substantial change indicated that the Ethics Committee is a permanent (rather than an *ad-hoc*) working body of the High Judicial Council; and

- Since the second compliance report outlined certain shortcomings of the Law on Corruption Prevention (which was adopted on 21 May 2019 and entered into force on 1 September 2020) that could endanger its application, the Ministry of Justice of Serbia proposed amendments to the Law on Corruption Prevention. The public debate on these amendments is currently underway (from 5 – 24 August 2021).

The next progress report on the fulfilment of the outstanding recommendations of the GRECO shall be submitted on 31 October 2021. The delegation of Serbia looks forward to reporting back to GRECO in detail on further measures undertaken to fully implement its recommendations. Furthermore, within the fifth evaluation round, Serbia is hosting the GRECO evaluation team in September 2021.

Investigations

The Base Prospectus contains a description of an investigation into suspected corruption on part of the former State Secretary and five other officials of the Ministry of Construction, Transport and Infrastructure as well as an investigation for corruption on part of the former Assistant Minister of Agriculture. Both these investigations are ongoing as at the date of this Offering Memorandum and there are no material updates with respect to these proceedings. The former State Secretary, who maintains his innocence of any wrongdoing, is no longer a part of the Government as he was dismissed from the position of State Secretary in the Ministry of Energy on 25 March 2021 at his request. Although he is now an executive director of the Sector for Strategy, Design and Development in "Roads of Serbia".

As part of the Government's efforts to eradicate corruption within its Ministries and elsewhere, and in particular to repress corruption at high-levels, four criminal proceedings involving public officials were initiated between February and August 2021. As at the date of this Offering Memorandum, none of these officials hold their public positions. As part of this initiative, criminal proceedings were initiated in June 2021 against the former Assistant to the Minister of Education (who was dismissed from her position in January 2021) for allegedly accepting bribes in violation of Article 367 of the Criminal Code and trading in influence in violation of Article 366 of the Criminal Code. Criminal proceedings were also initiated against four non-officials for the criminal offense of giving a bribe in violation of Article 368 of the Criminal Code and money laundering in violation of Article 245 of the Criminal Code. As at the date of this Offering Memorandum, these criminal investigations are ongoing.

Law on Digital Assets

The Law on Digital Assets became effective on 27 June 2021 (after it entered into force on 17 December 2020). This law, among other things, regulates digital assets, virtual currency and virtual asset service providers. Anti-Money laundering and counter-financing terrorism safeguards have been ensured through the concurrent amendments of the Law on the Prevention of Money Laundering and the Financing of Terrorism (the "**AML/CFT Law**").

*National Money Laundering and Terrorist Financing Risk Assessment ("**NRA**")*

In line with the AML/CFT Law, Serbia is currently in the process of conducting a national risk assessment for proliferation of weapons of mass destruction and a national risk assessment for virtual assets. This exercise which involves numerous government and private sector representatives is expected to be finalised through an action plan report which will be prepared in order to mitigate the risks identified. Once the report is finalised, all relevant stakeholders within the Government will be informed in the third quarter of 2021 so that work can be commenced to align all operations with the results of the risk assessment.

5. External Sector

Balance of Payments (*pages 154 - 157 of the Base Prospectus and pages 24 - 25 of the First Offering Memorandum)*

In absolute terms, the current account recorded a deficit of EUR 431.9 million in the first six months of 2021, representing a decrease of 65.3 per cent. (or EUR 814.3 million) compared to EUR 1,246.3 million in the first six months of 2020. This decrease was primarily due to higher secondary income account surplus, and lower trade deficit. When measured as a percentage of GDP, the current account deficit stood at -1.8 per cent. of estimated GDP in the first six months of 2021 (compared to -5.7 per cent. of GDP for the first six months of 2020). The improvement in the trade deficit of goods was primarily attributable to higher increase of exports (by 30.8 per cent) than imports (by 22.2 per cent).

In the first six months of 2021, exports of goods gained momentum amid the disruption caused by COVID-19, owing to sectoral and geographic diversification achieved in the previous periods and strong FDI inflow. In particular, both manufacturing and agriculture exports contributed to the positive performance of exports in the first six months of 2021, as it registered an increase of 26.9 per cent, and 28.5 per cent., respectively. Within manufacturing exports, the positive contribution to the exports stemmed from 20 out of 23 export branches, mostly the exports of electrical equipment (49.6 per cent.), and motor vehicles (44.9 per cent.). On the other hand, within imports, there was decline in the imports of extraction of crude petroleum and natural gas, while the growth was seen primarily in imports of electrical equipment and basic metals. Similarly, as the magnitude of growth in the exports of services (by 18.1 per cent.) was higher compared to that of imports of services (by 8.7 per cent.) in the first six months of 2021, trade in services continued to record a surplus, driven primarily by the growth of net exports of tourism, ICT services, and other business services. In the first six months of 2021, ICT services represented 23.9 per cent. of the total export of services when expressed in euros. The nominal growth of export of ICT services in the first six months of 2021 was 17.6 per cent. year-on-year when expressed in euros, while the nominal growth of total export of services over the same period was 18.9 per cent. year-on-year when expressed in euros.

In the first six months of 2021, the value of exports to EU-28, CEFTA, EFTA, EET and Turkey represented 90.6 per cent. of the total exports when expressed in both euros and USD. As for the share in the total foreign trade, the value of exports to EU-28, CEFTA, EFTA, EET and Turkey over the same period represented 82.4 per cent. when expressed in euros and 82.3 per cent. when expressed in USD.

	Year ended 31 December					Period ended 30 June		
	2016	2017	2018	2019	2020	H1 2020	H1 2021	Y-o-Y growth
			(EUR millions)			*(EUR millions)*		
Balance of goods and services............	**(2,211.9)**	**(3,031.4)**	**(4,090.6)**	**(4,611.6)**	**(4,099.1)**	**(2,081.7)**	**(1,702.9)**	**(18.2)**
Exports of goods and services....................	17,384.9	19,312.0	21,166.3	23,348.6	22,270. 8	10,268.6	13,058.7	27.2
Imports of goods and services....................	19,596.8	22,343.4	25,256.9	27,960.2	26,369. 9	12,350.3	14,761.6	19.5

Source: National Bank of Serbia (Balance of Payments Statistics)

Foreign Direct Investment *(pages 171 - 175 of the Base Prospectus and pages 25 - 26 of the First Offering Memorandum)*

FDI inflows remained resilient in the first six months of 2021, amidst the ongoing disruption caused by COVID-19, with net inflows of EUR 1.6 billion (representing 6.5 per cent. of GDP for the six months ended 30 June 2021), which is EUR 161.6 million (or 11.4 per cent.) higher compared to EUR 1.4 billion in the first six months of 2020. The net FDI inflows more than fully covered and financed the current account deficit (by 365.5 per cent.).

The following table shows the inflow of FDI in Serbia by country of origin for the year 2020 and for the first three months ended 31 March 2020 and 2021:

FDI by Country	**2020**	**Q1 2020**	**Q1 2021**
		(EUR millions)	
TOTAL FDI in Serbia[1]	**3,038.9**	**807.3**	**964.4**
1. Europe	**2,317.0**	**684.1**	**700.9**
1.1. European Union (EU-28)	2,131.4	634.2	430.3
of which: Germany	353.3	60.7	42.1
France	58.6	27.9	49.7
Italy	18.5	32.3	4.2
Netherlands	590.6	219.5	201.4
Austria	94.8	94.6	53.1
1.2. Russia	55.5	45.3	(1.8)
1.3. Switzerland	60.4	(10.9)	261.6
1.4. Turkey	30.4	2.1	3.5
1.5. Other European Countries	39.3	13.4	7.2
2. Asia	**651.0**	**107.4**	**232.7**
2.1. United Arab Emirates	61.5	4.4	3.5
2.2. China (including Taiwan and Hong Kong)	528.5	88.3	236.1
2.3. Other Asian Countries	61.0	14.7	(6.8)
3. Americas	**65.0**	**15.5**	**31.0**
4. Other countries	**7.9**	**0.3**	**(0.2)**

Source: National Bank of Serbia

Notes:

(1) Certain figures included in the above table have been subject to rounding adjustments; accordingly, figures that are presented as totals may not be an arithmetic aggregation of their components.

The following table shows the inflow of FDI in Serbia by sectors for the year 2020 and for the first three months ended 31 March 2020 and 2021:

FDI by Economic Activity	**2020**	**Q1 2020**	**Q1 2021**
		(EUR millions)	
FDI in Serbia	**3,038.9**	**807.3**	**964.4**
Tradeable sectors	**1,740.2**	**486.2**	**662.4**
Share of tradable sectors in FDI (%)	*57%*	*60%*	*69%*
Manufacturing	850.8	251.9	204.0
Mining	212.7	7.1	140.7
Agriculture, forestry and fishing	49.4	8.2	7.1
Supply of electricity, gas, etc.	35.4	13.5	13.3
Water supply	126.0	14.8	(0.3)
Transportation and storage	450.9	197.1	293.6
Accommodation and food service activities	15.1	(6.4)	4.0
Non-tradeable sectors	**1,289.5**	**318.5**	**293.6**
Share of non-tradable sectors in FDI (%)	*42%*	*39%*	*30%*
Financial activities	512.1	58.8	26.7
Trade	196.2	68.4	(7.1)
Construction	385.0	118.2	128.6
Real estate activities	124.0	10.8	32.3
Professional, and technical activities	9.9	32.2	46.7
Information and communication	28.2	8.1	73.7
Other	34.1	22.0	(7.3)
Not allocated	**9.2**	**2.6**	**8.5**

Source: National Bank of Serbia

Financial Account *(pages 157 - 158 of the Base Prospectus and page 26 of the First Offering Memorandum)*

In the first six months of 2021, the financial account (excluding change in official reserves) recorded a net inflow of EUR 731.8 billion, mainly as a result of net FDI inflows (EUR 1.6 billion) and net portfolio investment inflows (EUR 783.7 billion). At the same time, net repayments by the banks in the form of financial loans amounted to EUR 266.9 million, while net borrowings of public sector and amounted to EUR 123.1 million and EUR 1.1 million, respectively. The stock of gross external debt stood at EUR

32.3 billion or 69.1 per cent. of GDP at the end of March 2021, representing an increase of 7.9 percentage points compared to the end of March 2020.

6. Monetary System

Open Market Operations *(pages 179 - 180 of the Base Prospectus and pages 26 - 27 of the First Offering Memorandum)*

The National Bank continued to use one-week liquidity absorbing reverse repo transactions (i.e. repo sales of securities that withdraw dinar liquidity) as a main monetary policy instrument to regulate dinar liquidity in the banking system. In the first seven months of 2021, the average stock of repo-sold securities stood at RSD 40.3 billion, which is RSD 2.7 billion lower than the first seven months of 2020. At the end of July 2021, the stock of reverse repo-sold securities amounted to RSD 30.0 billion.

In November 2020 the National Bank decided to act pre-emptively by providing banks with additional cheap dinar liquidity through direct repo auctions. Since then, the National Bank has regularly been organising three month auctions of repo purchases of dinar-denominated securities on a weekly basis at a favourable interest rate (deposit facility rate, which defines lower bound of interest rate corridor). At the end of July 2021, the stock of repo purchased securities amounted to RSD 23.4 billion (providing liquidity).

Credit Aggregates *(pages 182 - 183 of the Base Prospectus and page 27 of the First Offering Memorandum)*

Despite the negative impacts of the COVID-19 pandemic, lending activity within the banking sector continued to rise in the first six months of 2021, causing total domestic loans (comprising dinar and foreign exchange (foreign exchange-indexed) claims of the banks on private and public sectors, including non-profit organizations) to reach RSD 3,600.6 billion and record a growth of 3.5 per cent., compared to 6.2 per cent. growth in the first six months of 2020, which was influenced by good loan realisation in the beginning of 2020 and the effects of the first moratorium on loan repayments that was in place in period from April-June 2020). Out of this, pure loans to private sector (after excluding the effect of exchange rate changes) increased by RSD 93.6 billion or 3.5 per cent. (compared to 7.1 per cent. increase in the first six months of 2020) to RSD 2,750.2 billion as at the end of June 2021. This increase was mainly attributable to, and influenced by the low interest rate environment in Europe and the expansive monetary policy of the National Bank in general, and was supported by loans disbursed under the State Guarantee Schemes and measures by the National Bank aimed at stimulating sustainable household lending and measures aimed at facilitating the repayment of liabilities of debtors faced with difficulties amidst the pandemic including loan rescheduling and refinancing. As at 30 June 2021, dinar claims to private non-financial corporations and households amounted to RSD 279.9 billion and RSD 722.6 billion, respectively, reflecting an increase of 13.7 per cent. and 3.9 per cent., compared to 31 December 2020.

As at the end of June 2021, liquidity loans (after excluding the effect of exchange rate changes) increased by RSD 25.0 billion and amounted to RSD 632.7 billion (compared to RSD 598.7 billion at the end of December 2020). Liquidity loans accounted for the largest category in the corporate loans as at 30 June 2021, with a share of 44.6 per cent. This was followed by investment loans which increased by RSD 9.0 billion and amounted to RSD 598.8 billion at the end of June 2021 (compared to RSD 589.8 billion at the end of December 2020). Investment loans accounted for the second largest category in the corporate loans as at 30 June 2021, with a share of 42.8 per cent. In terms of size of the enterprises, loans granted to the SME segment accounted for 68.3 per cent. of total corporate loans at end of June 2021, with their volume reflecting an increase of 1.7 per cent. relative to December 2020. Among household loans (comprising dinar and foreign exchange loans), cash and housing loans increased the most (by RSD 26.9 billion and RSD 38.8 billion, respectively) and amounted to RSD 577.1 billion and RSD 494.0 billion at the end of June 2021 (compared to RSD 550.3 billion and RSD 455.2 billion at the end of December 2020). Cash and housing loans represented the largest category in the structure of households loans, with a share of 44.2 per cent. and 37.8 per cent., respectively in June 2021.

Monetary Aggregates *(pages 183 - 184 of the Base Prospectus and pages 27 - 28 of the First Offering Memorandum)*

After the usual seasonal contraction at the beginning of 2021, money supply rose on the back of a rise in net foreign assets and lending activity. A decline in the amount of direct Government assistance and termination of the loan repayment moratorium caused money supply to rise at much slower pace in 2021 than in 2020. The narrow money (M1) increased by 2.8 per cent. to RSD 1,254.0 billion as at the end of June 2021 compared to the end of December 2020. The growth in time dinar deposits of non-monetary sectors was mostly concentrated in other financial organisations, local governments and households deposits, causing the broad money aggregate (M2) to increase by 2.2 per cent. to RSD 1,587.8 billion as at end of June 2021 compared to the end of December 2020. This, along with the rise in foreign currency deposits, which was further propped by foreign currency inflows from exports, FDI and external borrowing of corporates and rise in households foreign currency savings, increased the broad money aggregate (M3) by 4.6 per cent. to RSD 3,489.3 billion as at end of June 2021 compared to the end of December 2020.

Despite the pandemic, both dinar and foreign currency savings of households continued to increase in the first six months 2021. As at 30 June 2021, dinar savings reached RSD 98.3 billion, while foreign currency savings amounted to EUR 11.7 billion, reflecting an increase of RSD 5.8 billion and EUR 666.9 million, respectively, compared to the end of 2020. Owing to the National Bank's proactive measures, lending activity continued to rise amidst the COVID-19 pandemic, which resulted in an increase in the dinar loans to public and private non-financial corporations and households (by RSD 70.4 billion) and foreign currency loans (by RSD 21.9 billion) in the first six months of 2021. Dinar and foreign currency loans to public and private non-financial corporations and households amounted to RSD 1,065.7 billion and RSD 1,694.6 billion, respectively, as at 30 June 2021.

Inflation *(pages 185 - 186 of the Base Prospectus and page 28 of the First Offering Memorandum)*

Since the beginning of the COVID-19 pandemic, inflation has remained fairly stable in Serbia, and with exception of the global commodity prices, which firstly significantly dropped in the outbreak of the pandemic, and then sharply increased with the news of faster global economic recovery as a result of progress in vaccination, there has been no major price movement in either direction. In line with National Bank's expectations, average inflation increased to 2.3 per cent. in the first six months of 2021, compared to 1.4 per cent. in the first six months of 2020.

As a result of low base effect from petroleum product prices and rise in prices of primary commodities, inflation accelerated in the first six months of 2021 and amounted to 3.3 per cent in June 2021, compared to 1.3 per cent. in December 2020. Inflation is moving within the targeted band since March of 2021 to date, while in January and February it stood below the lower bound of the targeted tolerance band, at 1.1 and 1.2 per cent year-on-year, on account of lower than seasonally expected rise in vegetable prices. Similarly, the core inflation rate has been relatively stable in the first six months of 2021, mainly due to still low aggregate demand.

The National Bank expects inflation in Serbia to continue to move within the targeted tolerance band of 3.0 per cent. ± 1.5 per cent. in the coming years (although this expectation may be altered by the prolonged effects of the COVID-19 pandemic). Projected average inflation is expected to reach 3.0 per cent. in 2021, which is an upward revision compared to previously expected as a result of higher than expected increase of global prices of commodities. However, the exact impact of the COVID-19 crisis on inflation in the coming periods will depend largely on the length of the pandemic and the pace of normalisation of economic conditions. The National Bank perceives the current higher inflation level of 3.3 per cent. (as at 30 June 2021) as transitory. More precisely, the National Bank expects inflation to move within the upper bound of the target tolerance band until the end of Q1 2022. Starting from Q2 2022, the National Bank expects inflation first to drop to the central point of the inflation target, while from the second half of 2022 it expects inflation to start moving again within the lower part of the target tolerance band.

Interest Rates *(pages 186 - 187 of the Base Prospectus and pages 28 - 29 of the First Offering Memorandum)*

Mostly due to the National Bank's monetary policy easing, interest rates on dinar loans to the private sector have declined by 12.5 percentage points since May 2013, namely, the start of the current monetary policy easing cycle. In June 2021, dinar denominated corporate loans were approved at an interest rate of 3.2 per cent., while dinar denominated households loans were extended at an interest rate of 8.4 per cent. At the same time, interest rates on euro and euro-indexed loans, which in June 2021 stood at 2.5 per cent. for corporates and at 3.0 per cent. for households, have reduced by 4.8 percentage points since May 2013, driven mainly by the sharp fall in the country's risk premium and low interest rate environment in the euro money market. The difference in the interest rates between dinar and euro-indexed loans to the corporate sector has considerably narrowed since mid-2013, thus facilitating dinar lending and an increase of dinarisation.

Similarly, as a result of the National Bank's monetary policy accommodation, interest rates on dinar savings have continued to decline since the beginning of 2021, with monthly weighted average interest rates for new dinar deposits amounting to 1.35 per cent. at the end of June 2021. Interest rates on dinar savings continued to be higher than those on foreign currency savings (with monthly weighted average interest rates amounting to 0.7 per cent. at the end of June 2021), and remained conducive to the growth of dinarisation.

Exchange Rate *(pages 187 - 189 of the Base Prospectus and page 29 of the First Offering Memorandum)*

In the first seven months of 2021, the dinar exchange rate has mostly experienced appreciatory pressures, as a continuation of established trend in pre-pandemic period, underpinned by the improvement of the macroeconomic performance of Serbian economy. Appreciation pressures were particularly pronounced in June and July of 2021, partly as the result of the inflow of foreign portfolio investments, especially at the end of June with the inclusion of dinar government securities in the J.P. Morgan EM bond indices. Also, appreciation pressures were affected by increased supply of foreign exchange from some domestic companies, increase of net indexed assets of banks as a result of banks' lending activity growth, increased net purchase of foreign cash (partially due to increased foreign exchange inflow based on tourism), as well as other factors. By appearing on both sides of the market, through selling foreign currency in response to depreciatory pressure, and buying foreign currency in response to appreciatory pressures, the National Bank continued to intervene in the domestic foreign exchange market to alleviate such pressures and prevent sudden destabilising changes in the dinar exchange rate against the Euro (which is the main foreign currency in use in Serbia). More specifically, in order to mitigate excessive short-term oscillations in the dinar exchange rate, the National Bank bought EUR 700 million net (due to prevailing appreciation pressures) in the domestic foreign exchange market in the first seven months of 2021. On 30 July 2021, the exchange rate of EUR to RSD was 1:117.5668, while the average exchange rate of EUR to RSD for the first seven months of 2021 was 1:117.5740. On 30 June 2021, the exchange rate of USD to RSD was 1:98.7369, while the average exchange rate of USD to RSD for the first six months of 2021 was 1:97.5998. On 30 July 2021, the exchange rate of USD to RSD was 1:98.9620, while the average exchange rate of USD to RSD for the first seven months of 2021 was 1:97.8793.

Dinarisation Strategy *(pages 189 - 190 of the Base Prospectus and page 29 of the First Offering Memorandum)*

Serbia continued to make progress in the field of de-euroisation in 2021, as evidenced by the significant improvement achieved by the main indicators of dinarisation as follows:

- the share of dinar receivables to households and the corporate sector in the total receivables increased by 1.3 percentage points in the first six months of 2021 compared to 37.3 per cent at the end of 2020. Out of this share of dinar receivables, dinar receivables to households decreased by 0.7 percentage points compared to end-2020 and reached 55.2 per cent at the end of June 2021, while dinar receivables to the corporate sector increased by 2.6 percentage points compared to end-2020 and reached 23.6 per cent at the end of June 2021, following the implementation of the State Guarantee Scheme which fueled corporate lending in dinar.

- although euroisation of deposits and loans continued to remain high, the share of dinar deposits to household and the corporate sector in the total deposits decreased by 1.4 percentage points in the first six months of 2021 compared to 40.1 per cent at end-2020. Out of this share of dinar deposits, dinar deposits to households increased by 0.1 percentage points compared to end-2020 and reached 26.9 per cent at end of June 2021, while dinar deposits to the corporate sector decreased by 3.2 percentage points compared to end-2020 and reached 58.1 per cent.

- dinar savings maintained propulsive growth amidst the disruption caused by the COVID-19 pandemic, increasing by RSD 5.8 billion (or 6.2 per cent.) from RSD 93.1 billion at end-2020 to RSD 98.8 billion at end of June 2021.

- the dinar share of Public Debt continued to increase, reaching 30.6 per cent at the end of June 2021, which is 2.2 percentage points above the position at the end of June 2020.

Foreign Exchange Reserves *(pages 190 - 191 of the Base Prospectus and pages 29 - 30 of the First Offering Memorandum)*

The gross foreign exchange reserves of the National Bank remained broadly stable and reached EUR 14,580.3 million at the end of July 2021, an increase of EUR 1,059.6 million compared to the end of July 2020. This increase was largely as a result of the net inflows from (i) foreign currency government securities EUR 737.7 million, (ii) National Bank interventions in the domestic foreign exchange market EUR 542.0 million, (iii) efficient foreign exchange reserve management and other sources EUR 435.0 million, (iv) grants EUR 339.4 million and (v) net bank foreign exchange reserve EUR 206.4 million. These inflows were more than sufficient to cover the net outflows driven by foreign currency loans EUR 806.9 million and other factors EUR 734.7 million.

Banking Sector *(pages 191 - 195 of the Base Prospectus and page 30 of the First Offering Memorandum)*

At the end of 30 June 2021, the banking sector of Serbia consisted of 25 banks, of which 19 were majority owned by foreign shareholders, 3 were owned by domestic private individuals and 3 were state-owned. As of 30 June 2021, there was a high level of concentration of foreign ownership in the banking sector, with foreign-owned banks (from 13 different countries) holding 86.27 per cent of the banking sector’s total assets, 89.70 per cent of total loans and 85.25 per cent of total deposits. In particular, the Serbian banking sector continued to be exposed to the banking systems of other European countries, particularly Italy (with Italian banks owning 26.15 per cent of the total assets of the Serbian banking system as at 30 June 2021).

Liquidity indicators are at satisfactory levels. Average monthly liquidity ratio amounted to 2.29 per cent. in June 2021, which is well above the regulatory minimum of 1.0 per cent. Liquid assets consisted of 37.89 per cent. of total assets and 50.47 per cent. of short-term liabilities as at the end of June 2021.

As of 30 June 2020, foreign currency denominated loans constituted approximately 63.38 per cent of total loans in the banking sector and foreign currency denominated deposits amounted to approximately 60.36 per cent of the total deposit portfolio of the banking sector. Despite the ongoing COVID-19 crisis, the financial stability of the banking sector has so far been maintained in 2021 due to the economic and monetary policy measures implemented by the Government and the National Bank. Mostly due to these measures, the declining trend in NPLs continued in the first half of 2021. At the end of June 2021, gross NPL ratio amounted 3.63 per cent., which is 0.08 percentage points lower in comparison with the end of December 2020 and 18.62 percentage points lower in comparison with the end of August 2015, reflecting positive effects of the implementation of NPL Resolution Strategy adopted since August 2015. As of 30 June 2021, gross NPLs amounted to RSD 104.36 billion, compared to gross NPLs of RSD 102.4 billion at the end of 2020. By sector contribution, both the corporate and retail sectors are major contributors to total NPLs level, with shares of 47.72 per cent. (NPL indicator 3.52 per cent.) and 50.84 per cent. (NPL indicator 4.03 per cent.) of total NPL loans, respectively. As per the methodology used to identify the above sector contribution, the corporate sector includes privately owned companies, public enterprises, private companies in bankruptcy, public enterprises in bankruptcy, as well as legal persons and institutions in the field of education and health protection which are not financed from the budget. The retail sector includes the households, the entrepreneurs, private households with employed persons and registered agricultural producers.

The following table provides an overview of the change in Gross NPLs across sectors as at 31 December 2020 and as at 30 June 2021:

Breakdown of NPLs by sectors	As at 31 December 2020	As at 30 June 2021
	(RSD millions)	
Corporate	37,697.65	36,059.12
Households' sector	40,713.12	47,650.47
Other	23,970.77	20,651.36
Total NPLs	**102,381.54**	**104,360.95**

Despite of significant write-offs and sales, the NPL coverage ratio continued to remain at relatively high level. In June 2021, 58.24 per cent. of NPLs were covered by their respective IFRS provisions. As at 30 June 2021, the total regulatory capital to RWA ratio for the banking sector stood at 22.2 per cent., well over the mandated regulatory minimum of 8 per cent, while the Tier 1 capital to RWA ratio stood at 21.1 per cent as at 30 June 2021.

The financial stability of the banking sector was maintained in the first half of 2021 and asset quality improved thanks to support measures of the Government and the NBS. The NBS is closely monitoring the economic consequences of the COVID-19 pandemic and its potential effects on the Serbian-banking sector. It should be borne in mind that the strong capitalisation of the banking sector and relatively high NPL coverage ratio have provided adequate protection thus far against the risks that may arise in the system.

7. Public Finance

2021 Budget *(pages 30 - 31 of the First Offering Memorandum)*

The Supplementary Budget of 2021 was adopted on 22 April 2021 (the "**Supplementary Budget**").

Under the Supplementary Budget:

- total revenues are budgeted at RSD 1,356.2 billion at the central government level and RSD 2,479.9 billion at the general government level;
- total expenditures are budgeted at RSD 1,768.4 billion at the central government level and RSD 2,892.1 billion at the general government level; and
- the resulting budget deficit at the central government is assumed at RSD 412.2 billion, or 6.8 per cent. of the expected GDP for 2021, and the total fiscal deficit is also assumed at RSD 412.2 billion, or 6.8 per cent. of the expected GDP for 2021.

The Supplementary Budget assumes real GDP growth of 6 per cent. and average inflation of 2.4 per cent. in 2021.

The table below sets out the public revenues and public expenditures at the central government level adopted in the Supplementary Budget as well as the actual realised amounts for the seven month period ended 31 July 2021:

	Supplementary Budget (adopted 22 April 2021)	Seven months ended 31 July 2021 Executed
	(RSD millions)	
Public Revenues	**1,356,238**	**844,795**
Current revenues	1,338,656	836,429
Tax revenues	1,168,300	750,108
Personal income tax	76,600	50,585
Corporate income tax	99,100	97,561

	Supplementary Budget (adopted 22 April 2021)	Seven months ended 31 July 2021 Executed
Value added tax	600,300	365,716
Excises	322,800	196,351
Customs	56,500	32,501
Other tax revenues	13,000	7,394
Non-tax revenues	170,356	86,321
Grants	17,583	8,365
Public Expenditures	**1,768,438**	**884,406**
Current expenditures	1,375,804	750,594
Expenditures for employees	338,556	189,017
Purchase of goods and services	157,379	64,730
Interest payment	111,299	78,051
Subsidies	212,648	122,107
Social assistance and transfers from the budget	473,726	248,574
Other current expenditures	82,196	48,115
Capital expenditures	362,156	120,261
Net lending	18,748	9,799
Activated guarantees[1]	11,730	3,752
Fiscal Surplus/Deficit	**-412,200**	**-39,611**

Source: Ministry of Finance

Note:

(1) The amount does not include activated guarantees for PE "Roads of Serbia", included in the category: 'Debt repayment to foreign creditors'.

The 2022 Budget is expected to be adopted after the planned meetings with the IMF in October. In line with the usual timeline set out in law, the Government intends to adopt the draft Budget by 1 November 2021, with Parliament ratifying the same by 15 December 2021.

Budget Execution and Fiscal Developments *(pages 224-227 of the Base Prospectus and pages 31 - 34 of the First Offering Memorandum)*

The following table shows the actual revenues and expenditures of the consolidated general government budget for the seven month periods ended 31 July 2020 and 31 July 2021.

	Seven months ended 31 July	
	2020	2021
	(RSD millions)	
Public Revenues (incl. Grants)	**1,223,120.1**	**1,537,082.3**
Current revenues	1,216,653.1	1,527,405.9
Tax revenues	1,089,631.3	1,381,190.2
Personal income tax	112,074.5	147,719.3
Corporate income tax	65,194.6	107,411.9
Value added tax	308,877.9	365,716.4
Excises	182,576.2	196,350.9
Customs	28,307.5	32,500.7
Other tax revenues	41,110.1	49,465.2
Social contributions	351,490.5	482,025.8
Non-tax revenues	127,021.8	146,215.7
Grants	6,467.0	9,676.4
Public Expenditures	**1,552,384.9**	**1,543,053.9**
Current expenditures	1,389,250.9	1,368,785.2
Expenditures for employees	330,859.9	361,236.0
Purchase of goods and services	242,168.0	245,940.5
Interest payment	72,495.9	79,074.5
Subsidies	155,377.6	121,174.0
Social grants and transfers	463,548.4	486,172.4
of which: Pensions	340,275.1	355,614.0
Contributions for unemployed persons	4,585.2	8,701.2
Sick leave	6,345.6	8,463.4
Social assistance	88,139.8	93,229.0
Other transfers to households	24,202.7	20,164.8

Other current expenditures	124,801.0	75,187.9
Capital expenditures	141,111.9	160,220.3
Activated guarantees[(1)]	3,466.6	3,752.1
Net lending	18,555.5	10,296.3
Consolidated Balance	**-329,264.8**	**-5,971.6**
Financing Inflows	**549,251.0**	**316,282.1**
Privatization proceeds	1,269.6	320.5
Receipts from repayment of loans	4,942.8	6,723.9
Domestic borrowing	278,407.4	137,348.9
Foreign borrowing	264,631.2	171,888.8
Financing Outflows	**204,730.9**	**143,960.6**
Debt repayment to domestic creditors[(2)]	138,461.1	103,662.6
Debt repayment to foreign creditors	64,744.4	39,989.8
Acquisition of financial assets	1,525.5	308.2

Source: Ministry of Finance

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Notes:

(1) The amount does not include activated guarantees for PE "Roads of Serbia", included in the category: 'Debt repayment to foreign creditors'.

(2) The amount includes the repayment of frozen foreign currency savings and a loan for economic revival, as well as RSD 21.1 billion, which was used by the PE "Roads of Serbia" in 2009 to repay the debt to suppliers from previous years.

The following table shows year-on-year nominal changes in certain categories of revenues and expenditures of the general government budget for the first seven months of 2021 compared to the first seven months of 2020:

	General Government Jan-July 2021/2020 nominal changes
	%
Public Revenues	**25.7**
Current revenues	**25.5**
Tax revenues	26.8
Personal income tax	31.8
Corporate income tax	64.8
Value added tax	18.4
Excises	7.5
Customs	14.8
Other tax revenues	20.3
Non-tax revenues	15.1
Grants	49.6
Public expenditures	**(0.6)**
Current expenditures	**(1.5)**
Expenditures for employees	9.2
Purchase of goods and services	1.6
Interest payment	9.1
Subsidies	(22.0)
Capital expenditures	13.5
Activated guarantees[1]	8.2
Net lending	(44.5)

Source: Ministry of Finance

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Note:

(1) The amount does not include activated guarantees for PE "Roads of Serbia", included in the category: 'Debt repayment to foreign creditors'.

The following table shows year-on-year real changes in certain categories of revenues and expenditures of the general government budget for the first seven months of 2021 compared to the first seven months of 2020:

	General Government Jan-July 2021/2020 real changes
	%
Public Revenues	**22.7**
Current revenues	**22.6**
Tax revenues	23.8

Personal income tax	28.7
Corporate income tax	60.9
Value added tax	15.6
Excises	5.0
Customs	12.1
Other tax revenues	17.5
Non-tax revenues	12.4
Grants	46.1
Public expenditures	**(2.9)**
Current expenditures	**(3.8)**
Expenditures for employees	6.6
Purchase of goods and services	(0.8)
Interest payment	6.5
Subsidies	(23.8)
Capital expenditures	10.9
Activated guarantees(1)	5.7
Net lending	(45.8)

Source: Ministry of Finance

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Note:

(1) The amount does not include activated guarantees for PE "Roads of Serbia", included in the category: 'Debt repayment to foreign creditors'.

Estimated impact of economic measures adopted in 2020 and 2021 *(pages 34 - 36 of the First Offering Memorandum)*

Set out below is the estimated impact of the economic measures adopted in 2020 (12.9 per cent. of GDP – RSD 704.4 billion) and the first six months of 2021, which envisages a potential impact of 4.6 per cent. of GDP in 2021 (RSD 280.2 billion). The estimated impact of the total package of measures adopted in 2020 and 2021 is set at 17.5 per cent. of GDP (RSD 984.6 billion). The latest execution data available (see below) amounts to 1.7 per cent. of GDP (RSD 103 billion):

(*replacing the table under the section titled* "*Estimated impact of economic measures adopted in 2020*" *on pages 34 - 35 of the First Offering Memorandum*)

	Estimated impact (RSD billions)	**% GDP**
First Package of Measures		
Tax Policy Measures		
Deferred payment of withholding tax for the private sector during the state of emergency and for one additional month; private companies will repay these obligations in instalments, but not before January 2021.	140.0	2.6
Deferred payment of corporate income tax for the second quarter of 2020	21.0	0.4
VAT exemption for all donors.	-	-
Total	161.0	3.0
Direct Support to Private Sector		
Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – three minimum wages with additional two months of 60% of minimum wages	92.8	1.7
Direct support to large private companies – support in the amount of 50% of the net minimum wage (during the state of emergency) for employees who have received a decision on work termination (Articles 116 and 117 of the Labor Law)	4.5	0.1
Total	97.3	1.8
Measures to Preserve the Private Sector Liquidity		
Financial support program during the Covid-19 crisis of the Fund for Development of the Republic of Serbia	24.0	0.4
Guarantee scheme to support the economy during the Covid-19 crisis	240.0	4.4
Total	264.4	4.8
Other Measures		
Dividend moratorium by the end of the year, excluding public enterprises and loss of income stemming from dividends	16.0	0.3
Wage and Income measures (10% increase in salaries for health care workers, direct cash assistance of RSD 4,000 to all pensioners, support for agricultural producers, cash assistance for free artists)	16.0	0.3
Fiscal stimulus – domestic demand incentive	70.0	1.3
Total	102.0	1.9
Assessment of the impact of fiscal measures	384.3	7.1

	Estimated impact (RSD billions)	% GDP
Total – First Package of Measures	624.3	7.1
Second Package of Measures		
Tax Policy Measures		
Deferred payment of withholding tax for the private sector for an additional month (August); private companies will repay these obligations in instalments, but not before January 2021	28.0	0.5
Total	28.0	0.5
Direct Support to Private Sector		
Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – additional two months of 60% of minimum wages	36.0	0.6
Direct support to large private companies – additional two months of support in the amount of 50% of the net minimum wage (during the state of emergency) for employees who have received a decision on work termination (Articles 116 and 117 of the Labor Law).	-	-
Direct support to Hotel and Leisure sector – 350€ per bed, 150€ per room, direct support to caterers, travel agencies, hotels and car rental agencies (amount of 30,000 RSD)	4.7	0.1
Direct support to sports clubs	1.1	0.0
Total	41.8	0.7
Other Measures		
Wage and Income measures (direct cash assistance of RSD 4,000 to all pensioners, Covid bonus for healthcare workers)	10.3	0.2
Total	10.3	0.2
Assessment of the impact of fiscal measures	80.1	1.4
Total – Second Package of Measures	80.1	1.4
Total – First and Second Package of Measures	704.4	12.9
Total – Third Package of Measures		
Direct Support to Private Sector		
Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – three months of 50% of minimum wages	69.8	1.2
Direct support to Hotels in urban areas– 350€ per bed, 150€ per room	1.3	0.0
Direct support to caterers, travel agencies, hotels and car rental agencies	4.2	0.1
Cash assistance for free artists – two minimum wages (230 million RSD)	0.2	0.0
Direct sectoral assistance – road, traffic and passenger transport companies and bus stations – 600€ per bus	2.6	0.0
Total	78.1	1.3
Measures to Preserve the Private Sector Liquidity		
Continuation of guarantee scheme to support the economy during the Covid-19 crisis	60.0	1.0
New guarantee scheme to support crisis-stricken businesses	60.0	1.0
Total	120.0	2.0
Other Measures		
Fiscal stimulus – domestic demand incentive	73.1	1.2
Vaccination bonus	9.0	0.1
Total	82.1	1.4
Assessment of the impact of fiscal measures	160.2	2.7
Total – Third Package of Measures	280.2	4.6
Total Package of Measures	984.6	17.5

Source: Ministry of Finance

Execution of economic measures adopted in 2021 *(page 35 of the First Offering Memorandum)*

The following table shows the actual realised cost of the economic measures adopted in 2021, as of 25 August 2021:

	Realisation until 25 August 2021	
Tax Policy Measures	**(RSD billions)**	**% GDP**
Direct Support to Private Sector		
Direct support to entrepreneurs paying flat tax and entrepreneurs paying tax on actual revenues, micro, small and medium enterprises in the private sector – three months of 50% of minimum wages	52.0	0.9
Direct support to Hotels in urban areas– 350€ per bed, 150€ per room	1.2	0.0

Tax Policy Measures	Realisation until 25 August 2021 (RSD billions)	% GDP
Direct support to caterers, travel agencies, hotels and car rental agencies	4.1	0.1
Cash assistance for free artists – two minimum wages (230 million RSD)	0.3	0.0
Direct sectoral assistance – road, traffic and passenger transport companies and bus stations – 600€ per bus	2.2	0.0
Total	59.8	1.0
Measures to Preserve the Private Sector Liquidity...		
Continuation of guarantee scheme to support the economy during the Covid-19 crisis	9.5	0.2
New guarantee scheme to support crisis-stricken businesses	1.1	0.0
Total	10.6	0.2
Other Measures..		
Fiscal stimulus – domestic demand incentive	25.5	0.4
Vaccination bonus...	7.1	0.1
Total	32.6	0.5
Assessment of the impact of fiscal measures..	92.4	1.5
Total Package of Measures	103.0	1.7

Source: Ministry of Finance

Recent Developments *(deleting and replacing the last two paragraphs in the section titled "Public Finance—Recent Developments" in the First Offering Memorandum*)

The above projected levels of impact of the economic measures are provisional, based on estimates that Serbia and/or its agencies believe to be based on reasonable assumptions. All such data is provided based on the most recently available information but the estimated impact cited in this Offering Memorandum may differ materially from the actual impact as an element of this data is estimated and may change or continually be revised based on future developments.

Also, while the fiscal cost of COVID-19 is difficult to accurately predict, given the potential for higher expenditures and weaker revenues, particularly if significant additional measures are needed to contain a sustained rise in infection rates, the Government expects the total fiscal deficit to reach a projected level of 6.8 per cent. of GDP in 2021. However, due to better revenue collection than expected and the possibility of lower expenditure execution, it is possible that the deficit will be lower. The projected level of deficit is based on the most recently available information and tentative estimates of the fiscal cost of the economic measures designed to address the current situation of COVID-19. Economic consequences of the impact of COVID-19 or its eventual aftermath may require the implementation of new measures in line with future developments, which may involve additional fiscal incentives and require constant revision of the economic and fiscal metrics based on the assessment of the future situation and available new information. Accordingly, the actual realised results or fiscal cost of COVID-19, and its resulting impact on the total fiscal deficit and other relevant metrics, may differ, potentially significantly, from the amounts set forth above.

8. Public Debt

Public Debt as of 31 December 2020 and 30 June 2021 *(pages 221 - 227 of the Base Prospectus and pages 36 - 38 of the First Offering Memorandum)*

On 6 September 2021, the Ministry of Finance published Serbia's Public Debt figures as of 31 July 2021. Serbia's Public Debt amounted to RSD 3,334.5 billion as at 31 July 2021 (compared to RSD 3,135.7 billion as at 31 December 2020), comprising RSD 1,386.3 billion of Internal Public Debt and RSD 1,948.2 billion of External Public Debt (compared to RSD 1,344.4 billion and RSD 1,791.4 billion, respectively, as at 31 December 2020). The structure of the Public Debt is shown in the table below:

	As at 31 December 2020		As at 31 July 2021	
	RSD billions	*% of nominal GDP*	*RSD billions*	*% of nominal GDP*[(1)]
Public Debt.................................	**3,135.8**	**57.4**	**3,334.5**	**55.2**
Direct liabilities, of which............	**2,968.5**	**54.3**	**3,167.6**	**52.5**
Internal Public Debt	1,319.0	24.1	1,356.6	22.5
External Public Debt	1,649.5	30.2	1,810.9	30.0

	As at 31 December 2020		As at 31 July 2021	
	RSD billions	*% of nominal GDP*	*RSD billions*	*% of nominal GDP*[(1)]
Indirect liabilities[(2)]**, of which......**	**167.3**	**3.1**	**167.0**	**2.8**
Internal Public Debt	25.4	0.5	29.7	0.5
External Public Debt	141.9	2.6	137.3	2.3

Source: Ministry of Finance

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Notes:

(1) All data presented as at the end of July 2021 is shown as a percentage of GDP based on the Ministry of Finance's estimates of nominal annual GDP for 2021. Actual nominal GDP figures are expected to be finalised and published on or about 1 October 2022.

(2) Serbia issues guarantees for loans to state-owned enterprises and local Government. If the state-owned enterprise or local Government is unable to repay the relevant loan, it becomes a direct obligation of Serbian Government. As at 31 July 2021, guarantees debt stock amounted to EUR 1,420.4 million (RSD 167.0 billion).

Measured as a percentage of GDP, Public Debt decreased from 57.4 per cent. as at 31 December 2020 to an estimated 55.2 per cent. as at 31 July 2021, while General Government Debt decreased from 58.2 per cent. to an estimated 55.9 per cent. As at 31 July 2021, the General Government Debt amounted to RSD 3,376.1 billion (compared to RSD 3,181.2 billion as of 31 December 2020), comprising RSD 3,334.5 billion of Public Debt and RSD 41.6 billion of non-guaranteed debt of local self-governments and other legal entities (compared to RSD 3,135.8 billion and RSD 45.4 billion, respectively, as of 31 December 2020).

Serbia's outstanding External Public Debt as of 31 July 2021 consisted of RSD 739.9 billion of multilateral debt, RSD 453.6 billion of bilateral debt, RSD 723.7 billion of Eurobonds and RSD31.1 billion of commercial debt. Serbia's outstanding Internal Public Debt as at 31 July 2021 consisted of RSD 1,356.6 billion of direct liabilities (comprising Government securities, bonds on account of foreign currency saving and other direct liabilities) and RSD 29.7 billion of indirect liabilities (comprising loans from domestic banks).

As at 31 July 2021, the largest portion of the Public Debt was denominated in Euro (51.0 per cent.), followed by RSD (30.7 per cent.) and U.S. dollars (12.2 per cent.). As dinar is relatively less volatile to the Euro than to U.S. dollars, the Government continues to remain committed to reducing its U.S. dollar-denominated debt, the share of which decreased from 13.2 per cent. at the end of December 2020 to 12.2 per cent. at the end of July 2021. This decrease was largely as a result of realised swap transactions.

On 3 March 2021, the Government issued a twelve-year Eurobond in the amount of EUR 1.0 billion, with a yield of 1.920 per cent. and a coupon of 1.65 per cent. The proceeds of the new issue were used to refinance Serbia's outstanding indebtedness, fund the budget deficit and for other financing needs.

Serbia's service payments in respect of Public Debt for the seven months ended 31 July 2021 totalled RSD 217.2 billion (compared to RSD 484.8 billion for the year ended 31 December 2020).

The following table shows the Public Debt service payments with respect to principal, interest, commitment fees and other costs for the seven months ended 30 July 2021:

	Seven months ended 31 July 2021
	(RSD millions)
Principal Payments..	139,751.2
Interest Payments[(1)]..	75,467.0
Commitment Fees..	545.6
Other Costs..	1,443.6
Total..	**217,207.4**

Source: Ministry of Finance

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Notes:

(1) Interest payments and other costs include all commissions and discounts paid.

The following table shows the projected service payments with respect to principal and interest for the years ended 31 December 2021 to 2025 based on the stock of Public Debt as at 31 July 2021:

(*replacing the third table under the section titled "Public Debt as of 31 December 2020" on page 38 of the First Offering Memorandum*)

	Year ended 31 December[1]				
	2021	**2022**	**2023**	**2024**	**2025**
			(RSD billions)		
Principal Payments..........................	324.4	382.5	437.0	287.2	213.9
Interest Payments............................	98.9	88.2	75.8	60.6	53.0
Total	**423.3**	**470.7**	**512.8**	**347.8**	**266.9**

Source: Ministry of Finance

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Notes:

(1) This table does not include future borrowings.

Internal Public Debt (*pages 223-225 of the Base Prospectus*)

The following table shows the total nominal value of T-bills and T-bonds outstanding as at 31 December for the years 2017 to 2020 and as at 31 July 2021:

	As at 31 December								As at 31 July 2021	
	2017		2018		2019		2020			
	(%)	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*
Treasury Bills...........										
3 month maturity........	-	-	-	-	-	-	-	-	-	-
6 month maturity........	-	-	-	-	-	-	-	-	-	-
53-week maturity (RSD).......................	0.2	1.8	-	-	-	-	2.8	35.0	-	-
53-week maturity (EUR)	2.2	22.3	1.1	11.7	-	-	-	-	-	-
Treasury Bonds........										
2-years amortizing (RSD).......................	1.2	12.2	0.3	2.6	-	-	-	-	-	-
2-year maturity (RSD).	7.9	79.6	5.2	54.9	-	-	3.9	49.2	6.1	79.2
2-year maturity (EUR).	6.5	65.3	3.1	33.0	2.1	23.3	2.3	28.8	0.9	11.8
2-year maturity (USD).	0.6	6.1	0.6	6.4	-	-	-	-	-	-
3-year maturity (RSD).	27.4	277.3	18.8	198.7	16.0	176.8	11.6	145.9	11.3	145.9
3-year maturity (EUR).	9.7	98.5	8.7	92.3	6.8	74.8	3.1	38.4	1.8	23.5
5-year maturity (RSD).	4.1	41.9	12.4	130.8	12.5	137.9	14.9	187.0	16.6	214.9
5-year maturity (EUR).	10.7	108.2	10.3	108.4	9.8	108.3	7.4	93,2	6.5	84.4
7-year maturity (RSD).	20.1	203.6	19.3	203.6	31.6	348.5	26.7	336.4	24.3	315.0
7-year maturity (EUR).	-	-	0.7	7.7	0.7	7.7	0.6	7.7	0.6	7.7
10-year maturity (RSD)	0.9	9.4	10.5	111.0	10.1	111.0	8.8	111.0	9.3	121.0

	As at 31 December								As at 31 July 2021	
	2017		2018		2019		2020			
	(%)	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*	*(%)*	*(RSD billions)*
10-year maturity (EUR)	5.3	54.1	6.1	64.2	6.9	75.6	6.1	75.6	5.8	75.6
12-year maturity (RSD)	-	-	-	-	-	-	6.6	83.3	10.5	136.0
12-year maturity (EUR)	-	-	-	-	-	-	0.9	11.7	1.2	15.7
15-year maturity (EUR)	3.2	32.2	3.0	32.1	3.4	37.9	3.0	37.8	2.9	37.8
20-year maturity (EUR)	-	-	-	-	-	-	1.4	17.6	2.1	27.7
Total.......................	**100.0**	**1,012.3**	**100.0**	**1,057.2**	**100.0**	**1,101.7**	**100.0**	**1258.8**	**100.0**	**1,296.2**

Source: Ministry of Finance

As at 31 July 2021, the outstanding amount of debt represented by T-bills and T-bonds increased to RSD 1,296.2 billion, compared to RSD 1,258.8 billion as at 31 December 2020, compared to RSD 1,101.7 billion as at 31 December 2019, RSD 1,057.2 billion as at 31 December 2018 and RSD 1,012.3 billion as at 31 December 2017.

The following table shows the weighted-average rate in RSD primary auctions as at 31 December for the years 2015 to 2020 and as at 31 July 2021:

	As at 31 December						As at 31 July
	2015	2016	2017	2018	2019	2020	2021
				(%)			
3 month T-Bills................	4.96	2.78	–	–	–	–	–
6 month T-Bills................	4.42	3.13	2.64	–	–	–	–
53-week T-Bills...............	5.94	3.93	3.48	–	–	–	-
2-year T-Bonds................	7.06	4.78	4.56	–	–	2.02	1.58
3-year T-Bonds................	8.62	5.38	4.83	3.83	3.72	2.15	-
5-year T-Bonds................	6.50	5.68	5.12	4.17	4.07	2.61	2.21
7-year T-Bonds................	11.99	5.83	5.40	5.00	4.31	-	–
10-year T-Bonds..............	–	–	–	5.18	–	–	2.50
12-yearT-Bonds.................	–	–	–	–	–	3.85	3.46

Source: Ministry of Finance

The following table shows the weighted-average rate in EUR primary auctions as at 31 December for the years 2015 to 2020 and as at 31 July 2021:

	As at 31 December						As at 31 July
	2015	2016	2017	2018	2019	2020	2021
				(%)			
53-week T-Bills.............	1.83	0.94	0.63	0.46	–	–	–
2-year T-Bonds.............	2.67	1.36	1.04	0.88	0.92	-	-
3-year T-Bonds.............	4.00	2.98	1.86	1.25	1.03	-	–
5-year T-Bonds.............	4.49	3.14	2.62	1.89	1.65	-	-
7-year T-Bonds.............	–	–	–	–	2.50	-	–
10-year T-Bonds............	4.48	4.20	4.00	3.50	2.84	-	–
12-year T-Bonds................	–	–	–	–	–	1.89	1.70

15-year T-Bonds…………	–	4.20	4.20	–	3.60	-	–
20-year T-Bonds………………	–	–	–	–		3.0	2.25

Source: Ministry of Finance

Debt Management (*page 227 of the Base Prospectus*)

The Government's debt management strategy consists of eight core principles: (i) the share of dinar-denominated debt should be above 30 per cent. of the Public Debt in the mid-term (this was 30.7 per cent as of 31 July 2021); (ii) the share of euro-denominated debt should be at least 65 per cent. of foreign currency debt, including future borrowings and transactions (this was 73.6 per cent. as of 31 July 2021); (iii) the share of floating interest rate debt should be below 15 per cent. in the mid-term (this was 12.8 per cent. as of 31 July 2021); (iv) the average time for re-pricing of Public Debt should remain at least above 5.0 years (this was 5.5 years as of 31 July 2021); (v) the weighted average interest rate for Public Debt in domestic currency should not exceed 5.0 per cent. (this was 4.6 per cent. as of 31 July 2021); (vi) the share of short-term debt with maturity up to a year should be less than 15 per cent. of Public Debt (this was 14.4 per cent. as of 31 July 2021); (vii) the average time to maturity of Internal Public Debt should be at least 5 years in the mid-term (this was 5.0 years as of 31 July 2021); (viii) the average time to maturity of External Public Debt should be at least 7yrs ± 0.5 in the mid-term (this was 7.8 years as of 31 July 2021).

Restitution Bonds *(pages 221 - 222 of the Base Prospectus and pages 38 - 39 of the First Offering Memorandum)*

The Public Debt excludes Serbia's restitution commitments, on which, per the current legislation, Serbia is expected to begin making payments as of 15 December 2021. The Law of Property Restitution and Compensation regulates the terms and conditions, method and procedure of Serbia's restitution commitments to citizens whose properties were nationalised after World War II. Such properties will be returned in kind or by means of compensation in the form of Government bonds ("**Restitution Bonds**") and cash. In December 2020, the Assembly adopted changes to the Law on Property Restitution and Compensation, and extended the timeframe for finalisation of the basic elements of the Restitution Bonds and the conditions for distribution and collection. The Government will, every year, starting as of 15 January, issue Restitution Bonds for the commitments valid until 30 June for the year before. Serbia's total restitution commitments are expected to amount to approximately EUR 2 billion, calculated at an interest rate of 2 per cent. per annum from 30 June 2020 (or such other dates as may be prescribed) to the maturity dates determined by the Law on Property Restitution and Compensation. Such Restitution Bonds shall fall due in 12 years and shall be paid in annual instalments, starting from 15 December 2021. Serbia may make advance payment of compensation up to the amount of EUR 10,000 per individual decision.

GBI-EM Global Diversified Index *(page 39 of the First Offering Memorandum)*

On 30 June, 2021, Serbia's RSD benchmark bonds with original maturity of seven, ten and twelve and a half years, maturing on 11 January 2026 (RSMFRSD89592), 8 February 2028 (RSMFRSD55940) and 20 August 2032 (RSMFRSD86176) were included in the GBI-EM Global Diversified Index, which cover government bonds in domestic currencies of both advanced and emerging economies. Trade in these bonds on the secondary market in June, until inclusion in the index, increased by more than 260 percent compared to January, before JP Morgan released information on when the inclusion date would be.

9. Use of Proceeds

In the section titled "Use of Proceeds" on page 86 of the Base Prospectus, the two paragraphs shall be deleted in their entirety and replaced with the following:

General

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

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

Green Bonds

Where the "Reasons for the offer" in Part B of the applicable Final Terms for a particular issue of Notes are stated to be "Green Bonds: an amount equal to the net proceeds of the issue of the Notes will be used to finance and/or re-finance Eligible Green Expenditures", an amount equal to the net proceeds from each such issue of Green Bonds will be used as described below.

The Issuer has published a Green Bond Framework dated August 2021, which is available on the following website: http://www.javnidug.gov.rs/eng/default.asp (as updated, supplemented, amended or replaced from time to time, the "**Green Bond Framework**") in accordance with guidelines specified in the 2021 edition of the Green Bond Principles published by the International Capital Market Association (ICMA).

In accordance with the Green Bond Framework, the Issuer intends to apply an amount equivalent to the net proceeds of any such issue of Green Bonds to finance and/or re-finance new and existing expenditures aimed at promoting Serbia's transition to a low-carbon, climate resilient and ecological economy as well as contributing to United Nations Sustainable Development Goals ("**Eligible Green Expenditures**"). Eligible Green Expenditures may include capital expenditures, operational expenditures, tax expenditures and transfers. The Eligible Green Expenditures are considered in the budget of the Government.

Reporting

The Issuer commits to publishing a report providing investors and the public with transparent disclosure on the allocation of proceeds to Eligible Green Expenditures, as well as on the results and positive environmental impact of those expenditures (the "**Green Bond Report**"). The Green Bond Report will be published on an annual basis, as long as there are outstanding Green Bonds in issue, until the proceeds of each Tranche of Green Bonds have been fully allocated. The Green Bond Report will be published online at: http://www.javnidug.gov.rs/.

Assurance

Second Party Opinion (pre-issuance)

The Issuer has engaged an external reviewer, ISS ESG, to evaluate its Green Bond Framework. ISS ESG has reviewed the Green Bond Framework and provided an independent Second Party Opinion ("**SPO**") to confirm its alignment with the ICMA Green Bond Principles (2021) prior to the issuance of the first Tranche of Green Bonds under the Programme. The independent SPO is published online at: http://www.javnidug.gov.rs/.

The Green Bond Framework and the SPO, and any of the above reports, verification assessments or contents of any of the above websites, are not incorporated in, and do not form part of, this Base Prospectus, and none of them is a recommendation to buy, sell or hold any Notes.

Annual Audit (post-issuance)

The Issuer intends to engage an independent external verifier to provide assurance on the Allocation Reports in order to ensure sustainable conformity of the issued Green Bonds with the Green Bond Framework. Assurance will be sought annually until full allocation of proceeds, and the results will be published alongside the respective reporting.

For more information see "*Risk factors – Risks related to the Notes Generally — In respect of any Notes issued as Green Bonds, there can be no assurance that such use of proceeds will be suitable for the investment criteria of an investor.*"