

**FOR  
AGENDA**

EBS/08/162  
Supplement 1

December 31, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Serbia—Request for Stand-By Arrangement—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the Republic of Serbia's request for a Stand-By Arrangement (EBS/08/162, 12/31/08), which will be brought to the agenda for discussion on **a date to be announced**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of the Republic of Serbia indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Jaeger (ext. 35643), Mr. Mottu (ext. 34113), and Mr. Mirzoev (ext. 39537) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, January 12, 2009; and to the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF SERBIA

**Request for Stand-By Arrangement**

**Informational Annex**

Prepared by the European Department  
(In consultation with other departments)

December 30, 2008

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## Appendix I. Serbia: Fund Relations

(As of October 31, 2008)

**I. Membership Status:** Joined December 14, 1992 (succeeding to membership of the former Socialist Federal Republic of Yugoslavia); accepted Article VIII on May 15, 2002. Serbia continues the membership in the Fund of the former state union of Serbia and Montenegro—previously the Federal Republic of Yugoslavia—since July 2006.

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>%Quota</b>
Quota	467.70	100.00
Fund Holdings of Currency	467.70	100.00
Reserve Position	0.00	0.00

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>%Allocation</b>
Net cumulative allocation	56.66	100.00
Holdings	1.27	2.24

**IV. Outstanding Purchases and Loans:** None.

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
EFF	May 14, 2002	Feb. 28, 2006	650.00	650.00
Stand-By	June 11, 2001	May 31, 2002	200.00	200.00

**VI. Projected Obligations to Fund** (In millions of SDR):

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal					
Charges/Interest	0.37	1.06	1.06	1.06	1.06
Total	<u>0.37</u>	<u>1.06</u>	<u>1.06</u>	<u>1.06</u>	<u>1.06</u>

**VII. Implementation of HIPC Initiative:** Not Applicable.

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable.

**IX. Safeguards Assessment:**

Under the Fund's safeguards assessment policy, the National Bank of Serbia (NBS) is subject to an update assessment in conjunction with an upcoming Stand-By Arrangement. The update assessment is underway. The initial assessment of the NBS, completed December 4, 2001, identified substantial risks in the financial reporting framework, internal audit mechanism, and system of internal controls. Staff

recommendations proposed under program conditionality and other recommendations were reported in IMF Country Report No. 02/105. Periodic monitoring of the bank's safeguards identified that the NBS had introduced measures to significantly strengthen its financial reporting and internal audit mechanisms and its internal control systems.

X. **Exchange Arrangement:** Serbia accepted the obligations under Article VIII, Sections 2, 3, and 4, on May 15, 2002, and maintains a system free of restrictions on payments and transfers for current international transactions, except with respect to blocked pre-1991 foreign currency savings deposits (IMF Country Report No. 02/105). The exchange rate arrangement (de jure and de facto) is a managed floating system since January 1, 2001.

XI. **Last Article IV Consultation:** Concluded on January 28, 2008 (IMF Country Report No. 08/54).

**XII. Analytical Work Undertaken in Past Consultations:**

2006 Consultation:

- Capital Formation and External Deficits
- Employment
- Banking System
- Economic Structure and the Choice of Exchange Rate Regime
- Foreign Exchange and Monetary Operations
- Exchange rate pass-through
- Inflation targeting in emerging markets

2007 Consultation:

- Overview of Vulnerabilities
- Financial Conditions in the Corporate Sector
- Household Credit
- CGER-Type Assessments of the Real Effective Exchange Rate
- Twin Deficits in Serbia
- Forecasting and Monetary Policy Analysis Modeling
- Fiscal Impact of Privatization

XIII. **FSAP Participation:** Serbia participated in the Financial Sector Assessment Program in 2005, and the Executive Board discussed the Financial System Stability Assessment in February 2006 (IMF Country Report No. 06/96).

**XIV. Technical Assistance in the Past 12 Months:**

Department	Timing	Purpose
MCM	May 2006–08	Resident advisor for monetary policy
MCM	Nov. 2007	Foreign Exchange Operations

MCM	Dec. 2007	Liquidity management
MCM	July, Oct. 2008	Modeling and forecasting
MCM	Oct. 2008	Foreign Exchange Operations
MCM	November 2008	Financial stability / Capital account liberalization
STA	April 2008	Balance of Payments Statistics
FAD	Sep.–Oct. 2008	Public Financial Management

#### **XV. Resident Representative:**

The Resident Representative position was closed in May 2008 in the context of the downsizing of the Fund. However, the IMF maintains a locally staffed office at the National Bank of Serbia, and plans to reopen the Resident Representative position shortly.

## Appendix II. Serbia: World Bank Group Relations

### Partnership with Serbia's Development Strategy

1. The World Bank has been discussing the policy reform agenda with successive governments, notably since the formation of the coalition government in July 2008. Support for the government's development strategy from the World Bank and the IMF follow the agreed upon division of responsibilities between the two institutions.
2. The Fund takes the lead on macroeconomic policies (fiscal, monetary, and exchange rate) aimed at facilitating sustainable growth, while the Bank takes the lead on structural policy. In areas of direct interest to the Fund, the Bank leads the policy dialogue in: (i) macroeconomically important sectoral reforms (e.g., in the energy sector); (ii) pension, health, education, and social assistance reform; (iii) restructuring and privatization of enterprises; (iv) legal reforms with a bearing on the business environment, including labor markets; and (v) decentralization and local government operations. The Bank and the Fund have jointly led the policy dialogue in the financial sector, including on the restructuring and privatization of banks, in public expenditure management, and in foreign trade.

### *The World Bank*

3. As of September 2008, total IDA credits and grants committed to Serbia by the Bank since 2001 amount to approximately \$740 million, with an additional \$190 million in IBRD commitments. The Bank has assisted Serbia to make progress against key objectives set out in the Country Assistance Strategy (CAS) for FY05–07: (i) streamlining the public sector (the overall fiscal adjustment has been limited with early gains being reversed, but there has been a trend toward higher capital expenditure); (ii) encouraging private sector growth (annual growth averaging 6 percent, with Serbia the lead reformer in *Doing Business* 2006); and (iii) reducing poverty (which fell from 12.7 percent in 2002 to 8.8 percent in 2006). Serbia has now graduated from IDA status and will borrow on IBRD terms in the future.
4. A new Country Partnership Strategy (CPS) was discussed by the World Bank Board of Executive Directors on December 13, 2007. The CPS envisages base case IBRD lending of \$600 million over the period FY08–11. The CPS' three main pillars are to (i) encourage dynamic private sector-led growth to ensure that incomes continue to converge with European levels; (ii) provide opportunities and broaden participation in growth; and (iii) manage emerging environmental and disaster risks. To increase flexibility and responsiveness, the Bank will deploy a range of financial instruments beyond traditional lending, and will also explore the use of innovative financial products. The CPS outlines a set of agreed investments and analytical support for FY08 and FY09—decisions on interventions in the second half of the CPS period will be made as part of a mid-term review process anticipated for late CY2009.
5. The Bank's current portfolio consists of 11 projects under implementation, with a total commitment value of \$444.3 million (including IDA, IBRD and GEF). Out of these, ten

are from the previous CAS and one loan (US\$ 46.4 million) was approved under the new CPS. Investments support: (i) transport and energy infrastructure aimed at rehabilitating the road network and encouraging regional integration; (ii) agricultural, environment and irrigation investments to improve production and help Serbia meet EU standards; (iii) pension and health sector reform to strengthen the quality of service and improve financial sustainability and social services; (iv) strengthened land administration; (v) energy efficiency, (vi) regional development activities in the depressed former mining region of Bor; (vii) improved delivery of local social services; and (viii) reducing pollution of waters connected to Danube River from selected Serbian enterprises.

6. Recent analytical work by the Bank includes a set of Policy Notes for the government in July 2007, and reports on decentralization, poverty, labor markets, public expenditure and financial management, and road management. A public investment and expenditure management review, a strategy for privatization of municipal enterprises, and capital markets development notes are under preparation.

### ***International Finance Corporation (IFC)***

7. The IFC has a significant investment portfolio in Serbia, which has contributed to supporting private sector-led economic growth. As of August 30, 2008, IFC had 11 projects in its Serbia portfolio, with total commitment of \$361 million.

8. In the ***financial sector***, IFC has supported development of microfinance institutions, the introduction and expansion of new financial products, including mortgage financing, consumer finance, energy efficiency financing, and SME finance. IFC contributed to the cleaning-up, rehabilitation and privatization of the banking sector through restructuring its claims to a few Serbian banks. IFC's largest single investment has been made with Banca Intesa, one of Italy's largest commercial banks. Financing has enabled the bank to strengthen its capital base and significantly increase its lending and financial service activities, particularly to SMEs, retail clients, and residential mortgages. Other investments have included Raiffeisen Bank, Continental Bank, HVB Serbia, and Pro-Credit Bank. Investments have particularly encouraged the expansion of long-term lending, particularly to SMEs, mortgage operations, and lending relating to commercial and residential real estate development, and the development of energy efficiency products. IFC has also invested \$37 million in the European Fund for Southeast Europe (EFSE), \$7.4 million of which is for Serbia. This collective debt investment will channel long-term resources for on-lending to SMEs through banks, specialized microfinance institutions, and viable microfinance non-profit organizations in the Southeast European region, including in Serbia.

9. In the ***real sector***, IFC supported the growth and strategic development of Tigar, a leading regional producer of car tires. Also, IFC supported Mercator, a Slovenian company, to establish a new hypermarket store in Serbia. This investment is expected to stimulate competition in the sector and improve the variety, price, quality, and delivery of consumer



goods. In addition, through its investments in regional Private Equity Funds, IFC has supported 3 other companies in the manufacturing sector. During the last fiscal year, IFC invested US\$281 million in a number of other regional projects in the infrastructure, commercial property, and SME sectors. Through its regional projects, IFC hopes to help attract more FDI in Serbia, invest in SME sector, and facilitate Serbia to strengthen economic cooperation and integration with neighboring countries.

10. ***Advisory Services.*** In June 2005, IFC started the Private Enterprise Partnership Southeast Europe (PEP-SE) facility focused on SMEs and linkages, business enabling environment, access to finance, and infrastructure advisory operations. Through this facility, IFC has also supported judicial reform, particularly alternative dispute resolution mechanisms. Three mediation centers in Serbia, supported by PEP-SE, have helped to resolve over 1,600 cases. Under the recycling linkage program, IFC is commercializing the small street collectors, who in Serbia are significantly comprised of the Roma population. PEP-SE Infrastructure (PEP-SE I) was appointed lead advisor in the restructuring of Serbia's national carrier, JAT Airways. Also, IFC has been helping the City of Belgrade with the privatization (concession) of the Belgrade solid waste disposal services.

11. Through the Foreign Investment Advisory Service (FIAS), analytical and advisory support has also been provided to assist the Serbian authorities in their successful efforts to improve the investment climate. With support from the European Agency for Reconstruction, IFC has been engaged in assisting the Serbian Investment and Export Promotion Agency, as well as in following up on Doing Business reports to analyze investment constraints in Serbia, especially at the sub-national level. This fiscal year, IFC expects to bring to completion the regulatory guillotine project which will result in major simplification of business regulations, thus giving new momentum to Serbia's reform process. Also, under the Sub-national Competitiveness Project, IFC has completed the first stage of the pilot project in 4 municipalities.

### ***MIGA***

12. As of December 2007, MIGA's outstanding portfolio in Serbia consists of 8 contracts of guarantee with total gross exposure of \$82 million. MIGA guarantees have primarily supported the expansion of foreign financial institutions in the Serbian banking sector, with some activity also in the manufacturing sector.

Prepared by World Bank staff. Questions may be addressed to Ronald Hood at (202) 473-0115 or Simon Gray at +381-11-302-3700.

### Appendix III. Serbia: Statistical Issues

1. Data provision has some shortcomings, but is broadly adequate for surveillance. The statistical system has been successfully upgraded in recent years with the assistance of the IMF<sup>1</sup> and other bilateral and multilateral institutions. Although international standards are not yet fully met, official data for all sectors are sufficiently good to support key economic analysis and surveillance. In many areas, including monetary, balance of payments, and real sectors, internationally accepted reporting standards have been introduced. A page for the Republic of Serbia was introduced in the October 2006 issue of the *International Financial Statistics (IFS)*.

2. On October 1, 2008 the Serbian authorities informed STA of their interest in participating in the Fund's General Data Dissemination System (GDDS) and nominated a GDDS country coordinator. STA is working with the authorities to facilitate GDDS participation in the near future.

#### A. Real Sector Statistics

3. Real sector data are compiled by the Republic of Serbia Statistical Office (RSSO). Annual current and constant price estimates of GDP by activity and current price GDP by expenditure are available for 1997–2007. In June 2005, the RSSO started publishing quarterly constant price estimates of GDP using the production approach. Data are available from 1999 onward and are disseminated with a lag of three months after the reference quarter. The RSSO has made commendable efforts to adopt the *System of National Accounts (1993 SNA)*, but there are still problems with the consistency of the annual GDP estimates from the production and expenditure sides, and estimates of fixed capital formation and changes in inventories. Data sources are still in need of improvement. Official statistics do not incorporate estimates of informal activities, which the RSSO estimated at 16–18 percent of GDP in 2003–05.

4. The RSSO compiles and disseminates monthly indices for retail and consumer prices, producer prices, industrial production, as well as unit-value indices for imports and exports. The CPI, introduced in 2007, appears broadly in line with international standards as do the producer price and the industrial production indices.

#### B. Balance of Payments Statistics

5. Balance of payments statistics are compiled by the National Bank of Serbia (NBS). While the data compilation procedures appear appropriate, the NBS could further improve coverage of current account reporting for workers remittances, and adjust trade and services

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<sup>1</sup> Since 2001, STA conducted four technical assistance missions on monetary and financial statistics, three missions on national accounts, one multi-sector mission, and one balance of payments mission.

data for transactions not explicitly declared (repairs, shuttle trade, grants in kind, and tourism). Estimates of reinvested earnings also need to be improved. In reporting on financial account transactions, the NBS should improve the measurement of FDI and remove exchange-rate effects from the estimation of certain financial transactions, including reserves and arrears. It should upgrade its data collection and management processes to identify inter-company loans. Currently inter-company loans associated with FDI are not identified, and are included in external debt flows and stocks, not in FDI flows and stocks. Serbia has begun reporting balance of payments statistics to STA in preparation for publication in the *IFS* and the *Balance of Payments Statistics Yearbook*. NBS is also has been working towards compiling IIP.

### **C. Government Finance Statistics**

6. Government finance statistics are compiled by the Ministry of Finance and reported on a monthly basis. Principal data sources are the Republican Treasury and budgetary execution reports of the spending ministries and first-level budget units.

7. Since 2001, Serbia has made efforts to bring the existing budget reporting system in line with the *Government Finance Statistics Manual 2001 (GFSM 2001)* methodology. Full compliance has yet to be achieved as implementation of the new chart of accounts, generally consistent with the classifications of the *GFSM 2001*, has not been completed. The classification of all expenditure of the “National Investment Plan” as capital is not in line with international standards. While the data on the clearance of arrears are available on a monthly basis, information on the accumulation of new arrears is not available. The reconciliation of fiscal and monetary data is not conducted on a regular basis.

### **D. Monetary and Financial Statistics**

8. Monetary and financial statistics are compiled by the NBS, broadly following the methodology set forth in the *Monetary and Financial Statistics Manual, 2000 (MFSM)*, and meeting the GDDS recommendations with respect to periodicity and timeliness for financial sector data. Monetary data are reported to the Fund using Standardized Report Forms.

9. Some improvements could still be made. The NBS only began collecting data on nonperforming loans in September 2007 from a limited number of banks and introduced a new chart of accounts allowing systematic collection of NPL data from all banks in July 2008. The coverage of monetary statistics excludes (i) banks in liquidation (as their data are not available on a timely or comparable, International Accounting Standard-specified, basis) and (ii) a group of relatively small deposit-taking institutions that the authorities designate as *Other Financial Institutions (OFIs)*.

**Serbia: Table of Common Indicators Required for Surveillance**  
(As of November 30, 2008)

	Date of Latest Observation	Date Received	Frequency of Data <sup>4</sup>	Frequency of Reporting <sup>4</sup>	Frequency of Publication <sup>4</sup>
Exchange rates	Nov. 28, 2008	Nov. 28, 2008	D and M	D and M	D and M
International reserve assets and reserve liabilities of the monetary authorities <sup>1</sup>	Nov. 28, 2008	Nov. 28, 2008	D	D	M
Reserve/base money	Nov. 27, 2008	Nov. 28, 2008	D and M	W and M	W and M
Broad money	Oct. 2008	Nov. 24, 2008	M	M	M
Central bank balance sheet	Oct. 2008	Nov. 24, 2008	M	M	M
Consolidated balance sheet of the banking system	Oct. 2008	Nov. 24, 2008	M	M	M
Interest rates <sup>2</sup>	Oct. 2008	Nov. 24, 2008	M	M	M
Consumer price index	Nov. 2008	Nov. 28, 2008	M	M	M
Revenue, expenditure, balance and composition of financing – general government	Aug. 2008	Nov. 2008	M	M	M
Revenue, expenditure, balance and composition of financing– central government	Sep. 2008	Nov. 2008	M	M	M
Stocks of central government and central government-guaranteed debt <sup>3</sup>	Sep. 2008	Nov. 2008	M	M	M
External current account balance	Sep. 2008	Nov. 2008	M	M	M
Exports and imports of goods and services	Oct. 2008	Nov. 28, 2008	M	M	M
GDP/GNP	Q2 2008	Sept. 30, 2008	Q	Q	Q
Gross external debt	Sep. 2008	Nov. 2008	M	M	M
International Investment Position <sup>5</sup>	N.A	N.A	N.A	N.A	N.A

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Including currency and maturity composition.

<sup>4</sup> Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Semi-annually (SA), Annually (A), Irregular (I); or Not Available (NA).

<sup>5</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.