LOAN NUMBER 8831-YF

Loan Agreement

(Second Public Expenditure and Public Utilities Development Policy Loan)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF SERBIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Borrower has already taken or supported under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of one hundred sixty million six hundred thousand Euros (EUR 160,600,000), as such amount may be converted from time to time through a Currency Conversion ("Loan").

2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.04. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion.

2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.

2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) without limitation upon paragraph (a) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date one hundred and eighty (180) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative, who, inter alia, may agree to modification of the provisions of this Agreement on behalf of the Borrower through exchange of letters (unless otherwise determined by the Borrower and the Bank), is its Minister of Finance.

6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Ministry of Finance
20 Kneza Milosa St.
11000 Belgrade
Republic of Serbia; and

(b) the Borrower's Electronic Address is:

Facsimile: (381-11) 3618-961
E-mail: kabinet@mfin.gov.rs
6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank’s address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank’s Electronic Address is:

Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
E-mail: sndegwa@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF SERBIA

By

[Signature]

Authorized Representative

Name: Dušan Vujočić
Title: Minister of Finance
Date: March 21, 2018

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

[Signature]

Authorized Representative

Name: Stephen Ndewa
Title: Country Manager
Date: March 21, 2018
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I.  Actions under the Program

The actions taken or supported by the Borrower under the Program include the following:

Pillar A. Public Expenditure Management

1. The Borrower has: (a) issued the Decree on Work and Role of Budget Inspection, to strengthen the budget inspection supervision and enforcement function; (b) adopted the PIFC Strategy and its associated action plan, to provide a framework for planned future developments of financial management and control and internal audit functions; and (c) through its Ministry of Finance, amended the Rulebook on the Budget Execution System, in order to ensure that accurate, complete and up-to-date information on budget commitments are available at the time when budget commitments are incurred (as evidenced by the Ministry of Finance Rulebook No. 110-00-6/2017-001-007 dated December 5, 2017, published in the Official Gazette of the Republic of Serbia No. 110/2017).

2. The Borrower has updated institution-level limits on employees in the public sector for calendar year 2017 (as evidenced by Decision on Maximum Number of Employees with Open Ended Contracts for 2017).

3. The Borrower has: (a) amended the Law on Public Sector Employees Salary System; (b) enacted the Law on Employees in Public Services; and (c) enacted the Law on Salaries of Employees in Bodies of Provincial Authorities and Local Sub-Government Units, all with the objective to provide the legal framework for the mapping of positions between the Public Sector Jobs Catalogue and the new pay grades set forth in the Law on Public Sector Employees Salary System.

Pillar B. Energy Public Enterprises

4. The Borrower, through the Council of the Energy Agency, has approved an increase of the electricity tariff for guaranteed electricity supply in calendar year 2017 (as evidenced by Decision No. 515/2017-D-02/1, dated August 31, 2017, issued by the Council of the Energy Agency and published in the Official Gazette of the Republic of Serbia No. 81/2017) and continued to protect vulnerable households from such electricity tariff increase by increasing the number of beneficiaries of the Energy Vulnerable Customers Program in calendar year 2017 compared to calendar year 2016 (as evidenced by the letter from the Borrower’s Minister of Mining and Energy dated January 31, 2018).

5. The Borrower, through the Supervisory Board of Elektroprivreda Srbije (EPS) has: (a) updated the labor optimization plan for calendar year 2017, including annual targets, compensation packages, eligible categories, selection criteria, and grievance mechanisms for EPS (as evidenced by EPS’ Supervisory Board Decision No. 12.01.462952/2-17, dated September 18, 2017; and (b) issued the second call for voluntary separations (as evidenced by: (i) EPS’ Supervisory Board Decision No. 12.01.462952/3-17 dated September 18,
2017; and (ii) EPS’ Call for Voluntary Applications No. 12.01.462952/5-17 dated, September 18, 2017).

6. The Borrower, through Srbijagas, has strengthened Srbijagas’ financial management through:

   (a) the adoption of the Government Conclusion 05 No. 312-11499/2016, dated December 1, 2016, which defined the mechanisms to discontinue gas supplies to commercial consumers in arrears;

   (b) the approval by Srbijagas management of Decision No. 01-01/529 dated February 2, 2018, which adopted a company-specific appraisal methodology for investments; and

   (c) the approval by Srbijagas management of Decision No. 01-01/2665 dated July 3, 2017, which established Srbijagas’ audit committee as the body in charge of the oversight of Srbijagas’ system of internal controls.

Pillar C. Transport Public Enterprises and Stated-Owned Companies

7. The Borrower, through: (a) each Railways Company has settled its debt with EPS and issued a plan to restructure its commercial debt in a manner that places the company in a position to be financially viable and started its implementation (as evidenced by the Railways Reports and the Government Conclusion 05 No: 312-11997/2016, dated December 15, 2016); (b) each Railways Company made publicly available its Annual Financial Statements for calendar year 2016; and (c) through each Railways Operating Company has allocated resources for the upgrade of its financial and accounting system to allow an effective financial management of the company and application of International Financial Reporting Standards (as evidenced by Railways Business Plans).

8. The Borrower, through each Railway Company has: (a) updated its labor optimization plan for calendar year 2017, including the annual targets, eligibility criteria, compensation packages, and grievance mechanisms; and (b) achieved the targets for calendar year 2017 set forth in said labor optimization plan (all as evidenced by the Railways Optimization Plans and the Implementation Reports).

9. The Borrower, through PERS, has prepared and approved a framework for a service-level agreement to be entered with MCTI, for purposes of: (a) defining the performance standards for different road classes, based on pavement conditions, operational standards, and safety; (b) require the Borrower, through MCTI to provide an agreed financing for roads to achieve the agreed performance standards; and (c) holding PERS accountable for agreed performance standards (as evidenced by PERS’ Decision No. 953-27619/17-19, dated December 27, 2017).
Section II. **Availability of Loan Proceeds**

A. **General**

The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. **Allocation of Loan Amounts**

The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>160,198,500</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>401,500</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>160,600,000</strong></td>
</tr>
</tbody>
</table>

C. **Withdrawal Tranche Release Conditions**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower’s macroeconomic policy framework.

D. **Deposit of Loan Amounts**

The Borrower, within thirty (30) days after the withdrawal of the Loan from the Loan Account, shall report to the Bank: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Serbian Dinars equivalent of the Loan proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Borrower’s budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. **Closing Date.** The Closing Date is August 30, 2019.
SCHEDULE 2

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td></td>
</tr>
<tr>
<td>Beginning May 15, 2027</td>
<td>4.55%</td>
</tr>
<tr>
<td>through May 15, 2037</td>
<td></td>
</tr>
<tr>
<td>On November 15, 2037</td>
<td>4.45%</td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

1. "Annual Financial Statements" means the financial statements for each Railways Company, which was prepared in accordance to International Financial Reporting Standards, pursuant to the Borrower’s Law on Accounting.

2. "Council of the Energy Agency" means the council within the Energy Agency, which has the responsibility to decide on matters under the jurisdiction of the Energy Agency.


5. "Elektroprivreda Srbije" or "EPS" means the Electric Power Industry of Serbia, a state-owned public electric utility company of the Borrower.

6. "Energy Agency" means the Borrower’s Energy Agency, established as the energy regulatory body.


12. "International Financial Reporting Standards" or "IFRS" are a set of accounting standards issued by the IFRS Foundation and the International Accounting Standards Board.

13. "Law on Employees in Public Services" means the Borrower’s law of the same name, published in the Official Gazette No. 113/17.


16. "MCTT" means the Borrower’s Ministry of Construction, Transport and Infrastructure, or any successor thereto.


21. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated January 9, 2018 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.


23. "Railways Business Plans", means, collectively, the business plans for: (a) the Joint Stock Company for Passenger Railway Transport, Srbija Voz, Belgrade, approved by the Borrower on January 31, 2018 (Decision No. 023-919/2018); (b) the Joint Stock Company for Freight Railway Transport, Srbija Kargo, Belgrade, approved by the Borrower on January 31, 2018 (Decision No. 023-972/2018); and (c) the Joint Stock Company for Public Railway Infrastructure Management, Infrastructure of Serbian Railways, Belgrade, approved by the Borrower on January 31, 2018 (Decision No. 023-724/2018).
24. "Railways Company" means collectively: (a) the Joint Stock Company for Freight Railway Transport, Srbija Kargo, Belgrade; (b) the Joint Stock Company for Public Railway Infrastructure Management, Infrastructure of Serbian Railways, Belgrade; (c) the Joint Stock Company for Passenger Railway Transport, Srbija Voz, Belgrade; and (d) the Joint Stock Company for Serbia Railways, Belgrade.

25. "Railways Operating Company" means collectively: (a) the Joint Stock Company for Freight Railway Transport, Srbija Kargo, Belgrade; (b) the Joint Stock Company for Public Railway Infrastructure Management, Infrastructure of Serbian Railways, Belgrade; and (c) the Joint Stock Company for Passenger Railway Transport, Srbija Voz, Belgrade.


29. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.

30. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

31. "Srbijagas" means a state-owned public company of the Borrower which performs energy activities in the field of natural gas.