Loan Agreement
(First Public Expenditure and Public Utilities Development Policy Loan)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated JANUARY 20, 2017
LOAN AGREEMENT

Agreement dated January 20, 2017, entered into 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 that the Borrower has already taken under the Program and that 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred eighty-two million six hundred thousand Euros (EUR 182,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of
Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

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

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section 2.08 that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 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) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section 3.01, 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.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, 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, 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 date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. For the purposes of Section 10.02 of the General Conditions, the Borrower’s Representative, who, inter alia, may agree to modification of the provisions of this Agreement on behalf of the Borrower through an exchange of letters (unless otherwise determined by the Borrower and the Bank), is its Minister of Finance.

6.02. The Borrower’s Address is:

    Ministry of Finance
    20 Kneza Milosa St.
    11000 Belgrade
    Republic of Serbia
Facsimile:
(381-11) 3618-961

6.03. The Bank’s Address is:

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

Telex: Facsimile:
248423(MCI) or 1-202-477-6391
64145(MCI)

AGREED at Belgrade, Republic of Serbia, as of the day and year first above written.

REPUBLIC OF SERBIA
By

Authorized Representative
Name: Dušan Vujović, PhD
Title: MINISTER OF FINANCE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
By

Authorized Representative
Name: Terry Verheugen
Title: Country Director
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I.  Actions under the Program

The actions to be taken by the Borrower under the Program include the following:

Pillar A. Public Expenditure Management

1. The Borrower, through its Ministry of Finance, adopted the framework for monitoring the implementation of the Law on Deadlines for Payments in Commercial Transactions, which has been revised to extend its coverage to include public-public transactions, including those of state-owned enterprises (as evidenced by the Minister of Finance's Rulebook (Pravilnik) No. 110-00-421/2015-37, dated October 20, 2015, published in Official Gazette of the Republic of Serbia No. 88/2015).

2. The Borrower:
   
   (a) adopted the Law on the Ceiling on Public Sector Employees setting the criteria of determining the maximum number of employees in the public sector, from 2015 to 2018, as well as the scope and limits for reducing their number in order to achieve the established said maximum (as evidenced by Official Gazette of the Republic of Serbia No. 68/2015, 81/2016-CC); and


3. The Borrower adopted the Law on the Salary System of Public Sector Employees to rationalize the public sector pay structure (as evidenced by Official Gazette of the Republic of Serbia No. 18/2016).
**Pillar B. Energy Public Enterprises**

4. The Borrower:

   (a) through its Council of the Energy Agency, approved a 3.8 percent increase of the electricity tariff for guaranteed supply (as evidenced by Decision No. 537/2016-D-02/1, dated August 31, 2016, published in Official Gazette of the Republic of Serbia No. 73/2016); and

   (b) (i) amended the Energy Vulnerable Customers Program to increase coverage of targeted beneficiaries (as evidenced by Government Decree 05 No. 110-12710/2015-4, dated December 30, 2015, published in Official Gazette of the Republic of Serbia No. 113/2015), and

      (ii) increased the budget for said program (as evidenced by the Budget Law of the Republic of Serbia for 2016, published in Official Gazette of the Republic of Serbia No. 103/2015).

5. The Borrower, through the supervisory board of *Elektroprivreda Srbije* (EPS):

   (a) adopted a labor optimization plan for 2016-2019 (as evidenced by Decision No. 12.01.305697/8-16, dated August 5, 2016) setting out the medium-term targets, process, compensation packages, selection criteria, grievance mechanisms and timeline for reductions in staffing; and

   (b) issued the first call for voluntary separations to implement the 2016 target for net staff reduction (as evidenced by the invitation published in EPS's public Board on September 1, 2016).

6. The Borrower adopted a financial consolidation plan for *Srbijagas* that defines measures to increase revenues and reduce costs (as evidenced by Conclusion Strictly Confidential 05 No. 00-23/2016, dated February 25, 2016).

**Pillar C. Transport Public Enterprises and Stated-Owned Companies**

7. The Borrower:

   (a) implemented a new framework for railways financing through: (i) conclusion of the track access contracts between the state-owned infrastructure rail company and the state-owned freight and passenger rail companies (as evidenced by the Track Access Contracts); and (ii) approving a public service obligation agreement (as evidenced by Government Conclusion 05 No. 340-488/2016, dated January 23, 2016); and
(b) adopted new performance criteria for the state-owned infrastructure, freight and passenger rail companies (as evidenced by the Companies’ Business Plans).

8. The Borrower:

(a) through the Decisions of the General Assemblies of the respective railway companies, adopted labor optimization plans for 2016-2020 setting out the medium-term targets, process, compensation packages, selection criteria, grievance mechanisms and timeline for reductions in staffing; and

(b) through the management of the respective railway companies, initiated the 2016 target for staff reduction by communicating to the companies’ respective employees the option for their participation (as evidenced by the Management Reports on the number of employees who expressed interest in opting for such participation).

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 Tranche Allocated (expressed in Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>182,143,500</td>
</tr>
<tr>
<td>Front-end Fee</td>
<td>456,500</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>182,600,000</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. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank, within thirty (30) days from the date of each deposit (or any other later date as agreed by the Bank).

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is March 31, 2018.
SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on November 15, 2036.
APPENDIX

Section I. Definitions


2. “Companies’ Business Plans” means, collectively, the business plans for: (a) the Joint Stock Company for Passenger Railway Transport, Srbija Voz, Belgrade, approved by its General Assembly on May 17, 2016 (Decision No. 5/2016-13-8) and the Borrower on June 13, 2016 (Decision 05 No. 023-5425/2016, published in Official Gazette of the Republic of Serbia No. 56/2016); (b) the Joint Stock Company for Freight Railway Transport, Srbija Kargo, Belgrade, approved by its General Assembly on November 30, 2015 (Decision No. 5/2015-6-4) and the Borrower on February 6, 2016 (Decision 05 No. 023-1019/2016, published in Official Gazette of the Republic of Serbia No. 10/2016), and the revision, approved by its General Assembly on August 8, 2016 (Decision No. 5/2016-30-18) and the Borrower on September 13, 2016 (Decision 05 No. 023-8407/2016, published in Official Gazette of the Republic of Serbia No. 77/2016); and (c) the Joint Stock Company for Public Railway Infrastructure Management, Infrastructure of Serbian Railways, Belgrade, approved by its General Assembly on January 29, 2016 (Decision No. 5/2016-24-8) and by the Borrower on March 25, 2016 (Decision 05 No. 023-3152/2016, published in Official Gazette of the Republic of Serbia No. 32/2016).

3. “Council of the Energy Agency” means the council established under the Energy Law to be the Energy Agency’s body that passes all decisions on the issues within the competencies of the Energy Agency.

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


10. "Excluded Expenditure" means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>121</td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
</tbody>
</table>
### Description of Item

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.


15. “Management Reports” means, collectively: (a) for the Joint Stock Company for Passenger Railway Transport, Srbija Voz, Belgrade, Report No. 1/2016-1573, dated November 4, 2016; (b) for the Joint Stock Company for Freight Railway


17. "Official Gazette of the Republic of Serbia" means the official gazette of the Borrower.

18. "Program" means: (a) the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty set forth or referred to in the letter dated November 23, 2016, 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; as well as, or including, (b) the actions set forth in Section I of Schedule 1 to this Agreement.

19. "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.

20. "Srbijagas" means the state-owned natural gas provider of the Borrower.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

3. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

4. Section 3.01. (Front-end Fee) is modified to read as follows:

   “Section 3.01. Front-end Fee; Commitment Charge

   (a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).

   (b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the “Commitment Charge”). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date.”

5. Sections 5.01 (Project Execution Generally) and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the subsequent Sections in Article V are renumbered accordingly.

6. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 5 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

7. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

   “Section 5.06. Plans; Documents; Records

   … (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”
8. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

"Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan."

9. In the Appendix, Definitions, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth below.

10. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the remaining paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."

11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Eligible Expenditure") is modified to read as follows:

"37. "Eligible Expenditure" means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement."

12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix ("Financial Statements") is deleted in its entirety.

13. In paragraph 48 of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).

14. In paragraph 67 of the Appendix, the definition of the term "Loan Payment" is modified to read as follows:

"67. "Loan Payment" means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread
Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

15. In paragraph 72 of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.

16. The defined term “Project” in paragraph 75 of the Appendix is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“75. “Program” means the program referred to in the Loan Agreement in support of which the Loan is made.”