

Table 1. Serbia and Montenegro: Quantitative Performance Criteria and Indicative Targets for 2004 and 2005
Under the 2002–05 Extended Arrangement 1/
(In millions of dinars, unless otherwise noted; end of period)

	2003				2004				2005				
	Dec.	Jun.		Act.	Program	Sep.	Act.	Dec.	Proj.	Mar.	Jun.	Sep.	Dec.
	End-03 Ex. Rates 15/	3 rd . Rev. 15/	W/ Adjustor 16/		15/	w/adjustor		15/	15/	Program	Program	Program	Program
A. Quantitative performance criteria 16/													
Floor on the net foreign assets of the NBS 2/ 3/	1,663	1,525	1,425	1,448	1,473	1,373	1,582	1,594	1,594	1,608	1,498	1,598	1,708
Ceiling on net domestic assets of the NBS 2/ 4/	-20,844	-21,927	-19,427	-17,354	-13,395	-10,895	-21,924	-16,001	-18,931	-22,197	-15,337	-17,453	-20,804
Ceiling on net credit of the banking system to the consolidated general government 2/ 5/ 6/ 7/	-23,238	-19,092	-16,378	-13,620	-13,279	-10,612	-18,368	-11,280	-11,507	-10,590	-4,464	-7,922	-20,011
Ceiling on cumulative contracting or guaranteeing during the year by the public sector of new nonconcessional external debt with original maturity of more than one year 8/	383	500		207	500	237	500	522	522	100	200	300	400
Multilateral creditors (EBRD, EIB, EU, IBRD, and IPC)	383	500		207	500	237	500	522	522	100	200	300	400
Serbia	351	460		145	460	175	460	460	460	92	184	276	368
Montenegro	31	40		62	40	62	40	62	62	8	16	24	32
Other creditors	0	0		0	0	0	0	0	0	0	0	0	0
Ceiling on new external debt contracted or guaranteed by the public sector with an original maturity of up to and including one year 9/	0	0		0	0	0	0	0	0	0	0	0	0
Ceiling on new guarantees and the assumption of bank or enterprise debt by the public sector 10/	0	0		0	0	14	0	0	0	0	0	0	0
Ceiling on outstanding external debt service arrears 3/ 11/	0	0		0	0	0	0	0	0	0	0	0	0
Ceiling on the wage bill of the monitored public enterprises, cumulative from beginning of year 12/	27,523	14,376		14,438	21,852	22,183	29,725	30,230	30,230	8,030	15,941	24,180	32,700
B. Indicative targets													
Ceiling on net credit of the banking system to consolidated general government of Serbia 2/ 5/ 6/ 13/	-23,586	-21,100		-14,198	-14,878	-18,810	-12,469	-12,696	-12,696	-11,992	-6,377	-10,009	-22,539
consolidated general government of Montenegro 2/ 5/ 13/	348	2,008		578	1,599	442	1,189	1,189	1,189	1,402	1,913	2,087	2,528
Ceiling on net domestic assets of the banking system 2/ 14/	64,249	76,128		93,777	92,503	100,523	94,134	117,450	117,450	124,601	137,670	144,811	144,924
Ceiling on Serbian central government dinar deposits in commercial banks	4,813	0		2,014	0	1,652	0	0	0	0	0	0	0
Ceiling on change in the arrears of the Union government	...	0		0	0	...	0	0	0	0	0	0	0
the consolidated general government in Serbia	...	0		n.a. 18/	0	...	0	0	0	0	0	0	0
the consolidated general government in Montenegro	...	0		395	0	687	0	0	0	0	0	0	0

1/ Quantitative performance criteria and indicative targets are defined in Annex E and evaluated at end-December 2003 exchange rates for program purposes.

In 2005, figures in section A. are performance criteria for March and indicative targets for the remainder of the year.

2/ These performance criteria will be adjusted by the amount that revised estimates differ from the preliminary end-September 2004 figures.

3/ In millions of U.S. dollars. The net foreign assets floor will be adjusted downward by the shortfall relative to the programmed level of net external budgetary financing with a maximum adjustment of US\$100 million.

4/ Monitored on the basis of monthly averages as defined in Annex E. Subject to the same adjustment for excess or shortfall in combined budgetary external financing and privatization proceeds for the consolidated Serbian government as defined in 7/.

5/ For program purposes, the ceilings on net credit of the banking system to the consolidated general government will be adjusted downward by the cumulative increase in the stock of government debt held by the nonbank public (other than that related to the frozen currency deposits), starting from January 1, 2004, and upward for any decrease. In addition, in the event of a shortfall in the sum of net foreign budgetary financing and privatization proceeds, the ceilings will be adjusted upward for the shortfall subject to the total adjustment limit of 6 billion dinar for Serbia and €10 million for Montenegro's consolidated government. The ceilings will be adjusted downward for the excess of combined net external budgetary financing and privatization proceeds relative to budgeted levels that are not used (1) to reduce the government external indebtedness by more than envisaged under the program, or (2) to cover investment and restructuring costs in consultation with the Fund in the context of program reviews.

6/ The adjusters for shortfalls in (i) nonbank domestic financing; and (ii) severance payments apply, as defined in sections II.D, and II.J of the TMU, respectively.

7/ The consolidated general government comprises the Serbian republican and local governments, union level operations, the Montenegrin republican government, the Serbian and Montenegrin social security funds, and the Serbian and Montenegro special extrabudgetary programs.

8/ In millions of U.S. dollars. Excluding loans from the IMF and debt contracted in the context of debt restructuring agreements in the framework of the Paris Club and London Club. The public sector comprises the consolidated general government, the National Bank of Serbia, and the Central Bank of Montenegro.

9/ Excludes normal import-related credits.

10/ Excludes indebtedness arising from the fulfillment of existing government guarantees.

11/ Excludes debts subject to restructuring/negotiations. The nonaccumulation of new external arrears is also a continuous performance criterion.

12/ Indicative target through September 2004; performance criterion from December 2004 onwards. The revised annual target for 2004 was increased by 1.7 percent. The 7 monitored enterprises in 2004 include JP Elektroprivreda Srbije, JP Naftna Industrija Srbije, JP PTT Srbije, JP Jugoslovenski Aerotransport, JP Zelenicko Transportno Preduzece Srbije, JP Srbija Sume, and JP Srbija Telekom. In 2005, JP Aerodrom Bеоград. In the case of spin-offs from these companies of activities through the creation of new companies after end-October 2003, the monitored wage bill will be adjusted for the spun-off units.

13/ Consolidated Montenegrin government includes all entities in Montenegro defined under 7/; the rest of entities under 7/ is included in the consolidated Serbian government.

14/ Foreign currency-denominated loans and deposits at program exchange rates. Excludes Montenegro.

15/ Reflects, as appropriate, revisions to the NBS' foreign exchange liabilities, credit to government by the banking system, and broad money at end-2003, and adjustments stemming from the raising of the reserve requirement ratio from 18 to 21 percent effective on August 11, 2004.

16/ Given the size of the shortfall in total budgetary support during Jan-June 2004, the NFA floor for end-June was adjusted down by \$100 million, and the NDA ceiling for June is adjusted up by D 2.5 billion, the maximum adjustments for both targets allowed under the program.

17/ Revised PC for end-December 2004.

18/ Data on the net-accumulation of arrears have not yet been provided by the authorities.

Table 2. Serbia and Montenegro: Extended Arrangement, May 2002–May 2005
Prior Actions, Structural Performance Criteria, and Structural Benchmarks, January–December 2004

	Target Date	Implementation
I. Structural Performance Criteria		
1. Serbia: Effective July 1, 2004, increase weighted average electricity price for sales to end-users by at least 10 percent in dinar terms from the level prevailing at end-2003.	end-June 2004	Met. Electricity price was increased by an average of 10.6 percent. Decision taken at the Government session on June 24, 2004 and published in Official Gazette (73/2004) on June 25.
2. Parliamentary adoption of the bankruptcy law in line with the MEFP.	end-June 2004	Met with short delay. Waiver is requested. Parliament adopted the Bankruptcy Law on July 17 together with 16 other key pieces of reform legislation following repeated postponements owing to the need to garner sufficient supporting votes.
II. Structural Benchmarks		
A. Fiscal Sector		
1. Serbia: Submit to Parliament the draft Law on VAT establishing a broad-based VAT with no more than two rates, effective from January 1, 2005.	end-June 2004	Met with short delay. Draft law submitted to Parliament on May 25, 2004. Parliament adopted the VAT law together with other reform legislation on July 17, 2004.
2. Montenegro: withdraw all central government deposits from commercial banks to the Treasury Single Account in the Central Bank of Montenegro (for the bank in the process of privatization, the deposits would decline to one half of their end-2003 level, with the remainder to be withdrawn by end- 2005).	end-December 2004	In the Fourth Review the benchmark was reformulated for the bank in the process of privatization: its deposits would decline by €2 million by end-2004, with the remainder to be withdrawn by end-June 2005.
B. Financial Sector		
1. Serbia: Adopt a time-bound strategy to recover value of non-performing assets of closed banks and those associated with Paris and London Club.	end-June 2004	Substantially met. Key aspects of a strategy were presented to and endorsed by the BRA board on April 29, 2004.
2. Serbia: Complete the conversion of all Paris and London Club as well as FPCD-related liabilities into state-owned equity in banks to be privatized.	end-June 2004	Largely met, with delay.
3. Serbia: Offer majority or controlling stakes to strategic investors in one of the banks affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits.	end-May 2004	Met. Public Tender for Jugobanka was announced in the Financial Times on May 28, 2004
4. Serbia: Offer majority or controlling stakes to strategic investors in two additional banks affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits.	end-September 2004	Met.
5. Serbia: Begin recovering value from impaired assets acquired by the state by launching the sale from the BRA portfolio of the 25 largest corporate and commercial loans not prescribed (non-public, not on privatization list, not bankrupt).	end-September 2004	Not met. Revised and Rescheduled.
6. Serbia: Offer majority or controlling stakes to strategic investors in one additional bank affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits.	end-December 2004	
7. Montenegro: Contract out through tenders the collection of carved-out assets from the banking system.	end-September 2004	Not met. Revised and Rescheduled.
8. Montenegro: launch a transparent international tender to sell the state's holdings in Podgoricka Banka to maximize cash privatization proceeds.	end-December 2004	In the Fourth Review the test date was rescheduled from end-December 2004 to end-April 2005.
C. Enterprise restructuring and privatization		
1. Put in place operational institutions and supporting legislation to ensure implementation of the bankruptcy law.	end-November 2004	In the Fourth Review reformulated and elevated from SB to an end-December PC: "Serbia: Enact amendment to the Law on the Privatization Agency enabling the Privatization Agency to act as the bankruptcy trustee agency for state- and socially-owned enterprises."

Table 3. Serbia and Montenegro: Extended Arrangement, May 2002–May 2005
Prior Actions, Structural Performance Criteria, and Structural Benchmarks, September 2004–March 2005

	Target Date	Status	Implementation
I. Prior Actions for Board Consideration of the Fourth Review			
1. Serbia: Parliamentary approval of the revised budget for 2004 in line with the MEFP.		Done	Adopted October 20, 2004
2. Serbia: Submission to Parliament of the draft 2005 budget in line with the MEFP.		Done	Adopted November 20, 2004
3. Montenegro: Government approval and publication of the revised budgetary objectives for 2004 in line with the MEFP.		Revisions submitted to Cabinet	
4. Montenegro: Submission to Parliament of the draft 2005 budget in line with the MEFP.		Draft submitted to Cabinet	
5. Serbia: Issue tender for 3 large socially-owned enterprises			
6. Serbia and Montenegro: Submit to federal parliament amendments to the law on (i) the Yugoslav Army and (ii) Union-level Civil Employees, reducing the redundancy payment from 24 to 12 months' wages and the dismissal notice time from 3 months to 30 days.			
II. Structural Performance Criteria			
1. Serbia: Enact amendment to the Law on the Privatization Agency enabling the Privatization Agency to act as the bankruptcy trustee agency for state- and socially-owned enterprises.	end-December 2004	4th review	
2. Serbia: Enact the amendments to the law on (i) the Yugoslav Army and (ii) Union-level Civil Employees, reducing the redundancy payment from 24 to 12 months' wages and the dismissal notice time from 3 months to 30 days.	end-December 2004	4th review	
3. Serbia: The government will (i) legally register the new transmission and dispatch company, which will be owned separately from EPS; and (ii) adopt a time bound action plan for implementation of EPS restructuring covering accounting separation, introduction of transfer prices, labor restructuring, debt restructuring, asset transfer, and other steps necessary to enable the separated companies to function as independent enterprises from July 1, 2005.	end-February 2005	4th review	
III. Structural Benchmarks			
A. Fiscal Sector			
1. Serbia: Agree with World Bank on key elements of civil service reform consistent with restraining the 2005 budgetary wage bill in line with the MEFP.	end-November 2004	4th review	
2. Montenegro: Withdraw all central government deposits from commercial banks to the Treasury Single Account in the Central Bank of Montenegro (for the bank in the process of privatization, the deposits would decline by €2 million by end-2004, with the remainder to be withdrawn by end-June 2005).	end-December 2004	3rd review	
3. Serbia: Prepare a plan to reduce tax arrears to the budget.	end-November 2004	4th review	
4. Serbia: Adopt Law on Civil Service	end-March 2005	4th review	
B. Financial Sector			
1. Serbia: Offer majority or controlling stakes to strategic investors in one additional bank affected by the July 2002 laws on Paris and London Club debt and frozen foreign currency deposits.	end-December 2004	3rd review	
2. Serbia: Submit to Parliament a draft law to convert existing government debt to the NBS into tradable securities.	end-November 2004	4th review	
3. Serbia: Close banks that do not meet the minimum capital requirement, unless reputable investors recapitalize them, or they are undergoing merger to help them meet this requirement.	end-December 2004	4th review	
4. Serbia: Adopt the laws on Deposit Insurance, BRA and Bank Bankruptcy in consultation with the World Bank and the Fund.	end-March 2005	4th review	
5. Montenegro: Launch the sale of nonfinancial assets carved-out from the banking system.	end-December 2004	4th review	
6. Montenegro: Launch a transparent international tender to sell the state's holdings in Podgoricka Banka to maximize cash privatization proceeds.	end-April 2005	3rd review, rescheduled	
C. Enterprise restructuring and privatization			
1. Serbia: Establish a Supervisory Body to license, supervise, and regulate bankruptcy trustees.	end-February 2005	4th review	