



Republic of Serbia
Ministry of Finance
Treasury

Republic of Serbia - Ministry of Finance, Treasury

Investor Information July 2010

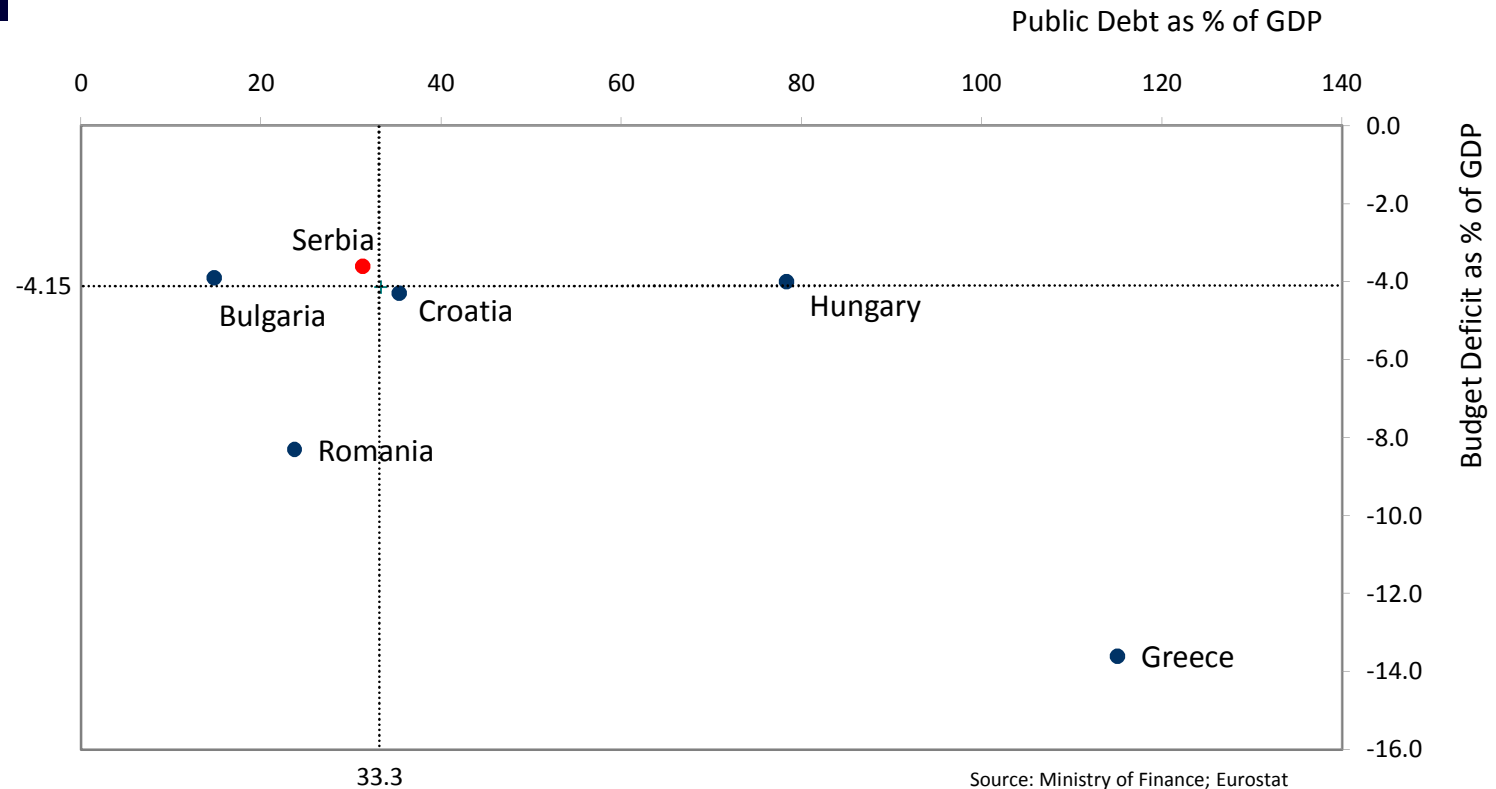


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Macroeconomic Background



- In 2009, Serbia maintained fiscal stability with a 3.6% budget deficit and a sustainable Debt-to-GDP of 31.3%
- Restrictive fiscal policy regarding the fiscal expenditures: freezing headcount and salaries in public sector and more efficient usage of budget inflows, will decrease government spending in the period 2010-2012
- The budget deficit will be covered mostly by issuances of local currency securities



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Macroeconomic Background

Standard & Poor's Credit Ratings

Country	Sovereign local currency ratings (LT/Outlook/ST)	Sovereign foreign currency ratings (LT/Outlook/ST)	Transfer and convertibility assessment
Serbia	BB-/Stable/B	BB-/Stable/B	BB-
Romania	BBB-/Stable/A-3	BB+/Stable/B	BBB+
Bulgaria	BBB/Stable/A-3	BBB/Stable/A-3	A
Greece	BB+/Negative/B	BB+/Negative/B	AAA
Croatia	BBB/Negative/A-3	BBB/Negative/A-3	A-
Hungary	BBB-/Stable/A-3	BBB-/Stable/A-3	A-

Source: Standard & Poor's

GDP Growth Rates in %

Country	2009	2010p	2011p	2015p
Serbia	-3.0	1.5	3.0	5.0
Romania	-7.1	0.8	5.1	4.1
Bulgaria	-5.0	0.2	2.0	5.0
Greece	-2.0	-2.0	-1.1	1.4
Croatia	-5.0	0.2	2.5	3.0
Hungary	-6.3	-0.2	3.2	3.0

Source: IMF



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Macroeconomic Background

Serbia: Key Indicators

Key Economic Indicators (% change y-o-y)	2008	2009e	2010p	2011p	2012p
Private consumption	8.3	-6.1	-0.2	2.5	4.1
Government spending	4.7	-6.1	-4.2	-1.9	0.1
Investment	8.4	-22.8	3.4	11.7	14.5
Export	13.5	-4.9	6.6	6.6	8.0

Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy

Current Account

	2008	2009e	2010p	2011p	2012p
as % of GDP	-17.8	-6.3	-6.4	-6.4	-6.6

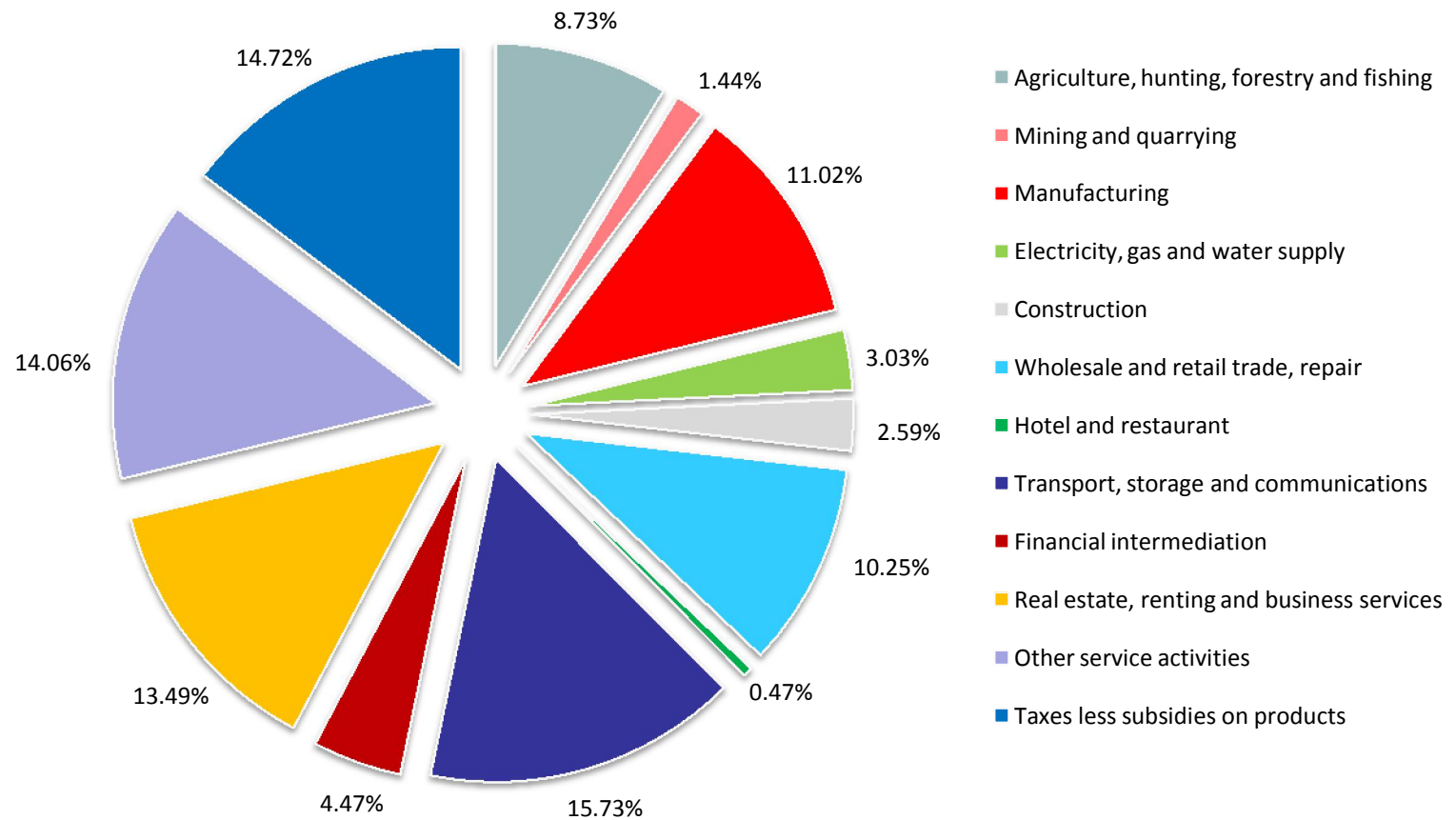
Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy

“We expect the external current account deficit to remain contained.” (IMF, May 2010)



Macroeconomic Background

Serbia: Structure of the GDP (Q1 2010)



Source: Statistical Office of the Republic of Serbia



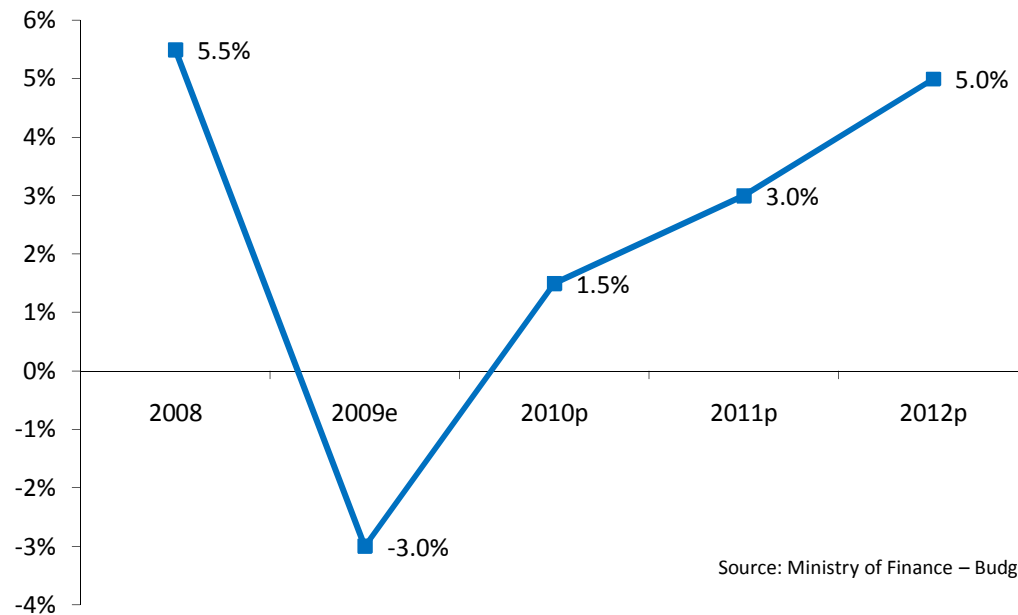
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Macroeconomic Background

GDP Growth Rate



Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy

- GDP declined by 4.1% and 4.2% in Q1 and Q2 2009 respectively, with less negative growth rates in Q3 and Q4. The economic indicators show gradual recovery growth rates in 2010.
- The main assumption for GDP growth recovery in 2010 is an increase in investments.. The growth projections for the period 2010-2012 are based on an investments annual growth rate of above 10%.



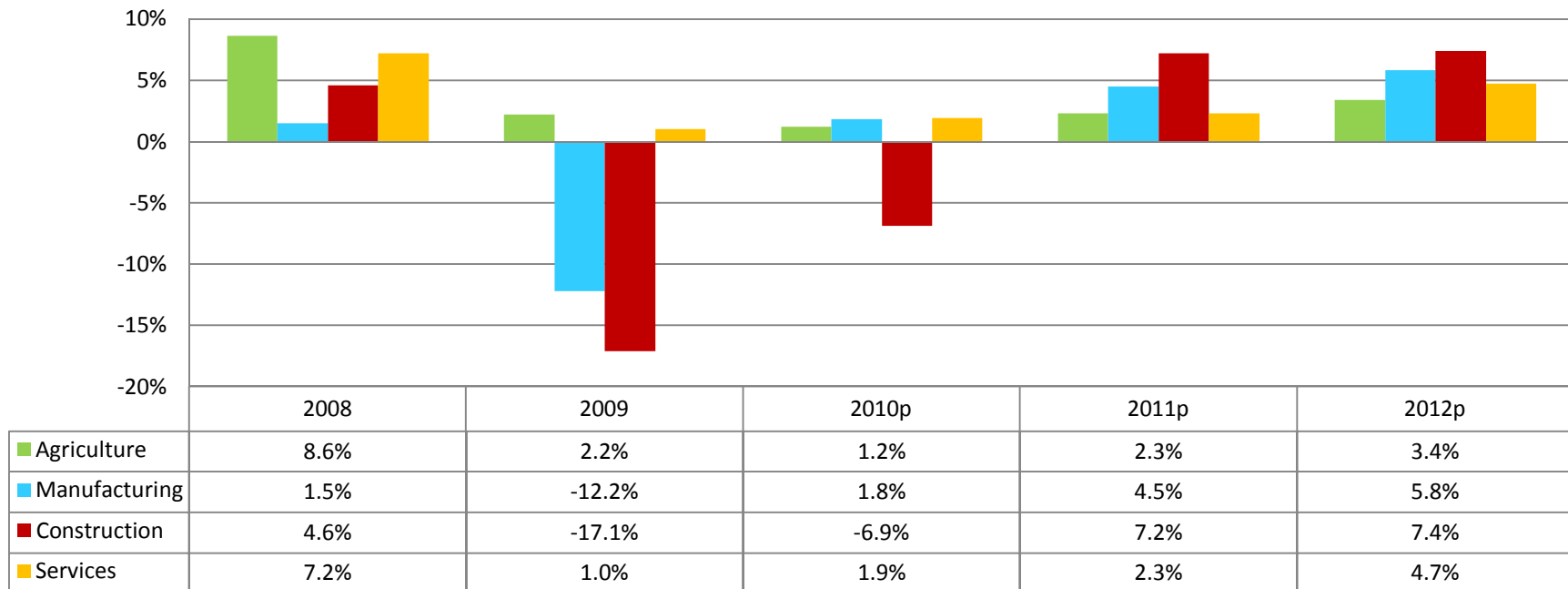
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Macroeconomic Background

Growth of Gross Value Added 2008-2012



Source: Ministry of Finance – Budget Memorandum on Economic
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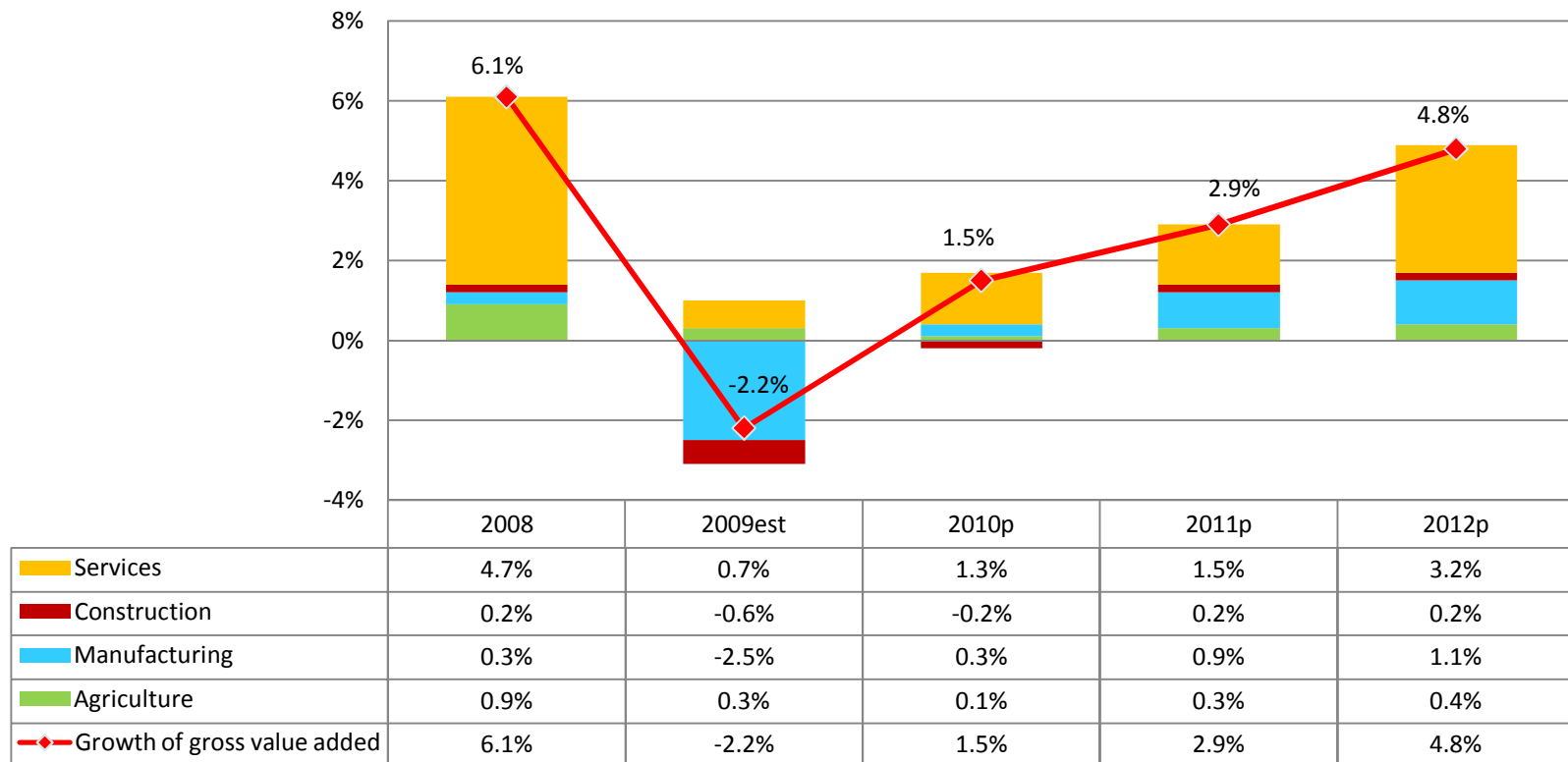
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Macroeconomic Background

Contribution to Growth of Gross Value Added 2008-2012



Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy



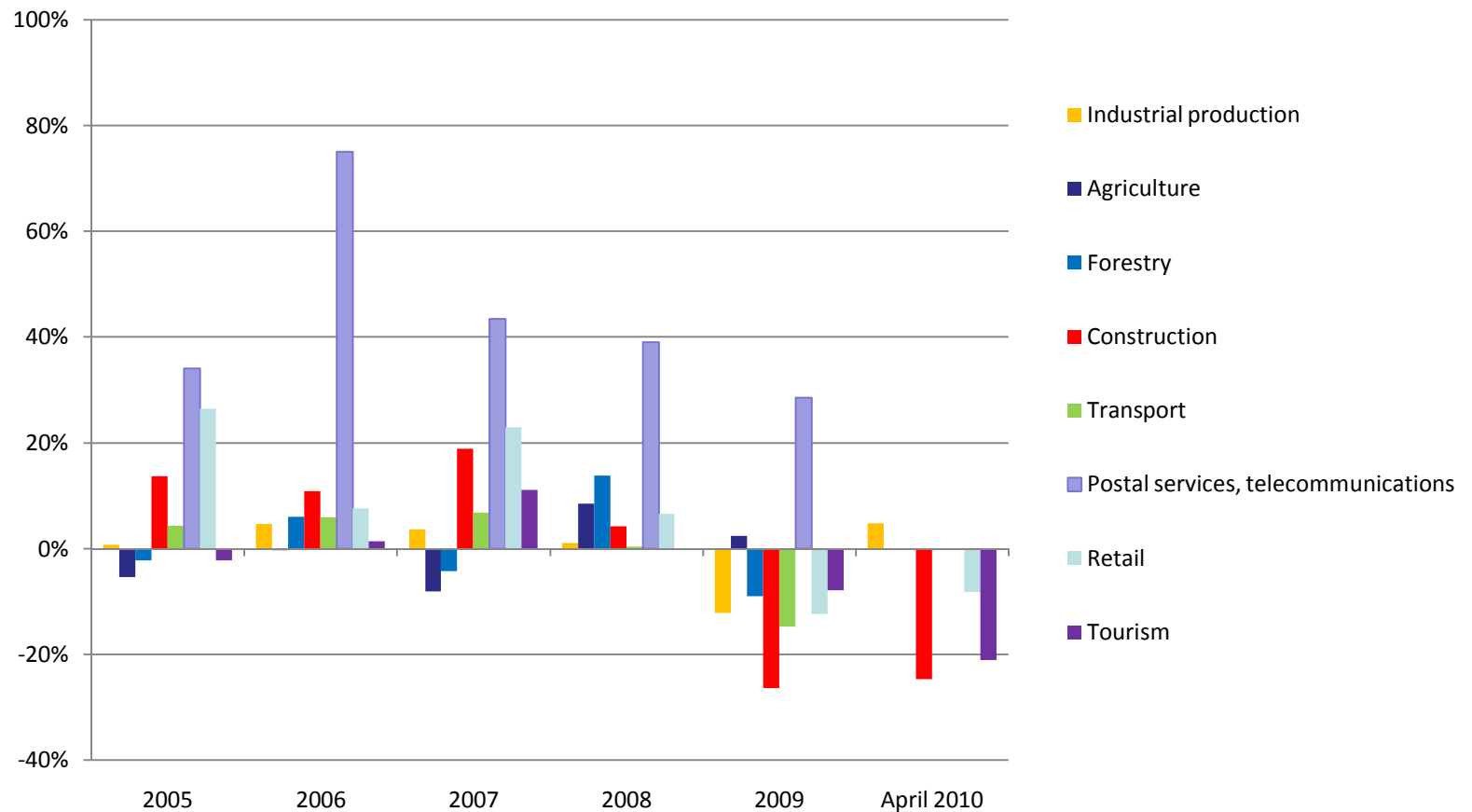
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Macroeconomic Background

Sector growth rates 2005-2010, previous year=100



Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy



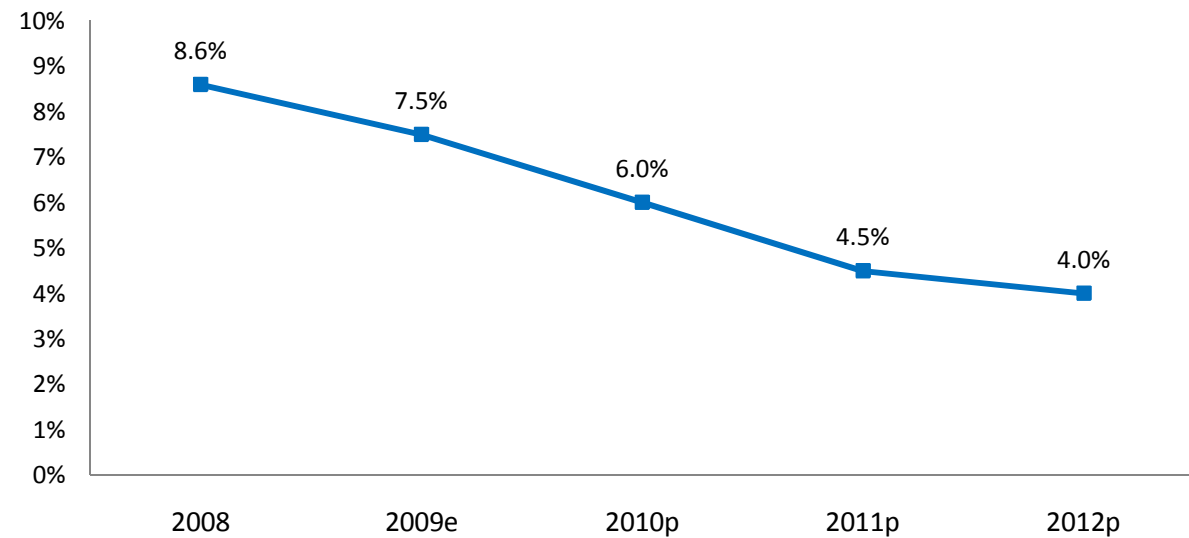
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Macroeconomic Background

End-of-period Inflation



Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy

- 2008-2010 inflation decrease, easier to implement the policy of inflation targeting
- Inflation on target in 2009 (7.5%), target for 2010 set at $7.2 \pm 2\%$
- IMF (May 2010): "In a welcome development, inflation has come down markedly, creating an opportunity to durably stabilize price growth in the low single-digit range."



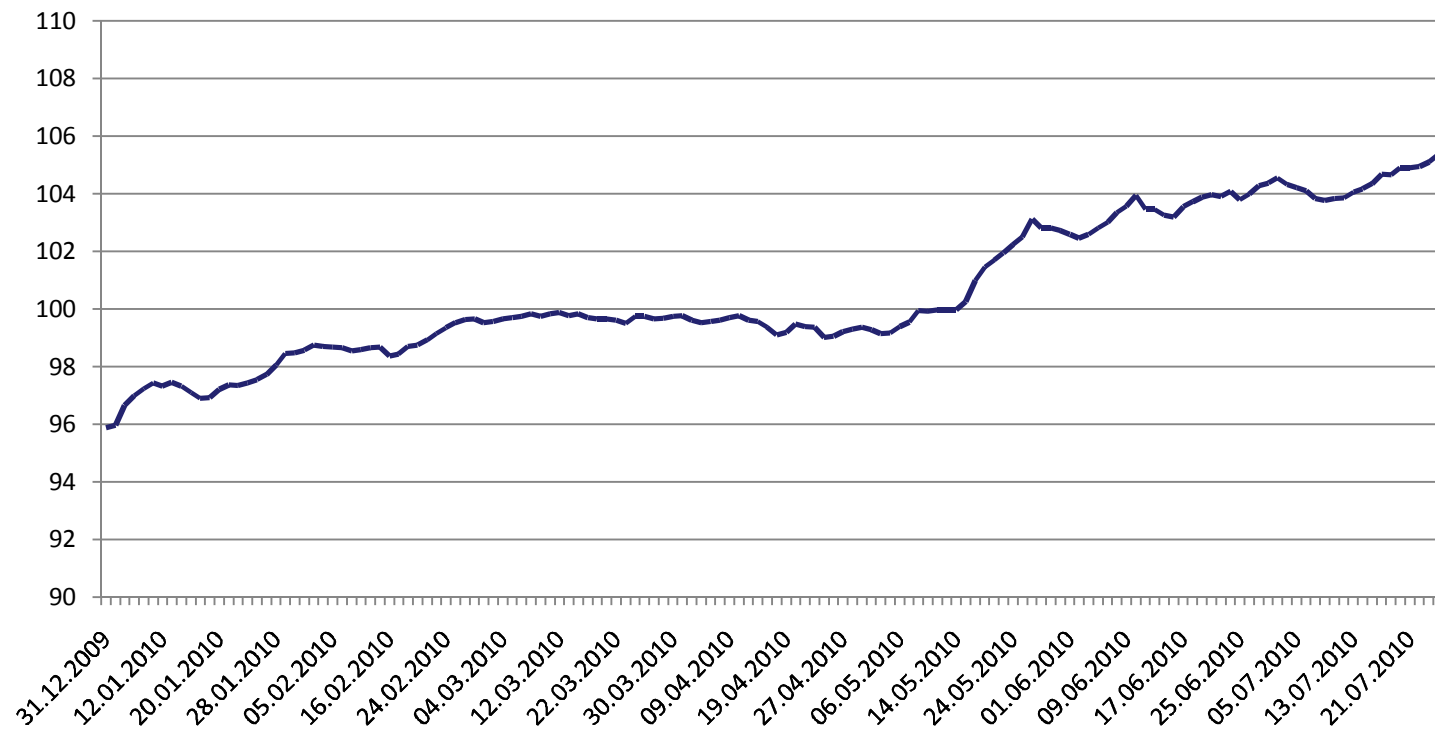
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Macroeconomic Background

Historical Daily RSD/EUR Exchange Rates January-July 2010



Source: National Bank of Serbia



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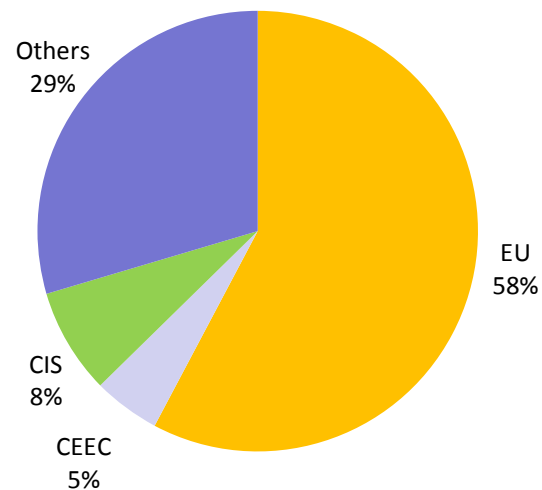
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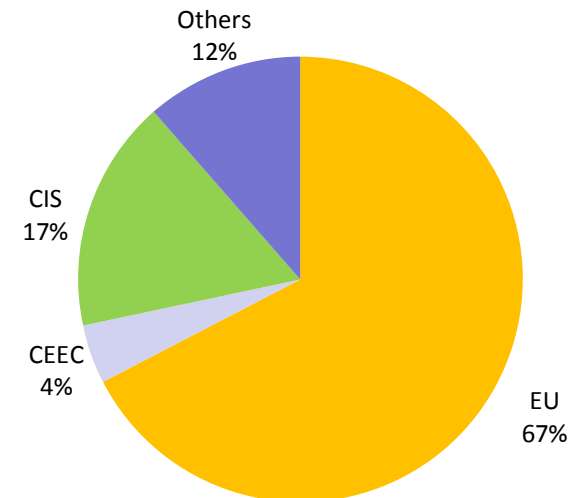
Geographic Distribution of Foreign Trade (January-May 2010)

in EUR millions	EU (European Union)	CEEC (Central and Eastern European Countries)	CIS (Commonwealth of Independent States)	Others
Exports	1540.10	130.30	206.50	789.50
Imports	2668.50	67.60	700.40	1316.50

Exports



Imports



Source: Statistical Office of the Republic of Serbia



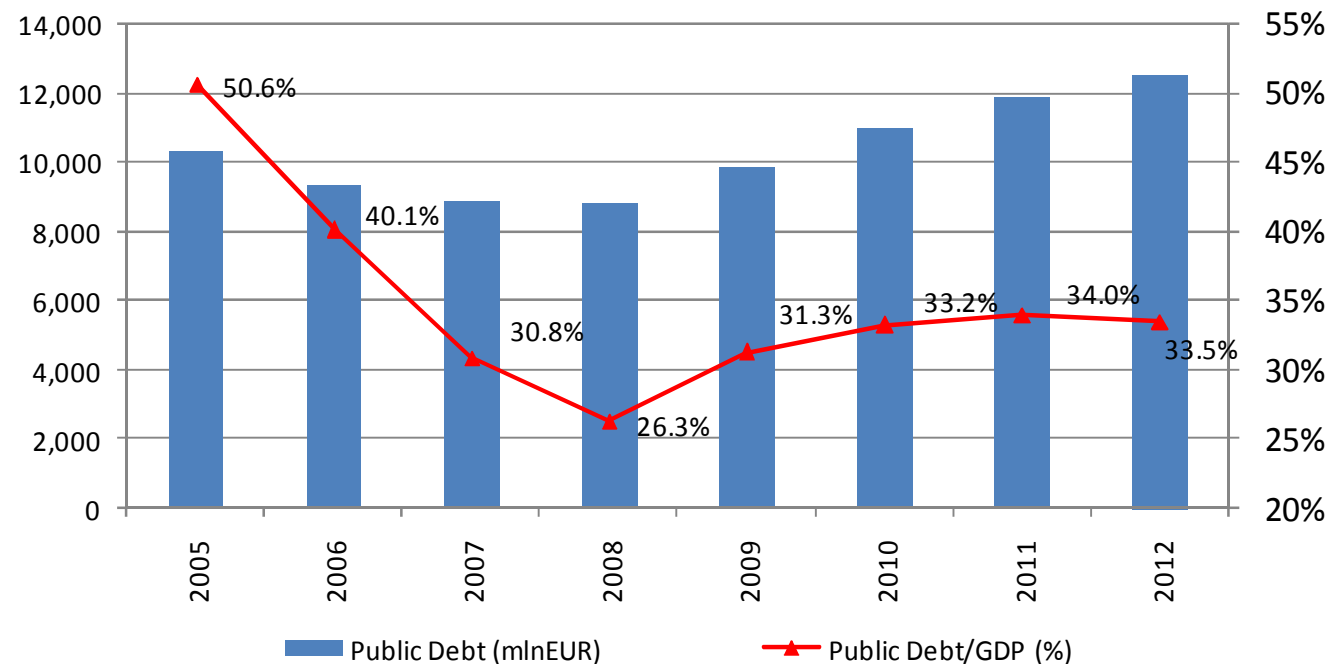
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Macroeconomic Background

Public Debt and Public Debt/GDP Ratio



Source: Ministry of Finance – Budget Memorandum on Economic and Fiscal Policy

- Debt-to-GDP dropped due to an increase in real GDP growth, debt write-off (Paris and London Club), debt pre-payments (IBRD, IMF, pensioners), regular debt repayments, appreciation of RSD against EUR and USD in 2007 and privatization receipts used to finance the budget deficit
- After a seven year-long downturn (2001-2008) in public debt, the trend has changed due to the decrease in public revenues and depreciation of the domestic currency



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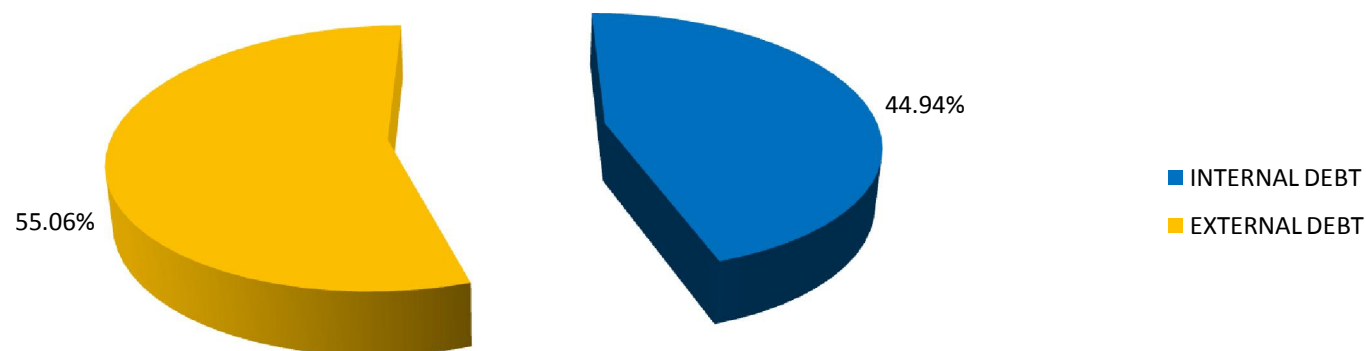
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Description of the Debt Structure

as of June 30th, 2010

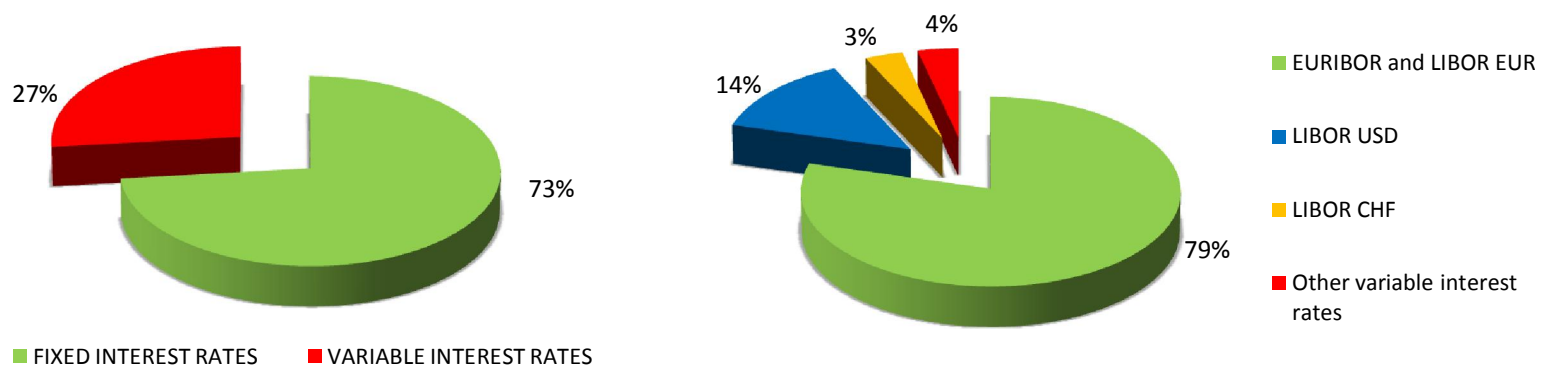
External v. Internal debt mix: Direct liabilities



Source: Ministry of Finance

Interest Rate Mix

Floating Interest Rate Mix



Source: Ministry of Finance



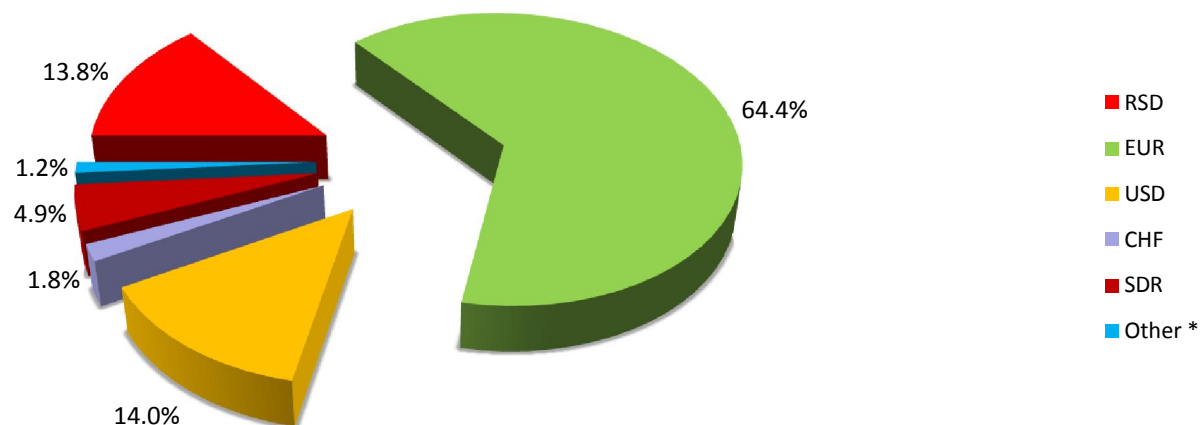
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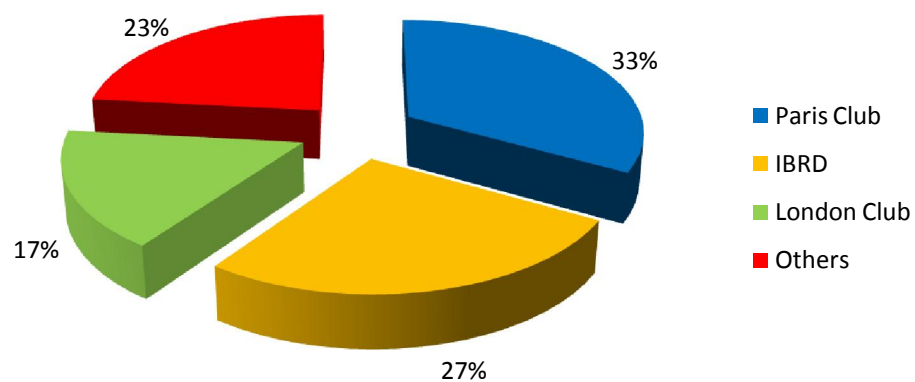
Description of the Debt Structure

Currency Mix (as of June 30th, 2010)



Source: Ministry of Finance

Breakdown of External Debt: Direct liabilities



Source: Ministry of Finance

* GBP, JPY, DKK, SEK, NOK



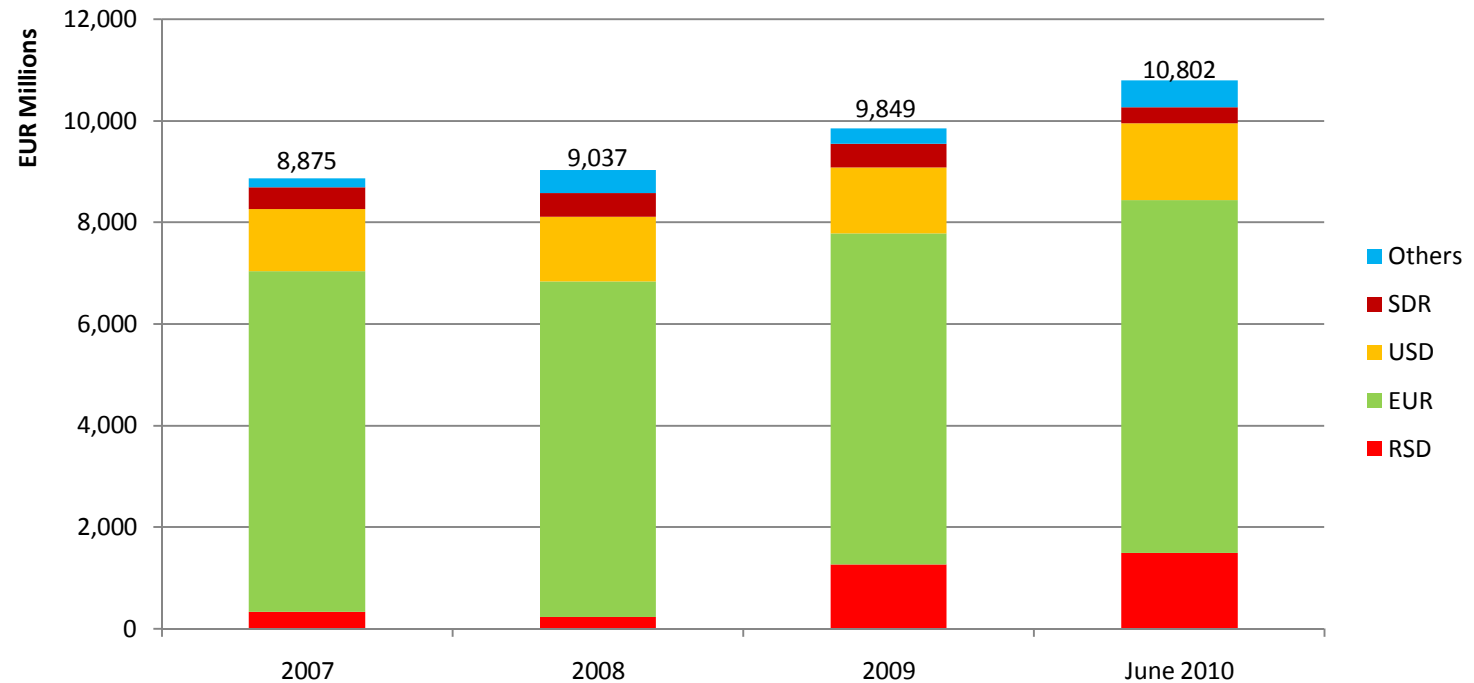
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Description of the Debt Structure

Development of the Currency Structure



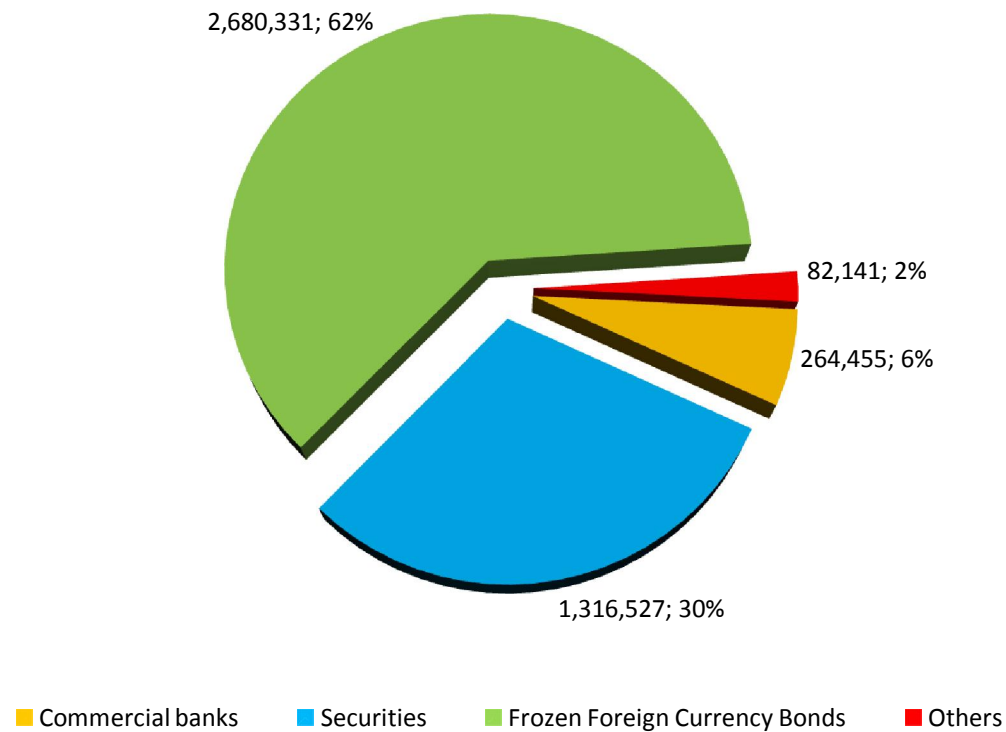
Source: Ministry of Finance

- Increase in the government borrowing in domestic currency during 2010 will reduce both interest rate and exchange rate risk
- Serbia seeks to upgrade domestic money and capital markets through issuances of T-Bills with longer maturities



Description of the Debt Structure

Internal Debt in 000 EUR (as of June 30th, 2010)



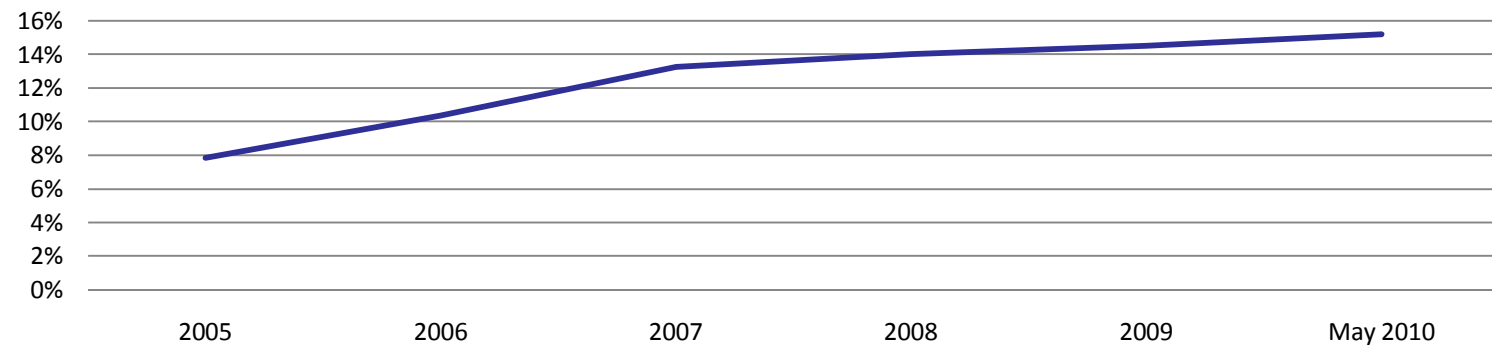
Source: Ministry of Finance



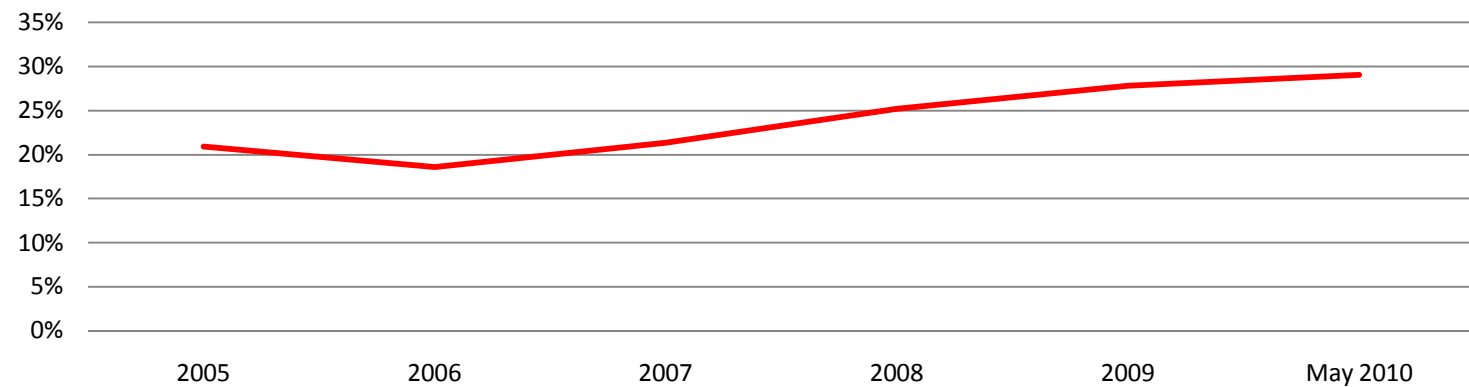
Indebtedness

Indebtedness of households and companies

Household debt as % of GDP



Corporate debt as % of GDP



Source: National Bank of Serbia



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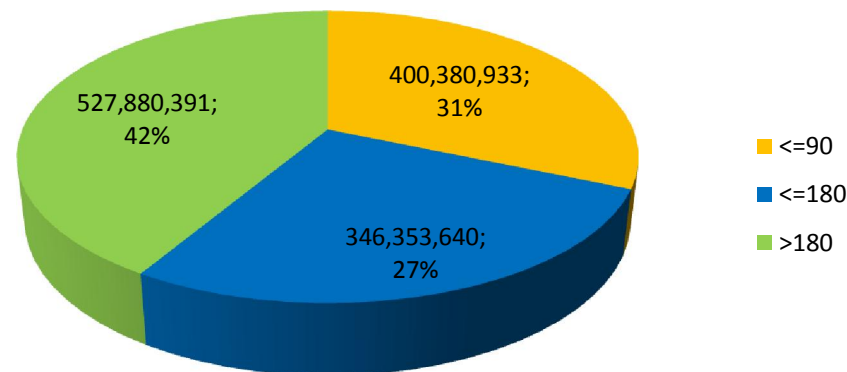
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Marketable Debt

Local Currency Treasury Bills

- **Maturities: 3, 6, 12, 18 and 24 months**
 - Current issuances - maturities 3, 6, 12, 18 (since May 2010), 24 (since July 2010) month bills
 - Duration of outstanding T-bills: 185 days (July 20th, 2010)
 - Introducing different maturities is in line with the plan to gradually extend the benchmark yield curve
 - Maturity profile of the EUR 1.27 billion* of currently outstanding T-Bills



- **Auctions**
 - Regular T-Bill auctions since 2003
 - Unique price system
 - Auctions currently take place 1-2 times a week (issuances of different maturities)
- **Secondary market**
 - T-Bills traded OTC, trading activity published in website of the Treasury and the National Bank of Serbia

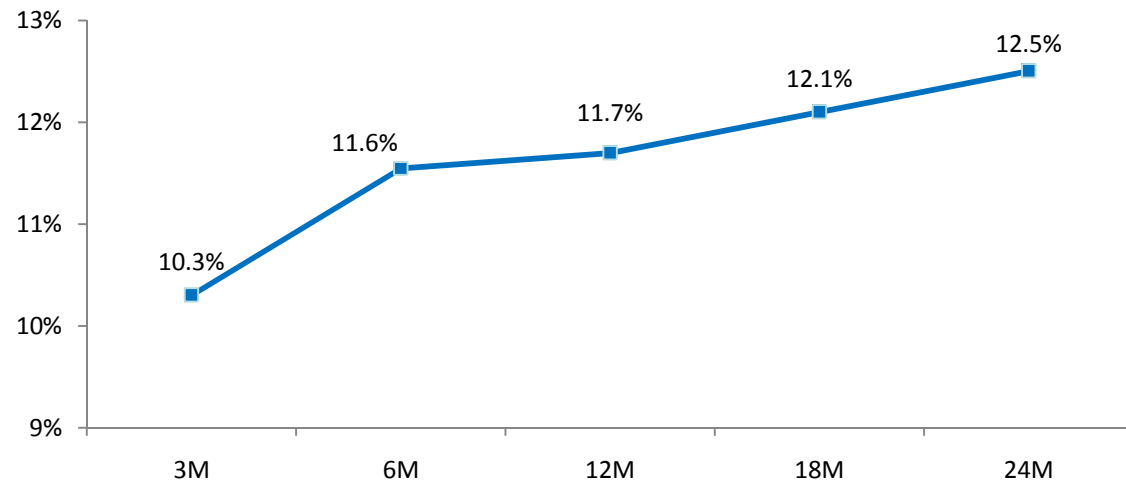
* T-Bill stock and EUR exchange rate as of July 20th, 2010



Marketable Debt

Local Currency Treasury Bills

Yield Curve: The annualized return on the most recently issued securities (“on-the-run” securities)



Source: Ministry of Finance

- The Ministry of Finance remains committed to developing the local bond market as a key part of Serbia’s de-urization strategy.
- The Debt Management Office will continue issuing 18- and 24-month bills this year and extending the yield curve to include three and possibly five-year bonds in 2011.



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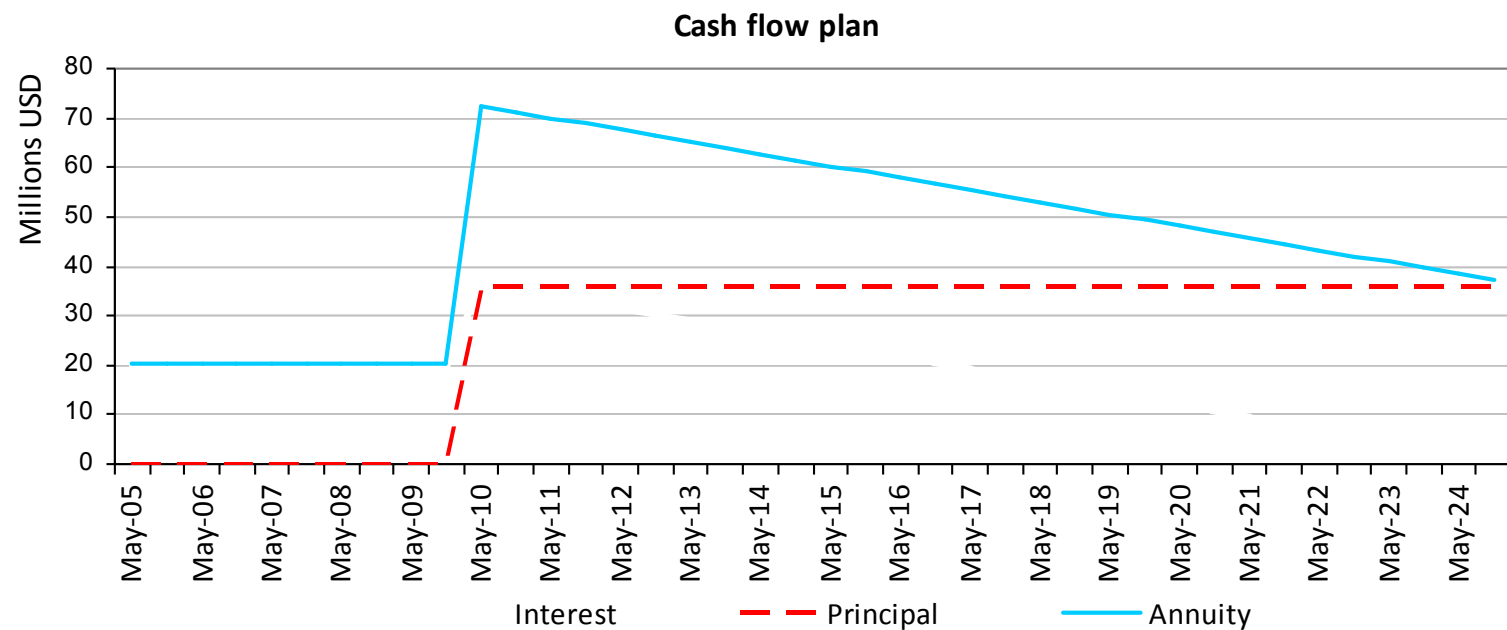
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Marketable Debt

London Club Bonds

- London Club debt (USD 1.08bn) bonds listed on Luxembourg Stock Exchange
- Last maturity date: 1/11/2024
- Semi-annual step-up coupon bond: coupon rate fixed at 6.75%
- Principal repayment in equal installments started in May 2010



Source: Ministry of Finance



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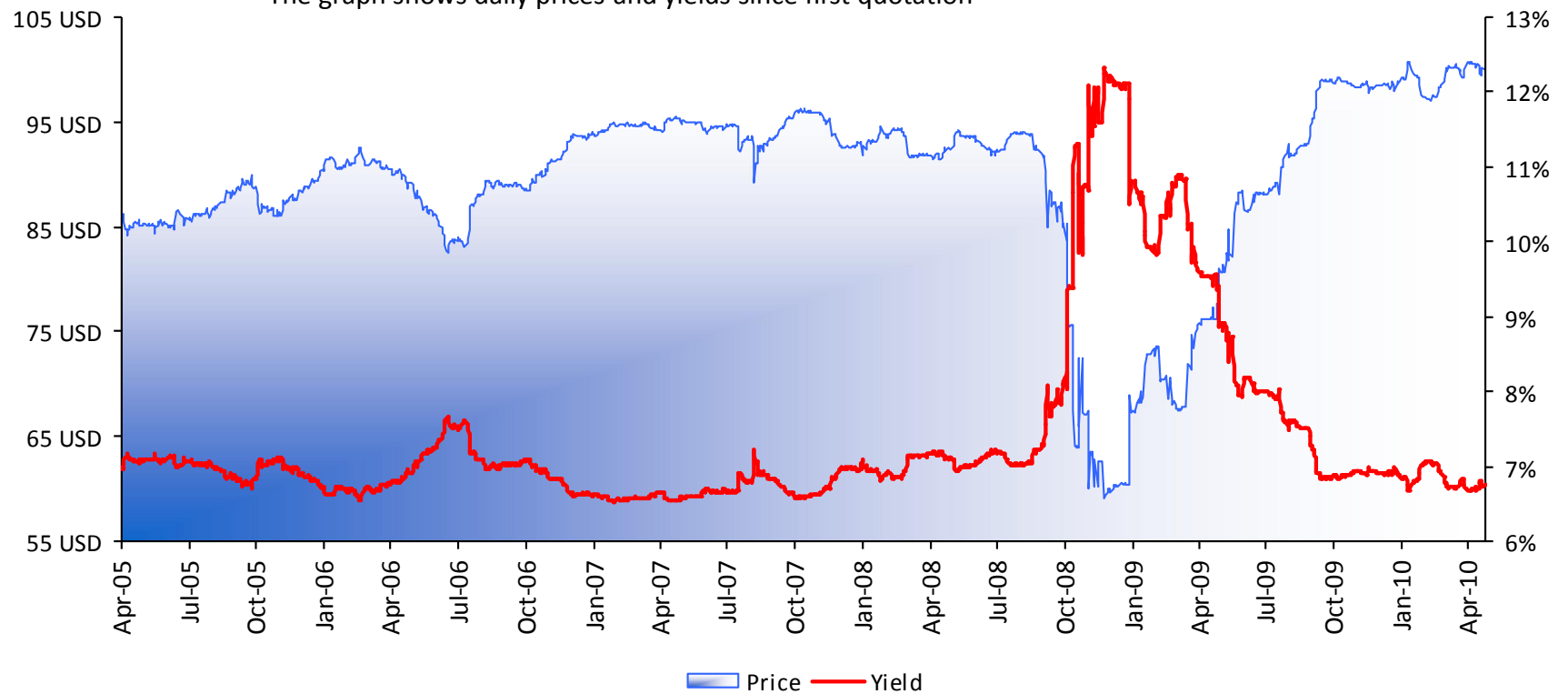
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Marketable Debt

London Club Bonds

- London Club debt bonds are traded infrequently
- The graph shows daily prices and yields since first quotation



Source: Bloomberg



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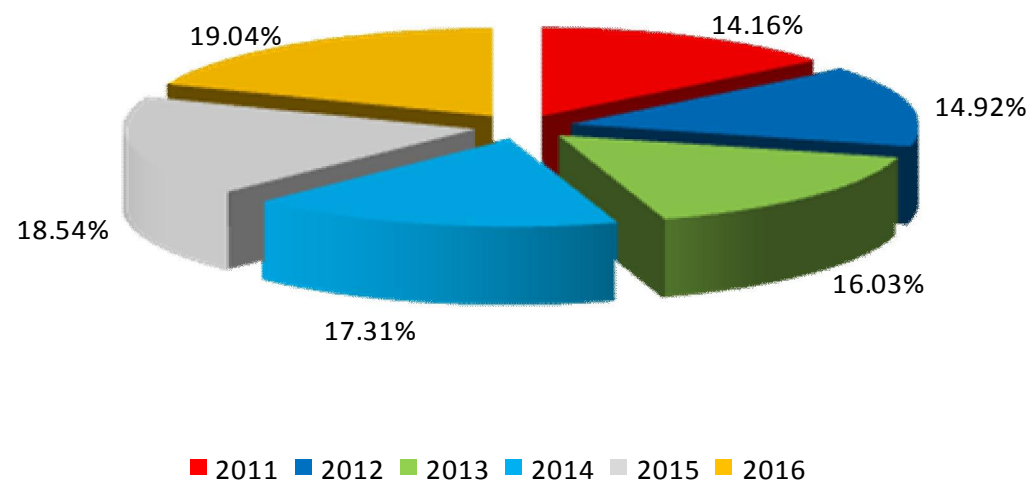
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Marketable Debt

Frozen Foreign Currency Bonds

- Maturities 2002 - 2016 as part of debt rescheduling
- Zero coupon EUR denominated domestic securities
- Frozen foreign currency bonds (FFCBs) traded both on the Belgrade Stock Exchange and OTC
- Current duration on the outstanding liabilities 3 years and 5 months (May 31st)
- The share of maturity series 2011-2016 in the total outstanding amount of EUR 2.7 bn is shown in the graph



Source: National Bank of Serbia



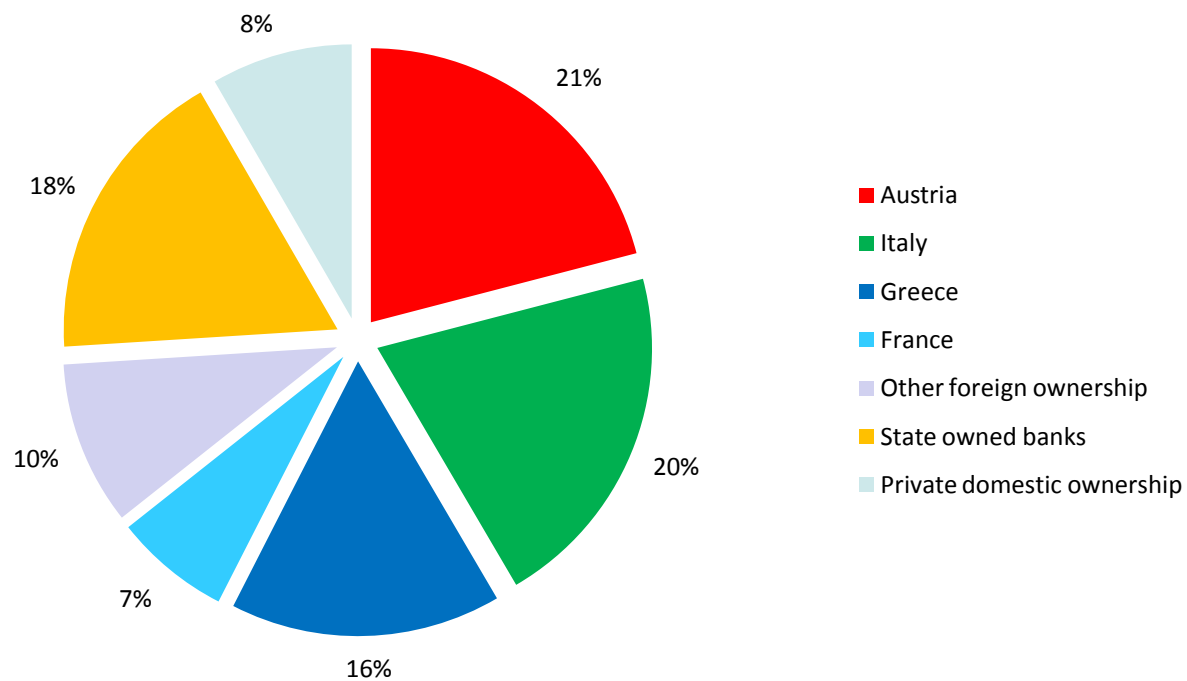
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Banking sector

Banking sector by assets (banks sorted by ownership)

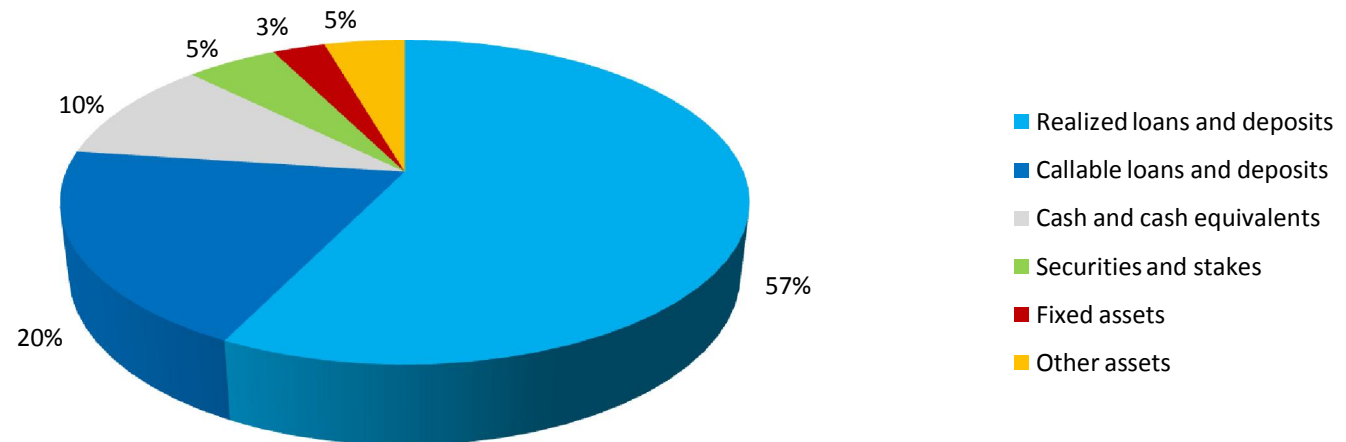


Source: National Bank of Serbia



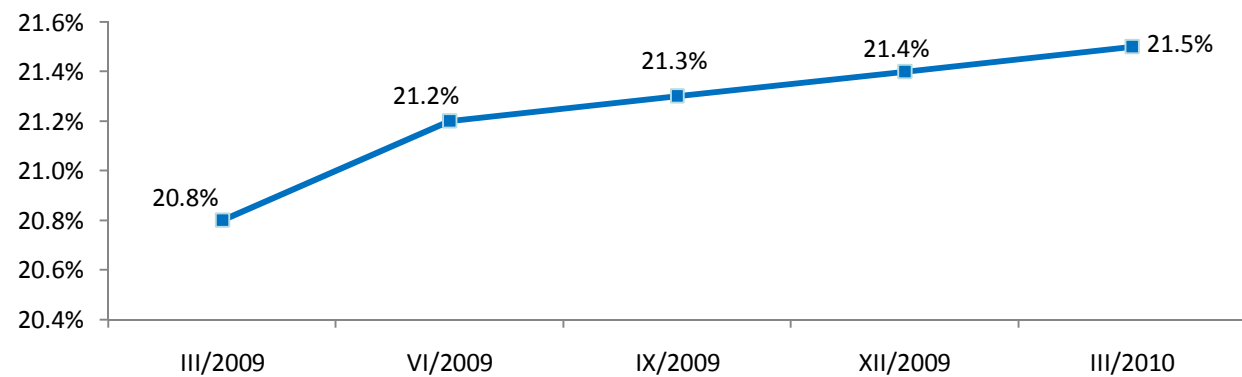
Banking sector

Asset structure (as of March 31st, 2010)



Capital adequacy ratio (as of March 31st, 2010)

Source: National Bank of Serbia



Source: National Bank of Serbia



Debt Management Strategy

GUIDELINES FOR GOVERNMENT BORROWING IN 2010

- The main objective is to manage the Serbian public debt efficiently and effectively and to meet borrowing needs
- The borrowing needs are determined by the budget deficit and the existing debt portfolio.
- Increase in the government borrowing in 2010 in domestic currency will reduce both interest rate and exchange rate risk exposure
- Serbia seeks to upgrade domestic money and capital markets
- New borrowing coordinated with the National Bank of Serbia
- New borrowing for capital expenditures (infrastructure projects)
- Borrowing guidelines are part of Budget Memorandum on Economic and Fiscal Policy



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Accountability Framework

- **Is the Borrowing strategy a public document?**
 - Debt management strategy is a publicly available document
 - It is an integral part of the Budget Memorandum on Economic and Fiscal Policy

- **Are reports produced reporting on activities and risks?**
 - Public Finance Bulletin is published once a month by the Ministry of Finance
 - It provides an overview of the activities together with an indication of the risks involved related to public debt

- **What happens when there are deviations from the strategy?**
 - The debt management strategy is not legally binding

“The drafting of fiscal responsibility legislation has advanced...” (IMF, May 2010)



Highlights

1. Stable BB- rating (S&P, Fitch)
2. Transparent funding plan: Borrowing strategy is a publicly available document
3. Sound public finances
4. Fiscal sustainability and discipline
5. Appropriate budgetary policy response to the crisis
6. Continued IMF program supported by a stand-by arrangement
7. Relative value against regional peers
8. Transparent secondary trading of T-Bills and FFCBs
9. Improved current account
10. The Treasury and Public Debt Administrations are responsible financial institutions and consistent and reliable issuers



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References

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 - www.standardandpoors.com (Standard and Poor's Rating Agency)
 - www.bloomberg.com (Bloomberg, market data service)
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- Should you have any questions concerning this presentation, please refer to:
investors.info@trezor.gov.rs