

Pursuant to Article 38 Paragraph 1 of the Law on Planning System of the Republic of Serbia (“Official Gazette RS”, no. 30/18),  
the Government hereby issues the

## NPL RESOLUTION PROGRAM FOR THE PERIOD 2018-2020

### INTRODUCTION

As non-performing loans (NPLs) became a potential source of systemic risk, state authorities of the Republic of Serbia (the Government and the National Bank of Serbia) executed a comprehensive NPL Resolution Strategy (hereinafter: the Strategy) with the involvement of all relevant institutions. The implementation of the complex Strategy required cross-institutional coordination, which is the reason for the execution of two Action Plans – one by the National Bank of Serbia (hereinafter: NBS) and the other by the Government. The Working Group consisting of the representatives of all relevant institutions established upon the Decision of the Government 05 No.: 02-5145/2015-1 dated 11<sup>th</sup> May, 2015 supervised the implementation of the Strategy and identified problems which were to be solved during the implementation.<sup>1</sup>

The Strategy itself represented a continuous, three-year long process, and it referred to: the identification of regulatory, tax, institutional and other obstacles for the solution to NPLs and implementation of activities (policies and measures) with the aim of the attainment of the fundamental goal and accomplishment of key priorities stipulated by the Action Plan of the Government and NBS.

The implementation of measures stipulated by the Strategy yielded significant results. The level of NPLs has been significantly decreased after the Strategy was passed. For more than three years since the Strategy was adopted, the level of NPLs was decreased in September 2018 to the lowest level since 2008, when this quality indicator of the bank portfolio started to be measured.

Nevertheless, in addition to the successful application of the Strategy, it is necessary to undertake activities so as to address and solve remaining issues and ensure sustainability of the accomplished results. The NPL Resolution Program for the Period Between 2018-2020 (hereinafter: the Program) comprises three areas of activity. The first area is directed toward

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<sup>1</sup> Non-performing loan is defined by the Decision on reporting of banks (“Official Gazette of RS”, no. 125/14, 4/15, 111/15, 61/16 and 69/16) – Appendix 8 (NPL 1) and Decision on classification of balance sheet assets and off-balance items of the bank (“Official Gazette of RS”, no. 94/11, 57/12, 123/12, 43/13, 113/13, 135/14, 25/15, 38/15, 61/16, 69/16 and 91/16) as the state of total remaining debt of an individual loan (including the amount of debt): (1) on the basis of which the debtor is in default (in the manner stipulated by the decision which regulates the classification of the balance sheet assets and off-balance items of banks) longer than 90 days or on the basis of the payment of interest or principal, (2) on the basis of which the interest which equals to three-month amount (or higher) is allocated to the debt, capitalized, refinanced or its payment is postponed, (3) on the basis of which the debtor is in delay of less than 90 days, but the bank estimates that the capability of the debtor to pay the debt is worsened and that the debt payment in the full amount is questionable.

solving problematic claims of banks in as well as claims in the name and for the account of the state. The second area is directed toward further improvement of the application of the bankruptcy framework. The third area comprises various activities directed towards the prevention of the emergence of new NPLs.

## I ACCOMPLISHED RESULTS OF THE STRATEGY AND IMPLEMENTED ACTIVITIES

### 1.1. The level, structure and reasons for the decrease of the level of NPLs in the Republic of Serbia<sup>2</sup>

At the outset of the global financial downturn, Serbia's NPL stock was already large compared to other countries (11.3% gross in late 2008). As indicated in the Strategy, notwithstanding the macroeconomic deterioration during the crisis (reduced economic activity, depreciation of the national currency, rising inflation, and growing unemployment), the increase in NPLs that occurred during this period was caused by pre-crisis growth that had been based on a less than conservative assessment of credit risk and collateral by banks. As in most other countries, in Serbia NPLs in the real sector contributed the most to the increase in the stock of NPLs in the total stock of credit; due to the high base, this share exceeded 20% in 2012 only to reach 23.4% in mid-2014. Non-performing loans had reached a historic high at the time the Strategy was being developed.

Implementation of the measures stipulated by the Strategy yielded significant results. In comparison to August 2015, which is when the Strategy was adopted, the amount of NPLs was reduced by 286 billion dinars, i.e. by 67 percent and at the end of September 2018 it amounted to 141.2 billion dinars. The NPLs contribution to total loans was reduced by 15.9 percentage points to 6.4 percent in September 2018.

Table 1: Non-performing loans – key indicators (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	III/2018
Gross NPLs in comparison to total gross loans	11,3	15,7	16,9	19,0	18,6	21,4	21,5	21,6	17,0	9,8	6,4
The correction of total loan values in comparison to gross NPLs	73,2	61,4	53,9	57,0	54,9	55,8	59,0	66,8	72,9	66,8	78,2
Regulatory provisions for balance sheet exposure in comparison to gross NPLs	153,6	142,5	133,6	121,4	120,7	113,8	114,5	114,2	118,9	133,2	153,3

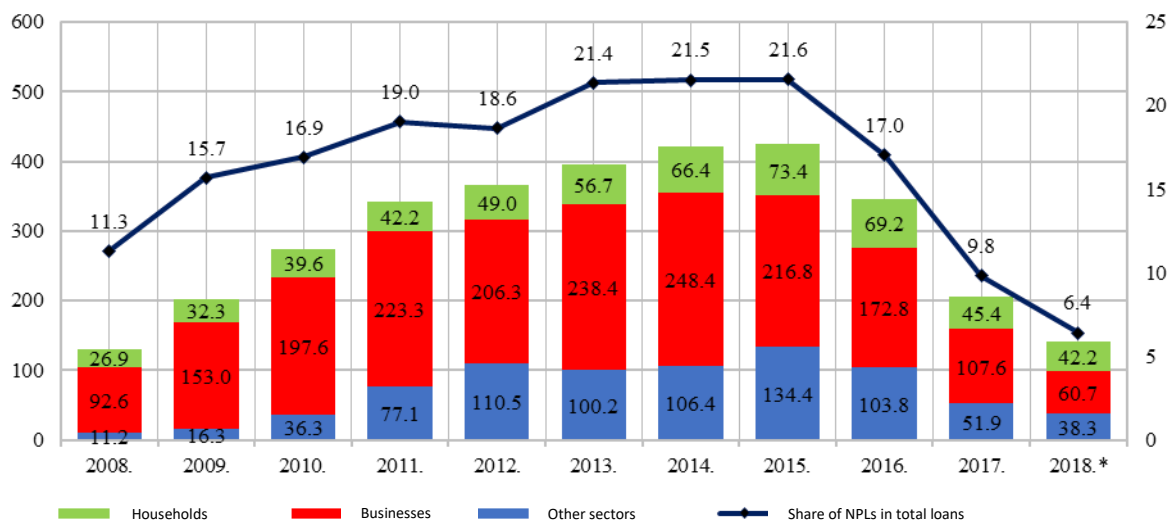
Source: NBS

The decline of NPLs is most prominent at the corporate sector where the majority of these loans were (43 percent). The share of NPLs to economy in total NPLs was reduced by

<sup>2</sup> Presented data and information on movements of the level of non-performing loans are stated according to the Report on Inflation of NBS for November, 2018, as well as based on the information on NPL from November, 2018, which is submitted to the Ministry of Finances by NBS.

156 billion dinars by the third quarter of 2018 in comparison to the end of 2015. Apart from that, the significant decrease occurred in other sectors, whose share in total NPLs was reduced by 96.1 billion dinars compared to the end of 2015. Also, the share of NPLs of the population in total NPLs was reduced by 31.2 billion dinars in the same period. Illustration 1 depicts the trend and structure of NPLs in the period from 2008 to the third quarter of 2018.

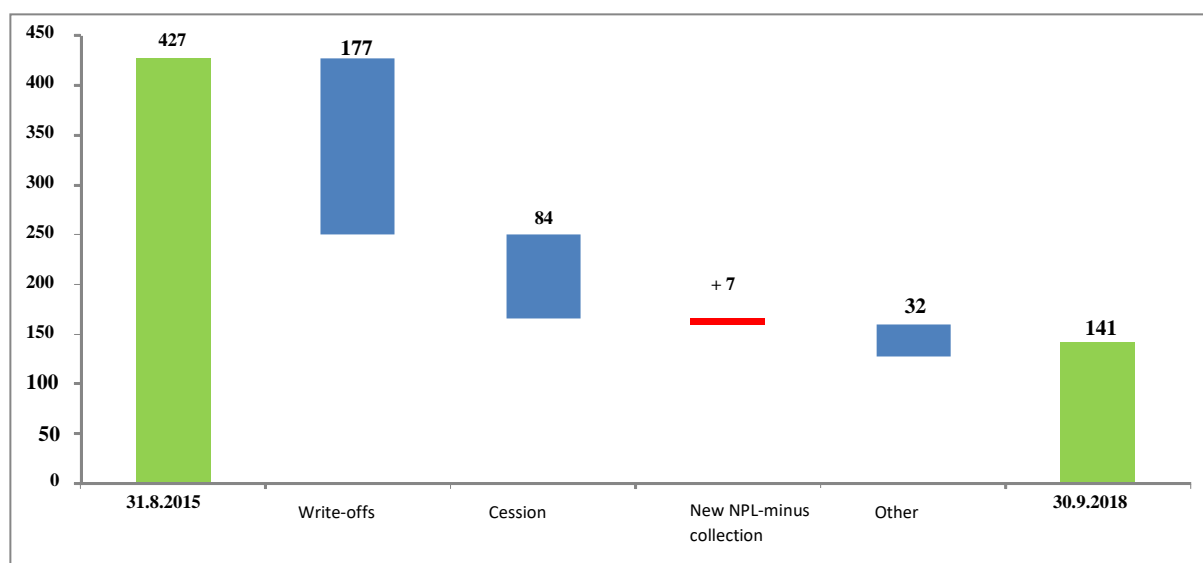
Illustration 1: NPL share in total loans, gross principle



Source: NBS

Several factors contributed to significant decrease of the level of NPLs in the previous three-year period: write-offs of claims, cession or sale of claims, repayment and settlement and, to a lesser extent, restructuring of claims. Illustration 2 presents individual importance of factors that led to the reduction of NPLs.

Illustration 2: Structure of the reduction of NPLs



Source: NBS

Below is a brief description of how each of the above factors impacted the decline in NPLs from 30 August 2015 to 30 September 2018.

1. Receivables write-offs. Owing to the amendments of the legal regulation which provides more favorable tax treatment of the write-off (loan write-off is recognized as expenditure under certain circumstances) and primarily by the application of the Decision on accounting write-off of balance assets, the amount of written-off NPLs in the observed period amounted to 176.8 billion dinars. Upon the adoption of the Decision, banks intensified direct write-offs as of 30<sup>th</sup> September, 2017 so concluding with 30<sup>th</sup> September, 2018 total written-off amount was 113.3 billion dinars (which is 65 percent of total write-offs in previous three years).

2. Cession (sale of claims). The increase of the number and volume of transactions at the market of NPLs is noticeable. In the observed period net amount of claims of banks sold to parties outside banking sector reached 84.4<sup>3</sup> billion dinars.

3. Collection of claims. In the observed three-year period the total amount of collected claims was 240.3 billion dinars. In the same period the increase on the basis of new NPLs in the amount of 259.7 billion dinars was noticed.

4. Economic recovery. The share of NPLs has the fastest decrease in sectors with the biggest growth of activities (construction engineering, agriculture, industry, trade). This decrease was the most prominent in construction engineering where this indicator in the period between 31<sup>st</sup> March, 2017 and 31<sup>st</sup> March, 2018 was decreased by 14-4 p.p. to 13.9 percent.<sup>4</sup>

An important indicator of success of the Strategy in the segment of the development of the market of NPLs in Serbia is also the total amount of sold claims, balance and off-balance, to parties outside and in the banking sector, which amounted to 194.3 billion dinars in the observed three-year period. Out of this amount, 81 percent of claims were sold to persons outside banking sector (156.6 billion dinars).

According to the NBS report, even with the relatively high level of NPLs, the stability of the financial system of Serbia was not endangered in any moment, because the provisions for balance sheet exposure exceeded the amount of gross NPLs and the indicator of capital adequacy was always considerably above regulatory minimum. The indicator of capital adequacy of 22.8 percent at the level of the banking sector in September 2018 indicates to the continually high capitalization of the banking sector. The value correction of total values in September 2018 amounted to 78.2 percent of NPLs in September 2018 (which is by 9.1 p.p. higher than a year before) and regulatory provisions for balance sheet exposure continue to completely cover the amount of gross NPLs, amounting to 153.3 percent in September 2018.

## 1.2. Implemented activities during the Strategy application

In the three-year period of the Strategy application, a great number of legal acts and bylaws were adopted and amended, the institutional capacity was improved and many measures for easier write-off and transfer of uncollectable claims were implemented. The

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<sup>3</sup> This amount of cession, i.e. sale refers only to receivables which are sold to persons outside banking sector. Sales performed to persons within banking sector (in the total amount of 1.1 billion dinars), as well as off-balance sale, do not have a major impact on the level of non-performing loans but indicate to functioning of the NPL market in Serbia.

<sup>4</sup> Banking sector in Serbia, the Report for the first trimester of 2018, NBS

majority of activities from the Action Plan of the Government for the implementation of the Strategy were realized within the deadline with several activities whose realization is ongoing. During 2016 the NBS completely realized all activities and goals stipulated by the Action Plan of the NBS for the implementation of the Strategy.

The most important implemented activities within the Action Plan of the Government for the implementation of the Strategy are:

1) The adoption of the Law on Appraisers of Real Estate Values and all bylaws, adoption of National Standards and establishment of the Professional Board as a regulatory body in this field and issuing of 132 licenses for appraisers of real estate values. The field of the real estate value appraisal has been subjected to the regulatory and institutional organization for the first time and it should contribute to higher transparency and smaller systemic risk,

2) In December 2015 as well as by the end of 2017, the amendments to the Law on the Legal Party Profit Tax in the part which regulates the tax treatment of the claims write-off as well as the amendments to the Law on the Citizen Income Tax. The alterations of these two laws enable more favorable tax treatment for banks in case of claims write-off.

3) The improvement of the institutional capacity of the Deposit Insurance Agency (hereinafter: the DIA), with the aim of providing more efficient solution for the portfolio of NPLs governed by this institution. The Program of the construction of institutional capacities included passing of the Strategic plan for the management of funds of financial institutions in bankruptcy and the assets and claims governed by the DIA on behalf and for the account of the Republic of Serbia, as well as the annual operational plan. Apart from that, internal procedures were passed and internal capacities for the assessment of values of claims and settlements were improved, the team which deals in a comprehensive manner with the activities related to solving of NPLs was established and the plan of training and tracking of the employee performance was executed.

4) Passing of the Law on the amendments to the Law on Consensual Financial Restructuring of Companies ("Official Gazette of RS", no. 89/15). This law primarily simplifies the legal framework for institutional extrajudicial restructuring of debts. Furthermore, unlike the Law on Consensual Financial Restructuring of Companies ("Official Gazette of RS", no. 36/11), which prescribed that financial restructuring may be implemented if at least two banks are involved; the amendment to the Law not enables the participation of domestic developmental institutions instead or apart from banks. The amendment to the Law enables restructuring of debts both of companies and entrepreneurs, which in compliance with the previous legal solution was not the case. However, since the amendment to the Law came into force, there has not been the realization of a major number of financial restructuring of entrepreneurs in this manner,

5) Increased efficiency of state creditors in the activities of restructuring (Development Fund and AOFI<sup>5</sup>),

6) Strengthening of the capacities of the Agency for Bankruptcy Administrator Licensing (hereinafter: ABAL). The Strategy accomplished the strengthening of the ABAL capacities through technical advising and training programs, increase of the number of persons who perform the supervision as well as the organization the supervisor selection. The remaining measures shall be taken upon the adoption of bylaws related to the amendments to

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<sup>5</sup> Serbian Export Credit and Insurance Agency

the Law on Bankruptcy (provision of more freedom to creditors in the selection of bankruptcy administration, revision of the reward for bankruptcy administrators, etc.),

7) The adoption of the amendments to the Law on Enforcement and Security,

8) The adoption of the amendments to the Law on Mortgage. The amendments to the Law on Mortgage enable the buyer of the real estate which is collateral to realize an extrajudicial purchase of it when it is free from liens of a lower level. Also, the problem of competition procedures of court and extrajudicial settlements on the basis of mortgage is solved.

9) The improvement of the institutional capacity of the Republic Geodetic Authority in the segment of efficient functioning of the legal framework for mortgages. The stated activities were implemented through: a) the identification of services for the real estate cadastre with many unsolved subjects and the improvement of their efficiency, b) the provision of uniform application of rules on the alteration of elements of registered mortgages in the procedure before the services for the real estate cadaster in the case of restructuring as well as c) the realization of the functional second-instance procedure for deciding upon complaints to the decisions to the service for real estate cadaster,

10) The adoption of the Law on amendments to the Law on Bankruptcy. The amendments to the Law on Bankruptcy improve the bankruptcy regulatory framework with additional protection of secured creditors and increase of the performance and responsibility of bankruptcy administrators,

11) The adoption of the Authentic interpretation of Article 48 of the Law on Enforcement and Security by the National Assembly in December 2017,

12) The adoption of the Law on Civil Procedure. The Law on Civil Procedure (Article 204) prescribes that for the change of the prosecutor (in case of claims sale) the consent of the accused is required, so the new owner of the claims practically is not in the position to continue initiated procedures, but only to initiate new ones. The amendment of this article of the Law solves the state problem,

13) The adoption of the Law on the Procedure of Registration in the Cadastre of Real Estate and Utility Lines (“Official Gazette of RS”, no. 41/18 and 95/18),

14) The draft of the study on options for the introduction of bankruptcy of natural persons and entrepreneurs was presented to the Working Group in July, 2018.

The most important implemented activities within the Action Plan of the NBS for the implementation of the Strategy are the following:

1) The Decision on the amendments to the decision on classification of balance sheet assets and off-balance items of the bank (“Official Gazette RS”, no. 61/16) was adopted,

2) The Decision on the amendments to the Decision on the risk management of the bank (“Official Gazette of RS”, no. 61/16),

3) The Guidelines for the application of IAS 39 were published in the part which refers to the value corrections with stating of supervisor expectations with regards to the claims write-off and recognition of interests to NPLs,

4) The Plan for the development of NBS capacities was executed,

5) The decisions on amendments to the Decision of reporting to banks with the aim of the improvement of the reporting system on NPLs (“Official Gazette RS”, no. 111/15 and “Official Gazette of RS”, no. 61/16),

6) The Guidelines for publishing data and information of banks referring to the quality of assets,

7) The Report on the possibilities and obstacles for the liberalization of the cession of claims from natural parties and other issues from the competence of NBS which are of importance for NPL market,

8) The functional database on the appraisal of the value of the real estate which is the subject of the provision of loans and the value of loans which are provided by them was executed,

9) The Report on the possibilities of the improvement of supervisor requests with regards of the treatment of the real estate which is taken by the bank as collateral.

## **II AIM OF THE PROGRAM, KEY PRIORITIES AND PLANNED ACTIVITIES**

### **2.1. The fundamental goal of the Program**

The aim of the Program and the NPL Resolution Action Plan for the Period 2018-2020 (hereinafter: the Action Plan), which is an integral part of the Program, consists of the removal of obstacles identified in the system which prevent timely solving of non-performing claims and establishment of the system which will prevent the accumulation of NPLs and the appearance of negative effects on loan activity endangering potential economic growth.

### **2.2. Key priorities**

In order to attain the fundamental goal, several crucial fields were identified and within these it is necessary to improve (1) regulatory framework, (2) capacity construction and/or (3) application of regulations:

- resolution of non-performing claims of banks in bankruptcy as well as claims in the name and for the account of the state,
- improvement of the bankruptcy framework,
- activities aimed at prevention of non-performing loan.

### **2.3. Resolution of non-performing claims of banks in bankruptcy as well as claims in the name and for the account of the state**

State financial creditors (primarily the DIA) failed to accomplish a significant settlement of claims from their portfolios, so it is necessary implement the activities with the aim of more efficient and effective management of problematic disbursements and property and provide adequate settlement of creditors. The DIA, inter alia, within its mandate performs the function of the bankruptcy/liquidation administrator in banks, insurance companies, leasing providers and conducts the collection of claims in the name and for the account of the Republic of Serbia. Slightly more than 55 percent of total claims refer to the claims of banks in bankruptcy and liquidation, while somewhat less than 45 percent refer to the claims in the name and for the account of the state. Total nominal value of claims is somewhat higher than 6.8 billion euros.

The DIA currently conducts 33 bankruptcy/liquidation procedures which include four “big” banks whose bankruptcy was initiated in 2002, eight bankruptcies of banks initiated in the period between 2004 and 2012, “new” bankruptcies initiated in the period from 2012 to

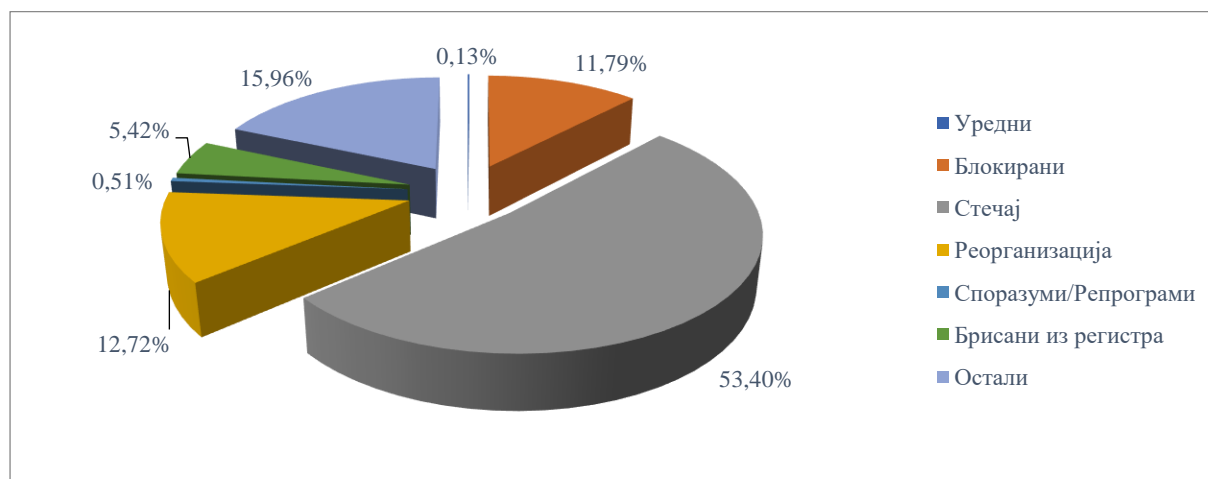
2014 (Agricultural bank Agrobanka a.d, New Agrobanka a.d, Development bank of Vojvodina a.d, Economic bank Belgrade a.d, and Univerzal bank a.d.). Apart from the mentioned, the DIA also conducts bankruptcy procedures in three insurance companies, one savings-credit union and eight banks which are within the competence of the DIA since 2015, as well as liquidation procedures in a smaller number of companies. The total bankruptcy estate of all bankruptcy/liquidation debtors on 30<sup>th</sup> June, 2018 amounted to 4,114.18 million euros while total claims of all financial institutions in bankruptcy/liquidation on 30<sup>th</sup> June, 2018 amounted to 3,727.94 million euros.

Table 2: The structure of total claims of banks and other financial institutions in bankruptcy

<i>Financial institutions in bankruptcy/liquidation</i>	<i>Receivables from debtors in millions of Euros (nominal value)</i>	<i>Share in total claims</i>
Bankruptcy at four great banks	1,624.37	43.57%
Other bankruptcies	881.52	23.65%
New bankruptcies	1,197.41	32.12%
Action in the competence of the Agency since 2015	3.44	0.09%
Insurance companies	17.42	0.47%
Bankruptcy/liquidation masses	3.64	0.10%
Savings-credit unions	0.14	-

According to the type of debtor, 99.07 percent of total claims from financial institution debtors in bankruptcy/liquidation refer to the claims from legal entities and entrepreneurs while 0.93 percent refer to claims from natural persons: Illustration 3 indicates to a very bad portfolio quality (more than a half of claims is attributed to debtors in bankruptcy, while a significant number of debtors are in reorganization or have their account status as blocked).

Illustration 3: The structure of claims on the basis of the debtor status





Apart from this role, the DIA also performs the tasks of the realization of processes pertaining to the collection of receivable assumed in the name and for the account of the Republic of Serbia, including the Autonomous Province Vojvodina<sup>6</sup>. In this role the DIA is in charge of the collection of claims for more than 300 debtors. Resources and capacities at the DIA's disposal have so far been insufficient for the establishment and implementation of an efficient strategy for the treatment of this part of the portfolio, so a different approach is needed. The total amount of claims on 30<sup>th</sup> June, 2018 amounted to 3.11 billion Euros.

Table 3: Receivables in the name and for the account of the state (millions of Euros)

<b>Takeover basis</b>	<b>30.6.2018.</b>	<b>%</b>
Receivables taken over from banks in bankruptcy	2,417.89	77.73%
Receivables on the basis of the purchase of completely reserved balance sheet claims of banks	148.78	4.78%
Receivables taken over from Development bank of Vojvodina ad Novi Sad	103.76	3.34%
Receivables taken over from Serbian bank ad Belgrade	166.46	5.35%
Receivables taken over from Jugobanka Jugbanka ad Kosovska Mitrovica	273.57	8.80%
<b>Total on behalf and for the account of the state</b>	<b>3,110.46</b>	<b>100%</b>

Table 4: The structure of claims in the name and for the account of the state on the basis of the debtor status (millions of euros)

<b>Other</b>	<b>Receivables on 30.6.2018.</b>		<b>Number of debtors</b>
State-owned companies	364.56	11.72%	11
Operating and blocked companies	123.15	4.48%	76
Companies in reorganization	390.63	14.23%	36
Bankruptcy/liquidation	1.887.21	68.73%	141
Deleted from BRA	29.54	1.08%	26
Receivables taken over from Jugobanka Jugbanka ad Kosovska Mitrovica *	273.57	9.96%	14
Property acquired by the collection of claims/replacement of the completion and funds allocated for sale	41.74	1.52%	/
<b>Total on behalf and for the account of the state</b>	<b>3,110.46</b>	<b>100%</b>	<b>304</b>

<sup>6</sup> Receivables taken over from banks in bankruptcy pursuant to the Law on Regulation of the Relation of the Republic of Serbia and Banks and Bankruptcy on the Basis of Assumed Foreign Credits and Loans ("Official Gazette of RS", number 45/05) and receivables assumed on the basis of a number of decisions (conclusions) of the Government.

In the previous period, collection of claims faced a series of problems. In practice the DIA faces a great number of problems and limiting factors in the realization of the collection of claims in the name and for the account of the state.

In order to speed up the process of settlement, the Program stipulates the implementation of a pilot project which will sell a smaller portion of the portfolio, which should be followed by the sale of a larger part of the remaining DIA portfolio and individual state financial creditors.

For the purpose of the realization of a pilot project, the DIA signed a Memorandum with the Government of the Great Britain and the Ministry of Finance of the Republic of Serbia under the Good Governance Fund (hereinafter: GGF). With the assistance of the consultant hired for the project, the DIA performed a series of activities aimed at more efficient collection of claims, and with the application of the Methodology for identification of NPLs, 16 groups of debtors were selected to be subject of an additional analysis under which additional data for potential investors was prepared. In the previous period the consultant, in cooperation with the DIA and the Ministry of Finances (hereinafter: the MoF), worked on the preparation and collection of relevant information and documentation (credit documentation, documentation related to security instruments, etc.), and the activities referring to the collateral assessment, indicative estimation of collectability of claims, execution of transaction documentation were also planned. The selected groups of debtors were subject to detailed consideration.

After the solution of claims of the pilot portfolio, the activities will be aimed at resolution of the remaining “large” portfolio, with possible joining of other state financial creditors. Namely, in the context of the Strategy realization, in February 2017, the DIA, the Development Fund of the Republic of Serbia, AOFI, Bank Postanska stedionica a.d. and the Ministry of Finance signed a three-year Memorandum on Cooperation with regards to the coordination of activities for the accomplishment of a more efficient collection of non-performing claims (hereinafter: the Memorandum), due to the fact that portfolios of these institutions contain a great number of common debtors and that with a joint approach the efficiency of the NPL resolution may be increased. During the sale of the “large” portfolio, it is necessary to consider the most efficient mechanisms for the inclusion of other state financial creditors, pursuant to the existing Memorandum.

### 2.3.1. Sale of the pilot portfolio

The sale of the pilot portfolio comprises a few steps.

**The first step**, i.e. preparatory activities, include the preparation of the draft review of the NPL portfolio (*Data tape*), as well as the examination of the market (*Market sounding*) on the interest of potential investors for the proposed portfolio sale. Apart from the stated, the Advisor within the GGF project prepares and submits to the DIA the analysis of the composition and underlying reasoning of the portfolio itself.

**The second step** consists of preparation activities for the conducting of the tender procedure for the sale of the pilot portfolio which refers to the preparation of the advertisement on the portfolio sale, harmonization of the draft review of NPL portfolio (*Data*

tape), harmonization and execution of the draft tender sale procedure (*Process Letter*), execution and harmonization of the binding offer and draft of the rules for data room (*Data Room Rules*). All stated documents are prepared in the Serbian and English language. In order to provide the adequate access to information, it is necessary for the DIA to organize the data room.

Simultaneously, it is necessary to conduct the analysis of the Rulebook on the Cession (Assignment) of Receivables of Banks in Bankruptcy so as to enable an efficient claims sale process within the portfolio and propose potentially necessary amendments to this Rulebook.

**The third step** represents the initiation of the tender procedure for the sale of pilot portfolio and it is conducted via the publication of the advertisement on the cession of the claims portfolio, which calls interested investors to participate at the tender for the sale of the pilot portfolio. Simultaneously with these activities, the draft of the contract on cession of the claims portfolio is prepared by the advisor and after the harmonization with the DIA in the final version, it will be available to interested investors for the purpose of preparation and submission of binding offers.

**The fourth step** is the continuation of the tender procedure through activities of interested investors on the examination of the portfolio (*Due Diligence*) through visits to the data room with the aim of the preparation of binding offers.

Simultaneously, the assessment of the value of security instruments is prepared by the Advisor within the GGF project and submitted to the DIA and it will be the subject of harmonization. Apart from the submitted assessment, the Advisor prepares indicative estimation of claims value from the perspective of the investor based on the submitted data by the DIA, as well as based on the assessment of security instruments. After the execution of the indicative estimation of values from the perspective of the investor, the analysis on the manner of allocation of income from sale is prepared.

Upon the reception of binding offers, the DIA shall organize the process of the improvement of submitted Binding Offers and decide on their acceptability and after decisions of competent bodies, initiate negotiations with the best bidder with the aim of finalization and conclusion of the contract on the portfolio cession.

### 2.3.2. Sale of the large portfolio

After the implementation of the sale of the pilot portfolio, it is necessary to take a series of activities with regards to the sale of the “large” portfolio. The sale of large portfolio also includes several steps.

**The first step**, i.e. preparation activities, similar like in the case of large portfolio include:

- 1) the assessment of the value of security instruments and collectability of claims of the large portfolio,
- 2) implementation of the process of selection of the advisor for sale,
- 3) preparation of the indicative estimation of claims value from the perspective of the investor,
- 4) establishment of the large portfolio for sale,
- 5) preparation of the agreement on the initiation of the sale of the large portfolio and allocation of the income from sale, with (optional) designation of the minimum (reservation) price and

6) preparation of the tender sale procedure.

Upon the termination of these activities, it is possible to initiate the tender sale procedure.

The assessment of the value of security instruments and collectability of portfolio claims requires the hiring of an authorized auditor or expert witness and will be submitted to the DIA, as well as all state creditors whose claims are the subject of the sale. Apart from the submitted assessment, the proposal of the allocation of income from sale of the large portfolio is submitted. Simultaneously, the procedure of the selection of the advisor for sale is implemented, in compliance with the rules of the World Bank. After the hiring of the advisor via the conclusion of the contract, said advisor prepares the indicative estimation of the claims value from the perspective of the investor based on the submitted data by the DIA and state creditors.

The assessment of the value of security instruments and collectability of claims is also necessary for the purpose of the possibility of comparison with the expected income from the potential sale of the portfolio (pursuant to the indicative estimation of the value of claims executed from the perspective of the investor), depending on the portfolio structure and for the purpose of passing decisions of competent bodies of state creditors on the initiation of the sale.

Finally, the hired advisor prepares the proposal of the procedure of the large portfolio tender sale as well as the proposal of the tender documentation, which apart from the procedure of tender sale (*Process Letter*) contains the review of the portfolio claims (*Data tape*), draft of the Binding Offer and the draft of the Contract on the Receivables Portfolio Cession as well as the rules for the data room (*Data Room Rules*).

The final step at the preparatory phase is the preparation of the Agreement on the Initiation of the Portfolio Sale and Allocation of the Income from Sale. This agreement is preceded by the analysis of the composition and explanation of the portfolio itself prepared by the hired advisor, which is submitted to the DIA and state creditors. Simultaneously, the hired advisor prepares the draft of the Agreement on the Initiation of the Portfolio Sale and Allocation of the Income from Sale based on the indicative estimation of the value of claims from the perspective of the investor.

Upon the harmonization of the proposal of the structure of the portfolio of sale and the procedure of tender sale, the DIA and individual state creditors prepare and adopt (1) decisions on the initiation of the sale of specific claims within the large portfolio, (2) proposal of the agreement on income allocation, and then (3) decision on the acceptance of the reservation price (at the level of the average value of the estimation of the collectability of claims), and (4) the procedure of tender sale of the large portfolio (as an appendix to the agreement on the income allocation).

**The second step** consists of preparatory activities for the implementation of the tender procedure for portfolio sale. Preparatory activities refer to the preparation of the advertisement on the sale of the claims portfolio, harmonization with the review of the claims portfolio (*Data tape*), preparation of a short information memorandum (*Teaser*) for the purposes of marketing by the advisor and the submission to potential investors, execution of the draft of the binding offer and rules for data room (*Data Room Rules*). In order to provide an adequate access to information, it is necessary for the DIA to organize a virtual data room and with this aim it is required to hire a necessary supplier by the DIA.

**The third step** represents the initiation of the tender procedure for the portfolio sale and it is conducted via the publication of the advertisement on the cession of the claims portfolio, which invites interested investors to participate at the tender for the sale of the large portfolio. Simultaneously with these activities, the draft of the contract on the cession of the claims portfolio is prepared by the advisor and after the harmonization with the DIA (acting on behalf and for the account of state creditors) in the final version it will be available to interested investors for the purpose of the preparation and submission of binding offers.

**The fourth step** is the continuation of the tender procedure through activities of interested investors on the examination of the portfolio (*Due Diligence*) through visits to the Data Room, with the aim of the preparation of binding offers. Upon the reception of binding offers, the DIA will organize the process of improvement of submitted Binding Offers and after that (acting in the name and for the account of state creditors) the analysis will be made and the decision on the acceptability of improved offers will be made, and the negotiations will be initiated with the best bidder so as to finalize and conclude the contract on the sale of the large portfolio.

### 2.3.3. Solving of the remaining portfolio of state creditors

After the implementation of the sale of pilot and “large” portfolio, it is necessary to take a series of activities with regards to solving the remaining claims of state creditors.

The first step, i.e. preparatory activities involves the selection of the advisor for the preparation of the analysis. The second step includes the preparation of the analysis by the hired advisor and its submission to the MoF and the DIA, with the proposal of potentially necessary measures of the legal framework based on which solving of the remaining portfolio would be possible.

The final stage represents the process of making the decision on the manner of solving of the remaining portfolio of state creditors, including the bookout of off-balance NPLs and the implementation of the mentioned solution.

## 2.4. Improvement of the bankruptcy framework

The Law on Bankruptcy (hereinafter: LoB) was the subject of significant changes in 2017. Even though the text contains numerous alterations, in principle, they can be classified into three groups of problems which the mentioned alterations tried to solve:

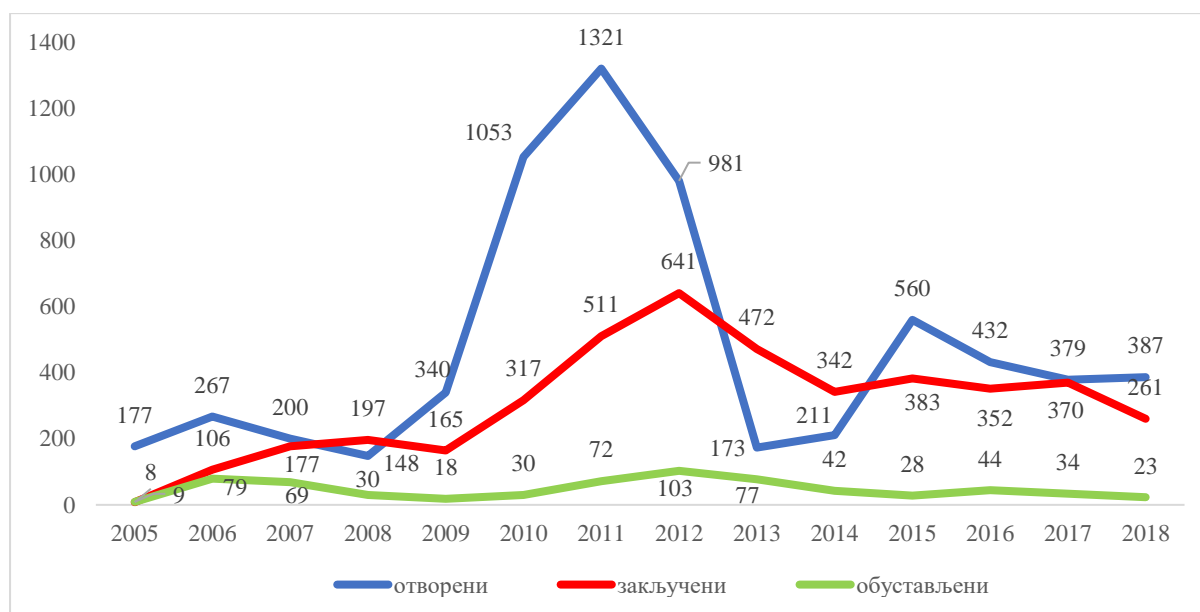
1. Improvement of the status of secured and lien creditors;
2. Removal of problems and increase of the procedure efficiency, primarily of reorganizations prepared in advance and bankruptcy reorganization;
3. Other shortcomings noticed in practice including better protection of new sources of financing, the matter of the release of duty of bankruptcy administrator, reduction of necessary voting majority in passing of a decision on bankruptcy, appraisal of the value in bankruptcy, etc.

Apart from the stated, in 2018 additional amendments to the LoB were made, upon the initiative of NBS which regulates the matters of the financial security, and currently the

amendments aimed at the improvement of the position of the Republic of Serbia at the Doing Business list of the World Bank are in the ongoing process.

Upon passing of the Law on amendments to the Law on Bankruptcy, there were amendments to bylaws and among them the most important are the alterations in the National Standards for the Management of Bankruptcy Estate. Crucial alterations were made by amendments of the National Standard for Administering Bankruptcy Estates No. 5, which governs issues of sales in bankruptcy.

The number of opened bankruptcy procedures (without reorganization plans prepared in advance) was stabilized last year to approximately 400 annually. The procedures of bankruptcy are dominant here, while the number of bankruptcy reorganizations is very small (up to 10 confirmed plans annually).



Source: ALBA

Procedural costs remain high in Serbia for liquidations, but enhancements to sales arrangements could result in greater income. According to the BSA, procedural costs and liabilities have accounted for a high 40% of all proceeds of bankruptcies completed or suspended since 2010.

#### 2.4.1. Establishment of the Internet portal for online auctions of bankruptcy assets

Key improvements envisaged for the upcoming period entail the establishment of a web site that would allow on-line auctions of bankruptcy assets. These sales ought to maximize the value of the assets by inducing bidders to make offers at reservation value and permit the bidder with the highest valuation of the assets to win the auction.

Traditional auctions require physical presence (either in person or by proxy) in the space where the auction is being held. The necessity of the presence to the act of sale creates limitations in the number of participants and therefore the limitation in reaching an adequate

price. Apart from that there is room for the possibility of influence to potential buyers or agreement of potential buyers who are actually present there.

Internet sale:

- Enables reaching of a much higher number of buyers. A direct consequence is reaching higher sales price.

- There are no time limitations, offers may be given at any time of day or night. The bankruptcy administrator chooses how many days the sale will last for certain assets which gives participants in the sale enough time to compare prices and decide about their offer, which results in a greater number of participants.

- Physical presence is not necessary, which makes the sale cheaper and has a positive impact on the number of buyers.

- Participation in the sale is realized by standard software tools which are widespread and easily available. Any Internet browser may be used for the access to the portal where sales take place and one may equally participate in them.

- Infrastructure has already been made, so there are no additional costs for communication.

- The presentation of the assets on sale may be realized in details and multimedia manner so that it is provided that the participants get familiar with all details.

- There is an option for buyers to participate in the sale from the comfort of their home.

- The level of corruption and cartelization is reduced.

- Sales costs are reduced (the engagement of the sale commission, lease of the space for maintenance, engagement of security, auctioneers, etc.).

The Program stipulates that ALBA should designate a team for the execution of the Internet portal for the sale of assets of bankruptcy debtors. A methodological approach will be used in its development and implementation that allows the requirements to be properly defined and a thorough set of specifications to be prepared to satisfy all users' needs. The key characteristics of this methodology are following pre-defined and agreed-on stages and an iterative and incremental approach. This will allow the BSA to be aware of the pace of development at all times, detect any issues in good time, and prevent any adverse effects. The principal stages envisaged by the methodology are:

1. Analysis of the legal regulation which regulates the cash-in of the assets (LoB, National Standards), as well as the regulation which regulates electronic business (the Law on Electronic Document, Electronic Identification and Services of Confidence in Electronic Business), analysis of existing platforms in other countries (region and wider) and organization of study travels so as to have the insight into functioning of the system on the spot and collect additional necessary experience.

2. Defining of user requests – based on the analysis the set of functional requests will be defined.

3. Service specification – based on previously defined user requests in this stage the services which need to be implemented will be clearly defined.

4. Defining of the system architecture and selection of the platform and based on the selection, the procurement of necessary software and licenses.

5. Implementation and testing – this stage refers to the development of the system which will be in compliance with previously created documentation. Testing includes both testing of the source code and its functionality and testing of the user interface and adjustment of the created system with previously created documentation.

6. Training of users and system launching – upon the termination of testing the training of users will be implemented through the organization of educational seminars,

promotions and presentations, as well as through the execution of a detailed user manual and brochures, after which the information system will be launched.

#### 2.4.2. Improvement of the profession of bankruptcy administrators through trainings

As of 31 October 2018, there were 399 licensed bankruptcy administrators in Serbia, of whom 333 were active. The BSA continuously organizes conferences, seminars, and workshops and delivers other training for bankruptcy administrators. The Strategy envisages further enhancement of the bankruptcy administrator profession, especially for applying the National Standards for Administering Bankruptcy Estates and amendments of bankruptcy legislation. After the on-line auction web site becomes operational, training will also cover user requirements and functionality of this system.

#### 2.4.3. Improvement of the operation of bankruptcy courts

The Program stipulates further strengthening of the capacity of courts and improvement of the application of bankruptcy regulations in the form of continual trainings so as to provide consistent application of National Standards for the Management of Bankruptcy Estate, and after that the training on the use of the portal for the sale of bankruptcy estate. Apart from that, it is necessary to organize trainings which would comprise the amendments to the LoB, mediation in the bankruptcy procedure and training on disputable issues of the LoB application.

#### 2.4.4. Preparation of the new regulatory framework for the bankruptcy of entrepreneurs

Currently, the bankruptcy framework in Serbia applies only to legal persons. LoB does not provide the initiation of the bankruptcy procedure for natural persons. The Law on Bankruptcy Procedure from 2004 provided the initiation of a bankruptcy procedure of entrepreneurs, but in practice this institute was not applied, and it was therefore abolished by the LoB in 2010. Today the Republic of Serbia is one of the few European countries that does not regulate entrepreneur bankruptcy.

Apart from that, according to the results of the Study on Potential Introduction of Natural Person and Entrepreneur Bankruptcy, considering risks, as well as court capacities, it is desirable at the first stage to enable the bankruptcy of entrepreneurs and at the second stage the bankruptcy of natural persons. In the Republic of Serbia, almost 260 000 entrepreneurs are registered. Approximately 20 000 of active entrepreneurs were blocked at the end of the second trimester of 2018, which was 8 percent of the total number of active entrepreneurs. The rate of entrepreneur survival (how many companies and stores survive two years, after which it may be considered that the business entity has adapted to market conditions, assuming its market position) in the Republic of Serbia in 2016 amounted to 65 percent. This data also indicates that there is a need for the regulation on the subject of entrepreneur bankruptcy. The number of entrepreneurs in the Republic of Serbia exceeds 200 000, and taking into consideration the number of those blocked, potential income of bankruptcy



procedures may be big. However, this was not the case in other countries, so it may be expected that the court system absorbs new subjects without major issues. Finally, in the case of entrepreneur bankruptcy, in the system of economic courts there is enough experience which could provide undisturbed (re)inclusion of this institute into existing bankruptcy framework. The experience of the application of entrepreneur bankruptcy (since it is about natural persons) would provide more quality introduction and bankruptcy of natural persons in near future, with the respect for all specific features of the application of bankruptcy with natural persons.

According to the results of the Study, the entrepreneur bankruptcy (as well as the bankruptcy of natural persons) should be simple so as not to demotivate debtors and creditors from the timely initiation of the bankruptcy procedure. This approach would include the amendments to the existing LoB, while the introduction of the natural person bankruptcy could be regulated either by the same law or a specific law depending on the decision on the competence of courts. In principle, the entrepreneur bankruptcy should not be limited in reference only to debts on the basis of business activities. The main reason is because in practice it is very difficult to differentiate such debts so the attempt of distinction would create a series of problems in the application of the bankruptcy framework. The procedure which would provide the liberation from the debt is a necessary element of the entrepreneur bankruptcy framework. In a comparative practice it was proven that the procedure which enables the liberation and “second chance” is the most effective. Even though this trend is mostly adopted in case of new bankruptcy frameworks for entrepreneurs, a more relaxed approach to discharge requires careful consideration. During the introduction of the institute of liberation it should be taken into account that the liberation of the debtor may influence the collapse and abuse of the contract right. It is necessary to provide access to restructuring (reorganization) as an alternative to the entrepreneur bankruptcy procedure. In this case entrepreneurs, with certain adjustments, could use the existing institutes of bankruptcy right. The role of the court in this case would be desirably limited so as to reduce the costs of procedures. Furthermore, the possibility of the integration of the existing institute of the consensual financial restructuring, which would be accompanied by the court decision. In certain circumstances, bankruptcy administrator and creditors should have the option to require the conversion of the procedure (in practice it is about a small number of cases). Exemptions are a common feature of enforcement and bankruptcy proceedings, but may not always be favorable to debtors. Very broad exemptions will allow the debtor to have a fresh start, but will also permit pre-bankruptcy abuse. On the other hand, restrictive exemptions will defeat the purpose of bankruptcy. When defining exempt assets, the legislator ought to combine multiple modes of exemption, such as exemption by value, amount, type, intended use, and needs of the debtor and their household, as this is the best option for achieving the purpose of exemptions. A series of other questions, such as the manner in which the part of future income allocated for the settlement will be designated is very complex and requires detailed consideration of potential solutions. During the introduction of entrepreneur bankruptcy (and eventually that of natural persons) the existing institutional framework should be used, including ALBA and licensed bankruptcy administrators. However, while the entrepreneur bankruptcy is simpler to introduce into existing model, the decision with regards to the model of natural person bankruptcy will depend on the assessment of the court capacity.

The Program stipulates that the aforementioned questions are considered by the working group, which would additionally consider the questions with regards to the introduction of the legal framework of entrepreneur bankruptcy. After the development of the appropriate legal text, regulatory impact assessment, and consultation document, public consultations would have to be organized to permit all stakeholders to present their proposals.. The Program stipulates that the draft of the legal solution should be prepared by the end of June 2020.

## 2.5. Activities aimed at the prevention of new NPL accumulation

### 2.5.1. Development of study on corporate indebtedness and prevention of NPLs in the Serbian real sector

One of the goals of the Program is the establishment of the framework which would enable the prevention of formation and accumulation of new NPLs. In order to realize this goal, it is necessary to identify crucial reasons and analyze the situation in individual sectors. The Program stipulates the development of a study on how to improve best practices of timely and efficient restructuring, as well as other activities to prevent new NPLs in the real sector. Depending on its preliminary assessment, this study could comprise key sectors by exposure, whilst focusing in-depth on major debtors/sectors. This study would be useful for a number of stakeholders: banks, tax authorities, and other creditors. The key areas for the study are: preventing NPLs, more efficient collection, and sectoral planning.

This analysis would be performed on a representative sample of corporate debtors or a number of debtors selected based on criteria to include total revenue. The assumption here is that the initial long-list sample could number up to 1,000 businesses. The second step would entail reviewing their financial statements, focusing on their profitability and sustainability, especially in the context of their borrowing. The businesses would then be categorised by risk, and critical sectors would be identified. Finally, a sensitivity analysis would also have to be performed with respect to assumed fluctuations in revenues, interest rates, and other key parameters.

The Program refers to the execution of a project task at the first phase and after that the public call for the execution of the study would be issued. At this stage it is also necessary to clearly designate the scope of the analysis (sector, company). Upon the execution of the analysis, the presentation of the result will be held and workshops with interested parties will be organized. Apart from that, based on the results of the analysis, recommendations with regards to the legal framework would be prepared<sup>7</sup>, as well as competences and activities aimed at the prevention of the emergence of new NPLs. The Program stipulates that the stated recommendations be adopted by the Working Group.

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<sup>7</sup> Pursuant to provisions of Article 2 of the Law on the National Bank of Serbia (“Official Gazette of RS”, no. 72/03, 55/04, 85/05 –another law, 44/10, 76/12, 106/12, 14/15, 40/15 –CS and 44/18) and legally prescribed independence of NBS, recommendations of this study cannot be binding for NBS.

### 2.5.2. Development of tools for the purpose of prevention and forestalling of financial distress and an outreach campaign

Another aspect of this activity is the development of an informative web site and outreach campaign on how to recognize financial distress in time. This tool will be primarily aimed at small and medium-sized enterprises (SMEs) and entrepreneurs. The number of Serbian businesses that have had their bank accounts frozen clearly reveals that financial difficulties and distress are often recognized too late. Owners fear losing control of their businesses if they seek restructuring from their creditors and refuse to acknowledge reality, which is why they fail to take appropriate action in time. These issues require the creation of support programs that are sufficiently accessible and simple to use so as to contribute to a clear identification of the problems at hand. This would allow businesses that ordinarily could not afford commercial advisory services to use these tools. The availability of these instruments and an outreach campaign would encourage some debtors to pursue restructuring. Moreover, the tools will be compatible with the consensual financial restructuring option, which has failed to take root even though its costs are far lower than those of bankruptcy.

### 2.5.3. Improvement of the legal framework for the application of the Law on Deadlines for Obligation Settlement in Commercial Transactions

The law on settlement deadlines has been effective since 2012 and it is a transposition of the 2011/7/EU Directive into the legislation of the Republic of Serbia.<sup>8</sup> The application of the Law is of special importance for micro, small and medium-sized companies. According to results of several studies, about a half of companies in the Republic of Serbia still faces the problem of delayed payment while small and micro companies are disproportionately affected by negative consequences. Delays create problem with regards to cash flows and have a negative impact on business activity, especially of micro and small companies. There are numerous causes of delays, and apart from macroeconomic circumstances, they are influenced by usual business customs, business culture, but also the asymmetry of negotiating and market power between the customer and supplier. Trade credit is an extremely important form of financing of companies in the Republic of Serbia. According to the data from the Business Registers Agency (hereinafter: BRA), total (gross) short-term obligations from the

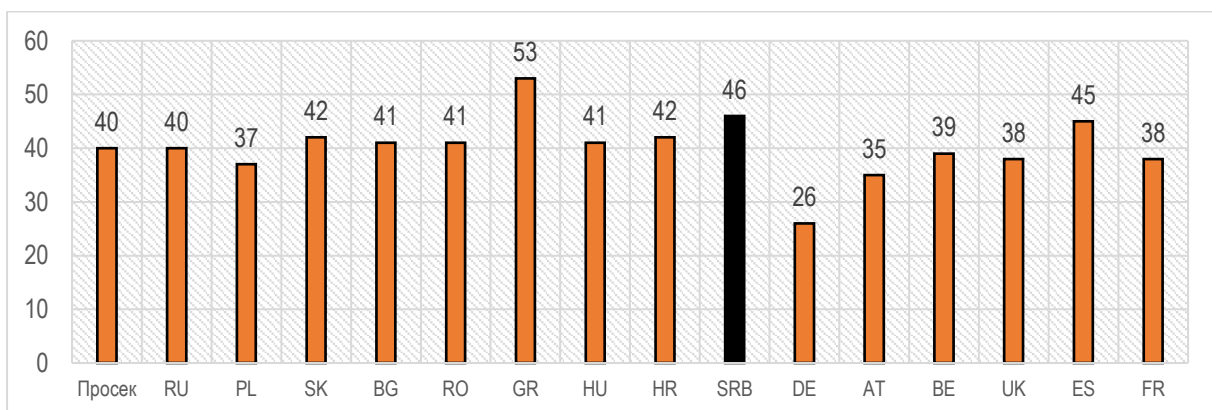
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<sup>8</sup> Directive 2011/7/EU of the European Parliament and of the Council of 16 February 2011 on combating late payment in commercial transactions – Late Payment Directive, OJ L 48, 23.2.2011. Key provisions of the directive refer to: 1) designation of the payment deadline of 60 days if the transaction performed by business entities within the private sectors, unless agreed upon by the parties otherwise, in which case these deadlines are not distinctively unfair; 2) limitation of payment deadlines in case when subjects of the public sector procure goods and services from business entities within the private sector to 30 days, except in exceptional circumstances to 60 days; 3) entities may require payment of an interest in case of a delay as well as the amount of EUR €40 as the compensation of settlement costs as well as the compensation for other settlement costs; 4) Increase of the interest rate to delayed payment by at least 8 percentage points above the reference interest rate; 5) actions of execution and settlement in case of undisputable receivables should provide the termination of the process based on the executive title within 90 days.

business operation of non-financial sector in 2016 amounted to 2,467 billion dinars (about 18 percent of the total value of assets and liabilities). According to the size, at the sector of micro and small companies, the share amounts to 21 percent and 29 percent respectively, which is significantly more when compared to 12 percent of the share at the sector of large companies.<sup>9</sup> By comparison, in Germany, the share of the trade credit is somewhat less in comparison to the total balance sheet liabilities and it amounts to 15.8 percent, but it represents the most important external source of financing of non-financial sector.<sup>10</sup> According to the results of the Business Environment and Enterprise Performance Survey conducted by the World Bank and the European Bank for Reconstruction and Development in 2013, 43.3 percent of companies in the Republic of Serbia used trade credits so as to finance the working capital.<sup>11</sup>

According to research undertaken by EOS MATRIX/IPSOS in 2016 on a sample of 200 medium-sized and large retail, manufacturing, and services firms, time to payment in business-to-business (B2B) transactions in Serbia was among the longest in Europe. Only 12% of all B2B payments were made in under 30 days, with the retail sector seeing the worst excesses.

Illustration 4: Average deadline for the settlement of payment obligations (in days) for 2016



Source: EOS MATRIX/IPSOS 2016

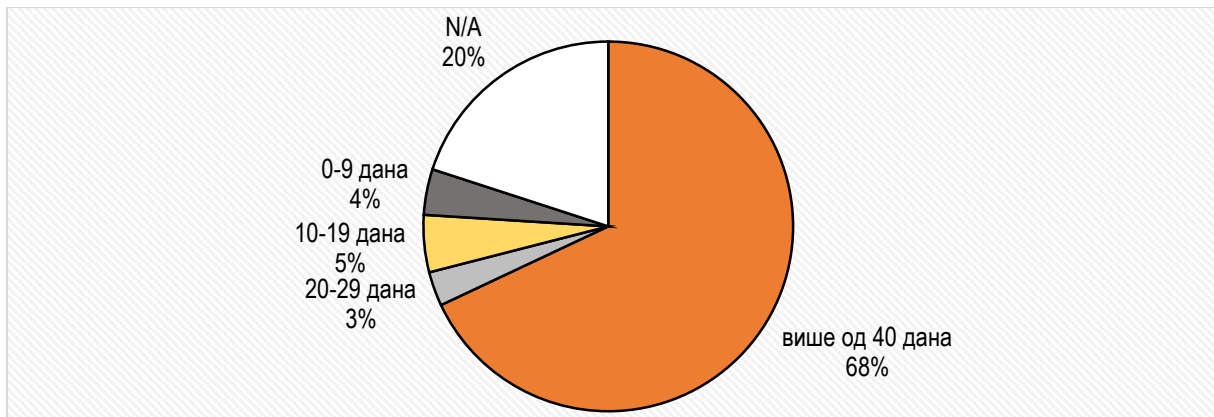
Furthermore, the research shows that a significant number of business entities is waiting for more than 40 days in order to settle their claims.

Illustration 5: Settlement deadlines based on their duration

<sup>9</sup> S. Business Registers Agency, Annual Newsletter of Financial Reports, Belgrade, April, 2017.

<sup>10</sup> S. Deutsche Bundesbank, The importance of trade credit for corporate financing in Germany – evidence from financial statements statistics, Monthly Report October 2012, 51

<sup>11</sup> Presented data refer to the fifth wave of research which is conducted for a number of countries in the period 2012-2014. Data base based on which the data are presented is available at <http://ebrd-beeps.com/data/>



Source: EOS MATRIX/IPSOS 2016

The European Payment report (EPR) for 2018 provides average payment deadlines which are approved to buyers by companies but also average deadlines within which the payments are actually made. In comparison to 2017 the results have been improved. According to the answers of interviewees, the average deadline provided at commercial B2B transactions amounts to 34 days, while the payment at commercial B2B transactions is made with average deadline of 40 days. It should be mentioned that the sample in comparison to the research EOS MATRIX/IPSOS is significantly different, because 73 percent of samples are small and micro companies. However, the companies in Serbia are the last ones in ranking according to the period of time until the submission of the invoice to companies which deal with settlement. Furthermore, Serbia is among countries which state the greatest losses due to bad claims as the percentage of the total income.<sup>12</sup> In order to improve the condition with regards to the payment deadlines and in order to avoid the scenarios in which certain debtors in the region cause systemic problems, the Program stipulates the implementation of ex post analysis of the application of the Law on Payment Deadlines, consideration of the need for the execution of amendments to the Law on Payment Deadlines and the implementation of promotional activities so as to improve the implementation of this law. Apart from that, it is necessary to consider the level of harmonization of this law with the Directive since deviations and misinterpretations of certain legal institutes are noticed.

#### 2.5.4. Enhancement of legal framework governing real estate valuation

The Law on Appraisers of Real Estate Values (“Official Gazette of RS”, no. 108/16 and 113/17 –another law –hereinafter: the Law), came into force on 6<sup>th</sup> January, 2017 and its enforcement started on 6<sup>th</sup> June, 2017. By the Decision on the Establishment of the Professional Board dated 5<sup>th</sup> April, 2017 the members of the Professional Board were appointed and thus the body with the aim of performing professional tasks in the sphere of

<sup>12</sup> Intrum Justitia, European Payment Report, 2018

the appraisal of real estate values was established. Furthermore, the Rulebook on National Standards, Code of Ethics and Rules of Professional Conduct of a Licensed Appraiser was published at “Official Gazette of RS”, number 70/17 dated 20<sup>th</sup> July, 2017. Also, all other bylaws whose passing is stipulated by this law were passed in prescribed deadlines. Concluding with 30<sup>th</sup> November, 2018, the MoF issued 132 licenses for the execution of the appraisal of real estate values, pursuant to this law.

In this manner, the profession of licensed appraisers was established in the Republic of Serbia and thus the process of the appraisal of the real estate value was improved, since reports on the appraisal of the real estate value must be executed in compliance with the adopted National Standards and Code of Ethics, with the aim of fulfillment of the highest standards of professionalism, integrity, clarity, reliability and detachment.

However, for this area to be fully regulated, future amendments to the Expert Witnesses Law (or new legislation governing expert testimony) must require persons who produce real estate valuations in court proceedings to be licenced as real estate valuers by the MoF.

### **III ADDITIONAL ACTIVITIES**

It has been stipulated that the implementation of the Program is a two-year continual process in which the Working Group established by the Government decision 05 Number: 02-5145/2015-1 dated 11<sup>th</sup> May, 2015 shall be the bearer of this process. It will be in charge of constant monitoring of the implementation of the Program and identification of all remaining risks and challenges that need to be solved. The Working Group shall be obliged to prepare reports for the Government twice per year, at the end of the first and third quarter each year. These reports shall be followed (if necessary) by the proposal of the amendments to the Program, depending on the received reports and information on the implementation of the Action Plan. With this aim, every institution bearer of specific activities according to the Action Plan shall be obliged submit quarterly reports to the Working Group on the implementation of the Action Plan and possible open issues which shall be discussed (and which shall be solved, if it is necessary) at the level of the Working Group. The Working Group shall also take into consideration new information submitted to the Working Group by other state institutions and other interested parties (including international financial institutions) as well as market circumstances and further developments at the market which may lead to the review of previously adopted measures and activities and/or introduction of new ones and, pursuant to that, the revision of the Program which is considered and proposed to the Government by the Working Group.

The close cooperation and exchange of information with the NBS shall be maintained through the participation of NBS representatives in the operation of the Working Group.

### **IV THE FINAL PART**

This program shall be published at “*Official Gazette of the Republic of Serbia*”.

05 No.:

In Belgrade, December, 2018

THE GOVERNMENT

PRIME MINISTER

Ana Brnabić