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COMMISSION STAFF WORKING DOCUMENT

**SERBIA
2013 PROGRESS REPORT**

Accompanying the document

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2013-2014

{COM(2013) 700 final}

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1. INTRODUCTION

1.1. Preface

The Commission reports regularly to the Council and Parliament on the progress made by the countries of the Western Balkans region towards European integration, assessing their efforts to comply with the Copenhagen criteria and the conditionality of the Stabilisation and Association Process.

This progress report, which largely follows the same structure as in previous years:

- briefly describes the relations between Serbia and the European Union;
- analyses the situation in Serbia in terms of the political criteria for membership;
- analyses the situation in Serbia on the basis of the economic criteria for membership;
- reviews Serbia's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

This report covers the period from October 2012 to September 2013. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of Serbia, the EU Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Serbia in its separate communication on enlargement,² based on the technical analysis contained in this report.

1.2. Context

The European Council of March 2012 granted the status of candidate country to Serbia. In April 2013,³ finding that Serbia had met the key priority of taking steps towards visible and sustainable improvement of relations with Kosovo*, as set out in its 2011 opinion on Serbia's membership application,⁴ the Commission recommended to the Council that accession negotiations be opened. The European Council decided on opening accession negotiations with Serbia on 28 June 2013. It endorsed the Council's recommendation that the Commission submit without delay a proposal for a framework for negotiations in line with the European Council's December 2006 conclusions and established practice and incorporating the new approach to the chapters on the judiciary and fundamental rights and justice, freedom and

¹ The rapporteur for Serbia is Mr Jelko Kacin.

² Enlargement Strategy and Main Challenges 2013-2014, COM(2013) 700.

³ The Commission and the High Representative of the Union for Foreign Affairs and Security Policy issued an *ad hoc* joint report on specific issues on which the Council had, in December 2012, requested additional information, JOIN(2013) 7 final of 22.04.2013.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

⁴ COM(2011) 668 final.

security as well as steps towards normalising relations between Belgrade and Pristina. The Commission tabled its proposal in July. The Commission was also asked to carry out an analytical examination of the EU *acquis* which started in September.

The next step is adoption by the Council of the framework for negotiations with Serbia, to be confirmed by the European Council at its usual session on enlargement, with a view to holding the first intergovernmental conference with Serbia in January 2014 at the very latest.

Continued visible and sustainable progress in the normalisation of relations with Kosovo, including the implementation of agreements reached so far, will remain essential.

Serbia will have to sustain the momentum of reforms over time in the key areas of the rule of law, particularly judicial reform and anti-corruption policy, independence of key institutions, media freedom, anti-discrimination policy, the protection of minorities and the business environment.

Serbia needs to maintain its commitment to regional cooperation and reconciliation.

1.3. Relations between the EU and Serbia

Serbia is participating in the **Stabilisation and Association Process**.

The Stabilisation and Association Agreement between the EU and Serbia (SAA) was signed in April 2008 and entered into force on 1 September 2013. It replaces the Interim Agreement on trade and trade-related matters (IA) which had entered into force on 1 February 2010.

Serbia has continued to build a satisfactory track record in implementing the obligations of the SAA and IA. An agreement has been reached on the adaptation of the trade provisions of the SAA in order to take into account Croatia's accession to the EU and with a view to maintaining traditional trade flows. Further efforts are needed in particular in the areas of state aid control, where the independence of the Commission for State Aid Control needs to be further established and the exemption of enterprises under privatisation from state aid rules need to be repealed.

Regular political and economic dialogue between the EU and the country has continued through the SAA/IA structures and in the framework of the Enhanced Permanent Dialogue (EPD). The Interim Committee met in January and seven sub-committee and sectoral EPD meetings were held. Serbia participates in the multilateral economic dialogue with the Commission and the EU Member States to prepare the country for participation in multilateral surveillance and economic policy coordination under the EU's Economic and Monetary Union.

The EU-Serbia Inter-Parliamentary Committee met in Brussels in March and the European Parliament adopted an opinion on the Commission's progress report on Serbia in April. The Committee of the Regions Working Group on the Western Balkans held its annual meeting in Novi Sad on 26 June. On 10 July, the European Economic and Social Committee adopted an opinion on relations with civil society in Serbia.

The Serbian government adopted an action plan in December 2012 to follow up on all the findings of the Commission's 2012 progress report; in February 2013 it adopted a National Plan for the Adoption of the *Acquis* (NPAA) for the period 2013-2016.

Visa liberalisation for citizens of Serbia travelling to the Schengen area has been in force since December 2009. In the framework of the post-visa liberalisation monitoring mechanism, the Commission regularly assesses progress made by the country in the implementation of reforms introduced under the visa roadmap. This also includes an alert mechanism to prevent abuses, coordinated by Frontex. Within this framework, the European Commission has regularly submitted its monitoring reports to the European Parliament and Council. The next report will be presented by the end of 2013. A **readmission agreement** between the European Union and Serbia has been in force since January 2008.

Financial assistance is provided through the Instrument for Pre-Accession Assistance (IPA). The assistance follows a sector-based approach focusing on the following seven sectors: justice and home affairs; public administration reform; social development; private sector development; transport; the environment, climate change and energy; and agriculture and rural development. In addition, the country continues to benefit from various regional and horizontal programmes. Cross-border cooperation is also used to promote capacity building and dialogue between the local and regional authorities of neighbouring countries, namely Bulgaria, Hungary, Romania, Bosnia and Herzegovina, Croatia and Montenegro.

For the period 2007-2013, the Commission has earmarked €1 384 million for IPA projects to be implemented in the country. IPA assistance is currently managed centrally by the EU Delegation in Belgrade. Preparations for decentralised management of IPA funds are being finalised and conferral of management powers is expected by the end of 2013. The government and the Commission are currently preparing a comprehensive Country Strategy Paper for the period 2014-2020, which will provide a coherent and strategic framework for financial assistance under the new Instrument for Pre-Accession Assistance (IPA II).

Serbia participates in a number of **EU programmes**: the Seventh Framework Programme for research and technological development, Progress, the Competitiveness and Innovation Programme, the Culture Programme, the Europe for Citizens Programme, the Customs Programme and the Fiscalis Programme.

1.4. Normalisation of relations between Serbia and Kosovo

Serbia and Kosovo have actively and constructively participated in the EU-facilitated dialogue, which was upgraded to a high-level political process with facilitation by the High Representative following the Serbian elections of May 2012. Seventeen high-level meetings were attended by both Prime Ministers since October. A meeting also took place between Presidents Nikolic and Jahjaga in February and they continued meeting in the context of various initiatives in June and in July. Since January 2013, the meetings of the two Prime Ministers have focused on northern Kosovo and on delivering structures which meet the security and justice needs of the local population in a way that ensures the functionality of a single institutional and administrative set-up in Kosovo, in line with the December 2012 Council Conclusions.

These discussions resulted in the 19 April '*First agreement on principles governing the normalisation of relations*', complemented in May by a comprehensive implementation plan. This landmark achievement represents a fundamental change in relations between the two sides. The 'First Agreement' includes the following key elements: the establishment of an Association/Community of Serb municipalities in Kosovo; the principle of a single police force in Kosovo and the integration of all police in northern Kosovo in the Kosovo police force; the principle of integration and functioning of all judicial authorities within Kosovo's legal framework; and municipal elections to be held in the northern municipalities in 2013

and facilitated by the OSCE – municipal elections were subsequently convened on 3 November 2013 and will take place throughout Kosovo. The two parties have agreed that neither side will block or encourage others to block the other side's progress on their respective EU paths.

The parties also reached agreements on energy and telecommunications in September. Implementation of other agreements reached in the dialogue to date has continued. The agreement on representation of Kosovo was broadly implemented. Kosovo became a member of the Regional Cooperation Council (RCC) in February. Full application of the principle of inclusive regional cooperation remains to be ensured; problems such as that encountered with the summit of the South East European Cooperation Process (SEECP) need to be avoided. On IBM, joint interim crossing points have been opened on all six border gates and are up and running. December's agreement on the protection of religious and cultural heritage sites is being implemented. Implementation of the agreement on liaison arrangements started in June. The two sides have also agreed to start collecting customs duties and to set up a fund for the development of northern Kosovo. Regarding free movement, the ID card travel regime is operational. The agreement on customs stamps continues to be implemented by both sides. There has also been good progress on civil registry and implementation should be completed by March 2014. Regarding cadastre, while the implementation has commenced on the Serbian side, the legislation necessary to implement the agreement on cadastre has yet to be passed by the Kosovo side. Implementation of the agreement on acceptance of university diplomas is proceeding smoothly. Serbia's cooperation with EULEX has continued to improve. Direct high-level contacts and regular contacts at operational level continue to facilitate cooperation, e.g. in the fight against organised crime. Serbia needs however to follow-up requests under the police protocol with EULEX, eg. vehicle registration documents.

On 19 September, one member of EULEX was killed in an attack on a EULEX convoy in northern Kosovo. The leaderships of both Serbia and of Kosovo condemned the attack in the strongest terms.

Overall, Serbia has taken significant steps towards visible and sustainable improvement of relations with Kosovo, which have already led to a number of irreversible changes on the ground.

2. POLITICAL CRITERIA

This section examines the progress made by Serbia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia.

2.1. Democracy and the rule of law

Constitution

The Constitution is largely in line with European standards. Some provisions still need to fully reflect the recommendations of the Venice Commission in its opinions of 2007 and of 2013, particularly with regard to the role of parliament in judicial appointments.

Parliament

Parliament has been very active in the first year of the legislature and has enacted several important pieces of legislation aiming at alignment with the EU *acquis*. The consultation process has improved, with extensive use of public hearings. Parliament's work has been made more transparent by the new practices of publishing voting records and transcripts of plenary debates on the internet and live streaming of plenary debates and committees' sessions. But urgent procedures with limited consultation and discussion time have continued to be used extensively to enact legislation. A women's parliamentary network was set up in February. Parliamentary oversight over the executive has improved, with the prime minister and deputy prime ministers participating in regular sessions of oral questions, the government presenting an annual work programme for 2013 and ministers submitting quarterly reports to the corresponding committees. Parliament has been actively reviewing the results of the EU-facilitated dialogue between Serbia and Kosovo and approved with an overwhelming majority a report from the government following the 19 April 'First Agreement'. A committee of inquiry into Serbia's budgetary allocations to Kosovo was set up in April.

Parliamentary committees have developed a more proactive approach. The Committee for European Integration has continued its review of reports submitted by the government, with active support from the corresponding parliamentary department. Independent Regulatory Bodies submitted annual reports for 2012 which were debated by the relevant committees before conclusions were examined by the plenary in July. But parliament has still given only limited consideration and follow-up to their findings and recommendations.

Elections

The Anti-Corruption Agency eventually released its final report on the financing of 2012 elections at all levels in May (*See also Chapter 23 — Judiciary and fundamental rights*). Allegations of electoral fraud made in the 2012 elections were dismissed by the prosecution in October. Serbia still needs to introduce changes into the electoral framework in line with recommendations from the OSCE/ODIHR.

Overall, the transparency of parliament's work and its consultation process has improved and there was progress in oversight of the executive. Urgent procedures are still often applied, unduly limiting time and debate for scrutiny of draft legislation. Parliament needs to develop a more proactive approach to the consideration and follow-up of recommendations of Independent Regulatory Bodies. Serbia has not yet enacted changes to the electoral framework as recommended by OSCE/ODIHR.

Government

The coalition government has remained united in demonstrating commitment to joining the EU and to EU-facilitated dialogue with Kosovo. It has been increasingly consistent in practice, in terms of policy priorities, decision-making and the public conduct of its members, with all crucial policy decisions being adopted unanimously. In March, the government amended its rules of procedure, significantly extending the holding of public consultations and making it compulsory to carry out impact assessments in consultation with the Office for the Regulatory Reform and Impact Analysis. The transparency of the legislative drafting process should be further enhanced and sufficient time given for effective consultation of all interested parties to ensure a more predictable legal environment. More attention also needs to be given to the implementation and monitoring of enacted legislation. The government's General Secretariat needs to be further strengthened to contribute to greater coordination of

sectoral policies and effectiveness of policy-making. Too often, sectoral ministries take policy decisions relating to EU standards in isolation. The government needs to follow up the findings and recommendations of independent regulatory bodies actively and to keep a record of this follow up. At the end of the reporting period, a new cabinet was sworn in on the basis of a new coalition in agreement, which now excludes the United Regions of Serbia (URS). 11 out of 22 positions have been renewed, but the government leadership remained unchanged.

In September, the structures for the accession negotiations were established, including a coordinating body chaired by the prime minister, and Serbia's Chief Negotiator was appointed. The Serbian European Integration Office continued to effectively coordinate government activities relating to the EU integration process. In February, the government adopted the National Plan for the Adoption of the *Acquis* (NPAA) for the period 2013-2016. It replaces the National Programme for Integration (NPI) for 2008-2012 under which 88% of the planned legislation was reported having been enacted. In December, the government adopted an action plan to address findings of the 2012 progress report. The National Council for European Integration has not yet been re-established.

As regards *local self-government*, the provincial assembly of Vojvodina adopted in May 2013 a declaration 'on the Protection of Constitutional and Legal Rights of the Autonomous Province of Vojvodina'. A law on own resources for Vojvodina has yet to be adopted, as prescribed by the Constitution. Implementation of the existing legal framework for local government remains very limited. The National Council for Decentralisation has not met nor has the new inter-ministerial Municipal Finance Commission and none of the tools needed to monitor functions delegated to municipalities have yet been developed. Responsibilities have continued to be exercised at local level without proper analysis of the capacity and resources required. The legislation on municipal finance needs to be properly implemented with regard to calculation of the earmarked transfers by line ministries. Consultation of local authorities on new legislation that has local implications remains very limited. (*See also Public administration and Chapter 32 - Financial control*).

Overall, the government has actively pursued the EU integration agenda, demonstrating consensus in key policy decisions. The framework regulating the consultation process has been improved but implementation needs to be stepped up. The legal framework for local self-government remains to be clarified and properly implemented.

Public administration

The government undertook to develop a new public administration reform (PAR) strategy covering all key aspects of the horizontal PAR as well as an action plan for 2013-16. These preparations are based on an active consultative process and working groups involving all key stakeholders. The PAR strategy is expected to be adopted until end of 2013. The Ministry of Justice and Public Administration is now taking the lead on public administration reform but still needs to enhance its ability to coordinate a PAR agenda.

The necessary institutional and administrative capacity for policy planning and coordination needs to be enhanced. So far political coordination of PAR has been insufficient. The Public Administration Reform Council has been now formally re-established under the leadership of the Prime Minister, but the Council has yet to take up its duties.

With regard to the legislative framework, a new Law on General Administrative Procedures and a Law on local government employees and salaries have yet to be adopted. The Law on

Administrative Disputes has not yet been fully aligned with European standards for judicial review of administrative acts.

A merit-based civil service system in central and local government needs to be put in place. Recruitment, particularly for managerial and middle-management positions, is an issue of serious concern, as a substantial proportion has been conducted through non-transparent procedures. Recruitment of local employees is regulated by the Labour Law, as the Law on Civil Servants does not apply to local government employees. Administrative and management capacity at local level is weak and significant disparities between municipalities persist. Training needs to be given more importance in professional development.

The government has shown the will to rationalise the organisation of public administration and to streamline subordinate bodies and agencies. However, only partial actions have been initiated, and a clear and comprehensive organisational policy has yet to be determined. Recruitment and human resources management for subordinate bodies and independent regulatory bodies do not follow a consistent regulatory framework.

Serbia has taken new steps to address the logistical constraints affecting Independent Regulatory Bodies (*See also Parliament, Government and Ombudsman*). The Commissioner for Information of Public Importance and Personal Data Protection remained active both within the government and with the media and civil society. The number of requests from citizens has increased. His office was allocated new premises in August which should allow expanding its administrative capacity, when they become functional as from October 2013. Serbia's State Audit Institution (SAI) has continued to build up capacity and now has approximately 190 staff, including around 150 auditors. The SAI has improved and widened its audit coverage to include local self-government and state-owned companies, but it remains under-resourced for full audit capacity. Performance audit work has not started yet (*See also Chapter 32 — Financial control*).

Overall, public administration reform remains hampered by the lack of clear steer and coordination structures. The system remains fragmented, with unclear lines of accountability and low policy development and coordination capacity. Recruitment and promotion need to be further reformed and developed to achieve a transparent, merit-based civil service system. Much recruitment is still conducted through non-transparent procedures. Follow-up of the recommendations of independent bodies needs to be built into the system.

Ombudsman

The State Ombudsman's offices at both central and local level and the office of the Ombudsman of Vojvodina continued to be active, with an increase in the number of citizens' complaints. Most of the reported infringements relate to administrative procedures. The number of recommendations followed up by the government and parliament increased slightly, but follow-up needs to be more systematic, especially in the area where the Ombudsman acts as the national preventive mechanism against torture.

Civilian oversight of the security forces

The Law on Military Security and Military Intelligence Agencies, which allowed sensitive data on itemised telephone bills and localisation to be monitored without a court order, was amended in February to require a high court order to be obtained before access to such data is granted. The new parliamentary committee has been proactive in the legislative process, supervision of the security services and cooperation with independent bodies. In March, the

Committee adopted a decision regulating in detail the direct oversight of the security services through control visits, inspections and reports to the plenary. Control visits were made to all three security agencies in the course of June and July, and the Committee in particular inspected the legality of the use of special measures for the secret collection of data. Upon an initiative of the Committee, the State Audit Institution for the first time audited the civilian state security agency (BIA). A law on access to state security files has yet to be adopted.

Civil society

Civil society organisations continued to play an important role in social, economic and political life, and in promoting democratic values. The sector continued to grow. The office for cooperation with civil society produced its first annual report on budget spending on associations and other civil society organisations, covering the 2011 budget.

Judicial system

New five-year strategy on the judiciary was adopted in July, together with implementing action plan. Following last year's Constitutional Court rulings, previously non-reappointed judges and prosecutors, representing approximately one third of the total, were re-appointed. Major legislative improvements were made. However, the legislative and constitutional framework still leaves room for undue political influence and need to be amended. To ensure accountability in the judiciary, professional appraisal rules need to be adopted and codes of ethics and disciplinary rules more systematically applied, where relevant, to prosecutors and judges. The size of the backlog of cases continues to raise concern. There are still major imbalances in the workload of judges and the length of proceedings remains excessive in many cases. Further reforms require a comprehensive functional analysis of the judiciary in terms of cost, efficiency and access to justice. The implementation of the recent changes to the legislation on 'abuse of office' should be carefully monitored with a view to a comprehensive review of economic crimes. The means and expertise of the Judicial Academy should be increased and the legislative and institutional framework adapted to allow it to become the compulsory point of entry to the judicial profession.

For a detailed analysis of the developments in the judicial system, *see Chapter 23 — Judiciary and fundamental rights*.

Fight against corruption

A new strategy for the period 2013-2018 has been adopted in July, together with a related action plan. Implementation of GRECO recommendations has continued. Investigations into corruption cases have been stepped up, especially in high-level cases, resulting in particular in criminal charges filed against two former ministers and the sentence in first instance of a former president of a commercial court to six and a half years of prison for abuse of office. The Anti-Corruption Agency's operations continued, mostly in relation to the control of the financing of political parties. The implementation of the legal framework and the efficiency of anti-corruption institutions need to be improved. A proactive approach to investigating corruption needs to be maintained and result into final convictions, included in high profile cases. The judiciary needs to gradually build up a solid track record of convictions in this regard, particularly in cases of misuse of public funds. The Anti-Corruption Agency needs to make full use of its capacity, in particular for checks on the funding of electoral campaigns. The law enforcement bodies need to gain expertise, in particular in financial investigations, and to become more proactive. There is no efficient and comprehensive legal framework to protect whistle-blowers. Continued political direction and improved support for institutions is

needed, along with more effective inter-agency coordination in order to significantly improve performance in combating corruption.

For a detailed analysis of developments in anti-corruption policy, *see Chapter 23 — Judiciary and fundamental rights*.

Fight against organised crime

The institutional framework to fight against organised crime is in place. Regional and international cooperation has led to some results. Criminal investigations have been launched in a number of cases. However, final convictions remain rare. The capacity to carry out financial investigations in parallel with complex criminal investigations needs to be built up, and a track record of proactive investigations and final convictions in organised crime cases needs to be established. The dependence of the police on the security intelligence agency to carry out certain special investigative measures in criminal investigations is not in line with EU standards.

For a detailed analysis of developments in this area, *see Chapter 24 — Justice, freedom and security*.

2.2. Human rights and the protection of minorities

The legislative and institutional framework for the observance of international human rights law is in place. Further efforts to ensure full implementation of the legal framework and international instruments are needed.

In the area of media freedom, defamation was decriminalised. The creation of an ad hoc Commission tasked with shedding light on cases of unsolved murders of journalists contributed to re-launching some investigations. However, no progress was made in the implementation of the media strategy. Transparency in media ownership and financing of the sector still needs to be comprehensively addressed, particularly as regards direct state financing. Reports of orchestrated media campaigns in certain tabloids against the opposition, coalition partners or independent bodies, detailing investigations or announcing arrests, based on anonymous or leaked sources from the police investigation or prosecution, raise concerns. Some activities have taken place regarding the protection of the rights of the lesbian, gay, bisexual, transgender and intersex (LGBTI) population. However, sufficient political support is still lacking and a pride parade that was to be held on 28 September in Belgrade was again banned, for the third year in a row, on security grounds. Further efforts are needed to address complaints and in particular alleged ill-treatment, improve conditions in the prison system and ensure access to justice. Further attention needs to be given to actively protecting the media, human right defenders and other vulnerable groups, including the Roma and LGBTI persons, from threats and attacks from radical groups.

A comprehensive anti-discrimination strategy was adopted in June. A law on mental disability was adopted in May. Further positive measures have been taken to protect children's rights. Additional efforts are needed to guarantee women's rights in order to tackle domestic violence and improve gender equality, particularly in the workplace. The social integration of persons with disabilities needs to be further improved.

The legal framework providing for minority protection is in place and generally complied with. However, consistent implementation of the legal framework on the protection of minorities throughout Serbia needs to be fully ensured, notably in the areas of education, use

of language, and access to the media and religious services in minority languages. The recommendations of the June 2011 EU-Serbia seminar on Roma inclusion have been actively followed up and a new set of operational conclusions addressing the remaining gaps was jointly agreed in September. Further sustained efforts remain needed to improve the situation of the Roma and of refugees and displaced persons.

For a detailed analysis of the developments in the area of human rights and the protection of minorities, *see Chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination and equal opportunities, *see also Chapter 19 — Social policy and employment*.

2.3. Regional issues and international obligations

Regarding relations with Kosovo, *see section 1.4 - Normalisation of relations between Serbia and Kosovo*.

There are no outstanding issues regarding Serbia's compliance with the **Dayton/Paris Peace Agreement**. In the framework of the Agreement on Special Parallel Relations, joint sessions of the governments of Republika Srpska and Serbia and a session of the Cooperation Council were held.

Serbia has maintained full cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. Serbia has continued to respond to requests for assistance in a timely manner and has intensified efforts to investigate support networks responsible for helping ICTY fugitives. Proceedings are ongoing in 22 cases on charges of harbouring ICTY indictees and 10 people were sentenced on the basis of plea-bargaining. A repeat trial in a case relating to aid provided to Ratko Mladić has resumed in June 2013. Following the acquittals on appeal in the Gotovina/Markač and Haradinaj cases in November, which were met with outrage and bitterness in Serbia and beyond in the region, Serbian high officials criticised the decisions and, on the occasion of a UN General Assembly thematic debate in April, questioned the contribution of international justice to regional reconciliation. The government extended its financial assistance to all Serb ICTY detainees or convicts and their families in March.

In the area of domestic processing of **war crimes**, a protocol on cooperation on exchange of information and evidence in war crimes cases was signed between the war crimes prosecutors of Serbia and Bosnia and Herzegovina in January. The two sides have been meeting regularly since then to expand cooperation in practice. Cooperation and exchanges of information with Croatia and EULEX continued. The courts processed cases more efficiently and the judges performed better under new procedural rules. The number of persons indicted in 2012 was low and there was no progress in investigating high-level officers involved in war crimes. Courts continued to pass mild sentences. Serious problems in the system of witness protection have not been addressed and assistance to victims has not improved. Victims are only allowed to be assisted by members of the Bar, when they would benefit from assistance by experienced human rights experts.

Serbia's policy regarding the **International Criminal Court** is in line with the EU's guiding principles and the EU Common Positions on the integrity of the Rome Statute. Serbia does not have any bilateral immunity agreements.

Progress has been made as regards the **Sarajevo Declaration Process**, which brings together Bosnia and Herzegovina, Croatia, Montenegro and Serbia and aims at finding sustainable

solutions for the refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. The implementation of the Regional Housing Programme, which aims at providing housing solutions for the most vulnerable refugees and displaced persons in the four countries and is extensively supported with EU financial assistance, has started with the approval of the first round projects by the international donors in April. Joint regional information campaigns on the programme have been carried out throughout the region. However, the implementing capacities of the partner countries need to be further improved and a series of documents and procedures need to be finalised in order for the approved country projects to start. Efficient project implementation units and rigorous beneficiary selection procedures as well as beneficiary data cross checking remain to be established. The issue of refugees' pensions within the bilateral working group between Croatia and Serbia still needs to be addressed. The good overall cooperation between the partner countries on the process and the housing programme needs to continue.

The unresolved fate of **missing persons** from the conflicts in the 1990s is still an issue of humanitarian concern in the Western Balkans. As of July 2013, a total of 11 859 persons were still missing as a result of the conflicts in the region, according to International Committee of the Red Cross (ICRC) figures. Of these, 7 886 cases relate to the conflict in Bosnia and Herzegovina, 2 246 to the conflict in Croatia and 1 727 to the conflict in Kosovo. The lack of information on potential gravesites and difficulties in identifying the already exhumed human remains continue to be the key obstacles to solving the remaining cases of missing persons. Belgrade and Pristina held two meetings to address these issues in the framework of the ICRC-chaired Working Group on Missing Persons. Forty four cases have been resolved, owing mostly to the information provided by the Serbian authorities and international stakeholders. Serbia and Croatia resumed formal contacts on missing persons and in July, a first session of the re-established bilateral working group took place in Zagreb with the two sides agreeing to meet four times a year. As a result of the judicial cooperation between the two countries, a gravesite with 13 victims was found and exhumed near Vukovar. However, the process remains slow overall and greater political commitment, supported with financial and technical resources, is needed.

Regional cooperation and good neighbourly relations are an essential element of Serbia's European integration process. Serbia continued to actively participate in regional initiatives and organisations, such as the Migration, Asylum, Refugees Regional Initiative (MARRI), the Central European Initiative (CEI), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty (ECT) and the European Common Aviation Area Agreement (ECAA). The new RCC Secretary General comes from Serbia. In April, Serbia hosted a regional ministerial conference on the fight against organised crime, corruption and judicial cooperation. A trilateral presidential summit took place between Serbia, Turkey and Bosnia and Herzegovina in May, preceded by an economic and trade ministerial meeting in March. In June, the Serbian President appointed a personal envoy to the Regional Commission for Establishing the Facts about War Crimes (RECOM).

As concerns **bilateral relations with other enlargement countries and neighbouring EU Member States**, the Serbian leadership stepped up high-level contacts with neighbouring countries with renewed impetus since January. After his disputable statements on Srebrenica and Vukovar, the Serbian President made a number of particularly welcome gestures that contributed to a spirit of reconciliation. Following the entry into force of the SAA on 1 September 2013, Serbia will have to conclude bilateral conventions on regional cooperation, under Article 15 of the SAA, with Albania, Montenegro and the former Yugoslav Republic of Macedonia.

The Serbian foreign minister visited *Albania* in October 2012 for the first such visit in eight years. However, bilateral relations were strained at times, with each side blaming the other for declarations or actions in the Presevo valley which raised tensions.

Relations with *Bosnia and Herzegovina* have improved. In April, the Serbian President publicly asked for forgiveness for crimes committed by any individual in the name of Serbia and the Serbian people, including in Srebrenica. A key development was the signing of a protocol on cooperation on the prosecution of perpetrators of war crimes, crimes against humanity and genocide. An agreement on readmission and one on extradition, which excludes war criminals, were also signed. There were many high-level reciprocal visits, a Joint Commission for Economic Cooperation was inaugurated and a memorandum of understanding on cooperation in the EU integration process was signed in December. Border demarcation remains to be addressed.

Relations with *the former Yugoslav Republic of Macedonia* were further upgraded. A first joint government session was held in Belgrade in June, at which agreements were signed on health and interior issues and the mixed committees on minorities and economic cooperation were reactivated. An agreement on legal assistance in civil and criminal matters entered into force. An agreement on mutual enforcement of court decisions in criminal cases was ratified, and an agreement on cooperation on the process of EU integration was signed. There were no developments in relation to the dispute between the Orthodox churches in the two countries, which both Prime Ministers signalled in January should not be an obstacle to deeper cooperation.

The Serbian Prime Minister visited *Montenegro* in September. The agreement on police cooperation entered into force in March. A readmission agreement and an agreement on consular protection and services in non-EU countries were signed. A joint special task force for fighting corruption and crime is operational and has already resulted in police actions in the two countries. There were no developments in the dispute between the Orthodox churches in the two countries.

The Serbian President visited *Turkey* in February and again in May for the trilateral meeting with Turkey and Bosnia and Herzegovina, on which occasion a protocol on commercial and economic cooperation was signed. Agreements with Turkey were signed in June on the areas of mutual legal assistance in civil and trade matters and in criminal matters and extradition.

The Serbian President visited *Bulgaria* in September. A social security agreement entered into force in February. A joint contact centre for police and customs cooperation was opened in December. An agreement on the implementation of the gas interconnection between Serbia and Bulgaria was signed in December.

The Serbian President and Prime Minister attended the ceremony marking *Croatia's* accession to the EU in July, a culminating point in a series of high level reciprocal visits that started with the Croatian Prime Minister's visit to Belgrade in January. A joint mixed commission was formed in March to address open bilateral issues (genocide suits, refugees, pensions, border demarcation and missing persons) and Croatia shared in July an updated list of persons facing criminal investigation or indictments for war crimes.

Reciprocal presidential visits marked by reconciliatory statements and apologies for crimes committed during WWII sealed a new phase in relations with *Hungary*. A new border crossing was opened in May and a trilateral memorandum of understanding on internal affairs was signed by Serbia, Austria and Hungary.

Serbia and *Romania* continued cooperation on the protection of minorities in line with their Joint Protocol of March 2012. Consultations continued under the auspices of the OSCE High Commissioner on National Minorities. The Serbian Prime Minister visited Bucharest in May.

Overall, Serbia generally complied with its international obligations. Serbia continued to fully cooperate with the International Criminal Tribunal for the former Yugoslavia. Serbia maintained good relations with its neighbours and was actively involved in regional cooperation.

3. ECONOMIC CRITERIA

In examining economic developments in Serbia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

In January 2013, the government submitted to the European Commission its Pre-Accession Economic Programme (PEP) for the period 2013-2015. The programme foresees a mild and plausible recovery by 2% in 2013 and further, rather optimistic, acceleration of real GDP growth to 3.5% and 4% in the following two years. A fiscal consolidation package, mostly on the revenue side, was adopted in the autumn of 2012. Revenue underperformance and expenditure pressures led to another set of consolidation measures in July and to a rebalancing of the budget, increasing the 2013 deficit target from the initial 3.6% of GDP to an estimated 5.3% of GDP. Some steps to address the numerous obstacles to growth have been taken, but the adoption and implementation of a number of important structural reforms has been delayed. The pre-cautionary Stand-By Arrangement (SBA) with the IMF expired in March 2013, without being activated and no new arrangement has been concluded. *Overall*, in view of the difficult economic situation, economic reforms have progressed slowly. Achieving a sustainable fiscal position and tackling the numerous obstacles to growth remains a challenge.

Macroeconomic stability

In 2012, Serbia went through another recession and the economy contracted by 1.7%. Domestic demand weakened significantly in the last quarter when private consumption fell by 2% and gross fixed capital formation by 3.4%. Loose fiscal policy, which had boosted government expenditure and led to a strong public consumption growth in the pre-election period, was reversed by the year's end and exports remained the only driver of growth. Real GDP grew by 2.1% in the first and by 0.7% in the second quarter. However, economic growth has been uneven, concentrated in few sectors, and employment stagnated. Private consumption has continued to decrease and import growth lost pace. Activity in key sectors such as construction and retail trade continued to decline. Average per capita income in purchasing power standards stood at 35% of the EU average in 2012, unchanged from the year before. *Overall*, the economy is slowly emerging from another recession but growth remains weak and narrowly based.

The economy is still facing significant external imbalances. In 2012, the current account deficit increased to 10.5% of GDP, driven mainly by an expanding trade deficit. However, this trend was reversed by the end of the year and, in the first half of 2013 the annualised

current account deficit shrank by half in euro terms to an estimated 5.7% of GDP. By July, exports of goods and services were up by 20% in euro terms, explaining the bulk of the current account adjustment while, due to falling domestic demand, imports remained subdued. Despite a slowdown in the EU economies hosting significant Serbian diaspora, private remittances increased strongly by 13% in the first seven months.

External financial flows have been volatile and government borrowing replaced private sector inflows as the main source of financing of the current account deficit. Due to significant outflows, net foreign direct investment fell to 0.8% of GDP in 2012. It gained some ground in 2013, but remained far below pre-crisis levels, as domestic risks and weak EU economy suppressed inflows. Wholesale trade, construction and financial services sectors attracted more than half of all net foreign investment in the country, while inflows into sectors that could potentially boost export capacity remained marginal. Portfolio investment increased as a result of significant government borrowing (three rounds of eurobonds denominated in US dollars, totalling about €2.5 billion). In the first half of 2013, banks continued to reduce their foreign liabilities. The central bank foreign exchange reserves stood at a comfortable €10.7 billion in August, covering more than seven months' worth of imports. Private sector external debt has remained fairly stable; however, since September, rising government indebtedness has kept total external debt high, at 83.7% of GDP by the end of June. *Overall*, external imbalances have been falling but remain significant. Government borrowing replaced private sector inflows as the main source of financing of the current account deficit.

In 2012, the unemployment rate increased to a record high of 23.9%. According to the April Labour Force Survey, the employment rate reached an eleven-year low, while the activity rate edged slightly up but was still very low at 47.9%. Only about one person in three above the age of 15 was employed. Employment in the unreformed public sector remained largely intact. Long-term and youth unemployment have been persistently high and unemployment is very high almost everywhere throughout the country. There are a number of restrictions related to severance payments, duration of fixed-term employment, industry-wide collective agreements, termination of employment, payroll calculation and compensations which are obstacles to job creation and reduce labour flexibility. The first signs of economic recovery in 2013 did not spill over to the labour market. The number of registered employed continued to fall and registered unemployment crept up. Since September last year, gross and net wages have been declining in real terms. In the first seven months of 2013, real wages fell by 4.3% on average. Departing from regular indexation rules, due to the difficult economic situation, the government increased wages in the public sector by 2% in October and April although, at 11% of GDP in 2012, total government spending on wages and salaries remains relatively high. *Overall*, unemployment is very high and sustainable employment creation represents a major challenge. Labour market rigidities are significant.

The monetary policy framework remained unchanged and the National Bank of Serbia reconfirmed its commitment to inflation targeting. In November, parliament passed amendments to the Law on the National Bank, which aimed at correcting some of the amendments of August 2012, which had undermined the independence of the central bank. Until April, annual inflation remained at double-digit levels, spurred by a legacy from 2012 of depreciating currency, hikes in indirect taxes and high food prices, and the inflation target (4% $\pm$ 1.5 percentage points) was missed by a wide margin. However, since November monthly inflation rates have come down, averaging 0.2% in the period until August, due to weak domestic demand, mostly stable exchange rate and delayed adjustments in administered prices. These factors, along with base effects and food price moderation because of better agricultural season, supported rapid disinflation over the summer and inflation fell to 7.3% in August.

The central bank responded to the elevated inflation by tightening its stance, raising the key interest rate in every month from September (10.5%) to February (11.75%). As inflationary pressures started dissipating, in May the bank lowered its key rate by half a percentage point, to 11.25%, followed by another cut to 11.00% in June. Reduced political risks, improving external accounts and tighter monetary policy have broadly stabilised the exchange rate. From September to April, the dinar appreciated vis-à-vis the euro by around 4% and, although this trend was reversed in early June, by early September 2013 the dinar was still stronger than a year ago. The central bank continued interventions to smoothen excessive daily volatility on the foreign exchange market. In view of the high degree of euroisation of the economy and significant pass-through effects on inflation, the relatively stable exchange rate played a significant role in stabilising inflation. *Overall*, inflationary pressures have receded, helped by a stronger dinar, subdued domestic demand and a better agricultural season. However, inflation remains inherently volatile, heavily dependent on unstable food prices and exchange rate fluctuations.

In 2012, an election year, budget expenditures went off-track across almost all major categories, reaching their highest level in years. Most importantly, previous small gains in expenditure consolidation, in particular in compensation of employees, subsidies and pensions, have been wiped out. In a revised budget, adopted in September 2012, the new government took a number of consolidation measures, mostly on the revenue side. Nevertheless, the deficit overshot by far the initial target of 4.25% and reached 6.4% of GDP and was even higher if expenditure on bank recapitalisations and called guarantees are taken into account.

Building on the measures adopted in the autumn, the 2013 budget envisaged a sharp deficit reduction to 3.6% of GDP. However, tax revenue underperformed from the beginning of the year, putting this target beyond reach. By the end of April, the general government deficit stood at 46% of the planned for the year. The higher than expected deficit prompted another round of measures in May and led to a full budget revision, adopted by the parliament in July. The May measures were mainly on the revenue side and included a reduction of the wage tax and increases of employees' social security contribution and of the property tax base. The July revision raised the annual deficit target from 3.6% to an estimated 5.3% of GDP. It envisaged cuts in ministries' expenditure allocations, fixed indexation of wages and salaries by 0.5% in October 2013 and increases in some outlays. The government also adopted a public sector reform programme, including an action plan to finalise enterprise restructuring by mid-2014. By the end of August, total revenue declined by 4.1%, while public expenditure have been kept largely in check and declined by 5.8% in real terms. However, quasi-fiscal expenditure, related to bank recapitalisations and payments on called guarantees, have been significant, undermining budget transparency and weighing heavily on public finances. *Overall*, a series of measures, mostly on the revenue side, failed to deliver the expected reduction of the deficit. Expenditure inefficiencies and the high level of spending on wages and pensions still need to be addressed in a systematic way.

Fiscal rules were breached and government debt significantly exceeded the 45% of GDP limit, reaching close to 60% in 2012. In line with legislative requirements, the government presented a programme of reducing government debt, according to which, and in a rather optimistic scenario, it will take until 2020 until the debt falls again below the 45% threshold. In 2013, the high budget deficit and new government borrowing continued to push the debt up. Since the beginning of the year, government-guaranteed debt and called guarantees have also increased, reflecting continued government support of loss-making public enterprises. Taking advantage of the favourable international environment and declining interest rates on the domestic government bonds market, in April the government prepaid some €330 million

of its obligations towards the London Club. Interest payments to service the debt went up by 55% to 2.0% of GDP in 2012 and increased further in 2013. *Overall*, the adoption and implementation of a credible medium-term fiscal adjustment programme, backed by systemic reforms of the public sector to restore fiscal sustainability and stem further rise in the government debt, is urgently needed.

Recent fiscal consolidation efforts have been mainly on the revenue side where the space for further measures has been largely exhausted, with the exception of decreasing costly tax expenditures and improving collection. Some small steps have been taken to reduce and restructure current expenditure and to tackle spending inefficiencies but the big and unreformed public sector remains a significant drain on the budget. High export growth has softened the effects of depressed domestic demand and reduced external imbalances, relieving some of the depreciating pressures on the dinar. Inflation decelerated but monetary policy continues to be restricted by unstable food prices, irregular administered price adjustments and the high degree of euroisation of the economy. *Overall*, achieving a proper policy mix is still a challenge. Revenue-based fiscal adjustment has largely reached its limits and monetary policy efficiency remains constrained.

Interplay of market forces

Due to changes in consumer prices' basket, the proportion of administered prices fell by 2 percentage points to 20%. Since the beginning of the year, gas prices were adjusted twice, while a planned electricity price increase was postponed several times until August, when the price was raised on average by 11.3% (10.9% for households). As of 2013, the electricity and gas markets have been liberalised for big consumers connected to the transmission network which need to buy energy at strictly market prices. The government continued to control prices of some public utilities indirectly by setting a limit on increases in the prices of communal and public city transport services which are under the control of the local authorities. In November, the government adopted new criteria for wholesale and retail price formation for medicines for human consumption issued on prescription. The government decree which capped retail margins at 10% for basic foodstuffs expired at the end of 2012. *Overall*, price liberalisation has advanced but state control over prices remains significant.

The state holds predominant stakes in major sectors such as energy, transport and telecommunications. Some legislative efforts were made to improve the operation of public companies, which continued to be poorly managed, largely overstuffed and loss making. A law on public companies was adopted, setting criteria and delineating a procedure for the appointment of companies' management. The government continued to provide state guarantees for liquidity loans to major companies and 'ad hoc' subsidies to selected manufacturing state-owned enterprises to cover capital investment in modernising their equipment. Some of the large state-owned companies have been tendered (unsuccessfully) for privatisation or are in the process of setting up strategic partnerships with foreign investors. In April, with significant support from the state, the government partially re-started production in the loss-making steel mill in Smederevo.

In order to revive the privatisation of socially owned enterprises, the Law on Privatisation was amended in December 2012, enabling creditors' forced collection of their claims against entities subject to privatisation after 30 June 2014. An action plan to restructure 179 of these companies was adopted in June, with a view to privatising the viable ones (fully or partially) and selling off assets and initiating bankruptcy procedures for those enterprises that have no market prospects. In line with the plan, a bankruptcy procedure for 26 enterprises has already been initiated. *Overall*, some steps have been taken to revive the privatisation process,

especially regarding enterprises undergoing restructuring. The state presence in the economy remains significant and state-owned companies continued to accumulate losses.

Market entry and exit

The introduction of the ‘one-stop shop’ business registration system in 2009 has significantly improved the efficiency and speed of the registration procedure. As of October 2012, the fee for obtaining a company registration code, assigned by the Statistical Office, was abolished. However, market entry is still hampered by lengthy and costly procedures for granting various permits, notably construction permits. With amendments to the Law on Planning and Construction, adopted in late December, the requirement for converting use rights into ownership rights in order to receive a construction permit, for land obtained through privatisation, was abolished for one year. In May, the Constitutional Court suspended the execution of this provision until determining its constitutionality. In the first half of 2013, the number of companies with blocked accounts reached 44.7 thousand, marking a drop of around 25% since September. *Overall*, red tape and difficulties in obtaining construction permits continue to be important obstacles for business expansion.

Legal system

While the legal basis has developed further, the implementation of laws needs to be seriously strengthened. The uneven and slow enforcement of laws has an impact on the cost of doing business. The backlog in the courts is still substantial and companies — aware of the limitations of the system — often avoid using the courts as a legal solution to their problems. Enforcement of restitution legislation, which is expected to improve legal clarity over real estate ownership, is ongoing. By August 2013, about 25% of all submitted claims were resolved. A new Law on Public Procurement, increasing transparency and including measures to prevent corruption and conflicts of interest, was adopted in December. The informal economy remains strong and is a major hindrance to fair competition and business development. Corruption harms the business environment, although the fight against it has intensified. *Overall*, legal predictability and enforcement of court decisions remain weak. Some progress has been made in improving property rights. Further concrete steps should be taken swiftly to improve the business environment.

Financial sector development

Part of the banking system has been under stress, which has prompted state intervention, costly recapitalisations and consolidation of state-owned banks. In October, parliament passed a law allowing assets and liabilities from problematic state-owned banks to be transferred to viable banks. On this basis, the cases of two troubled banks (Agrobanka and Development Bank of Vojvodina) have been resolved with unlimited coverage of deposits. Further steps in bank consolidation were made when Telenor Serbia, a major telecom operator in the country, took over the local KBC Banka, while Société Générale Bank assumed KBC’s clients and portfolio. A total of 31 banks were operating in mid-2013 — two less than a year earlier. The banking sector continued to dominate the financial system, accounting for 93% of total assets in 2012. Within the banking sector, foreign-owned banks are preponderant. As of June, there were 21 foreign banks, accounting for three quarters of the assets, almost 80% of lending and 70% of all bank deposits. There were also seven banks controlled by the state and only three small private banks. Financial intermediation remained broadly unchanged and banking sector assets amounted to 91.8% of GDP by the end of 2012.

Capital adequacy indicators improved and the regulatory capital to risk-weighted assets of the system stood at 20.2% in June, well above the required minimum of 12%. The level of Euroisation remained high, with about 81% of deposits and 72% of households and enterprises loans denominated in or linked to foreign currency. Lending activity decelerated significantly and, excluding the exchange rate effect, domestic lending growth fell to 1% in June. Corporate loans declined the most, especially after subsidised lending was suspended due to exhaustion of funds, while household lending increased only marginally. Commercial banks opted for low-risk investments, increasing their holdings at the central bank and reducing external liabilities. A weak labour market and falling incomes have undermined the growth of non-monetary sector deposits, which has steadily decelerated. The quality of the loan portfolio worsened, mainly in its corporate sector segment, and the gross non-performing loans ratio reached 19.9% in June. In December, the central bank amended its Decisions on Risk Management and on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items with the aim of facilitating the resolution of accumulated non-performing loans. Following the closure of Agrobanka, which had made significant losses, bank profitability improved. Still, a number of small banks, holding a combined market share of around 15%, continued to run losses. *Overall*, banking sector capitalisation and liquidity indicators remained strong. However, credit growth stagnated, non-performing loans are high and vulnerabilities need to be addressed.

The main index of the Belgrade Stock Exchange BelexLine has increased by 28% (from September) by early April, before losing more than half of this gain during the summer. The insurance sector remains underdeveloped, with a ratio of total premiums to GDP at 1.8% and per capita premiums of about €75. The sector is dominated by non-life insurance, which accounted for 80.7% of total premiums. The number of insurance companies remained unchanged at 28, of which 24 were engaged exclusively in insurance business and 4 in reinsurance. Most of the companies (21) were under majority foreign ownership and they dominated the market with a share of 90.8% in life premiums, 57.6% in non-life premiums, 68.8% in total assets and 65.5% in employment. The insurance sector's share of total financial sector assets increased slightly, to 4.5% in 2012. The assets controlled by voluntary pension funds have increased but are still marginal at 0.5% of GDP, while the importance and operations of leasing companies continued to decline. *Overall*, the non-banking financial sector remains underdeveloped.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

State presence in the economy remains significant, while the private sector is weak and unprotected as the rule of law is not systematically observed. Economic reforms have progressed slowly. Domestic and external deficits remain high and there are significant structural rigidities and obstacles to growth. *Overall*, the functioning of market mechanisms remains hampered by distortions and legal uncertainty.

Human and physical capital

The gap between supply and demand of skilled workforce remains and the education system continues to educate a workforce that does not necessarily correspond to the needs of the economy. As a consequence, the main features of the labour market are high unemployment of people with lower and intermediate education, and high long-term and youth unemployment. In October 2012, the government adopted an education strategy, which

envisages a number of measures to improve the quality of education at all levels by 2020. However, action plans for implementing the strategy have so far not been drafted and funding is constrained by the need to pursue expenditure-based fiscal consolidation. Active labour market programmes remain underfunded and do not seriously address youth and long-term unemployment. *Overall*, the education strategy is ambitious but its implementation is a challenge.

Serbia continues to need significant investment to improve and upgrade its physical infrastructure, which has been neglected for many years. Government investment increased to 3.7% of GDP in 2012 but remains low and declined by 37% in real terms in the first eight months of 2013. Works on major transport corridors are progressing slowly, delayed in part by land expropriation issues, overlapping competencies of different institutions and lack of project documentation. Energy efficiency continues to be low and energy infrastructure, in particular electricity generation and distribution, needs further investment. Steps have been taken to secure foreign financing for big infrastructure projects in the transport and energy sectors, which may help to speed up work on strategically important projects. Greenfield foreign direct investment (FDI) has been marginal, despite continued provision of costly government subsidies. *Overall*, the physical infrastructure needs substantial investment. Government investment is constrained by the tight financial conditions and the urgent need of further fiscal consolidation. Securing financing for large transport and energy projects need to be in line with public debt sustainability.

Sectoral and enterprise structure

Following particularly bad weather in the winter and a drought in the summer, in 2012 the value added in agriculture declined by 17% and its share of gross value added dropped to 10.4% from 10.8% a year earlier. Industry's share also fell, from 29.3% to 28.7%, while services increased their share to 61% of GDP. Employment remained roughly unchanged across the sectors. The informal sector, driven by labour law rigidities and taking advantage of weaknesses in tax and expenditure policies and in law enforcement, remained significant. *Overall*, the economy is dominated by services, although agriculture's share remains high. The informal sector is a significant challenge.

State influence on competitiveness

State aid reported in 2012 was 7% higher than in 2011, representing 2.6% of GDP. Of the total state aid granted in 2012, 35.8% was regional aid, 13.6% was in the form of other horizontal aid, 22% was sectoral aid, and 28.6% went to agriculture. There was very little aid given to training and to research and development. Most of the aid was given in subsidies (close to 60%) or as tax incentives (32.6% of total). State-controlled, monopolistic structures remain in a large number of sectors and the state continued to subsidise heavily the transport sector, which received almost a fifth of all aid. State aid control needs to be enforced consistently and the exemption from state aid rules given to enterprises that are being privatised still needs to be abolished. New state aid measures need to be systematically notified before being put into force. The Commission for State Aid Control still has to demonstrate its independence through ex post controls and use of the provision on recovery of unlawful state aid. *Overall*, the state continues to substantially influence competitiveness by providing significant and wide-ranging forms of state aid.

The EU remains Serbia's main trading partner, accounting for 58.1% of its total exports and 58.2% of its imports in 2012. Shares of both Serbia's exports to the EU and imports from the EU have increased slightly in comparison to 2011. Serbia's exports to the EU have grown faster than its imports, resulting in an increase in the export to import ratio vis-à-vis the EU from 48% in 2009 to 60% in 2012. The CEFTA countries accounted for 32.4% of total exports and 10.4% of total imports in 2012. The share of net FDI inflows from the EU in total net FDI inflows stood at 64% in 2012. The average real gross wage growth was 1% in 2012, while average labour productivity growth was negative, translating into an increase in real unit labour costs. In real effective terms (deflated by inflation), the dinar depreciated on average by 7.7% in 2012. However, the depreciating trend was turned around in August 2012 and by August 2013 the dinar strengthened by 10.4%. *Overall*, trade integration with the EU remained high.

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines Serbia's ability to take on the obligations of membership — that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses Serbia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

4.1. Chapter 1: Free movement of goods

There were no developments regarding the **general principles**.

As regards **horizontal measures**, Serbia has further aligned legislation with the EU *acquis* by adopting the remaining implementing legislation on metrology in January. Staffing levels in the ministry in charge of horizontal coordination remain to be strengthened.

In the area of *standardisation*, the Institute for Standardisation of Serbia (ISS) has adopted almost 94% of the European standards (ENs) required for membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). Serbia has not yet applied for membership of CEN and CENELEC. The total number of EU standards and other deliverables applied nationally stood at 21 191, including 14 912 CEN standards, 5 963 CENELEC standards and 316 European Telecommunications Standards Institute (ETSI) standards. The number of conflicting Serbian standards and related documents withdrawn was 10 779. The ISS currently has 215 active technical committees. The Institute has 66 full-time employees, making its overall administrative capacity adequate.

In the area of *conformity assessment*, a number of conformity assessment bodies have been designated in accordance with the relevant EU Directives: 7 for the Machinery Directive, 4 for the Low Voltage Directive, 4 for the Electromagnetic Compatibility Directive, 7 for the Lift Directive, 8 for the Pressure Equipment Directive, and one for the Radio and Telecommunications Terminal Equipment Directive.

In the field of *accreditation*, the Accreditation Body of Serbia (ABS) signed the International Laboratory Accreditation Co-operation (ILAC) Mutual Recognition Agreement for the field of calibration, testing, and inspection, and the International Accreditation Forum (IAF)

Multilateral Agreement for product certification fields. New fields of accreditation were established for several New Approach Directives. For the first time a national certification body was recognised by the European Commission (EC), a body performing certification of organic products in line with the *acquis*, allowing Serbia to freely export and place its organic products on the EU market. By June, the ABS had granted accreditation to 535 bodies, including 313 testing, 53 calibration, and 9 medical laboratories, and 125 inspection bodies, plus 21 certification bodies for products, 9 for management systems and 2 for persons. Staffing levels of the ABS remain insufficient to handle these new tasks.

In the area of *metrology*, the Directorate for Measurements and Precious Metals became a contact member of EURACHEM and Serbia was included in EURAMET's Metrology Programme for Innovation and Research (EMPIR) for the first time. 23 rulebooks for the implementation of the framework law have been adopted. Overall, the administrative capacity of the Directorate is sufficient.

In the area of *market surveillance*, after a period of low activity, the Product Safety Council restarted its regular operations in January, to include representatives of relevant groups. Inter-institutional co-operation and co-operation with the civil society sector, businesses and academia has improved. The administrative capacity of the joint body for surveillance of chemicals and biocidal products needs to be reinforced.

In the field of **'Old Approach' product legislation**, Serbia has aligned its legislation with the *acquis* on pre-packaging and units for measurements. It has yet to align its legislation with the *acquis* in a number of areas, including emissions of pollutants from non-road engines, crystal glass, textiles and footwear.

As regards **'New and Global Approach' product legislation**, Serbia has adopted legislation and aligned its legislation to the relevant directives in the field of personal protective equipment, equipment in the potential explosive atmosphere (ATEX Directive), noise emissions from outdoor equipment, and non-automatic weighing instruments (NAWI Directive). It has updated the list of standards in the field of electromagnetic compatibility, machinery safety, low voltage electrical equipment and general product safety, non-automatic weighing instruments, and radio and telecommunications terminal equipment. However, further alignment is needed *inter alia* in the areas of construction products, cableway installations, recreational craft, cosmetics, and toy safety.

As regards **procedural measures**, the law on dual use of goods remains to be adopted. Serbian law has yet to be aligned with the *acquis* on civil firearms as well as the return of cultural objects unlawfully removed from the territory of an EU Member State.

Conclusion

Progress was made in the area of free movement of goods. Serbia continued with the alignment of horizontal legislation. 94% of EU standards have been adopted. The Serbian accreditation body signed additional Multilateral Agreements and Mutual Recognition Agreements, while the Directorate for Measures and Precious Metals was admitted to EURACHEM. Stronger emphasis needs to be put on administrative capacity and coordination between institutions. Overall, preparations in the area of free movement of goods are moderately advanced.

4.2. Chapter 2: Freedom of movement for workers

In the area of **access to the labour market**, the Law on Employment of Foreigners has yet to be adopted by the parliament.

Objectives were defined by the National Employment Service in preparation for Serbia's participation in the **EURES** (European Employment Services) network. The National Employment Service's vacancy database is incomplete, as there is no obligation on employers to register all vacancies centrally.

As regards **coordination of social security systems**, bilateral agreements with Austria, Bulgaria and Slovakia entered into force. The electronic system of exchange of information among former Yugoslav republics remains limited, operating only with Slovenia. Due to limited public administration resources, the capacity of the social security institutions still needs strengthening.

Preparations as regards the **European Health Insurance Card** have not started yet.

Conclusion

Little progress was made in the area of freedom of movement of workers, apart from preparations for participation in EURES. Overall, preparations in this area are moderately advanced.

4.3. Chapter 3: Right of establishment and freedom to provide services

There were no developments in the area of the **right of establishment**.

As regards the **freedom to provide cross-border services**, a general law aligning Serbian legislation with the Services Directive needs to be adopted. The capacity of departments dealing with the service sector needs strengthening.

In the field of **postal services**, the postal strategy for 2013-2016 was adopted in April. The administrative capacity of the postal regulator (RAPUS) is now sufficient. The administrative capacity of the line ministry's inspectorate is weak, so quality monitoring is inadequate. The public postal operator has modernised its operational processes but the sector has not yet been corporatized.

Legislation on **mutual recognition of professional qualifications** has yet to be adopted.

Conclusion

Little progress was made in the area of the right of establishment and freedom to provide services. Efforts to further align the legislation with the *acquis* and to improve administrative capacity in this field are needed. Overall, in the area of the right of establishment and freedom to provide services, preparations are moderately advanced.

4.4. Chapter 4: Free movement of capital

In the area of **capital movements and payments**, amendments to the Law on Foreign Exchange Operations were adopted in December. The amendments further liberalise capital transactions, for both natural and legal persons. Limitations still exist regarding short-term capital transactions, while deposits by residents continue to be partially liberalised. Long-term

capital transactions are fully liberalised. Restrictions on the acquisition of real estate, especially agricultural land, remain.

Serbian legislation on **payment systems** still needs to be aligned with the *acquis*.

As regards the **fight against money laundering**, Serbia initiated the National Risk Assessment process. The Agency for Prevention of Money Laundering (APML) signed memoranda of understanding (MoU) with Argentina, Andorra, Panama, Denmark and Portugal, bringing the total number of signed MoUs to 42. The APML does not have adequate business premises, which complicates the recruitment of additional staff and the establishment of a training centre.

Conclusion

There was limited progress in the area of capital movements. Serbia needs to make further efforts to align its legislation with the *acquis* for short-term capital movements, real estate and payment systems. Overall, alignment in the area of the free movement of capital is moderately advanced.

4.5. Chapter 5: Public procurement

In the field of **general principles**, a new Law on Public Procurement was adopted in December and entered into force in April. It provides for further alignment with the *acquis*. It introduces provisions for the prevention of corruption and conflicts of interest and aims to improve the transparency and integrity of the public procurement system. It strengthens the powers of Public Procurement Office (PPO) and the Republic Commission for the Protection of Rights in Public Procurement Procedures ('Republic Commission'). The PPO adopted five rulebooks for the implementation of the new law in March. It also published nine standard model documents and one set of guidelines in July to facilitate the new procurement practice. The public procurement portal was upgraded and the Common Procurement Vocabulary was adopted. The national strategy and action plan for upgrading the public procurement system need to be aligned with the new law. Two implementing decrees for the Law on Public Private Partnerships (PPPs) and Concessions were adopted.

As regards the **award of public contracts**, the PPO notes a decreasing trend in irregularities in the use of the negotiated procedure for the first quarter of 2013. The PPO is recruiting eight new employees, but further reinforcement of its administrative capacity is needed. The Budgetary Inspectorate of the Ministry of Economy and Finance took action against irregularities in public procurement procedures worth €17 million. Its administrative capacity needs to be strengthened. In the area of PPPs and concessions, three projects of a mainly concessionary nature and two PPP projects were approved by the PPP Commission (CPPP). The administrative capacity of the CPPP remains limited. Institutional co-operation on public procurement, including audit and judicial institutions, is improving, notably between the PPO, the Republic Commission and the State Audit Institution, but still needs to be strengthened. In general, tendering authorities do not take appropriate action often enough in cases of established misuse of public money.

In the field of **remedies**, new members of the Republic Commission were appointed by the parliament in March in line with the new Law on Public Procurement. A new organisational structure and rules of procedure were adopted in July. The number of cases received by the Republic Commission increased by 23% in 2012, and the number of cases solved increased by 31%. It has continued to actively monitor the implementation of its decisions. It has

continued to build up its administrative and enforcement capacity to a total of 40 employees. The Republic Commission still needs to build its credibility and a solid enforcement record, by further ensuring that its decisions are implemented.

Conclusion

There has been good progress in the field of public procurement. The new Law on Public Procurement further aligns the legislation with the *acquis* and improves public procurement procedures. The capacities in this area and in particular of the PPO remain insufficient. Effective coordination between the main stakeholders needs to be ensured. Overall, alignment in the area of public procurement is moderately advanced.

4.6. Chapter 6: Company law

In the area of **company law**, the Business Registers Agency published founding acts and statutes as required in the Law on Economic Entities. The Agency started running the register of chambers of commerce in January. The electronic registration process is still not operational.

In the areas of **corporate accounting** and **auditing**, the Law on Accounting adopted in July aims to ensure further implementation of the Fourth and the Seventh Company Law Directives. The Law on Auditing adopted in July further harmonises national legislation with the Eight Company Law Directive.

Conclusion

Progress was made in the area of company law. In the field of corporate accounting and auditing, two new laws were adopted, in order to achieve further alignment with the *acquis* in this area. Overall, alignment in the area of corporate law is well advanced.

4.7. Chapter 7: Intellectual property law

In the area of **copyright and neighbouring rights**, certain amendments to the law on intellectual property rights, adopted in December, are not in line with the *acquis*. These provisions need to be harmonised no later than five years after entry into force of the Interim Agreement. A new Law on the Protection of Topographies of Semiconductor Products was adopted in June and further aligns the Serbian legislation with the *acquis*. The Commission for Copyright and Related Rights was abolished and its responsibilities were transferred to the Intellectual Property Office (IPO). The IPO needs additional capacity to cover these new responsibilities.

In the field of **industrial property rights**, in January, the Law on Trademarks was amended to further align with the *acquis* and Serbia became a member of the International Union for the Protection of New Varieties of Plants (UPOV).

In the field of **enforcement**, the IPO conducted a large number of training events for government enforcement agencies and SMEs. The customs administration introduced a web application for electronic exchange of information with right holders. Seizures of counterfeit goods decreased over the reporting period. The Tax Administration increased the number of checks by 74% in 2012. They showed that the use of illegal software has decreased in Serbia. The Market Inspectorate of the Ministry of Trade and Telecommunications received an increased number of requests and confiscated more goods for the whole year 2012.

Full alignment with the enforcement directive needs to be ensured. There is still no formal coordination mechanism between the institutions in charge of IPR protection. Implementation of the national IPR strategy and action plan 2011-2015 has been delayed. No solution has yet been found to the issue of the IPO's long-term financial sustainability. The participation of economic operators and consumers in the prevention of counterfeiting and piracy remains limited. Specialisation of prosecutors, judges and court panels to handle IPR cases remains to be ensured.

Conclusion

Limited progress was made in the area of intellectual property law. Enforcement was improved, although formal coordination between stakeholders and effective implementation of the national IPR strategy remain to be ensured. The changes to the law on copyright regarding fee collection and exemptions constitute a step backwards in alignment to the EU *acquis*. Overall, alignment in the area of intellectual property law is advanced.

4.8. Chapter 8: Competition policy

In the field of **anti-trust and mergers**, the CPC adopted four decisions on restrictive agreements, one decision on abuse of dominance, and 62 decisions on mergers in summary procedure, and it carried out three investigation procedures on mergers that were conditionally approved. Six CPC decisions were partially or fully confirmed by the courts while two were overturned. The CPC resumed its sector analysis of the oil market in 2012 and continued its analysis of the milk sector. The CPC signed a memorandum of understanding with its Russian counterpart.

Conflicting legislation, limiting the scope and effectiveness of competition law, notably on price regulation, has been adopted without prior consultation of the CPC. The CPC's financial plan for 2013 is still awaiting government approval. With 30 employees, the CPC's capacity remains insufficient. The capacity of the judiciary to assess complex competition cases needs to be strengthened. Competition advocacy needs to be stepped up.

In the area of **state aid**, the Commission for State Aid Control (CSAC) adopted 111 decisions, including 41 conclusions initiating *ex-post* control, compared to 148 decisions over the previous period. The majority of the existing state aid schemes, including the fiscal aid schemes, still need to be aligned with the *acquis*. The rules on aid to the provision of services of general economic interest need to be aligned with the *acquis*. An effective mechanism must be implemented to ensure the respect of the *de minimis* aid threshold and of cumulation rules. The exemption from state aid rules for companies in the process of being privatised needs to be repealed. The CSAS needs to demonstrate its operational independence, particularly from state aid granting bodies. Further efforts are needed to ensure that aid measures are notified to the CSAC and approved before being granted. A decree subsidising the sale of cars produced in Serbia was adopted in March without the CSAS being notified or approving it. It was incompatible with the Interim Agreement and with the *acquis* and was subsequently repealed.

Concerning liberalisation of specific sectors, a number of Serbian undertakings continue to enjoy special or exclusive rights, *de facto* or *de jure*, e.g. in the fields of transport, infrastructure, postal services, telecommunication services, broadcasting, agriculture, the environment and, to some extent, energy. Additional efforts need to be made to move towards market liberalisation in line with the *acquis*.

Conclusion

No progress was made in the area of competition. Serbia's record on *ex ante* notifications of state aid measures needs to be improved. The legislation on state aid control must be aligned with the *acquis* and applied to all undertakings, including those in the process of being privatised. In both anti-trust and state aid fields, additional advocacy measures are needed. Overall, alignment in the area of competition policy is moderately advanced.

4.9. Chapter 9: Financial services

In the area of **banks and financial conglomerates**, some measures were adopted to address the issues of non-performing loans and bank restructuring. In October, the Law on Takeover of Assets and Liabilities of Certain Banks, aimed at maintaining the stability of the financial system, was adopted. The National Bank of Serbia (NBS) adopted decisions on risk management by banks, on bank capital adequacy and on classification of assets. The capacity of the NBS' newly created Administration for Supervision of Financial Institutions was increased. Full implementation of the Basel II standards has yet to be achieved. The NBS has postponed the adoption of its own strategy for the full implementation of Basel III standards; however, some elements of these standards have already been introduced. Alignment with the latest *acquis* on deposit guarantees remains to be achieved.

In the area of **insurance and occupational pensions**, the NBS has continued to supervise insurance companies and has increased the number of on-site controls. Alignment with the Solvency II directive has yet to be achieved. There have been no changes in legislation relating to occupational pension funds.

There were no developments in the area of **financial market infrastructure**.

In the area of the **securities market and investment services**, the by-laws adopted by the Securities Commission in 2012 have been implemented. There has been no further alignment with the *acquis* on rating agencies or on undertakings for collective investment in transferable securities (UCITS).

Conclusion

Some progress was made in the area of financial services. Steps were taken to address the issue of non-performing loans and bank restructuring. Additional efforts are needed, e.g. to align Serbia's rules with the requirements of Basel III and the Solvency II and UCITS directives. Overall, alignment in the area of financial services is moderately advanced.

4.10. Chapter 10: Information society and media

As regards **electronic communications and information and communications technology (ICT)**, an annual action plan (2013-2014) to implement the 2010-2020 e-communications strategy was adopted in March. In October a frequency allocation plan was adopted, allowing the use of the 900 and 1 800 MHz bands for e-communications on a technology neutral basis that enables deployment of new wireless broadband services. The fixed broadband penetration rate increased to 13.5% of the population according to the latest available data, which is low compared to the EU average of 28.2%. The penetration rate of mobile services, including 3G, exceeds the EU average, while mobile broadband is still low at 3.5%, below the EU average of 8.8%. Serbia still needs to fully align with the 2009 EU regulatory framework. The amendments made to the budget law and the law on public sector salaries in September 2012 have had an impact on the National Regulatory Agency's (RATEL) operational independence

and its ability to recruit and retain competent staff. Competitive safeguards need to be fully implemented, notably in the fixed telephony market. Implementation of fixed number portability has been postponed. The emergency number 112 has yet to be introduced.

In September, Serbia and Kosovo reached an agreement on telecommunications under the EU-facilitated Dialogue. The agreement provides for Telekom Srbija to operate legally in Kosovo until 2015. It also provides for Kosovo being allocated a 3-digit Dial Code from the International Telecommunications Union as of 2015.

In the field of **information society services**, an action plan for 2013-2014 for the information society strategy 2010-2020 was adopted in August and a working group was set up in March to develop a national broadband network. Further alignment with conditional access and EU legislation on e-commerce is needed. The administrative and inspectorate capacity of the line ministry and its units responsible for ICT and digital administration remains insufficient. Overall IT capacity needs to be strengthened, especially at local level.

As regards **audiovisual policy**, the implementation of the Media Strategy, aimed at alignment with the EU *acquis* in this area, has not progressed. The digital switchover needs to be handled efficiently to meet the June 2015 deadline. Provisions allowing media financing from the state budget need to be brought into line with the EU *acquis* on state aid.

Conclusion

Some progress was made in the area of information society and media with the adoption of several action plans implementing the information society and respectively e-communications strategies. The legislative framework needs to be further aligned with the *acquis* and competitive safeguards in electronic communications need to be fully implemented. The issue of the telecom regulator's budgetary and operational independence raises concerns. Media strategy implementation needs to step up. Serbia needs to implement its commitments made in the agreement on telecommunications reached with Kosovo. Overall, alignment with the *acquis* in the area of information society and media remains moderately advanced.

4.11. Chapter 11: Agriculture and rural development

As regards **horizontal issues**, the law on agricultural and rural development subsidies was adopted in January providing for production-linked payments, quality premiums and rural development measures. The law introduced an *acquis*-like instrument of cross compliance but support measures coupled to production are not in line with the *acquis*. The agricultural census — the first in 50 years — was completed and preliminary results were published in January. Administrative capacity for the Farm Accountancy Data Network continues to be developed. The number of participating holdings increased from 42 to 173. A strategy for Agricultural and Rural Development has yet to be adopted. Administrative capacity needs to be strengthened, particularly vacant senior level positions in the agricultural administration affecting the quality and pace of decision-making. An Integrated Administration and Control System (IACS) has yet to be established.

As regards alignment with the *acquis* in the area of **common market organisation**, the legal basis for the system of geographical indications has been established in the wine sector. Over 1 600 vineyard parcels with a surface of some 1.400 ha have been entered in the vineyard register. The capacity of the administration in charge of the wine market organisation requires further strengthening. A draft law on spirit drinks needs to be further aligned with the *acquis* before adoption.

In the area of **rural development**, the operating structures for the IPA rural development programme are being developed. However, capacity must be strengthened at the Managing Authority, the future Paying Agency, and the Audit Authority in order to continue the development of the management and control system. Strong links with stakeholders through the extension service and rural finance institutions have yet to be put in place.

As regards **quality policy**, a system of labelling and control of agricultural farm products and foodstuffs with Protected Designation of Origin and Protected Geographical Indication is being established. In the area of **organic farming**, the national action plan for the development of the organic sector in Serbia has yet to be adopted.

Conclusion

Some progress has been made in the area of agriculture and rural development. The law on agricultural and rural development subsidies provides for a clearer and more predictable planning framework for rural operators. However, the Agricultural and Rural Development Strategy has yet to be adopted and additional capacity building is required to ensure future implementation of the IPA rural development programme. Overall, in the area of agriculture and rural development, alignment with the *acquis* remains at an early stage.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

In the field of **general food safety** principles, the aflatoxins crisis highlighted the shortcomings of the Serbian food and feed safety system, in particular the lack of a well-established national reference laboratory. To address this, a working group was established to prepare the necessary legal provisions. The National Reference Laboratories Directorate in the Ministry of Agriculture is still severely understaffed and unable to perform its duties. Most of the laboratories' staff are administrative staff. Regarding **food safety** rules and **specific rules for feed**, a rulebook on a rapid alert system for food and feed was adopted in June.

As regards alignment with and implementation of the *acquis* in the field of **veterinary policy**, the new campaign for oral vaccination of foxes against rabies finished successfully. Rabies cases in animals have decreased significantly, with only 19 being registered in 2012 and only 4 being registered in the first half of 2013. A system of registration of holdings of bees has been established and over 300 000 beehives have been registered. The system of registration of the movement of sheep and goats needs to be finalised. No new developments took place regarding the registration of cattle.

As regards the **placing on the market of food, feed and animal by-products**, the new hygiene rules for food and feed establishments are partly aligned with the *acquis*. A new national monitoring and control programme on food and feed safety is being prepared. Serbia still needs to adopt a programme on upgrading establishments. The national system for the management of animal by-products remains weak and needs to be upgraded in order to comply with EU requirements.

In the area of **phytosanitary policy**, a plant passport system was established and registration of operators has started. The specific procedures for border phytosanitary inspections were revised. However, the country's phytosanitary procedures need to be further aligned with the *acquis*. In February, a rulebook was published setting out the annual programme for post-registration control of residues of plant protection products in food of plant and animal origin. A pesticide residues monitoring programme for 2013 has been adopted. The procedure for

registering new plant protection products needs to be further aligned with the *acquis*. A new rulebook on detailed conditions for variety testing was adopted in October. In January, Serbia became a full member of the International Union for the Protection of New Varieties of Plants. The Phytosanitary Laboratory remains the weakest part of the National Reference Laboratories Directorate and its capacity needs to be strengthened.

As regards **genetically modified organisms (GMOs)**, the GMO Law has not been aligned with EU legislation. This remains the key condition for Serbia to become a WTO member.

Conclusion

There has been little progress in the area of food safety, veterinary and phytosanitary policy, mainly limited to the veterinary field. A reliable system of national reference laboratories needs to be set up to improve general food safety. In addition, further capacity building is needed in the area of food and feed establishments, animal by-products and phytosanitary policy. The GMO law needs to be aligned with EU legislation to enable WTO accession. Overall, preparations in the area of food safety, veterinary and phytosanitary policy are moderately advanced.

4.13. Chapter 13: Fisheries

EU requirements on **resource and fleet management and inspection and control** do not apply to inland fishing and are therefore not applicable to Serbia, except for control of marketing and traceability of fishery products. A working group for the establishment of a national certification scheme was set up in April. A national catch certification scheme for imports and exports of fishery products has yet to be adopted.

As regards **structural actions** for small-scale commercial fisheries and inland fisheries, Serbia still does not have structural measures in place. In the field of **market policy**, there were no developments regarding the establishment of producers' organisations and the collection of market data. The capacity of the administration managing and controlling the imports and exports of fisheries' products needs to be strengthened and brought into line with the *acquis*.

As regards **state aid**, the Law on Subsidies in Agriculture and Rural Development adopted in January provides for support to fish producers for consumption and for breeding of brood fish. The Environmental Protection Fund ceased to exist in October and its budget and functions have not been re-established elsewhere in the administration. This has a negative impact on protection measures, particularly measures on protected fish species.

There have been no new developments as regards **international agreements** in this area.

Conclusion

Little progress was made on fisheries. A national catch certification scheme for imports and exports of fishery products and a system for the collection of market data need to be set up. Overall, preparations in the area of fisheries are moderately advanced.

4.14. Chapter 14: Transport policy

In the area of **road transport**, several amendments to implementing legislation on classification and technical requirements for motor vehicles and trailers, weight and dimensions for vehicles, and on testing of vehicles have been adopted. Implementing

legislation on safety conditions in tunnels, on special transport, on training programme and exams for drivers of vehicles carrying dangerous goods, on placing, securing and marking the cargo and on issuing permits for international road transport of goods for national haulers have been adopted. The director and assistant director of the administration for transport of dangerous goods were appointed. The Road Traffic Safety Agency has increased its capacity to 50 of the 65 planned posts. The transparency of the fees charged for special transport operations exceeding the permitted vehicle dimensions, total mass and axle load has been ensured. Road safety remains a concern with a high, but decreasing, number of fatal road traffic crashes per year. Further alignment with recent road safety and dangerous goods *acquis* is still necessary. Implementing legislation on driving and rest periods of drivers engaged in domestic transport has not yet been adopted.

As regards **rail transport**, the new law on railways was adopted in May. The law provides for transformation of the Serbian railways, *Železnice Srbije*, into a group whereby the dominant railway undertaking includes both passenger and freight operations. The law introduces several safeguards to prevent the operator from constraining the independence of the infrastructure manager. The new law has reinforced the role of the railway directorate. The railway directorate now assumes the functions of licensing body, regulatory body and safety authority. Different loan agreements for rolling stock and track improvements have been pursued and partially concluded. The role of the railway regulator needs to be upgraded, including the powers to make decisions on the structure of the infrastructure manager and enforce cooperation and regulatory decisions by fines. The Railway Safety and Interoperability Law has not yet been adopted. Fair access to the market and a transparent infrastructure charging system have yet to be achieved as the market remains virtually closed. Serbian railways continue to deny access to a domestic freight operator, while new entrants to the market have been discouraged by lengthy certification procedures. The network statement has not been published. No public service obligation contracts have been signed on national or local level. Independent accident investigation body has not been set up. The Border Crossing Agreement between Montenegro and Serbia needs to be further aligned with EU legislation to ensure independence of the infrastructure manager.

In the area of **inland waterway transport**, the implementation of River Information Services has been finalised for the Danube River and also for the River Sava in March. More than 160 commercial vessels and 50 governmental vessels have been equipped with AIS technology for tracking and tracing. The Director of the Port Governance Agency has been appointed. Amendments to the law on navigation and ports on inland waters were adopted in December, harmonising the procedures for the technical inspection of vessels. The Directorate for Inland Waterways was moved to the Ministry of Transport without this affecting negatively its staff or work. The Law on Vessel Nationality and Registration was adopted. Implementing legislation was adopted on medical requirements and examinations for crew members on inland navigation vessels, on inland waterways, and on methods and navigation zones for conducting trial voyages for vessels.

As regards **combined transport**, construction of the first modern intermodal terminal in Belgrade has not started yet. Implementing legislation on supporting measures for intermodal transport, on incentive measures for road carriers and on loading units on railway is yet to be adopted, following the adoption of the new law on railways in May.

In the area of **air transport**, sixteen pieces of implementing legislation have been adopted. The Civil Aviation Directorate (CAD) drafted the list of air carriers that are subject to an operating ban within the European Union. There was significant progress towards the fulfilment of requirements under the first transitional period of the European Common

Aviation Area Agreement, especially in the areas of economic regulation and security. Transposition of requirements under the second transitional period of the Agreement is also well advanced, particularly in the field of economic regulation. A national body to enforce the law on passenger rights has been established. The area of Aviation Safety was assessed positively by the European Aviation Safety Agency (EASA) in October. The CAD started implementing EU regulations on licensing flight crews, as confirmed by the EASA. The CAD implements corrective actions plans, in line with EASA's recommendations. Implementation of the rules on slot allocation, ground handling and airport charges is yet to be concluded.

As regards **maritime transport**, the Law on Vessels Nationality and Registration was adopted in January. The Law on Maritime Navigation needs to be harmonised with the 2006 Maritime Labour Convention and other ILO conventions.

No progress was made in the area of **satellite navigation**. Serbia's participation in the Galileo satellite navigation programme is yet to be implemented.

Conclusion

Some progress was made in the area of transport policy, particularly in road, inland waterways and air transport. Further strengthening of administrative capacity is needed, in particular for enforcement and inspection. Further work is required towards market opening in the area of railways and setting up the required institutional structures. Overall, Serbia is moderately advanced in its alignment with the *acquis* in the area of transport policy.

4.15. Chapter 15: Energy

In the field of **security of supply**, the draft Law on Commodity Reserves, regulating the compulsory reserves of oil and oil derivatives, has yet to be adopted. The Law on the South Stream Gas Pipeline was adopted, together with a decree on the spatial plan for its construction. These pieces of legislation implement the Inter-Governmental Agreement (IGA) between Serbia and Russia on the South Stream Gas Pipeline, which raises concerns regarding its compatibility with the Energy Community obligations. Serbia and Bulgaria signed a memorandum of understanding on the interconnecting gas pipeline between the two countries. The project preparation is ongoing and on track but financing needs to be secured. No progress was achieved as regards the alignment to the provisions on security of supply for natural gas. However, the continued upgrade of capacity of the underground storage in Banatski Dvor is strengthening security of supply.

Good progress was made in the area of the **internal energy market**. The Energy Agency of the Republic of Serbia (AERS) approved electricity market rules and rules on supplier switching. The electricity and gas market have been liberalised as of January for large consumers connected to the transmission network, who have no longer the right to be supplied by the public supplier at regulated tariffs. Of the 26 customers of electricity concerned, one switched to a different supplier while the others remained with the incumbent company EPS under market based prices. The electricity balancing market has been operational since January. The Electricity Market code has been adopted for both transmission and distribution. The gas transmission system code was approved by AERS in August. In October, AERS approved new cross-border capacity allocation rules on electricity, enabling coordinated capacity allocation. In November, AERS approved agreements between Serbia's transmission system operator EMS and its Romanian and Hungarian counterparts on coordinated capacity allocation. The government has adopted the decree on the establishment of supplier of last resort, but the unbundling of distribution and supply functions in the publicly owned

generation, distribution and supply electricity company EPS has not been finalised yet. The government has adopted the Decree on the Protection of Vulnerable Customers, setting out criteria and measures for protection. Secondary legislation in the gas sector, on price methodology for access to the distribution network, determination of connection costs to the transmission and distribution system and a rulebook on licensing has been adopted. The state-owned gas company Srbijagas has not yet been unbundled. It remains a fully integrated company and is the only wholesale supplier on the market. Yugorosgaz, another vertically integrated company, has also not yet been unbundled. The implementation of the Energy Law and alignment with the third package of the EU energy *acquis* will require an increase in the AERS' staff as well as further capacity building and strengthening of independence.

In September, Serbia and Kosovo reached an agreement on energy under the EU-facilitated dialogue. Through the implementation of the agreement, Serbia will uphold its respective obligations under the Energy Community Treaty of which it has been in breach so far. The agreement provides that the Serbian transmission system operator (TSO) Elektromreža Srbije signs with Kosovo's TSO, KOSTT, an operational agreement within three months. The agreement also foresees that a Serbian power supply company will operate legally in the North of Kosovo.

In the area of **renewable energy and energy efficiency**, the government has adopted the decree on feed-in tariffs for electricity produced from renewable energy sources. The level of tariffs will be adjusted annually in line with the inflation rate in the euro zone. All by-laws required for the implementation of the incentives system to renewables have been adopted. In September, amendments to the Energy Law were adopted in order to close the Energy Efficiency Agency and merge it within the Ministry of Energy, Development and Environmental Protection. A national renewable energy action plan was adopted by the government in June. The new law on energy efficiency was adopted in March. Implementing legislation has yet to be adopted. The law on construction and planning was amended to bring it in line with the Directive on energy performance of buildings. Administrative capacity in this area is very limited. Further simplification of administrative procedures for issuing necessary permits and network connections is necessary.

In the areas of **nuclear energy, nuclear safety and radiation protection**, the inspection functions have not been transferred to the Serbian Radiation Protection and Nuclear Safety Agency (SRPNA), but remain with the Ministry for Education, Science and Technology Development. Environmental radioactivity monitoring at national level has been temporarily suspended due to a lack of financial means. Effective financial independence, funding and sufficient staffing (currently standing at 20 of the planned 35 posts) are needed to ensure that the Agency functions properly. In September, SRPNA issued a licence for radioactive waste management and use of temporary storage facilities of radioactive waste to Serbia's public company for nuclear facilities. Serbia still needs to adopt a national strategy for radioactive waste management and prepare an action plan for the decommissioning of its research Reactor A at Vinča. A national programme for spent fuel has not been adopted yet. Further efforts are required to improve the radiological situation at the Vinča site and abandoned Kalna mine and to improve radioactive waste management at national level.

Conclusion

Progress was made in the area of energy, in particular the electricity market, renewable energy and energy efficiency. Through the implementation of the agreement reached on energy with Kosovo under the EU-facilitated Dialogue, Serbia will meet its Energy Community obligations, contributing to a significant normalisation of energy relations with

Kosovo. Additional efforts are needed to achieve further market opening, unbundling and cost-reflective tariffs. By-laws in the field of energy efficiency and legislation on commodity reserves have yet to be adopted. The role and independence of the energy regulator AERS and the nuclear regulator SRPNA need to be strengthened. Serbia needs to implement its commitments made in the agreement on energy reached with Kosovo. Overall, preparations in the area of energy are moderately advanced.

4.16. Chapter 16: Taxation

In the area of **indirect taxation**, excise legislation changed again in December after a number of laws on various indirect taxes (such as excise duties and VAT) were amended in the context of fiscal consolidation. On cigarettes, the excise tax structure was aligned with the EU *acquis* and the excise duties increased. Excise rates on oil derivatives were harmonised in order to further align them with the EU *acquis*. However, other energy sources such as coke, heavy fuel oil, natural gas and electricity remain untaxed and some exemptions granted for specific use of oils, are not in line with EU legislation. VAT legislation was brought closer into line with EU legislation. The VAT rate increased from 18% to 20%. Legislation on other excise goods and on issues such as movement and control, excise warehouses and storage or the concept of taxpayer remains to be aligned with the *acquis*.

As regards **direct taxation**, amendments to the Law on Personal Income Tax were adopted, increasing the rate from 10 to 15% for revenues from capital, capital gains and revenues from insurance. Amendments to the Law on Tax on Profits increased the rate of tax on company profits from 10% to 15%. Conditional deferring or writing-off of tax debts helped companies with financial problems to pay their tax liabilities. New corporate tax legislation was also further harmonised with the EU Parent Subsidiary Directive and the Directive on Interest and Royalties.

In the field of **administrative cooperation and mutual assistance**, Serbia continued to participate in cooperation meetings between the B-6 (Balkan countries) tax administrations. Agreements on avoidance of double taxation were signed with Palestine, the United Arab Emirates and Vietnam.

In the area of **operational capacity and computerisation**, the Serbian Tax Administration (STA) continued to implement its corporate strategy for 2011-2015. The STA became responsible for gambling activities. The number of electronic services has increased as annual income tax and excise duty declarations were allowed to be made electronically as of January. Work is ongoing to introduce electronic declarations for salary taxes and contributions. Training and education of taxpayers have resulted in an increased number of electronic declarations via the tax administration portal. Staffing levels at the STA have increased. Risk management training has started for SMEs. Rights and obligations are not always clearly stated, making them subject to interpretation. Procedures may also differ from one region to the other. Individuals within the tax authorities have substantial discretionary powers, and there is no adequate control mechanism in place. Tackling the grey economy remains a challenge.

Conclusion

Some progress can be noted in the area of taxation. The corporate STA strategy continues to be implemented but better coordination within the STA remains necessary. Modernisation of the IT system and communication with taxpayers continued but need to be further strengthened. Overall, preparations in the area of taxation are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

As regards **monetary policy**, in November, amendments to the Law on the National Bank (the National Bank of Serbia, NBS) were adopted, aimed at correcting some of the amendments of August 2012 which challenged the independence of the Bank. The November amendments set out the procedure for replacing vice-governors and members of the Council of Governors and reintroduced the possibility of legal recourse for dismissed NBS officials. The NBS maintains a floating rate policy for the dinar, but the effectiveness of this policy option is limited and has led to exchange rate volatility.

As regards **economic policy**, Serbia continues to participate in pre-accession economic surveillance. It submitted its 2013 economic programme — Pre-accession Economic Programme for 2013 — to the Commission in January. The programme covers the period 2013-2015. It provides the macroeconomic framework for the three years and explains the authorities' strategy of shifting to a new paradigm built upon tradable sectors and underpinned by stronger investments and net exports. While identifying major challenges, the programme still needs to further clarify the pace and sources of fiscal consolidation, address the need to further strengthen fiscal rules and provide a roadmap for the implementation of structural reforms. As regards fiscal responsibility, the public debt has further increased to 60% of GDP which is over the legal ceiling of 45% in national legislation. The capacity for economic policy formulation and coordination remains insufficient.

Conclusion

There has been some progress in the area of economic and monetary policy. The issue of the NBS's independence has been addressed with amendments to the law and there were no signs of political interference. Capacity for economic policy formulation remains insufficient. Overall, in addressing the *acquis* in the area of economic and monetary policy, Serbia is moderately advanced.

4.18. Chapter 18: Statistics

As regards **statistical infrastructure**, the capacity of the Statistical Office of the Republic of Serbia (SORS) needs to be strengthened. An agreement on cooperation for the production of national health accounts was signed in June 2013 between SORS and the Ministry of Health, the Institute of Public Health, the Fund of Health Insurance and the Ministry of Finance and Economy.

In the field of **classifications and registers**, the issue of regional statistical classification (future NUTS classification) remains open due to the need to clarify its territorial scope. This goes beyond the scope of technical expertise and requires a political decision.

As regards **sectoral statistics**, several reports on the results of the population census have been published since October with one or more monographs released each month. The first results of the agriculture census were released in February. A first wave of the survey on income and living conditions (SILC) was conducted in May-June. Statistics on social protection according to EU standards have been developed. An action plan for the production, delivery and transmission of national accounts data was adopted in December. Transmission of data to Eurostat has increased substantially.

Conclusion

Good progress was made in the area of statistics. The population and agriculture censuses have been finalised successfully. Sectoral statistics have been further developed. To fully implement the *acquis* in statistics comprehensively the Statistical Office of Serbia requires more staff. The issue of regional statistical classification should be solved. Overall, Serbia is advanced in the area of statistics.

4.19. Chapter 19: Social policy and employment

In the field of **labour law**, further amendments to the labour law, relating to maternity leave were adopted. Measures aimed at achieving a more flexible labour market, as announced in the fiscal strategy in November, remain to be adopted. Further efforts are needed in this area.

The process of alignment with EU Directives on **health and safety at work** advanced, with further alignment on the remaining EU directives on electromagnetic waves and on optical radiation in December. Work is ongoing on amendments to the Law on Health and Safety at Work with additional implementing legislation. A new strategy on health and safety at work for the period 2013-2017 is in preparation. The register of injuries at work is under construction. The Labour Inspectorate continues to carry out inspections as well as awareness-raising activities, despite a reduction in its staffing levels.

In the area of **social dialogue**, the National Economic and Social Council (NSEC) met four times during the reporting period. The NSEC was consulted on several amendments to laws in the areas of employment, labour and education. Its work is still hampered by the problem of representativeness, as there is no agreement on criteria for the selection of trade unions. No agreement was reached between the government and the Socio-economic Council on setting the annual minimum wage level. As a consequence, the government decided in April to keep the minimum net wage at RSD 115 per hour for 2013. No new local councils have been established, while the work of the current 18 remains symbolic. There is no comprehensive record of collective agreements. Employers' organisations at local level and bilateral social dialogue require strengthening. The weak social dialogue, notably at tripartite level, is an area of serious concern.

In the area of **employment policy**, the annual performance agreement between the Ministry of Labour, Employment and Social Policy (MoLESP) and the National Employment Service (NES) was adopted in June. The National Employment Action Plan for 2013, adopted in December, gives priority to youth employment and to redundant workers. The budget favours employment subsidies instead of additional education and training. Local employment plans now include local and regional funds on top of the budget allocated under the National Action Plan for Employment. Over 2000 unemployed Roma participated in measures under the 2012 National Action Plan. The Labour Force Survey completed in October showed slight improvements in labour market indicators; however, the impact of employment policies remains limited notably on long-term, undeclared work and youth unemployment. The coverage of active labour market measures remains at 15% of the registered unemployed. The national budget approved for active labour market measures in 2013 still represents 0.1% of GDP. It is still too low to ensure appropriate coverage of the unemployed based on needs. The modernisation of NES continued, direct mediation is now available throughout Serbia. Further consolidation of implementing structures in the MoLESP remains necessary. Additional efforts are needed to ensure better targeted and efficient labour market measures and to develop a strategic approach to employment, especially in a context of limited financial resources, increasing unemployment and deteriorating economic growth.

There were no developments as regards preparations for the **European Social Fund**.

In the area of **social inclusion**, implementing legislation required under the Law on Social Welfare was adopted in May. The social welfare chamber, an independent organisation of welfare protection workers, started operations in January. Amendments to the Law on Professional Rehabilitation and Employment of Persons with Disabilities were adopted in April. The public fund for professional rehabilitation and enhancement of the employment of people with disabilities covered approximately 6 500 people with specific measures on employment and professional development. The number of social assistance recipients has increased. The 2012–2014 action plan to implement the national strategy to improve the status of the Roma was adopted in June. The recommendations of the June 2011 EU-Serbia seminar on Roma inclusion have been actively followed up and a new set of operational conclusions addressing the remaining gaps was jointly agreed in September. The Roma community continues to be exposed to multiple forms of exclusion, while the range of social services and initiatives to promote their inclusion remains to be improved. Development of community-based services across the country remains limited. *(See also Chapter 23 – Judiciary and fundamental rights)*

In the field of **social protection**, the deficit in the pension fund remains large, despite a limit on the indexation of pensions. In the absence of sufficient funds for the payment of pensions, transfers from the budget continue to be the largest single item on the expenditure side. Due to insufficiently developed mechanisms of enforcement and control, the overall sustainability of the pension and health funds remain at risk. Serbia continued to develop the statistics and data needed to monitor social inclusion and set up an integrated social protection statistics system, in line with EU practices. In February, an improved database was introduced and included state-level and local indicators. Comprehensive restructuring and reforms are needed in order to regain sustainability. Integrated/cross-sectoral social services need to be further developed.

In the field of **anti-discrimination**, the strategy on the fight against discrimination (2013–2018) was adopted in June. The Commissioner for Protection of Equality received 465 citizens' complaints, and issued 56 opinions, 117 recommendations and 3 opinions on laws in 2012. It filed charges for violation of the Law on Prohibition of Discrimination in 5 cases and issued 19 warnings and announcements. The office of the Commissioner was active in awareness-raising, e.g. on mechanisms for protection against discrimination. The police response to attacks against LGBTI has slightly improved. Some provisions of the Anti-Discrimination Law have yet to be aligned with the *acquis*. This includes the scope of exceptions from the principle of equal treatment, the definition of indirect discrimination and the obligation to provide reasonable accommodation for disabled employees. The most discriminated groups remain the Roma, women, people with disabilities and sexual minorities, who often face hate speech and threats. Serbian authorities need to develop a proactive approach towards the better inclusion of the LGBTI population and a greater understanding across society. *(See also Chapter 23 – Judiciary and fundamental rights)*

As regards **equal opportunities** between women and men, the Gender Equality Directorate in MoLESP started to carry out public awareness campaigns, but its administrative capacity remains weak. Labour legislation needs to be fully implemented, particularly regarding the dismissal of pregnant women and women on maternity leave, sexual harassment and inequality in promotion and salaries. *(See also Chapter 23 – Judiciary and fundamental rights)*

Conclusion

Some progress can be reported in the area of social policy and employment, especially in the fields of health and safety at work, social inclusion and anti-discrimination. Social protection systems, labour relations and social dialogue remain to be substantially strengthened. Employment and social policies continue to be affected by adverse economic conditions and scarce public finances. Overall, Serbia has started to address its priorities in this area.

4.20. Chapter 20: Enterprise and industrial policy

In the area of **enterprise and industrial policy principles**, preparations for the new strategy for competitive and innovative SMEs for 2014-2020 continue. Information about upcoming public-private consultations (PPCs) is publicly available and registration is open to all interested participants. The SME Council did not increase its activity and staffing levels remain to be increased.

In March, the law on limiting payment deadlines entered into force, setting a 45-day payment deadline for public sector debts to private businesses and a 60-day deadline for payments between companies in the private sector. This is not yet in line with the EU directive on late payments.

In the field of **enterprise and industrial policy instruments**, Serbia continues to implement the Small Business Act and to participate in projects under the European Entrepreneurship and Innovation Programme (EIP). Its SME definition is in line with that of the EU in terms of company size.

Legislation affecting the business environment has been reviewed and simplified. The regulatory guillotine process has now been extended to secondary business-related legislation with an impact on SMEs. Mandatory regulatory impact assessments (RIA) are applied systematically for new laws and regulations.

The legal framework for access to finance has improved. The Development Fund provides small credit-guarantee schemes and public start-up funding. However, the number of market participants and the value of equity transactions remain low. Further efforts are needed in relation to company registration, business incubators and access to finance for SMEs.

No new development took place in **sector policies**.

Conclusion

Some progress was made in the area of enterprise and industrial policy. The institutional framework for SME policy and SMEs access to finance improved. Measures taken to improve the business environment, in particular on the business impact assessment for new legislation is a welcome development. Serbia continues to implement the Small Business Act in an appropriate manner. Overall, preparations in this area are on track.

4.21. Chapter 21: Trans-European networks

In the area of trans-European **transport networks** (TEN-T), Serbia continued to participate in the work of the South-East Europe Transport Observatory (SEETO) on implementing the memorandum of understanding on the development of the South-East Europe Core Regional Transport Network. Implementation of the action plan for the construction of road corridor X has advanced. The works contracts for several remaining sections of the E80 and motorways

have been signed. The implementation of several major projects to develop project documentation for rail corridor X has started. Different loan agreements for rail have been pursued and partially concluded. Several infrastructure projects for enhancing navigation conditions on the inland waterways network along the River Danube and the River Sava have been concluded or are in progress. As regards the airport of Belgrade tenders for apron and passenger bridge improvements have been concluded. Limited progress has been made in the implementation of the action plan for the construction of Road Route 4 (Belgrade-Bar), also referred to as 'Corridor XI'.

As regards trans-European **energy networks** (TEN-E), Serbia continues to support the implementation of the Gas Ring Project for South-East Europe, in line with corresponding plans of the Energy Community. The MoU between Serbia and Bulgaria for the construction of the Nis-Dimitrovgrad gas interconnector has been signed in December. Project preparation is on track but financing needs to be finalised. Regarding electricity, the Serbian part of the Nis-Lescovac-Vranje border interconnection became operational in December. The feasibility study, concept design and environmental impact assessment for the new electricity interconnection between Romania and Serbia (Resita-Panchevo) was finished.

Conclusion

Serbia has made some progress in the area of trans-European networks. It continues to develop its transport and energy networks and participates actively in the work of the SEETO and of the Energy Community. Major challenges remain in terms of financing the new interconnections between energy and transport networks. Overall, preparations in the area of trans-European networks are moderately advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

With regard to the **legislative framework** legislation in policy areas that support the implementation of regional policy are not fully in line with the *acquis*.

As regards the **institutional framework**, Serbia has continued to prepare for the introduction of the decentralised management system for IPA components I and II. The conferral of management of these components is in the final stage of verification. Following the decision not to open IPA components III and IV under the current financial perspective, the relevant projects will be implemented under IPA component I. Work is ongoing to align the programming and implementation structures of the national regional policy with EU regional policy, in view of the next financial perspective (2014- 2020) and with the ultimate goal of increasing the absorption and co-financing capacity of the EU-funded programmes.

With regard to **administrative capacity**, the Commission has completed an audit in preparation for transferring management of IPA components I and II and has noted that further efforts are needed to ensure an adequate staff retention policy in line with the anticipated workload.

In the field of **programming**, Serbia has made significant efforts to prepare for a sectoral approach under the IPA from 2014 onwards. The lack of coherent sectoral strategies and of strategically developed investment plans, resulting in a weak project pipeline, remains an issue of concern in some sectors. The capacity of potential final beneficiaries to produce project documentation in line with IPA requirements needs to be improved. In the area of **monitoring and evaluation**, sectoral monitoring committees for all sectors of IPA components I and II have been established and they have met regularly.

In the field of **financial management, control and audit**, the financial management and control systems have been further developed to comply with the decentralised management requirements of IPA components I and II. The capacity of the Audit Authority needs to be enhanced.

Conclusion

There has been progress in the area of regional policy and coordination of structural instruments. Serbia is in the process of acquiring valuable experience in the management of EU funds under the Decentralised Implementation System (DIS), as it is in the final stage for the conferral of management for two IPA components. Adequate implementation capacity needs to be ensured under the decentralised implementation system. Programming needs to be improved, especially in terms of preparing a solid investment project pipeline based on relevant strategies. Overall, preparations in this area are moderately advanced.

4.23. Chapter 23: Judiciary and fundamental rights

Judicial system

Regarding *judicial reform*, the Serbian authorities have undertaken to implement the Constitutional Court's rulings of 2012 which overturned the non-reappointment of judges and prosecutors, leading to the reintegration of some 800 magistrates, representing one third of the total number.

The High Judicial and State Prosecutorial Councils (HJC and SPC) reappointed all the previously non-reappointed magistrates to their courts or prosecution offices, or to the jurisdictions that replaced them, within the 60-day deadline set by the Constitutional Court. In addition, some 900 magistrates recruited in 2009 on a probationary basis were granted permanent tenure in December.

The parliament adopted a new national judicial reform strategy for the period 2013-2018 in July, following a consultative process involving key stakeholders. The strategy takes stock of problems encountered in the implementation of the previous strategy adopted in 2006 and is built around the key principles of independence, impartiality and quality of justice, competence, accountability and efficiency of the judiciary. It aims to strengthen the HJC and SPC and make them accountable, as the bodies mandated by the Constitution to guarantee the independence of the judiciary. It also acknowledges the need for changes in the Serbian Constitution to address the lack of real judicial independence seen in many features of the current system. The strategy also aims to strengthen the framework for recruitment, evaluation, discipline and ethics within the judiciary. An increase in resources for the Judicial Academy is provided, to enable it to become the compulsory point of entry to the judicial profession. A 'strategy implementation commission', composed of representatives of major stakeholders, will be responsible for monitoring and measuring progress in the implementation of the strategy. The related action plan adopted in August details concrete measures to meet the strategy's objectives, particularly in critical areas such as harmonising *jurisprudence*, reducing the backlog of court cases, and distributing the workload. The smooth and timely implementation of the action plan is a crucial milestone.

Regarding the **independence** of the judiciary, the current constitutional and legislative framework still leaves room for undue political influence, in particular when it comes to appointments and dismissals, and needs to be amended. Following a Constitutional Court ruling in December that stated that the legal basis for the election in 2009 of the first president

of the Supreme Court in its then temporary composition was unconstitutional, a new acting president of the Supreme Court, thus ex-officio acting president of the HJC, was elected in February. The HJC has finalised the proposals for the elections of the president of the Supreme Court of Cassation, the presidents of the Administrative, Commercial Appellate and Higher misdemeanour Courts, together with the presidents of the three Appellate Courts in Belgrade, Nis and Kragujevac. These proposals remain to be endorsed by parliament to become definitive. Once the new Court and Prosecution's office network is adopted, the HJC and SPC will have to finalise the appointment of the remaining Court presidents and public prosecutors, to be further endorsed by parliament. Responsibility for proposing and allocating the budget for the courts and prosecution services remained shared between the HJC and SPC, on the one hand, and the Ministry of Justice, on the other. The first 18 graduates from the initial programme of the Judicial Academy were appointed, but the institution remains largely understaffed and underequipped. Further legislative and institutional changes are needed for the Academy to face the challenge of becoming the compulsory point of entry to the judiciary. The HJC and SPC have yet to finalise the process of adopting rules on regular appraisal of the work and performance of judges, court presidents and prosecutors.

The **impartiality** of judges continues to be broadly ensured. Legal provisions on conflicts of interest and on random allocation of cases are in place. However, different electronic data management software continued to operate in parallel in the appellate, administrative, and supreme courts, while electronic case management has not yet been set up in the misdemeanour courts or prosecutors' offices.

In relation to **accountability**, one judge was sanctioned following disciplinary procedures in 2013, convicted to a salary reduction of 40% for a period of one year. The disciplinary authorities for prosecutors were appointed by the SPC in May and first cases were processed, leading to the dismissal of a Deputy Public Prosecutor in May. A code of ethics for prosecutors and deputy public prosecutors has just been adopted, in October. The procedure for lifting the functional immunity of judges, prosecutors and members of the Councils remain largely unused. The implementation of those control mechanisms needs to be stepped up, especially since allegations of corruption in the judiciary persist.

As regards the **efficiency** of the judiciary, the Judicial Academy continued initial and in-service judicial training for judges, prosecutors and attorneys. This still needs to be systematised and structured, especially in terms of developing expertise in certain areas (economic crime in particular). The judicial budget for 2012 remained stable (around 0.65% of GDP). In 2012, the backlog of courts cases was not reduced significantly (more than three million cases were still pending at the end of 2012). The Constitutional Court resolved an increased number of cases following the reform carried out last year. However, its backlog remains of particular concern (more than 12 000 pending cases at the end of 2012), especially in terms of cases related to breaches of the right to trial within a reasonable time. The entry into force of the law on public notaries was postponed to 2014 because too few candidates passed the public notaries' examination. The number of bailiffs increased after a second group of candidates who had passed an exam was appointed in April, but remains insufficient to meet the target set by the law for its implementation. Bailiffs are mainly concentrated in Belgrade.

Adjustments to the court and prosecutor's office networks are currently planned and are aimed at ensuring optimal allocation of the reappointed magistrates, balancing their individual wishes and constitutional rights not to be moved from one place to another without their consent with the needs of the whole judiciary in terms of access and proximity. There are still

major imbalances in the workload of judges and the length of proceedings remains excessive in many cases. Further reform of the court network will require a comprehensive analysis, notably in terms of cost, efficiency and access to justice. The quality of statistics needs to be improved.

Amendments to the Criminal Code included the criminalisation of aiding abuse of the right to asylum in a foreign country; the decriminalisation of defamation, and of ‘unauthorised public comments on court proceedings’; the recognition of discriminatory motivating factors such as ethnic origin, religion, gender identity or sexual orientation as an aggravating circumstance of certain crimes and the recognition that no statute of limitations applies for sex offences committed against children. The offence of ‘abuse of office’ was also amended to redefine the way it applies to private operators. Open cases under Article 359 of the Criminal Code are being re-examined, on a case-by-case basis. Most of those already re-examined were re-qualified, under the new offence of ‘abuse of position by a responsible person’ (new Article 234 of the Criminal Code). So far only a very limited number of cases under the competence of the general jurisdiction prosecutors’ offices were waived. The implementation of this new provision applying to private operators should be carefully monitored including with a view to a comprehensive review of economic crimes.

General implementation of the adversarial procedure under the new Criminal Procedure Code, which puts the prosecution in the lead for criminal investigations both in the pre-investigative and investigative phases, was postponed to October. Some training aimed at enhancing the capabilities of the judiciary and prosecution in this regard was conducted. However, in the absence of a free legal aid system aimed at granting poorer defendants an effective defence, and of the infrastructure and equipment necessary to obtain good quality evidence, concerns about procedural safeguards in the new system remain. Moreover, the planning affectation in terms of human resources, financial and infrastructure remains unclear. The implementation of the new Criminal Procedure Code will have to be carefully monitored.

The Administrative Court has resolved all cases older than three years and 9551 cases during the first six months of 2013. However, it continued to face an increasing inflow of cases (11315 new cases for the first six months of 2013, compared to 4 938 new cases in 2012) and has not been able to reduce the number of pending cases (more than 23 200 pending cases at the end of June, compared to more than 21 500 at the end of 2012). The elaboration and implementation of a unified backlog-clearance programme foreseen in the new action plan for the implementation of the national judicial reform strategy for the period 2013-2018 should be a priority in this regard. Training of administrative judges in specific areas such as asylum, consumer protection, state subsidies and competition needs to be further developed.

Inconsistency in *case-law* remains a concern, especially at the level of appellate courts.

A reform of minor offences courts was conducted in July with a view to improving **access to justice**. However, differences in workload within the judiciary, the high average length of proceedings, the backlog of cases and the lack of a free legal aid system are major obstacles in practice. The general introduction of the adversarial model in criminal proceedings, based on equality of the parties, as from October 2013, raises additional concerns in this framework, and will need to be carefully monitored.

Anti-corruption policy

Anti-corruption policy has been underpinned by a strong ‘zero tolerance’ message from the government. Following broad stakeholder consultation, a new strategy on the fight against

corruption for the period 2013-2018 was adopted in July, together with a related action plan in August. The strategy aims at both a structural approach dealing with issues such as good governance, independent institutions, internal and external audit and control, and protection of whistle-blowers, together with a sectoral approach addressing corruption in most sensitive sectors such as public procurement, urbanism and spatial planning, the judiciary, police, education and health. The Ministry of Justice and Public Administration is responsible for coordinating the implementation of the strategy and action plan, while the Anti-Corruption Agency is responsible for monitoring them. The action plan provides for detailed measures to implement the strategy, with a focus on most vulnerable areas, such as the improvement of financial investigation capacity and making illicit wealth a criminal offence. A mid-term review of the action plan is provided, with a view to assessing first measures implemented under the action plan and possibly amending or adjusting some of the longer term measures. This mid-term review should be used as a way to conduct a reality and feasibility check of the implementation of the strategy and action plan, to ensure that both are turned into concrete results. The implementation of the strategy and action plan will test Serbia's preparedness and willingness to proceed forward. It remains crucial that adequate resources are allocated.

Implementation of outstanding Council of Europe Anti-Corruption Group (GRECO) recommendations has continued and the Criminal Code was amended in December to comply with the recommendations of the incriminations chapter of GRECO's third evaluation round of September 2012.

On the prevention side, the Anti-Corruption Agency has initiated a public anti-corruption awareness campaign, was submitted 2.112 public authorities' integrity plans and has developed and is applying corruption risk analysis of draft legislation. The Agency also increased its activities in the field of training and education (3 679 participants underwent various educational programs in 2012, compared to 1 883 in 2011). The Agency increased its cooperation with some stakeholders and improved its methodology for investigating targeted declarations of public officials' assets. The methodological changes introduced a mandatory step requiring verification and comparison of the data contained in asset and income declarations with the data held by at least four authorities: the Ministry of the Interior, the Tax Administration, the Business Registers Agency, and the Republic Geodetic Authority. The number of procedures related to control of property and revenues of public officials in 2013 increased (283), out of which the majority (182), refers to officials who had not submitted the report of property and revenues within the deadline prescribed by law. The Agency filed seven criminal charges due to reasonable suspicion that a public official did not report property to the ACA or gave false information about the property, with an intention of concealing facts about the property, including against a member of the national assembly, two against former members of parliament, one against a member of a Management Board and one against a mayor. In May, the Agency also adopted its first report ever on the financing of electoral campaigns, for 2012. Annual financing was reported by two thirds of political groups. The Agency submitted 53 requests for misdemeanour procedures on the grounds of inappropriate use of funds, untimely submission of annual financial reports and non-submission of electoral campaign financial reports. However, cases of illicit wealth will have to be addressed in line with the provisions of the action plan on the fight against corruption. Track records of asset declarations and checks on party funding need to be established. Detection and resolution of cases of conflict of interest remains at an early stage since although more files than ever were processed, very few charges were filed during the reporting period. Half of the public authorities obliged to draft Integrity Plans did not fulfil their obligations without any statutory sanctions being provided.

The Anti-Corruption Council continued to be active in exposing and analysing cases of systemic corruption, in its advisory role to the government. A working group within the Ministry of Interior has been tasked with following up the high-profile corruption cases, including those pointed out by the Council. As a result of the work undertaken by this working group, the prosecution for organised crime and corruption raised seven indictments, including against two former ministers, and well-known businessmen. One trial was completed at first instance level, sentencing in particular to four years of prison a judge and to six and half years a former president of a commercial court, while five and nine years sentences were respectively issued against a former director of a company and a banker, for abuse in a business operation.

The number of investigations launched in 2012 by the special prosecutor for corruption and organised crime in high-level corruption cases increased slightly (140 new investigations, compared to 115 in 2011). The same applies to investigations launched from other public prosecutors' offices during the same period (2 690 new investigations, compared to 2 270 in 2011). The Constitutional Court clarified that the prolongation of pre-trial detention during the investigations should not violate constitutional right to a reasonable duration of pre-trial detention. However, the ratio of convictions remains relatively low. Further efforts are needed to establish a track record of prosecution and conviction, particularly in high-level cases. The law enforcement bodies need to become more proactive. Lack of internal capacity and expertise in financial investigations and of technical equipment for special investigative measures hampers the effectiveness of investigations. Inter-institutional cooperation between law enforcement agencies needs to be improved. Civil society continues to play a limited role. Effective whistle-blowing protection mechanisms have yet to be established. Internal control departments lack equipment and human capacity.

Independent supervision and capacity for early detection of wrongdoing and conflicts of interest in public enterprises, privatisation procedures and public expenditure are underdeveloped. Local corruption needs attention. Health and education remain particularly vulnerable to corruption. Comprehensive risk analyses for areas vulnerable to corruption are needed.

Fundamental rights

Serbia has ratified all of the main **international human rights instruments**. In January, Serbia presented the Report on Human Rights for the Universal Periodic Review — Second Cycle. The UN Human Rights Council made 144 recommendations to be followed up by 2 016, of which 77 relate to LGBTI rights.

During the reporting period, the **European Court of Human Rights** delivered 11 judgements on 177 applications finding that Serbia had violated the European Convention for the Protection of Human Rights and Fundamental Freedoms. The number of new applications increased, putting Serbia fifth in the list of states with the highest case-count. The largest number of judgments refers to violation of the right to a fair trial due to the length of the procedure and to the non-enforcement of domestic judgments. Due enforcement of rulings is particularly needed in cases of compensation of workers from state-owned enterprises, administrative decisions, and the resumption of payment of pensions earned in Kosovo. As of September, there were over 12 200 eligible cases pending before the Court regarding Serbia, and 108 cases pending before the Committee of Ministers in charge of supervising the execution of judgments.

In relation to the **promotion and enforcement of human rights**, the government's Office for Human and Minority Rights has carried out a significant number of activities involving other state bodies including training courses for judges, prosecutors, legal practitioners, prison officers and police officers. Its administrative capacity remains to be strengthened.

As regards the **prevention of torture and ill-treatment**, the Ombudsman, acting as the national preventive mechanism against torture, periodically visited places where persons are or may be deprived of their liberty and detained under the order of a public authority, focusing on police stations. The Law on the Protection of Rights of Persons with a Mental Disability, adopted in May, introduces basic legal safeguards for persons with mental disabilities involuntarily placed in psychiatric institutions. The Constitutional Court recognised for the first time ever a violation of the right to physical and mental integrity of a prisoner in July. Unsatisfactory healthcare together with a lack of adequate and specific treatment programmes in prisons remain a matter of concern. Due to poor living conditions in police detention facilities, district prisons tend to be increasingly used as unlawful police detention facilities. Police instructions on handling persons in police custody have been issued, but have yet to be implemented through adequate training to prevent ill-treatment. An internal effective non-judicial mechanism for reviewing complaints remains to be strengthened.

When it comes to the **prison system**, a new strategy for further development of the correctional system 2013-2020, together with a new Law on Enforcement of Criminal Sanctions and first ever Law on Probation have yet to be adopted. The November 2012 amnesty law had an immediate effect on overcrowding. Amendments to the Criminal Code introduced the possibility of conditional release. The number of alternative sanctions, such as home imprisonment monitored by electronic tagging and community service orders, increased. Vocational training was offered to prisoners in three of the main prisons (Pozarevac, Nis and Sremska Mitrovica) through pilot programmes. However, the prison system continued to face serious overcrowding with 10 500 prisoners for some 8 500 places. Further efforts are needed to improve living conditions and healthcare and to provide adequate treatment programmes for prisoners. Alternative sanctions need to be introduced on a larger scale. Frontline prison staffing remains insufficient.

As regards **freedom of expression**, *defamation* was decriminalised in December, while hate speech was recognised as an aggravating circumstance. A commission specially tasked to look into *unsolved cases of murdered journalists* from 1999 and 2001 was created and is actively cooperating with prosecution services. Amendments to the law on public information now prevent public authorities from setting up public companies in the media sector. However, further steps are still needed to ensure an effective implementation of the media strategy. Direct state financing and control of the media, including the local level, still needs to be comprehensively addressed. Uncertainty about models of financing of the two public service broadcasters (RTS and RTV) puts in question their survival and are a reason of concern given RTV's role regarding broadcasting in minority languages. The procedure by which the Republican Broadcasting Agency's members are appointed continues to raise concerns. Legislative instruments on public information and the media together with public service broadcasters and electronic communications have yet to be adopted. *Threats and violence* against journalists remain a significant factor in self-censorship. Although criminal charges are increasingly filed for incitement to ethnic, racial and religious hatred and intolerance, final convictions remain rare. *Media campaigns* based on anonymous or leaked sources are frequent. Such campaigns, detailing investigations or announcing arrests, undermine trust in the judicial institutions, violate personal data laws and challenge the presumption of innocence.

Freedom of assembly and association is constitutionally guaranteed and in general respected. Ninety-one political parties, including 53 representing minorities, were registered as of September 2013. A working group to draft and implement a strategy and an action plan for fighting sport-related violence was set up in March.

The public assembly law has yet to be fully aligned with the Constitution. While a Pride festival could take place in Belgrade from 21 to 27 September, the Pride Parade itself, scheduled for 28 September, was banned by the Serbian authorities on security grounds, for the third year in a row. This decision contradicted the ruling of the Constitutional Court of April that the 2011 ban on the Pride Parade violated the right to freedom of assembly. The activities of extreme right-wing organisations and of violent groups of so-called sports fans continue to be a major cause for concern. Extreme right-wing organisations published blacklists of media organisations, NGOs, and prominent human rights defenders they described as ‘traitors’ and incited violence against them. The authorities have not taken appropriate action.

Freedom of thought, conscience and religion is guaranteed and in general respected. Religiously motivated incidents declined. In addition to 7 religious communities recognised as traditional communities under a law adopted in 2006, another 18 religious organisations have been registered so far. The lack of transparency and consistency in the registration process continues to be one of the main obstacles preventing some smaller religious groups from exercising their rights, and access to church services in some minority languages is not fully guaranteed in practice. The rulebook on the register of churches and religious communities includes disputable provisions and may lead to contravention of the principle of state neutrality towards the internal affairs of religious communities.

Relating to **women’s rights and gender equality**, a Council for Gender Equality was set up in April as an inter-ministerial body tasked with proposing measures and initiatives to improve gender equality. Two special protocols on procedures for police officers and procedures at social work centres regarding instances of violence against women in the family and in partner relationships were adopted in February and March respectively. The protection of women against all forms of violence needs to be strengthened and mechanisms for coordinating the collection and sharing of data between all relevant actors in the system enhanced. The Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence has yet to be ratified. The action plan for the national strategy for prevention and suppression of violence against women remains to be adopted. Local gender equality commissions have yet to be set up in a number of municipalities. Labour legislation needs to be fully implemented, particularly regarding the dismissal of pregnant women and women on maternity leave, sexual harassment and inequality in promotion and salaries.

In the area of **children’s rights**, legislation providing for no statute of limitations for sex offences against children was adopted in April. The new legislation also provides for stricter surveillance and police measures for people convicted of similar offences, extending beyond the end of the prison sentence in order to prevent subsequent offences. The total number of children in institutional care decreased further. However, the number and difficult situation of disabled children in large-scale institutions remains of concern. Roma children, who are over-represented in the state care system, are at higher risk of living in poverty, of leaving school early, of being victims of domestic violence and of being placed into care. This is particularly the case for those children living in Roma settlements. Further efforts are needed to protect children from violence, especially violence among children and young people. Cross-sector coordination to detect, refer and respond to cases of violence against children exists only in

less than 20% of municipalities. Alternative sanctions for juvenile offenders have yet to be developed.

Regarding **socially vulnerable and/or persons with disabilities**, amendments to the Law on Vocational Rehabilitation and Employment of Persons with Disabilities were adopted in April providing for incentives for employers to recruit persons with disabilities replacing the former system of penalties. The Law on the Protection of Persons with Mental Disabilities, introducing basic legal safeguards for the placement and treatment of people with mental disabilities involuntarily placed in psychiatric institutions, and the Law on Patients' rights were adopted in May. Deinstitutionalisation efforts have further continued, in tandem with the development of community-based services. However, oversight of living conditions in social care institutions and psychiatric hospitals should be strengthened. The involuntary psychiatric hospitalisation procedure and the regulations on depriving people with psychosocial and intellectual disabilities of their liberty should be aligned with the case law of the European Court of Human Rights. The social integration of persons with disabilities generally needs to be further improved.

Serbia's **anti-discrimination** legislation is broadly in line with European standards on combating racism and racial discrimination. A comprehensive anti-discrimination strategy 2013–2018 was adopted in June. It aims at combating discrimination against people and groups that are more exposed to discrimination and discriminatory practices, such as the Roma, women, LGBTI persons, persons with disabilities and children. Changes to the Criminal Code recognised motivating factors such as ethnic origin, religion or sexual orientation as an aggravating circumstance of certain 'hate' crimes. The Equality Protection Commissioner's office has continued to be active in raising awareness on discrimination and existing mechanisms for protection against discrimination and received an increased number of complaints from citizens. Its capacity needs to be improved to cope with the increasing flow of complaints. However, certain aspects of the anti-discrimination legislation have yet to be aligned with the *acquis*, notably the scope of exceptions from the principle of equal treatment, the definition of indirect discrimination and the obligation to make reasonable accommodation for disabled employees. The groups most discriminated against are the Roma, women, persons with disabilities and LGBTI persons who, together with human rights defenders, often face hate speech and threats.

Some activities regarding the protection of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons have taken place and there has generally been a more active processing of discrimination cases against the LGBTI population, as a result of police training, the development of court practices and improved cooperation with LGBTI persons as witnesses. The Novi Sad Appellate Court delivered Serbia's first ruling on discrimination in the work place based on sexual orientation. However, a pride parade that was to be held on 28 September in Belgrade was again banned, for the third year in a row, on security grounds. This raises a number of concerns regarding the lack of sufficient political support for the protection of the rights of LGBTI population, the lack of implementation of the constitutionally guaranteed rights of freedom of expression and assembly as well as the authorities' capacity to handle threats from radical groups.

Regarding **labour and trade unions rights**, which are guaranteed by the Constitution and broadly respected, the 1996 Law on Strike has yet to be aligned with International Labour Organisation conventions. The criteria for selecting representative social partners have not been revised. Disagreements on these criteria between the main trade unions continue to block the work of the Economic and Social Council; its meetings are not regularly attended by government officials, and its role remains limited. The Council is not regularly consulted on

draft laws within its area of competence. At local level, tripartite social dialogue remains generally non-existent. (See also Chapter 19 – Social policy and employment).

With regards to **property rights**, the Agency for Restitution continued to implement the 2011 Law on Restitution. Former owners continue to submit claims for restitution. The Agency receives about 1 000 claims per month (21 500 had been received by September) and has adopted about 6 100 decisions. By September, about 2 700 ha of agriculture land and forests, 1 400 apartments and business premises and 135 000 m² of construction land had been returned to their owners — at an estimated value of about €300 million. The special law on restitution of Holocaust-era Jewish properties has not yet been adopted.

The legal framework providing for respect for and the protection of **minorities** and cultural rights is in place and generally upheld, in line with the Framework Convention on National Minorities to which Serbia is party. The government's Office for Human and Minority Rights has carried out a significant number of activities but its administrative capacity needs to be strengthened. A traineeship programme has been set up, offering opportunities in the state administration to members of under-represented minorities. Measures have been implemented to broadcast TV programmes in Romanian and language classes have started to be constituted in Eastern Serbia. The framework for the national minority councils has yet to be revised in line with the recommendations made by the independent bodies. The newly re-established, in May, National Council for Minorities has not yet met. Consistent implementation of the legal framework on the protection of minorities throughout Serbia needs to be fully ensured, notably in the areas of education, use of language, and access to media and religious services in minority language.

The Autonomous Province of *Vojvodina* offers a high degree of protection of minorities and the inter-ethnic situation remained generally good. Sporadic inter-ethnic incidents were recorded, but their overall number continued to decrease. Measures to prevent and prosecute such incidents were agreed in March between central and regional authorities. There have been appropriate reactions to such incidents by provincial officials and the police, but the prosecution continued to treat them as misdemeanours rather than serious criminal offences. The Provincial Ombudsman's 2012 report noted that out of 1 248 complaints, 65 (5%) related to minority issues. The political climate was strained over the issue of autonomous status for the province and marked by occasional tensions as a number of parties and political movements started to actively contest the authority and views of the province's ruling coalition. Increased activity by extreme right-wing organisations is a cause of concern.

Regarding the municipalities of *Presevo*, *Bujanovac* and *Medvedja*, there were some tensions over the issue of monuments to former members of forces which took part in the 1999-2000 conflicts. Talks have resumed between ethnic Albanian leaders and the new head of the government's Coordinating Body leading to a regular dialogue taking place on improving the situation in the area. After consultations with representatives of ethnic Albanians, in June the government adopted a comprehensive agenda with measures ranging from integration into public administration to education and economic recovery. The Albanian/Serbian Department of Economics in Bujanovac continued its work. Further scholarships to study at Novi Sad University were granted to students from Presevo and Bujanovac. Additional textbooks in the Albanian language were provided for the 2012 school year. A first Investment Potential Fair was held for the three municipalities in April by the government and the chamber of commerce. Ethnic Albanians remain underrepresented in the public administration and in local public companies. The area remains among the poorest in Serbia and requires further commitment from the state authorities for its economic development.

As regards the *Sandzak* area, the inter-ethnic situation remained stable. A curriculum in the Bosnian language was adopted by the National Education Council in November and preparatory classes started in February with a view to the regular introduction of classes in this minority language as of the 2013/2014 school year. In July, the government adopted a decision extending the programme of publication of free textbooks in minority languages to the Bosniak language too. The Bosniak community continued to be underrepresented in the local administration, judiciary and police. The issue of the election of the Bosniak national minority council and the issue of the two rival Islamic communities have yet to be solved. The area remains significantly underdeveloped, with a high unemployment rate and a lack of adequate infrastructure and investment. It requires further commitment from the state authorities for its economic development.

Regarding the **Roma**, the 2012–2014 action plan to implement the national strategy to improve the status of the Roma was adopted in June. The recommendations of the June 2011 EU-Serbia seminar on Roma inclusion have been actively followed up and a new set of operational conclusions addressing the remaining gaps was jointly agreed in September. Governmental coordination on the issue has improved. A new procedure to ensure that ‘legally invisible persons’ are registered has started to be implemented and has led to encouraging initial results. Additional sustainable housing solutions have been provided. The sustained support provided to 170 teaching assistants resulted in a further increase in the enrolment rate for Roma children in the education system, notably at pre-school level. Further support for a 75-strong health mediators’ network has had a similar impact on health indicators. Some encouraging results have been achieved through employment measures targeting the Roma, particularly in Vojvodina.

However, the Roma still face difficult living conditions, especially those living in informal settlements where adequate access to water and electricity is not ensured. Compliance with international standards on forced evictions and relocations still needs to be systematically ensured. The Roma continue to be subject to discrimination, particularly regarding access to social protection, health, employment and adequate housing. The legal provision allowing social welfare centres to be used as a temporary address for registration purposes has yet to be implemented. The Roma population, and especially Roma women, are the most discriminated against in the labour market and continue to face social exclusion and high unemployment rates. The school drop-out rate for Roma children remains high. Roma women and children are still frequently subject to family violence, which often goes unreported. Roma children remain over-represented (25%) in the care institutions. Further sustained efforts, including financial efforts, are needed to ensure full implementation of Serbia’s Roma strategy and action plan and to address the difficult situation of the Roma population.

According to the UNHCR, there are around 57 000 **refugees** and 209 000 **internally displaced persons** (IDPs) in Serbia. The number of collective centres was further reduced from 24 to 18, providing housing for 2 438 displaced persons. The programme for supporting municipalities which draft local action plans to improve the status of refugees and IDPs has continued and some improvement has been made concerning displaced persons, with further provision of sustainable housing solutions. Nevertheless, the living conditions of many refugees and internally displaced persons are still difficult. Many are unemployed and live in poverty. Internally displaced persons who do not have personal documents are in a particularly difficult position as they are not able to exercise their basic rights. Some progress has been achieved as a result of the adoption of the Law on Permanent and Temporary Residence, which allows IDPs to apply for residence using the address of a social welfare centre, but the new provision still needs to be fully implemented in practice.

As regards **protection of personal data**, the office of the Commissioner for Free Access to Information of Public Importance and Personal Data and Protection was allocated new premises in August which should allow expanding its administrative capacity, when they become functional as from October 2013. The Commissioner received an increased number of complaints, mostly concerning police evidence, together with medical and social care documentation, without being allocated further resources. The legal framework needs to be further aligned with EU standards in several areas, especially interception and data protection. An action plan implementing the strategy still needs to be adopted.

Conclusion

There has been some progress in the area of judiciary and fundamental rights. Reforms are on the right track. Their implementation will test Serbia's preparedness and willingness to proceed forward.

A new five-year strategy and action plan on the judiciary were adopted. Previously non-reappointed magistrates were re-appointed following last year's Constitutional Court rulings. Intensive legislative activity took place. However, further reforms will require a comprehensive functional analysis of the judiciary in terms of cost, efficiency and access to justice, as well as constitutional amendments.

A new strategy and action plan on the fight against corruption 2013-2018 have been adopted. The number of investigations, particularly in high-level cases, increased. Implementation of GRECO recommendations has continued. The implementation of the legal framework and the efficiency of anti-corruption institutions need to be improved. The Anti-Corruption Agency needs to make full use of its capacity, in particular with a view to introducing tougher checks on the funding of electoral campaigns as soon as possible. The law enforcement bodies need to gain expertise, in particular in financial investigations, and to become more proactive. There is no efficient mechanism to protect whistle-blowers. Conflicts of interest need to be addressed.

Regarding fundamental rights, a comprehensive anti-discrimination strategy was adopted. Defamation was decriminalised. A law on mental disability was enacted. Some activities have taken place regarding the protection of the rights of the LGBTI population. However, sufficient political support is still lacking and a pride parade that was to be held in Belgrade was again banned, for the third year in a row, on security grounds. The authorities need to pay special attention to protecting media organisations, human right defenders and other vulnerable groups, including the Roma and LGBTI population from threats and attacks from radical groups. The implementation of the media strategy remains to be stepped up. Further efforts are needed to improve conditions in the prison system. Further efforts are also required to strengthen the data protection legal framework. The legal framework providing for protection of minorities is in place and generally respected. It has yet to be fully and consistently implemented throughout Serbia, notably in the areas of education, use of language, and access to the media and to religious services in minority languages. While progress was made, further sustained efforts are needed to improve the situation of the Roma and of refugees and displaced persons.

4.24. Chapter 24: Justice, freedom and security

Visa liberalisation for citizens of Serbia travelling to the Schengen area has been in force since December 2009. In order to ensure ongoing implementation of Serbia's commitments, a post-visa-liberalisation monitoring mechanism has been established. Serbia is also

participating in the reinforced reporting mechanism agreed following up to the Joint Declaration on visa-free travel adopted in Tirana in November. The Commission will present its fourth monitoring report to the European Parliament and the Council before the end of 2013. The Serbian national authorities continued to cooperate in counteracting the phenomenon of unfounded asylum applications in EU and Schengen countries. Nevertheless, the number of citizens making unfounded asylum applications abroad is still high. With more than 15 900 applications in 2012 according to Frontex (a 38% increase compared to 2011), Serbian nationals remained one of the largest groups of asylum applicants in the EU (especially in Germany). In turn, the number of Serbian citizens finally granted asylum remained stable in 2012 compared to 2011 (310), with a recognition rate of around 1%, which continues to indicate largely unfounded nature of these asylum claims. Serbian authorities took further measures, including operational cooperation with Member States and awareness raising campaigns, in order to inform citizens of the consequences of abusing the visa-free regime. Since the introduction in December of a new criminal offence relating to facilitation of abuse of the visa-free regime, operational controls have been carried out on tourist agencies and passenger transport companies. Border controls, surveillance patrols and risk analysis have been enhanced. However, despite slight improvement, long-term policies to improve the social and economic inclusion of the most vulnerable groups of the population most likely to migrate, including Roma, need to be stepped up in order to make a practical impact on the situation. Further efforts in these areas need to continue systematically and be properly funded.

In the field of **migration** management, Serbian border authorities demonstrated in general a proactive attitude. They achieved results as regards interceptions of irregular migrants at border crossing points and in between border crossing points. The number of irregular migrants detected passing through Serbia whose final destination is the EU has increased: more than 13900 illegal border-crossings were reported by Serbia in 2012. This number is 34% higher than in 2011. A similar trend was observed with detections of migrants hiding in means of transport when trying to illegally cross the border (988 cases or 36% more than in 2011 according to Frontex). This represents four out of ten detections by western Balkan countries. The Law on Migration Management, adopted in November, identifies the Commissariat for Refugees and Migration as a central focal point in migration management policies and establishes a unified system for data and information collection of relevance to migratory movements. Coordination with other administrative bodies, in particular the newly established migration councils competent at local level, needs to be ensured and sufficient means allocated.

Serbia needs to make further efforts to ensure respect of the rights of asylum seekers and progressive alignment with the EU *acquis* on legal migration. The readmission agreement between the EU and Serbia continued to be implemented without significant problems, although capacity and resources for integrating returnees from the readmission process are very limited. 6 282 persons were returned to Serbia from EU Member States in 2012 (5 150 in 2011). Under the Agreement, new bilateral implementing protocols have been signed with the Czech Republic and Greece. The main countries from which people return are, in order of decreasing numbers, Germany, Sweden, Switzerland, Denmark, France and the Netherlands. Joint-patrolling at the new external border with Croatia needs to be established. Overall, migration management in Serbia continues to be moderately advanced.

Regarding **asylum**, claims are still temporarily processed by the Border Police Asylum Unit. The Asylum Office intended to operate as the first instance body has yet to be established in line with the 2007 Law on Asylum. A unified national database for checking the personal data and fingerprints of foreigners, including asylum seekers, is being developed but remains to be

put in operation. From over 2 723 applications in 2012 (3 134 in 2011), only three of those that were maintained were granted positive protection decisions (none in 2011). The criteria of safe countries of origin and the list of safe non-EU countries have yet to be fully aligned with the *acquis*. The lack of adequate asylum processing, where applicants are neither referred to nor registered in the asylum procedure as the Asylum Law requires, tends to encourage asylum applicants to see Serbia as a transit country for entering the EU illegally. Additional reception facilities with adequate conditions for asylum seekers are also needed, especially since access to the asylum procedure is dependent on accommodation at an asylum centre. Overall, Serbia continues to be in the early stages of aligning with EU asylum policy.

As regards **visa policy**, a unified visa information system which would allow a swift exchange of information among the authorities is still lacking. The list of countries for which a visa is required has yet to be fully aligned with the *acquis*. Overall, Serbia is moderately advanced in aligning its visa policy with European standards.

In the area of **external borders and Schengen**, the Integrated Border Management (IBM) strategy was revised in November to enhance the capacity of the coordination body for its implementation. Serbia has continued to improve the infrastructure and equipment at border crossing points by completing the installation of an immigration and case management system and increasing operational field equipment (special cameras, scanners, fingerprint capturing devices and detection devices). Operational biometric system solutions at borders, such as the existing Automatic Fingerprint Identification System (AFIS) and Facial Image Identification System (FIIS) have also been upgraded. Serbia has been increasingly involved in joint activities with Frontex and the Western Balkan Risk Analysis network. Operational coordination between border police, customs and phytosanitary services needs to be improved. The connectivity of the databases from and to the biometric devices needs to be enhanced in order to support the operations of the Border Police. Analytical, communication, procedural, training and technical capabilities need to be strengthened in order to effectively counter irregular migration. Human resources' risk analysis capacities need to be enhanced. Overall, Serbia continues to be moderately advanced on border management.

As part of the Dialogue on the implementation of the IBM protocol, Serbia and Kosovo agreed on a procedure for mutual legal assistance. The procedure entered into force in March and is facilitated by EULEX.

As regards **judicial cooperation in civil and criminal matters**, three agreements with the former Yugoslav Republic of Macedonia were ratified (one on cooperation in civil and criminal matters, one on the mutual enforcement of court decisions in criminal matters and one on extradition of own citizens), together with one with Slovenia (on mutual enforcement of court decisions in criminal matters), while three were signed with Turkey (on mutual legal assistance in civil and commercial matters on the one hand, and in criminal matters on the other hand, and on extradition) and one with Bosnia and Herzegovina (on extradition). A memorandum of understanding on cooperation in judicial matters was signed with Germany. Serbia signed the fourth additional protocol to the Council of Europe Convention on Extradition. Serbia also ratified the 2007 Hague Protocol on the Law Applicable to Maintenance Obligations. An operational agreement with Eurojust has yet to be signed. Overall, Serbia remains moderately advanced in the areas of judicial cooperation in civil and criminal matters.

In the field of **police cooperation and the fight against organised crime**, the institutional framework to fight against organised crime is in place. Operational coordination and cooperation between law enforcement authorities, together with regional and international

cooperation have yielded some results in high profile investigations into organised crime groups. A bilateral agreement on police cooperation with Montenegro came into force in March. Some measures have been taken towards improving the methodology and standards of the police, including in strategic planning and reform of human resources management. Nevertheless, organised crime remains a serious concern in Serbia. Although criminal investigations have been launched in a number of cases, final convictions remain rare. The capacity to carry out financial investigations in parallel with complex criminal investigations needs to be built up. Certain specialised services, in particular the unit for witness protection, continue to lack sufficient staff, resources and adequate premises. Existing regional instruments of cooperation need to be fully used in order to strengthen joint strategic and operational measures. A centralised criminal intelligence system and harmonised statistical data remain to be established. An integrated IT system linking the police, prosecution and the courts now appears necessary to enhance the effectiveness of the fight against organised crime. Risk assessments and crime mapping need to be used more broadly and intelligence-led policing needs to be developed. The dependence of the police on the security intelligence agency to carry out certain special investigative measures in criminal investigations is not in line with EU standards. In particular, the legal framework does not clearly distinguish between interception for criminal investigation and interception for state security, contrary to European best practices, while data retention rules comply with the EU *acquis* on data retention. An operational agreement with Europol has yet to be signed. Overall, Serbia is moderately advanced as regards police cooperation and the fight against organised crime.

In relation to cybercrime, a Ministry Instruction has been issued governing the seizure and handling of digital evidence and 180 police officers and senior managers have received basic training including a booklet on first response procedures to high-tech crime. However, structured training and adequate resources remain necessary. The High-Tech Crime Unit (HTCU), responsible for cybercrime investigation since 2010 within the Ministry of the Interior, lacks sufficient resources and needs to strengthen its capabilities in order to manage the increasing volume and complexity of its tasks. The introduction of specialist tools and techniques are needed to bring the unit up to modern operational international standards. In order to optimise the fight against cyber-crime, partnership with the private and public sectors and academia have to be concluded. Overall, the fight against cyber-crime in Serbia is at an early stage.

30 requests for seizure of assets were approved in full in 2012, 9 partially and 19 denied, while out of 14 requests for confiscation of assets submitted, 3 were approved in full, 1 partially, 4 denied and 6 are still pending. A new law on recovery of the proceeds from crime was adopted in May, which allows extended confiscation through a reverse burden of proof. The Directorate responsible for the seizure of assets needs appropriate resources in terms of staff and capabilities, together with storage space. Data registration by the Directorate needs to be improved to satisfy requirements on security, accessibility and protection of sensitive data. Coordination between the prosecutors, the FIU, and the institutions involved in asset recovery needs to be further improved, together with training for judges and prosecutors.

The Administration for the Prevention of Money Laundering (APML) intensified reporting on suspicious transactions and cooperation with prosecution services. It continued training courses for its staff and awareness-raising activities for reporting entities. APML made further efforts to improve national and international cooperation in the investigation and processing of offences. Nevertheless, APML still lacks sufficient human resources and analytical capacity to systematically identify suspicious cases. The level of reporting of suspicious transactions remains low, in particular outside the banking sector, and especially in the real estate sector, currency exchange offices and insurance companies. An effective system for

monitoring and analysing cash transactions needs to be put in place and made operational. Judiciary and law enforcement services lack expertise in handling money laundering cases. A track record of financial investigations and final convictions in money laundering cases needs to be built up. A new strategy for fighting money laundering has yet to be adopted. Overall, Serbia is moderately advanced in the fight against money laundering.

Serbia remained a country of origin, transit and destination for trafficking in human beings. Awareness campaigns have been conducted and training was organised for operational stakeholders. An increased number of investigations are being launched. A new Centre for the Protection of Victims of Trafficking has been established, but is not yet fully operational. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking still needs to be developed. Victims' identification needs to be improved, together with their access to assistance, support and protection. A new anti-trafficking strategy and action plan for 2013-2018 are pending adoption. Overall, Serbia is moderately advanced in fighting trafficking in human beings.

As regards the **fight against terrorism**, the Criminal Code was amended to introduce relevant criminal offences in line with international standards and the EU *acquis*. A new strategy and implementing action plan for fighting terrorism have yet to be finalised, together with a new law on freezing of assets proceeding from terrorism. A national database and more efficient exchange of information are still needed, while internal organisation and inter-agency cooperation also need further improvement. Overall, Serbia is moderately advanced in fighting terrorism.

As regards **cooperation in the field of drugs**, a new strategy for the period 2013-2020 has yet to be finalised. Serbia has shown commitment and operational capacity in contributing to the dismantling of international drug trafficking groups. A stronger focus on drugs prevention is needed. The national focal point for the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) is not yet fully operational and should strengthen its capacity to adequately perform data collection and reporting. The country is on the main Balkans drug trafficking routes and continued and sustained efforts are needed by all involved law enforcement relevant agencies, including the customs administration, to detect and seize narcotics at the borders. Consumption remains a matter of concern. Cooperation between law enforcement bodies has to be improved and the process of accreditation for the Forensic Institute of the Serbian police needs to be completed. Effective destruction of seized drugs is still a concern. Overall, Serbia is moderately advanced regarding cooperation in the field of drugs.

Concerning **customs cooperation** (*See also Chapter 29 — Customs union*), Serbia's customs administration engaged in joint cases with agencies from neighbouring countries and continues to take an active part in international activities concerning the fight against illegal trade in goods such as narcotics, oil and cigarettes and cross-border movement control. However, Serbia still needs to align its legal framework with EU legislation on the use of technology for customs purposes. Overall, Serbia is moderately advanced regarding the cooperation in the field of customs.

For measures against **counterfeiting of the euro**, see Chapter 32 — *Financial control*.

Conclusion

Serbia made some progress in the area of justice, freedom and security. Serbia is actively involved in international police and judicial cooperation. A track record of proactive

investigations and final convictions in organised crime cases needs to be established. Additional efforts are needed to improve coordination between law enforcement agencies and the judiciary and to increase capacity to carry out financial investigations in parallel with complex criminal investigations. Migration management and asylum policies also need to be significantly strengthened and the asylum procedures need to be put in line with EU standards. Overall, Serbia is moderately advanced in the area of justice, freedom and security.

4.25. Chapter 25: Science and research

In the area of **research and innovation policy**, the level of investment in research stagnated at around 0.5% of GDP, below the national target specified in the strategy for scientific and technological development for the period 2010-2015 and well below the EU 2020 target of 3%. The action plan implementing this strategy has still not been adopted.

Concerning participation in **framework programmes**, Serbia continues to be successful in the Seventh EU Research Framework Programme (FP7) but further efforts are necessary in particular in preparation of participation in Horizon 2020 to involve more small and medium-sized enterprises and obtain Marie Skłodowska-Curie grants. Serbia has also been successful in COST and EUREKA actions. Serbia successfully participated for the first time as third country in the FP7 Euratom programme. Serbia expressed an interest in becoming associated to the next EU research and innovation programme Horizon 2020 and started preparations on this.

Regarding the **European Research Area**, a Research Infrastructure roadmap, in accordance with the European Strategic Forum for Research Infrastructures standards, has yet to be adopted. No actions to strengthen the human capital building have been taken. Concerning the Innovation Union, Serbia took some actions such as supporting the Business Technology Incubator of technical faculties in Belgrade. The Innovation Fund started to disburse some grants to stimulate innovative companies in different sectors. Further efforts are necessary, including the adoption of a national strategy on innovation.

Conclusion

Limited progress was registered in the area of science and research. Public and private investments in research remain low. National research capacity and the implementation and monitoring of the actions envisaged remain to be improved. Overall, preparations in the area of science and research are on track.

4.26. Chapter 26: Education and culture

In the field of **education and training**, a strategy on the development of education up to 2020 was adopted by the government in November. The strategy is in line with EU's 2020 educational goals and envisages mandatory secondary education, stronger links with the labour market and economic development, the objective of sharply increasing the number of persons with higher education by 2020 and to increase investment in education from the current 4.5% to ca. 6% of GDP. In June, a legislative package on education was adopted: The Law on Elementary Education and Upbringing and the Law on Secondary Education and Upbringing provide for increasing education opportunities for vulnerable groups and reinforce quality assurance. The Law on Education of Adults brings substantial improvements in adult education, implementing experiences and recommendations from pilot projects. The revision of vocational education profiles (VET) has been initiated, thus mainstreaming numerous VET pilot projects implemented over the past ten years.

However, the implementation of education reforms needs to be improved. An action plan for the implementation of the strategy on the development of education has yet to be adopted. The reform of the VET system, which does not match labour market needs, has yet to be fully carried out, notably regarding systematising new pilot programmes in VET schools. Quality assurance reforms in primary and secondary education have been slow. The lack of an efficient system of recognition of diplomas represents a serious impediment to graduates for further schooling and employment. A National Qualifications Framework for all levels of education has yet to be introduced. Serbia's participation in the EU's lifelong learning programme has yet to be decided.

The implementation of the **youth** law and strategy is ongoing with an increasing number of registered youth organisations, youth offices and local action plans. The Ministry of Youth and Sports is supporting young people with volunteering activities as well as internships and career counselling programmes. Serbia has further increased its participation in the EU's 'Youth in Action' programme.

In the field of **culture**, Serbia signed a memorandum of understanding in November and started to participate in, and actively promote, the 'Europe for Citizens' programme through the Office for Cooperation with Civil Society. It also continued to participate in the EU's Culture programme.

Conclusion

Good progress has been made in the area of education and culture with the adoption of the strategy on the development of education and a new comprehensive legislative package. The strategy remains to be followed-up with a realistic action plan and roadmap for its implementation. Educational reforms' implementation remains slow and further efforts are needed with a view to ensure a holistic approach to match education with labour market needs. Overall, preparations for aligning with EU standards are moderately advanced.

4.27. Chapter 27: Environment and climate change

In the area of the **environment**, as regards *horizontal legislation*, an agreement on operating a fourth local Aarhus centre was reached. The first National Ecoregister for Environmental Information in electronic form was launched in January. In 2012, 197 operators in total reported their data to the Serbian pollutant release and transfer register, according to the European Regulation on Pollutant Release and Transfer thresholds (of 270 with a reporting obligation). Reports are mainly lacking from agricultural and mining operators. Serbia has established the Serbian node of the European Environmental Information and Observation Network (EIONET), which connects 23 national providers of environmental monitoring data, including the public health institutes and statistical office. Further inter-institutional agreements, unified reporting formats and financing need to be ensured to guarantee proper functioning. The implementation of the Environmental Impact Assessment Directive needs to be improved, as regards particularly the public consultation process.

As regards *air quality*, a regulation setting out zones and agglomerations and a list of air quality categories were adopted in October. An air quality management plan has been adopted for the city of Bor, whereas those for Belgrade and Novi Sad are under preparation.

In the area of *waste management*, a new regional waste management centre has been opened in Pirot. Serbia has 6 EU compliant regional sanitary landfills currently functioning. The collection rate of household waste has increased from 72% to 78%. Other forms of waste

management need to be developed in order to use landfilling only as a last resort. Non-compliant landfills need to be closed more quickly and enforcement of waste legislation enhanced. Full alignment with the Waste Framework Directive is yet to be achieved. New investments in the area of waste should focus more on waste separation and recycling. An investment pipeline linked to strategic priorities remains to be developed. Progress in hazardous waste management has been impeded by the cancellation of the previously applied system of product charges.

As regards *water quality*, a Regulation on the Annual Water Monitoring Programme was adopted in April. Completion of the surface and groundwater monitoring network is pending, as is the alignment of the geographical remit of the river basin management authorities to the boundaries of the river basins. Strategic investment planning in water pollution abatement continues to be hampered by the absence of a national water protection strategy. The delineation of competences between the national and local levels for infrastructure projects needs to be clarified. Projects charged with flood risk mapping have been concluded and vulnerability and flood risk maps for about 50% of Serbia's flood-prone areas are in place. The construction of plants in Vrbas, Kula, Leskovac and Sabac has not yet been completed. The capacity of the Ministry of Agriculture's Water Directorate remains to be enhanced.

As regards *nature protection*, the implementation of the CITES Convention has improved. The institutional framework for designating and managing the Natura 2000 sites needs to be confirmed and methodological and resource problems with regard to habitats and species data collection, mapping and monitoring resolved. The delineation of competences between local and national levels needs to be clarified and local governments' resources increased.

In the field of *industrial pollution and risk management*, 105 out of an estimated 161 integrated pollution prevention and control (IPPC) installations have submitted their requests for integrated permits. Six permits have so far been issued. The current practice of having separate water and waste permits is not in line with the requirements of the IPPC Directive. Linkages between environmental impact assessments and IPPC need to be strengthened and their synergies exploited. Capacity at central and local level for issuing IPPC permits is insufficient. Intra- and interinstitutional cooperation needs to be established. Minimum standards for assuming statutory duties at local level are yet to be ensured before competencies are devolved. The public participation foreseen in the integrated permitting process needs to be significantly enhanced.

As regards *chemicals management*, the closure of the Chemicals Agency in September and the transfer of its mandate to the Ministry of Energy, Development and Environmental Protection have removed the legal basis for carrying out statutory duties related to issuing permits and decisions. Serbia needs to re-instate a sound legal basis for chemicals management. Joint inspections under the Law on Chemicals have been discontinued. The advanced level of competence in this domain should be preserved in the new structure and the legislation applied again.

In the area of *noise*, targets should be defined to meet the national deadlines for implementing the provisions of the law on the protection against environmental noise in 2015 and 2016.

As regards *civil protection*, in January, the National Emergency Management Headquarters has been transformed into the National Platform for Disaster Risk Reduction. The intergovernmental agreement between Russia and Serbia on the establishment of the Nis humanitarian centre was ratified in December. In order to develop a regional approach with a strong EU dimension to disaster prevention, preparedness and response, cooperation needs to

be ensured with the EU Civil Protection Mechanism, which Serbia, as a candidate country, can join. The bilateral agreement with France on emergency assistance has not yet been signed. The implementation of Action plans related to the National Strategy for Protection and Rescue, and for Disaster Risk Reduction and the Strategy for Fire Protection, adopted in 2011 and 2012 respectively, has not yet been completed.

Regarding **climate change**, the country does not yet have a comprehensive countrywide climate policy or strategy. Serbia regularly associated itself with EU positions in the international context. While having previously associated itself also with the Copenhagen Accord and having submitted an assessment of its mitigation potential to the UNFCCC, the country nevertheless has not yet put forward a commitment for mitigation by 2020. Serbia should consider making mitigation commitments consistent with those of the EU and its Member States for the purpose of the post-2020 climate agreement to be reached by 2015. Also, in line with the EU Green Paper '*A 2030 framework for climate and energy policies*', Serbia is invited to start reflecting on its climate and energy framework for 2030.

As regards alignment with the climate *acquis*, Serbia adopted implementing legislation on the quality of petrol and diesel fuels. 157 stationary installations for the purpose of future implementation of an emissions trading system were identified. Significant efforts are required to strengthen the country's monitoring, reporting, and verification capacity. Serbia participated regularly in climate work under the Regional Environmental Network for Accession (RENA). Awareness-raising at all levels and relevant initiatives need to be further intensified. An administrative structure on climate change with adequate human and financial resources and clearly defined responsibilities is yet to be established. Inter-institutional cooperation and coordination, and capacity in the area, need to be improved.

Conclusion

Little progress has been made in the areas of environment and climate change. Significant additional efforts are needed to further align with EU policies in areas such as water, waste management, air quality and nature protection. Implementation of the existing legislation needs to be improved and related capacity maintained. Efforts under way to strengthen inspection and enforcement need to be accompanied by removing inconsistencies and incompleteness in legislation that prevent effective enforcement. Public participation and consultation in the decision-making processes need to be strengthened. Considerable efforts are required to adopt a more strategic approach for the country, align with and implement the EU climate *acquis*, and to strengthen administrative capacity and inter-institutional cooperation and awareness-raising. An investment pipeline linked to strategic priorities needs to be developed. Overall, priorities in the fields of environment and climate change have started to be addressed.

4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, as regards *horizontal aspects*, the National Council for Consumer Protection was established in October and cooperation with consumer protection organisations has continued to improve, as has implementation of the existing legislative framework. The strategy for consumer protection 2013-2018 was adopted in July. The administrative capacity and coordination of the departments in charge of consumer protection in the line ministries need be reinforced as well as their cooperation with consumer protection organisations.

As regards *product safety-related issues*, a product safety council was established in June with the role of introducing new standards in market surveillance for non-food products, and further aligning this sector with EU standards. Tools and procedures for the mediation process and the legal framework for out-of-court settlement of consumer protection disputes still need to be strengthened. There was no further legal alignment.

As regards *non-safety related issues*, further alignment of the law on the protection of users of financial services is still required.

In the area of **public health**, the overall financial sustainability of the public health system in Serbia is still seriously endangered by the poor financial situation of the public health fund.

There were no developments in the area of *tobacco control*.

In the area of *communicable diseases*, some case definitions for reporting communicable diseases, including clinical, laboratory and epidemiological criteria, are still lacking and EU case definitions have to be progressively adopted. Surveillance and response capacity remains limited and requires modernisation, in particular in the form of human resources and equipment. More attention is needed for effective implementation of the national HIV/AIDS strategy and awareness raising. Additional efforts are needed in particular in surveillance of antimicrobial resistance.

In the area of *blood, tissues, cells and organs*, further efforts are needed to implement the Law on Organ Transplantation. The administrative and technical capacity of the Directorate for Biomedicine in the Ministry of Health needs to be strengthened.

In the field of *patients' rights in cross-border healthcare*, the government adopted a Law on Patients' Rights governing the rights of patients in the use of healthcare and the manner in which they exercise and protect such rights.

In the field of *mental health*, in March the government adopted a Law on the Protection of Persons with Mental Health Problems which regulates mental healthcare system including procedures, organisation and conditions of treatment as well as retention of persons with mental disorders. Community-based mental health services should be further supported and developed.

In the area of *drug abuse prevention*, measures to curb the supply of illicit drugs and to provide needle exchange and substitution treatment to prevent HIV were taken. As regards *cancer screenings*, full implementation of the national screening programme for colorectal and cervical cancers has yet to be achieved. Some progress can be noted in the field of *rare diseases*, especially in providing more sustainable funding for treatment and implementation of legislation.

Conclusion

There has been some progress in the area of consumer and health protection, in particular with regard to the strategy on consumer protection. Further efforts need to continue on implementing the existing legislative framework, to pursue alignment with the *acquis* and its full implementation. Institutional coordination between the relevant actors and administrative capacity in both areas need to be strengthened. The overall financial sustainability of the public health system in Serbia needs to be strengthened. Overall, preparations in this area remain moderately advanced.

4.29. Chapter 29: Customs union

As regards **customs legislation**, the Customs Law was amended in November and was further aligned with the *acquis* and with national legislation, particularly with some provisions of the Budget System Law. The Serbian government amended the decree on customs tariff nomenclature in November with the aim of aligning it with the 2013 EU Combined Nomenclature and with the liberalisation schedule under the Interim Agreement.

Further harmonisation is needed in the field of customs legislation. The Law on the Customs Service remains to be adopted. An adequate legislative framework on cultural goods is missing. The provisions on cash control have yet to be aligned with the *acquis*. The same goes for duty relief on imports of new production equipment. Legislation on customs-related security initiatives and authorised economic operators has yet to be implemented. The Serbian parliament ratified the Pan-Euro-Med Convention on Rules of Origin.

As regards **administrative and operational capacity**, the Customs Administration (CAS) has continued to improve its administrative capacity to effectively enforce the customs legislation. It continued to apply integrity procedures for customs officials and to step up the fight against corruption. Post-clearance controls and risk analysis systems are implemented following the two respective strategies. Simplification of customs procedures continued and the number of companies making use of such procedures increased. Coordination between the CAS and the Ministry of Finance and Economy is strengthening. The CAS is aiming to establish a functioning IT system based on interconnectivity between various departments. Over 95% of customs declarations are submitted electronically and the concept of electronic signature has been introduced. About 17% of declarations are subject to documentary or physical inspections. The electronic application for the protection of Intellectual Property Rights is used by around 45% of the rights holders. In terms of trade facilitation, the electronic system for exchanging pre-arrival information with Bosnia and Herzegovina, Montenegro and the former Yugoslav Republic of Macedonia is functioning well.

A new border crossing on the Serbia-Hungarian border was opened in May. A big challenge remains the upgrading of the customs declaration processing system (CDPS) and the customs laboratory.

Customs procedures between Kosovo and Serbia have further progressed with the opening of joint interim crossing points in December 2012 and January 2013 at six locations, including the two crossing points in northern Kosovo, as per the IBM agreement. The establishment of these co-located crossing points has allowed daily cooperation between both administrations and regular exchange of information. On 17 January, both parties concluded an agreement for the restoration of customs controls at the two crossing points (gates 1 and 31). In the meantime, the administrative border/boundary line between Kosovo and Serbia remains vulnerable to illicit activities.

Preparations in the area of administrative and operational capacity are on track.

Conclusion

There has been some progress in the area of the customs union. The Customs Law and legislation on the tariff nomenclature were further aligned with the *acquis*. The CDPS system needs to be renewed or upgraded. Overall, preparations in the area of the customs union are well on track.

4.30. Chapter 30: External relations

In the area of the **common commercial policy**, the finalisation of Serbia's World Trade Organisation membership remains dependent on the adoption of a WTO-compliant law on genetically modified organisms and on the completion of bilateral market access negotiations with a number of countries (in particular USA and Ukraine), mainly on agricultural products.

Coordination between various ministries for formulation and implementation of trade and trade-related policies still needs to improve.

The national control lists for military equipment and for dual-use goods were adopted and aligned with the relevant EU lists in November and February respectively. Legislation on dual use goods which would further align Serbian legislation with the *acquis* remains to be adopted. Efforts to join multilateral export control regimes should continue.

As concerns **bilateral agreements with third countries**, Serbia is currently negotiating a free trade agreement (FTA) with Ukraine. Serbia's trade arrangements with the Russian Federation, Belarus and Kazakhstan were harmonised, since the three countries form a customs union. Serbia has ratified bilateral investment treaties (BITs) with Algeria and the United Arab Emirates. Serbia signed the Pan-Euro-Mediterranean (PEM) Convention on Rules of Origin in November. It was ratified by parliament in May. There were no developments in the areas of **development policy** and **humanitarian aid**.

Conclusion

Limited progress has been made in the field of external relations. Accession to the WTO is moving slowly. Overall, preparations in the area of external relations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

Political dialogue between the EU and Serbia has continued and regular political consultations were held. (*Concerning relations with other enlargement countries and Member States, see Political criteria 2.3 — Regional issues and international obligations*)

Concerning the **common foreign and security policy (CFSP)**, Serbia aligned itself, when invited, with 31 out of 35 EU declarations and Council decisions (89% alignment). But at the same time, Serbia moved one step closer to the Collective Security Treaty Organisation, obtaining observer status in its Parliamentary Assembly in April.

Serbia continued to implement the UN Security Councils' *restrictive measures*. However, the Law on Restrictive Measures, that would establish a system for tracking the implementation of restrictive measures, has yet to be adopted. (*Concerning the International Criminal Court, see Political criteria 2.3 — Regional issues and international obligations.*)

Regarding *conflict prevention*, no particular developments can be reported.

Regarding *non-proliferation*, Serbia became a member of the Nuclear Suppliers Group (NSG) at the NSG's annual plenary meeting in Prague in June. An action plan to implement the national strategy on small arms and light weapons has been adopted in August. A working group on the implementation of UN Security Council Resolution 1540 on the Non-Proliferation of Weapons of Mass Destruction and their Means of Delivery was set up in December and Serbia hosted a regional seminar regarding implementation of the Resolution

in May. Serbia's 2008 application to join the Wassenaar Arrangement on export controls for conventional arms and dual-use goods and technologies remains dependent on a new law on dual-use goods which has yet to be adopted. The ratification of the Additional Protocol to the Nuclear Non-Proliferation Treaty is still pending.

Serbia continued to engage actively in *cooperation with international organisations (UN, OSCE, Council of Europe, etc.)*. In September, Serbia completed its presidency of the 67th UN General Assembly.

As regards *security measures*, no particular developments can be reported.

Regarding the **common security and defence policy (CSDP)**, in February parliament adopted an annual plan for the use of the Army of Serbia and of other defence forces in multinational operations and a decision on the participation of members of the Serbian Army in multinational operations. It continued participation in two *EU civil and military crisis management operations*, the EU Navfor-Atalanta Somalia operation and EUTM Somalia operation, with one member each. Serbia responded positively in May to the EU invitation to participate in the EUTM Mali operation and agreed to participate with one medical team and one training team.

Conclusion

Serbia continued to further align with EU CFSP statements and declarations and continued to participate in EU civil and military crisis management operations. Legislation on the tracking mechanism for the implementation of EU restrictive measures, and on dual-use goods has yet to be adopted. Overall, preparations in the area of foreign, security and defence policy are well on track.

4.32. Chapter 32: Financial control

In the area of **public internal financial control (PIFC)**, the action plan of the current PIFC strategy has been updated. The Central Harmonisation Unit (CHU) has revised the internal audit manual to broaden the scope of audit activity. The number of internal auditors has gradually increased. In the area of Financial Management and Control (FMC), the CHU has organised additional training to budget users on topics such as risk management techniques and audit trails. The CHU has started to provide training and methodological guidance also to local government level. The CHU should gradually move from being a training provider to a strategic role in training needs analysis and management.

The Budget System Law was amended to clarify provisions on managerial accountability in 2012. However, FMC continues to be understood in a narrow sense, focusing too much on the legality and regularity of financial transactions. Managerial accountability will need to be further explained in the relevant implementing legislation. There is no coherent strategic management process in place yet for budget users that would allow full application of managerial accountability. More awareness-raising among senior public-sector managers is needed to increase understanding of their specific role and responsibilities in setting up FMC and of the role of an internal auditor within their organisation. As the current PIFC strategy is coming to an end in 2013, a new strategy and an action plan need to be prepared. The role of centralised budget inspection needs to be regulated so that it is compatible with PIFC.

In the area of **external audit**, the State Audit Institution (SAI) has continued to build up its audit capacity by recruiting more auditors. The SAI now has approximately 190 staff,

including around 150 auditors. The SAI has implemented the 2012 audit programme with 145 audits as planned. The SAI is still in the institution-building phase and its audit capacity is insufficient for full audit coverage. Performance audit work has only recently started. The SAI Law is broadly in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI), but it should be further strengthened for full operational and financial independence of the SAI. The law gives the SAI specific responsibility for submitting requests for filing misdemeanour charges with the competent authority. This takes up some of the SAI's limited audit resources that could instead be used for additional audit work.

There were no developments in the area of **protection of the EU's financial interests**. Serbia still needs to decide where to set up a contact point for cooperation with the European Commission.

As regards **protection of the euro against counterfeiting**, the National Bank of Serbia (NBS) acts as a national analysis centre and has concluded agreements facilitating prevention and detection of euro counterfeiting with the European Central Bank (on banknotes) and the Commission (on coins). Serbian authorities have continued to participate in relevant EU and international training programmes.

Conclusion

Some progress has been made in the area of financial control. Substantial further efforts are needed to develop public-sector financial management and control based on the underlying concept of managerial accountability and to develop full external audit capacity. Overall, preparations in this area are moderately advanced.

4.33. Chapter 33: Financial and budgetary provisions

There were no developments in the areas of **traditional own resources**, the **VAT resource** and **GNI resource**. (*For progress in the underlying policy areas, see Chapter 16 — Taxation; Chapter 18 — Statistics; Chapter 29 — Customs union; and Chapter 32 — Financial control*).

As concerns the **administrative infrastructure**, administrative capacity in the relevant policy areas needs to be strengthened. A coordinating body to ensure correct calculation, accounting, forecasting, collection, payment and control of own resources has yet to be established. The body is also required for reporting to the EU on the implementation of the own resources rules. Instruments to fight and reduce tax evasion and fraud and to reduce the informal economy also need to be further developed.

Conclusion

No progress has been made with regard to financial and budgetary provisions. A coordinating body to ensure correct calculation, accounting, forecasting, collection, payment and control of own resources has yet to be established. Overall, preparations in this field are at an early stage.

Statistical Annex

STATISTICAL DATA Serbia

Basic data	Note	2001	2008	2009	2010	2011	2012
Population (thousand)		7 505	7 366	7 335	7 307	7 276	7 241p
Total area of the country (km ²)		77 474	77 474	77 474	77 474	77 474	77 474

National accounts	Note	2001	2008	2009	2010	2011	2012
Gross domestic product (GDP) (million national currency)		762 178	2661 387	2720084	2881 891	3 208 620	3386169e
GDP (million euro)		12 821	32 668	28 957	28 006	31 470	29 932e
GDP (euro per capita)	1)	1 709	4 445	3 955	3 841	4 336	4 134e
GDP (in Purchasing Power Standards (PPS) per capita)		:	8 996	8 378	8 471	8 688	9 026e
GDP per capita in PPS (EU-27 = 100)		:	36	36	35	35	:
Real GDP growth rate (growth rate of GDP volume, national currency,% change on previous year)		5.3	3.8	-3.5	1.0	1.6	-1.7e
Employment growth (national accounts,% change on previous year)		2.0	1.0	:	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		3.5	4.5	:	:	:	:
Real unit labour cost growth (national accounts,% change on previous year)		:	:	:	:	:	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors (%)							
Agriculture and fisheries		19.5	10.4	9.3	9.9	10.5	10.1e
Industry		24.6	21.9	22.4	22.5	23.6	23.5e
Construction		3.3	5.5	4.8	4.6	4.9	4.3e
Services		52.6	62.2	63.5	63.0	61.0	62.2e
Final consumption expenditure, as a share of GDP (%)		104.0	97.1	99.6	99.8	96.3	96.5p
Gross fixed capital formation, as a share of GDP (%)		10.7	23.8	18.8	17.8	18.5	17.9p
Changes in inventories, as a share of GDP (%)		1.0	6.0	-0.7	-0.5	1.7	3.4
Exports of goods and services, relative to GDP (%)		25.6	31.4	29.4	36.0	36.6	39.9p
Imports of goods and services, relative to GDP (%)		41.3	58.2	47.1	53.0	53.0	57.7p

Industry	Note	2001	2008	2009	2010	2011	2012
Industrial production volume index (2010=100)		96.9	113.1	98.8	100.0	102.5	100.2

Inflation rate	Note	2001	2008	2009	2010	2011	2012
Annual average inflation rate (CPI,% change on previous year)		93.3	11.7	8.4	6.5	11.0	7.8

Balance of payments	Note	2001	2008	2009	2010	2011	2012
Balance of payments: current account total (million euro)		282	-7 054	-1 910	-1 887	-2 870	-3 155
Balance of payments current account: trade balance (million euro)		-2 602	-8 501	-4 946	-4 581	-5 318	-5 450
Balance of payments current account: net services (million euro)		272	-185	21	8	163	152
Balance of payments current account: net income (million euro)		7	-922	-502	-670	-758	-798
Balance of payments current account: net current transfers (million euro)		2 605	2 554	3 518	3 356	3 043	2 941
of which government transfers (million euro)		652	163	197	193	206	144
Net foreign direct investment (FDI) (million euro)		184	1 824	1 372	860	1 827	232
Foreign direct investment (FDI) abroad (million euro)		-14	-193	-38	-143	-122	-42
of which FDI of the reporting economy in EU-27 countries (million euro)		:	-78	-28	-33	-84	-19
Foreign direct investment (FDI) in the reporting economy (million euro)		198	2 018	1 410	1 003	1 949	274
of which FDI of EU-27 countries in the reporting economy (million euro)		:	1 470	808	778	1 690	-25

Public finance	Note	2001	2008	2009	2010	2011	2012
General government deficit/surplus, relative to GDP (%)		:	-2.6	-4.5	-4.7	-4.9	-6.4e
General government debt relative to GDP (%)		104.8	26.9	34.0	43.5	46.0	59.0e

Financial indicators	Note	2001	2008	2009	2010	2011	2012
Gross foreign debt of the whole economy, relative to GDP (%)		86.1	64.5	77.7	85.1	76.7e	85.9
Gross foreign debt of the whole economy, relative to total exports (%)		407.3	207.6	265.3	236.2	210.3	215.9
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	2)	975	2 717	2 695	2 401	2 807	2 715
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	3)	1 141	4 459	4 555	3 891	4 663	4 227
Money supply: M3 (M2 plus marketable instruments, million euro)	4)	2 101	11 198	12 573	12 899	14 339	14 438
Total credit by monetary financial institutions to residents (consolidated) (million euro)		4 866	12 926	14 863	17 544	18 995	19 783
Interest rates: day-to-day money rate, per annum (%)		:	18.4	9.5	12.0	8.5	9.8
Lending interest rate (one year), per annum (%)		16.9	20.3	12.0	14.0	12.3	13.8

Deposit interest rate (one year), per annum (%)		:	15.3	7.0	9.0	7.3	8.8
euro exchange rates: average of period - 1 euro = ... national currency	5)	59.458	81.441	93.952	103.043	101.950	113.128
Effective exchange rate index (2005=100)	6)	78.6	132.1	122.2	115.4	127.1	118.3
Value of reserve assets (including gold) (million euro)		:	8 162	10 602	10 002	12 058	10 914

External trade	Note	2001	2008	2009	2010	2011	2012
Value of imports: all goods, all partners (million euro)		:	16 283	11 327	12 423	14 250	14 782
Value of exports: all goods, all partners (million euro)		:	7 429	5 961	7 393	8 441	8 837
Trade balance: all goods, all partners (million euro)		:	-8 854	-5 366	-5 030	-5 809	-5 945
Terms of trade (export price index / import price index)		103.1	97.6	100.9	99.5	103.5	101.8
Share of exports to EU-27 countries in value of total exports (%)		:	54.2	53.6	57.3	57.7	58.1
Share of imports from EU-27 countries in value of total imports (%)		:	55.0	56.7	55.8	55.5	58.2

Demography	Note	2001	2008	2009	2010	2011	2012
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		-2.7	-4.6	-4.6	-4.8	-5.1	-4.9
Infant mortality rate: deaths of children under one year of age per 1000 live births		10.2	6.7	7.0	6.7	6.3	6.2
Life expectancy at birth: male (years)		69.6	71.3	71.4	71.4	71.6	72.2
Life expectancy at birth: female (years)		75.0	76.6	76.7	76.6	76.8	77.3

Labour market	Note	2001	2008	2009	2010	2011	2012
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	67.3	65.2	63.7	64.1	64.3
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	58.0	54.5	51.2	49.2	48.9
Employment rate male (20-64) (%)		:	67.5	63.0	59.2	56.8	56.7
Employment rate female (20-64) (%)		:	48.9	46.4	43.5	41.7	41.1
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		42.1	37.6	35.4	32.8	31.4	31.6
Employment by main sectors (%)							
Agriculture	7)	:	25.1e	23.9be	22.3e	21.2e	21.0
Industry	7)	:	19.9e	20.1be	21.0e	21.5e	21.3
Construction	7)	:	6.3e	5.2be	5.0e	5.3e	5.2
Services	7)	:	48.6e	50.8be	51.7e	52.0e	52.6
Unemployment rate: share of labour force that is unemployed (%)		12.2	13.6	16.1	19.2	23.0	23.9
Share of male labour force that is unemployed (%)		10.5	11.9	14.8	18.4	22.4	23.2
Share of female labour force that is unemployed (%)		14.5	15.8	17.8	20.2	23.7	24.9
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		46.4	35.2	41.6	46.2	50.9	51.1
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		9.0	9.7	10.5	13.3	16.9	18.6

Social cohesion	Note	2001	2008	2009	2010	2011	2012
Average nominal monthly wages and salaries (national currency)	8)	8 691.0	45 674.0	44 147.0b	47 450.0	52 733.0	57 430.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	8)	118.4	275.7	275.6b	277.4	277.9	280.4
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	11.6	9.3	8.2	8.5	8.1

Standard of living	Note	2001	2008	2009	2010	2011	2012
Number of passenger cars per 1000 population	9)	184.2	201.8	223.2	214.3	230.5	239.2
Number of subscriptions to cellular mobile telephone services per 1000 population		251.1	1 194.2	1 351.3	1 357.0	1 399.4	1 261.9

Infrastructure	Note	2001	2008	2009	2010	2011	2012
Density of railway network (lines in operation, per 1000 km²)		49.2	49.2	49.3	49.3	49.3	49.3
Length of motorways (km)		370	465	495	495	595	606

Innovation and research	Note	2001	2008	2009	2010	2011	2012
Spending on human resources (public expenditure on education in% of GDP)		3.2	4.9	5.0	4.9	4.8	:
* Gross domestic expenditure on R&D in% of GDP		:	0.4	0.9	0.8	0.8	:
Percentage of households who have Internet access at home (%)		:	33.2	37.0	39.0	41.2	47.5

Environment	Note	2001	2008	2009	2010	2011	2012
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:
Electricity generated from renewable sources in% of gross electricity consumption		43.3	35.1	39.3	37.4	26.5	:
Road share of inland freight transport (% of tonne-km)		13.8	16.3	23.6	27.8	30.5	:

Energy	Note	2001	2008	2009	2010	2011	2012
Primary production of all energy products (thousand TOE)		:	9 441	9 487	9 876	10 504	:
Primary production of crude oil (thousand TOE)		:	652	676	929	1 111	:
Primary production of hard coal and lignite (thousand TOE)		:	7 369	7 330	7 226	7 822	:
Primary production of natural gas (thousand TOE)		:	231	232	342	449	:
Net imports of all energy products (thousand TOE)		:	7 477	5 046	6 320	5 048	:
Gross inland energy consumption (thousand TOE)		:	15 620	14 657	15 093	15 749	:
Electricity generation (thousand GWh)		31.0	37.0	38.0	38.0	38.0	:

Agriculture	Note	2001	2008	2009	2010	2011	2012
Agricultural production volume index of goods and services (producer prices, previous year=100)		118.0	108.0	101.0	99.4	100.9	82.3
Total utilised agricultural area (thousand hectare)		5 077	5 055	5 057	5 052	5 056	5 052
Livestock: cattle (thousand heads, end of period)		1 128	1 057	1 002	938	937	921e
Livestock: pigs (thousand heads, end of period)		3 587	3 594	3 631	3 489	3 287	3 139e
Livestock: sheep and goats (thousand heads, end of period)		1 612	1 760	1 647	1 604	1 590	1 867e
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	10)	1 594	1 566	1 503	1 486	1 461	1 478e
Crop production: cereals (including rice) (thousand tonnes, harvested production)	11)	9 001	8 833	9 111	9 280	9 066	5 920
Crop production: sugar beet (thousand tonnes, harvested production)		1 806	2 300	2 798	3 325	2 822	2 328
Crop production: vegetables (thousand tonnes, harvested production)		1 283	1 277	1 257	1 314	1 305	1 054

: = not available
b = break in series
e = estimated value
p = provisional
* = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

- 1) Apart from difference due to different population figure, this variable might differ due to difference of the variable 1402. Mid-year population figure were used. Data provided as variable 1001 refers to the population at the beginning of the year (figure used only for the recent 2012 estimates). GDP estimations in Euro are based on the average annual exchange rate.
- 2) The money supply M1 consists of currency in circulation and funds in giro, current and other accounts belonging to the owners of money balances in banks' liabilities, including money balances in the accounts of local government bodies, i.e. Accounts from which payments can be made with any restrictions.
- 3) The money supply M2, in addition to M1, includes other dinar deposits, both short- and long-term.
- 4) The money supply M3, in addition to M2, includes short- and long-term foreign currency deposits (without the so-called frozen foreign currency savings).
- 5) The annual average exchange rate is calculated as an arithmetic mean of official middle exchange rates of the national currency (dinar) against a unit of foreign currency applied on working days.
- 6) Index of nominal effective exchange rate adjusted for the ratio of domestic consumer price index to the weighted sum of indices of consumer prices in the euro area and US.
- 7) 2008 - 2009, data were provided according to NACE Rev. 1.1.
- 8) From January 2009, the Statistical Office of the Republic of Serbia is expanding units coverage. Besides the salaries and wages paid to legal entities' employees, from January 2009, salaries and wages paid to employees working in unincorporated enterprises have been also included in calculation of average salaries and wages.
- 9) Ministry of Interior Affairs excluded the vehicles that were not registered before the given deadline (1 month).
- 10) In million liters, includes cows and sheep milk used for human consumption or processing; since 2006 goat milk is also included.
- 11) No rice production; Since 2005, triticale is included.