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**SERBIA
2012 PROGRESS REPORT**

accompanying the document

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

Enlargement Strategy and Main Challenges 2012-2013

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1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region. This report on progress made by Serbia in preparing for EU membership largely follows the same structure as in previous years. The report:

- briefly describes the relations between Serbia and the 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 2011 to September 2012. 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 other sources have also 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 enlargement², based on the technical analysis contained in this report.

1.2. Context

The European Council granted Serbia the status of candidate country on 1 March 2012, on the basis of the Commission Opinion on Serbia's membership application adopted on 12 October 2011. The Council concluded on 5 December 2011 that the opening of accession negotiations will be considered by the European Council, in line with established practice, once the Commission has assessed that Serbia has achieved the necessary degree of compliance with the membership criteria, in particular the key priority of taking steps towards a visible and sustainable improvement of relations with Kosovo*, in line with the conditions of the Stabilisation and Association Process.

1.3. Relations between the EU and Serbia

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

The **Stabilisation and Association Agreement** was signed, along with the **Interim Agreement** on trade and trade-related matters, in April 2008. It provides a framework of mutual commitments on a wide range of political, trade and economic issues. The Interim Agreement entered into force on 1 February 2010. At the 14 June 2010 Foreign Affairs Council, Ministers agreed to submit the Stabilisation and Association Agreement to their

¹ The rapporteur for Serbia is Mr Jelko Kacin.

² Enlargement Strategy and Main Challenges 2012-2013, COM(2012) 600.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

parliaments for ratification. The process is close to completion, with ratification still pending in only one Member State.

Serbia has built a positive track record in implementing the obligations of the Stabilisation and Association Agreement and the Interim Agreement on trade and trade-related matters. An interim committee and a number of sub-committees meet annually, to discuss topics including the internal market, competition, transit traffic, trade, customs, taxation, agriculture and fisheries. In general terms, Serbia is meeting its SAA/IA commitments in these areas and cooperation is progressing well.

In January 2012, the Serbian government adopted a revised and updated version of the National Programme for the Integration of Serbia in the European Union for the period 2008–2012, taking account of the Commission’s Opinion.

Political dialogue meetings at ministerial level have been held since 2003. Policy dialogue between the European Commission and the Serbian authorities has been taking place as part of **Enhanced Permanent Dialogue** (EPD) since 2003. Inter-parliamentary meetings between members of the European Parliament and of the Serbian parliament have been held annually since 2006. Several EPD meetings covered sectors of the SAA that are not included in the Interim Agreement, such as energy, the environment, social policy, justice, freedom and security.

Serbia participates in the multilateral **economic dialogue** with the Commission and the EU Member States. The aim of this dialogue is to prepare Serbia for participation in multilateral surveillance and economic policy coordination under the EU’s Economic and Monetary Union. In this context, was invited for the first time to the Council meeting on pre-accession fiscal surveillance in May 2012.

Visa liberalisation for citizens of Serbia travelling to the Schengen area has been in force since December 2009. The Commission set up a post-visa-liberalisation monitoring mechanism to assess whether the implementation of reforms introduced by the country was consistent with the visa roadmap and sustainable. This was complemented by an alert mechanism to prevent abuses. The Commission presented its second monitoring report to the European Parliament and the Council in December 2011 and adopted the third in August 2012. 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). IPA assistance is currently managed centrally by the EU Delegation in Belgrade. Serbia is preparing for decentralised management of IPA funds. The Multiannual Indicative Planning Document for the period 2011–2013 adopts a sector-based approach focusing assistance 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.

Overall, between 2001 and 2012, the EU committed over € 2.2 billion to Serbia in the form of grants and € 5.8 billion in the form of soft loans. For the period 2007-2012, the Commission has earmarked € 1,176 million for IPA projects to be implemented in the country.

Civil society in Serbia has received extensive financial support from the EU under the IPA Civil Society Facility and national programmes, as well as through the European Instrument

for Democracy and Human Rights. Aid objectives include involving civil society more widely in decision-making and increasing the capacity of independent civil society organisations. Support for civil society under 2011 programmes stands at over € 4.2 million.

Serbia participates in a number of **EU programmes**: the Seventh Framework Programme for research and technological development, PROGRESS, the Competitiveness and Innovation Programme, the Information and Communication Technologies Policy Support Programme, the Culture Programme, the Customs Programme and the Fiscalis Programme.

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 (ICTY).

2.1. Democracy and the rule of law

Constitution

The Constitution is largely in line with European standards. However, some provisions still need to fully reflect the recommendations of the Venice Commission in its Opinion of March 2007, in particular those allowing control by political parties over parliamentary mandates and those providing for an excessive parliamentary role in appointments and dismissals, particularly in the judicial system.

Parliament

Serbia held parliamentary and local elections at their normal term in May 2012, together with provincial elections in Vojvodina. Early presidential elections were also held in May 2012, after the incumbent, President Boris Tadic, decided to resign, which streamlined the electoral calendar. Serbia agreed to OSCE facilitation in organising electoral operations for its parliamentary and presidential elections in Kosovo. The Anti-Corruption Agency started to implement the 2011 legislation on the financing of political parties and to monitor the electoral campaigns. The elections were free, fair and peaceful and were described as *'competitive, held in a conducive environment and professionally organised'* by international observation bodies in spite of a certain lack of transparency in the proceedings of the State Electoral Commission and in the administration of the new single voters' registry. These bodies made recommendations to improve the electoral administration. Media reporting was also noted as insufficiently balanced and analytical, which pointed to the wider need to clarify the issue of media ownership. Several opposition parties made allegations of fraud which have not been elucidated by the authorities so far.

The leader of the Serbian Progressive Party (SNS), Tomislav Nikolic, won in the presidential election against the incumbent Boris Tadic, the leader of the Democratic Party (DS). The SNS list secured the largest number of MPs, with 73 seats out of 250, followed by the DS list with 67 seats. The list led by the Socialist Party of Serbia (SPS) came third with 44 seats. The Democratic Party of Serbia (DSS) secured 21 seats, the list led by the Liberal Democratic Party (LDP) 19 seats and the Union of Regions of Serbia (URS) 16 seats. The remaining 10 seats were gained by parties representing minorities. Most of these parties are in favour of Serbia's joining the EU. The Serbian Radical Party, which opposes Serbia's EU integration efforts, did not reach the threshold for entering parliament.

The new parliament was constituted in May 2012. In line with the 2011 electoral reform, MPs were for the first time appointed in the order in which they appeared on the electoral lists and the practice of ‘blank resignations’, by which MPs tendered resignation letters to their parties at the beginning of their term of office, is now prohibited. There are 84 women in parliament, representing 34% of all MPs. Members of ethnic minorities continue to be represented in parliament. In line with the 2010 rules of procedure, working bodies were streamlined, with the aim of making the parliament more effective. Opposition chairs a number of committees, including the Committee for European Integration, but no longer those covering finance and security and internal affairs.

In the 2011 autumn session, several laws arising from the National Plan for Integration into the EU were adopted. Parliamentary activities slowed down in the run-up to and during the electoral campaign. Following the set-up of parliamentary bodies end of July, work has resumed; urgent procedures with limited consultation and discussion time have been applied to several new pieces of legislation, including problematic changes to the central bank law.

The parliament developed its use of public hearings, including one on its role in the EU integration process in January 2012 and another on access to IPA funds in March 2012. Parliamentary oversight of the work of the executive remained weak. There were no regular sessions of questions to the government from December 2011 to July 2012. The work in committees remained reactive, with core debates taking place in the plenary.

Overall, the elections were competitive, professionally administered and peaceful throughout the country. The 2011 electoral framework legislation was implemented but results of the monitoring of the financing of political parties are still awaited. Legislative activity was cut short by the approach of the elections, but other parliamentary activities continued normally. The authorities need to follow up the recommendations of the OSCE/ODIHR election observation mission.

Government

Following the parliamentary elections, a new coalition government took office in July, on the basis of an agreement between SNS, SPS, URS and two smaller parties, with the leader of SPS assuming the position of Prime Minister. The new Prime Minister has pledged to accelerate the EU agenda of reforms with the aim of opening accession negotiations.

All over the reporting period, the government demonstrated its commitment to EU integration, notably by continuing to implement the relevant provisions of the Interim Agreement, in line with the agreed liberalisation schedule. It undertook, with the support of the Serbian European Integration Office (SEIO), the Coordination Body for accession to the EU and the European Integration Council, to follow up on the recommendations of the Commission’s Opinion and adopted a third revision of its National Programme for EU Integration (NPI) in January 2012. The government has been drafting a number of laws aimed at further alignment of national legislation with European standards and adopted new implementing legislation on regulatory impact assessment. There has been some improvement in its monitoring of the annual work programme. However, the drafting process continues to lack transparency, sufficient structure and time for effective consultation of all interested parties, which would also make the legal environment more predictable. The implementation and monitoring of adopted legislation needs to be improved. Ministries do not always follow up and even in some instances openly challenge the opinions and recommendations of independent regulatory bodies, including the State Audit Institution. The General Secretariat of the Government needs to be strengthened to be able to drive the policy system towards greater effectiveness and high-quality output.

As regards **local self-government**, the legislation on municipal finance needs to be clarified and properly implemented to ensure that municipal funding is predictable. There is no available overview of the functions delegated to municipalities. Responsibilities have continued to be transferred without ensuring sufficient capacity and resources at local level. The National Council for Decentralisation continues to be inactive. Consultation of local authorities when deciding on new legislation or amendments to existing laws that have implications at local level needs to be further improved.

Overall, the outgoing government completed a full term in office and the new government is up and running since July. Both were active in pursuing the country's strategic goal of EU integration. However, the government continues to lack a consistent, structured approach to consulting stakeholders and needs to develop its monitoring of the preparation and implementation of new legislation. The legal framework for local self-government remains to be clarified and properly implemented.

Public administration

Little progress has been achieved regarding public administration reform. The Law on Administrative Inspection, which governs procedures for checking that administrative bodies comply with administrative law, was adopted in November 2011. The Public Administration Reform Council continued to address only administrative and technical issues and did not actively steer the implementation of the Public Administrative Reform Strategy which remains insufficient. Greater political commitment, better coordination, and increased financial and human resources are needed to bring about administrative reform.

The legislative framework is still incomplete. New legislation on general administrative procedures and on local government employees and salaries is yet to be adopted. The Law on Administrative Disputes still needs to be fully aligned with European standards for judicial review of administrative acts.

The policy planning and coordination system needs to be improved to steer policy development and produce consistent work plans for the public administration. Administration and management capacity at local level are weak and significant disparities between municipalities persist. The Law on Civil Servants does not apply to local government employees.

The recruitment and career system is not yet fully merit-based and recruitment is still prone to political influence. Local government does not have a merit-based and professional human resources service. A number of appointments to senior civil service positions are still pending. Selection procedures are not applied uniformly and managers still have too much discretion when choosing candidates from lists drawn up by selection panels following competitions. Temporary employees are still not recruited according to competitive criteria and contracts are allocated without internal or public competition. Changes in the administration envisaged by the new government should not be detrimental to its capacity to make further progress in the alignment with and implementation of the *acquis*.

A new training programme for civil servants was adopted in 2012 and several training courses were delivered. However, only a small percentage of civil servants, and in particular a very small percentage of managers, took part in training. Induction training is not provided.

Several **independent regulatory bodies** continue to face logistical constraints. Parliament needs to resume the review of their annual reports and improve follow up of legislative proposals tabled by such bodies. As regards restructuring of public agencies, due consideration has to be given to the need to maintain the capacities and entitlements to

implement the *acquis*. In some cases, when prescribed by the *acquis*, the independence of such bodies needs to be preserved.

The Ombudsman's Offices continued to be effective and have increased their accessibility. The term of office of the State Ombudsman was renewed by parliament in August 2012. The number of citizens' complaints has increased. The largest number of reported violations relates to governance. Changes to the Law on the Ombudsman, which should enhance the Ombudsman's independence, still have not been adopted. The Ombudsman's recommendations were not sufficiently followed up.

The Commissioner for Information of Public Importance and Personal Data and Protection continued to be active and his term of office was renewed by parliament in December 2011. Some progress has been made in the implementation of legislation ensuring access to information of public importance. However the recommendations of the Commissioner are still not sufficiently followed up (*See also, for data protection, Chapter 23 - Judiciary and fundamental rights*).

The State Audit Institution (SAI) of Serbia continued to gradually build up its capacities by recruiting further auditors and the term of office of its president was renewed by parliament in September 2012. The SAI has now approximately 130 staff, including over 100 auditors. The SAI also continued to work on improving audit methodology and increased audit coverage (*See also Chapter 32 — Financial control*).

Amendments to the central bank law adopted in August 2012 have seriously undermined the independence of the National Bank of Serbia (*See also Chapter 17 – Economic and monetary policy*).

Overall, public administration reform is proceeding at a slow pace and is hampered by insufficient political commitment. The legislative framework needs to be completed and fully aligned with international standards. Implementation of the existing laws and strategy needs to be improved. Merit-based recruitment and promotion systems should be developed and implemented. The follow-up of the recommendations of independent regulatory bodies needs to be stepped up.

Civilian oversight of security forces

There was little progress on civilian oversight of security forces. A specific parliamentary committee for civilian oversight of security services was set up in July, in line with the 2010 rules of procedure. Parliamentary oversight remained limited in practice. The legal framework for the security and intelligence services' monitoring of communications needs to be clarified. Provisions of the Law on Military Security and Military Intelligence Agencies which allowed sensitive data related to citizens' communications to be monitored without a court order were ruled unconstitutional by the Constitutional Court in April 2012. There are allegations that the unclear legal situation has led to abuses. A law on access to state security files remains to be adopted.

Judicial system (See also Chapter 23 - Judiciary and fundamental rights)

Serbia has made little progress on judicial reform.

Amendments aimed at improving the efficiency of the Constitutional Court were adopted in December 2011. Deliberations in panels of eight or three judges are now allowed for certain decisions, whilst a full Court session remains the normal format for important cases. In line with the recommendations of the Venice Commission, constitutional changes and further measures need to be adopted to reduce the growing backlog. In particular, cases involving

breaches of the right to trial within a reasonable time, which account for 40% of the Constitutional Court backlog, could be delegated to the Supreme Court of Cassation.

As for the *independence* of the judiciary, the High Judicial Council (HJC) and the State Prosecutorial Council (SPC) took over the administration of the budget of courts and prosecution services in March 2012; the Ministry of Justice remains in charge of IT and capital expenditures in the court system and funding of the courts' administrative staff. The HJC and the SPC have yet to finalise the appointments of court presidents and public prosecutors. The HJC and the SPC have not yet adopted rules on regular evaluation of the work and performance of serving judges and prosecutors. The foreseen evaluation of the magistrates newly recruited in 2009 for a three year term is in particular pending. A proper merit-based career system for judges and prosecutors remains to be fully developed. It is still possible to enter the judicial profession, in particular at higher levels, on the basis of unclear criteria without having passed through the Judicial Academy. The legal framework still leaves room for undue political influence over the judiciary, in particular as regards parliament's power to appoint judges and prosecutors — including the President of the Supreme Court of Cassation and the Republic Public Prosecutor — and its direct participation in the work of the HJC and the SPC.

The re-appointment procedure carried out for judges and prosecutors in 2009/2010 and the review process conducted to correct its shortcomings were overturned in July 2012 by the Constitutional Court as not meeting the required standards. The Court revoked all the decisions of the HJC and the SPC on the non-re-appointment of judges and prosecutors that had been appealed and instructed the Councils to reinstate all of them within 60 days. For the judges, the Court considered *inter alia* that the HJC did not apply the required quorum and breached the requirement of impartiality. In this respect, the Court objected to the participation of *ex-officio* members — the President of the Supreme Court, the head of the parliamentary committee and the Minister of Justice — and the member representative of the lawyers to both the first decision on re-appointment and the review process. The Court also considered that the presumption of suitability required that judges could only be dismissed by the positive votes of the majority of the HJC members, which was not the case as three of them were in part or fully unavailable to act (one resigned and was replaced 3 months later, another faced criminal proceedings and a third one faced a procedure for incompatibility of duties as dean of a law faculty). For the prosecutors, similar shortcomings were found which invalidated the SPC's assessment that the petitioners did not fulfil the criteria of worthiness, professional qualification and competence. In particular, the Constitutional Court found that the review process unfairly placed the burden of proof on the petitioners and that the Council's decisions were often based on facts and assertions that could not be challenged by the petitioners. As a result, the Serbian authorities need to evaluate how the judicial reform can be further advanced after most non-reappointed judges and prosecutors are to be reintegrated further to the rulings of the Constitutional Court.

The *impartiality* of judges has continued to be broadly ensured thanks in particular to automated allocation of court cases, which has now been introduced in all commercial courts and general courts. New case management software has been introduced in the Administrative and Appellate Courts in Belgrade and the Supreme Court of Cassation in July 2012.

To ensure *accountability*, steps were taken to set up a disciplinary system. The HJC introduced a disciplinary prosecutor and commission, which handled a little number of cases and took a few final decisions. The SPC adopted Rules on disciplinary procedure and liability in July 2012 which remain to be fully aligned with European standards. The SPC has yet to set up disciplinary bodies and establish a track record of investigating and imposing penalties in disciplinary cases. The higher courts and the Ministry continued internal inspections on

technical and administrative matters in the courts, identifying shortcomings in registering and handling of court cases.

A number of laws came into force aimed at improving the *efficiency* of the judiciary and applying international standards in national courts. The Judicial Academy selected a new generation of students and provided a variety of in-service training programmes for judges, prosecutors, judicial staff and attorneys, which still need to be systematised and structured. The judicial budget for 2012 remained stable at some € 213 million (around 0.65% of GDP). In 2011, the courts received 2.23 million new cases, resolved 2.65 million cases and were left with a backlog of 3.34 million cases. The new Civil Procedure Code has been in force since February 2012, aimed at increasing efficiency in civil procedure, which accounts for two-thirds of all cases before the Serbian courts. The first private bailiffs were sworn in and first notaries selected in May 2012. However, the entry into force of the law on public notaries was postponed to 2013. Major imbalances in the workload of judges persist between courts, particularly between those in Belgrade and other courts. A comprehensive analysis of the functioning of the new court network is needed in terms of cost, efficiency and access to justice. The quality of judicial statistics needs to be improved.

The new Criminal Procedure Code has been applied in organised crime and war crimes cases since January 2012 (and is to be applied in all criminal cases as of January 2013). It introduces a new model of criminal investigation, giving the prosecution the lead role in collecting the evidence and presenting it before the court. One aim is to shorten the investigative phase, but this will require that the prosecution services rise to the complexity of their new role. The fully adversarial system raises questions regarding procedural safeguards, in particular the ability of poorer defendants to finance an effective defence, a concern echoed by the Ombudsman and the Commissioner for Free Access to Information of Public Interest. At the same time, the prosecution service still has to demonstrate its ability to obtain convictions in high-level cases against well-funded defence teams. A careful analysis of the implementation of the legal framework on abuse of office or authority also needs to be conducted in order to ensure that it is consistent and proportionate. Generally, Serbia needs to ensure that procedural safeguards are applied consistently across the country.

The Administrative Court continued to increase its activity while the inflow of new cases was steady and so managed to reduce the backlog by some 2,500 cases to 17,711 by the end of 2011. However, administrative judges' expertise needs to be developed, particularly in areas such as asylum, consumer protection, state subsidies and competition.

Overall, little progress was made, mostly in enforcing new legislation aimed at improving the efficiency of the judicial system. The review of reappointments of judges and prosecutors did not correct the existing shortcomings and was overturned by the Constitutional Court who ordered the reinstatement of all judges and prosecutors that had appealed their non-reappointment. Cases returned by the Constitutional Court will need to be processed diligently and in accordance with the Constitutional Court's decisions. A system of professional evaluation, effective disciplinary rules and stronger integrity safeguards remains to be established. In order to restore the confidence of the citizens, the authorities will need to consider additional measures to strengthen the independence, impartiality, competence, accountability and efficiency of the judiciary, in particular: transparent criteria for appointments of judges and prosecutors; initial and in-service training under the Judicial Academy's responsibility, together with appraisal of serving judges and prosecutors, including of the newly appointed ones in 2009; integrity safeguards; court rationalisation. To meet these challenges, a new strategy on judicial reform is needed, together with an action plan to implement the strategy, based on a functional review of the judiciary.

Anti-corruption policy (See also Chapter 23 – Judiciary and fundamental rights)

Serbia has made little progress in the fight against corruption. Progress was made mainly regarding enforcement of the legislation. Implementation of outstanding GRECO recommendations continued. The amendments to the Law on Health Care and the Law on Advocates include provisions on conflict of interest. The Government has not yet finalised its National Anti-Corruption Strategy for 2012–2016 and the corresponding Action Plan. There has been little evidence in practice of the coordinating role officially assigned to the Minister of Justice under the previous government. A specific responsibility in this area was entrusted to the First Deputy Prime Minister in the new Serbian government.

The Anti-Corruption Agency's operations, which focus on prevention, increased. The Agency started to implement the 2011 Law on the Financing of Political Activities. It adopted implementing legislation on the monitoring of electoral campaigns and set up an extensive network for the monitoring of the 2012 elections. It also collected annual financial reports from a majority of political entities and issued warnings to 10 of them who had failed to submit such report by the deadline. The Agency continued to make targeted checks on asset declarations it has received. This activity led to misdemeanour judgements in two cases, and criminal charges in another. The Agency collected few data for its new registry of legal entities involved in public procurement in which public officials have shares over 20%. Regarding cases of dual public functions presenting a risk of conflict of interest, the Agency took close to 500 decisions in 2011 that are generally being enforced. However, the Agency has still to establish a track record of effective checks on party funding. It has not yet made full use of its powers and needs to improve cooperation with relevant stakeholders to investigate declarations of assets effectively.

The Anti-Corruption Council continued to be active in exposing and analysing cases of systemic corruption. There has been very limited follow-up to its detailed reports of high-profile corruption cases.

The special prosecutor for corruption and organised crime launched investigations into 115 corruption cases in 2011. These included several medium- to high-level cases. There was a marked increase in the number of lower-level corruption cases for which the prosecutor's offices initiated investigations in 2011, but in the great majority of such cases sanctions remained lenient. 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 and develop their ability to conduct financial investigations. There was little action to protect whistleblowers.

Internal checks by the customs administration and the police have continued to result in a sizeable number of cases being investigated and penalties imposed. Public procurement, management of public enterprises, privatisation procedures and public expenditure remain areas of serious concern, in which independent supervision and capacity for the early detection of wrongdoing and conflicts of interest are underdeveloped. Health and Education remain particularly vulnerable to corruption. Comprehensive risk analyses for areas vulnerable to corruption are needed. Coordination between all stakeholders needs to be strengthened to ensure effective prevention and prosecution of corruption cases.

Overall, the implementation of the legal framework for fighting corruption has continued. The Anti-Corruption Agency's operations increased, mostly in relation to the financing of political parties. However, corruption remains prevalent in many areas and continues to be a serious problem. A new Anti-Corruption Strategy and Action Plan are still awaited. The implementation of the legal framework and the efficiency of anti-corruption institutions need to be significantly improved. Further efforts are needed to adopt a more proactive approach to

investigating and prosecuting corruption and the judiciary needs to gradually build up a solid track record of convictions, including in high-level cases, particularly in cases of misuse of public funds. Stronger political direction and more effective inter-agency coordination are needed to significantly improve performance in combating corruption.

2.2. Human rights and the protection of minorities *(See also Chapter 23 – Judiciary and fundamental rights)*

Observance of international human rights law

*Serbia has already ratified all of the main **international human rights instruments**.*

During the reporting period, the **European Court of Human Rights** (ECtHR) delivered judgments on 40 applications finding that Serbia had violated rights guaranteed by the European Convention on Human Rights (ECHR). The bulk of the judgments so far relate to the excessive length of court cases and to non-enforcement of domestic judgments. Due enforcement of ECtHR's rulings in cases of compensation of workers from State owned enterprises, for which a decree was taken by the government in March 2012, is needed. A total of 4.833 new applications have been submitted to the ECtHR since September 2011, bringing the total of pending applications to 9.478. The number of filed applications against Serbia is steadily growing and now represents 6% of all filed applications with the Court.

There is some progress in the **promotion and enforcement of human rights**. Various activities aimed at promoting tolerance, anti-discrimination and respect for human rights were carried out. Different occasions such as those marking International Human Rights Day, International Women's Day, International Roma Day and Pride Day were used to raise public awareness of human rights issues. Various training courses were held for judges, prosecutors, legal practitioners, prison officers and police officers. However, the implementation of relevant international instruments needs to be further improved.

Overall, the legislative and institutional framework for the observance of human rights is in place and some active measures were taken to ensure its implementation. However, further efforts to implement international instruments are required.

Civil and political rights

Some progress has been made on the **prevention of torture and ill-treatment** of persons deprived of their liberty. The Ombudsman, acting as of January 2012 as National Prevention Mechanism against torture, held its first inspections of prisons, psychiatric hospitals, police stations and social care centres. Poor living conditions, unsatisfactory healthcare and a lack of adequate and specific treatment programmes are still a matter of concern. There are no adequate legal safeguards for the placement and treatment of people with mental disabilities involuntarily placed in psychiatric or social care institutions. The internal control system for the police needs significant strengthening in terms of staff and training and needs to improve its response to allegations of ill-treatment.

Some progress has been made regarding the **prison system**. The Action plan implementing the Strategy for the reduction of prisons' overcrowding was adopted in November 2011. Some improvements were made to prison infrastructure and a new prison facility with 450 places was opened near Belgrade in February 2012. However, the prison system continued to face serious problems due to overcrowding with a number of prisoners over 11,500 for some 5 to 6,000 places. Further efforts are needed to improve living conditions, healthcare and provide adequate treatment programmes for prisoners. Alternative sanctions need to be introduced on a larger scale. There are not enough frontline prison staff. An efficient probation system remains to be introduced.

Constitutional guarantees of **access to justice** are in place. However, the length of court proceedings and the backlog of cases continue to remain issues of concern. Legislation and funding for an effective system of free legal aid still need to be developed.

The legal framework to ensure **freedom of expression** is in place. As regards the media, several working groups have been set up to implement the Media Strategy adopted in October 2011 and its accompanying action plans. The Republican Broadcasting Agency (RBA) has improved the transparency of its work and has enhanced its technical capacity for monitoring broadcasters. However, violence and threats against journalists remain of concern, although their frequency has decreased slightly. The Serbian authorities have continued to provide police protection for journalists and media outlets which have received threats. Investigations into murders of journalists dating back to the late 1990s/early 2000s and into recurring threats against journalists have so far failed to identify the perpetrators. A more comprehensive and proactive approach by the police and the judiciary remains essential. Monitoring of discriminatory or hate speech by the RBA needs to be improved. The procedure by which RBA members are appointed continues to raise concerns about the independence of this body. Access to advertising in the media remains under the control of a few economic and political actors, entailing a significant risk of influence on the media and of self-censorship. Transparency of media ownership has yet to be ensured. The implementation of the media strategy needs to be speeded up.

Freedom of assembly and association is constitutionally guaranteed and in general respected. 91 political parties, including 53 representing minorities, were registered as of August 2012. In December 2011 the Constitutional Court ruled that a decision by the Ministry of the Interior not to allow the 2009 Pride Parade to take place in the location registered by the organisers was a violation of freedom of assembly. However, while a Pride festival could take place in Belgrade from 30 September to 7 October 2012, the Pride Parade itself, scheduled for 6 October 2012, was banned by the Serbian authorities on security grounds, for the second year in a row. The activities of extreme right-wing organisations and of violent groups of so-called sports fans continue to be a major cause of concern. The Constitutional Court banned a second such organisation in June 2012. Criminal proceedings were initiated in April 2012 against 12 persons suspected of having taken part in the attacks of foreign diplomatic missions in Belgrade, including EU embassies, in February 2008. So far, one of the suspects was acquitted in first instance.

Civil society organisations continue to play an important role in social, economic and political life, and in promoting democratic values. The Office for Cooperation with Civil Society has been very active in raising awareness both among the public and among state institutions of the importance of involving civil society and citizens in decision-making. It has also established cooperation with other countries in the region. The Office has been allocated sufficient means, including financial resources, and now functions at full capacity.

Freedom of thought, conscience and religion is guaranteed and generally respected. Religiously motivated incidents declined. In addition to 7 religious communities recognised as traditional communities under a law passed in 2006, 18 religious organisations have been registered. 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, which also led to limit the access to church services in some minority language. A Constitutional Court ruling on the 2006 law which differentiate between traditional and other religious organisations is still awaited. The Ombudsman's 2011 annual report stressed continuing problems with regulating religious classes and the status of teachers of religion, particularly relating to the Islamic faith. Some media continued to propagate negative comments and hate speech against smaller churches.

Overall, there has been some progress on civil and political rights. The legal framework for freedom of expression is in place but violence and threats against journalists remain of concern. The implementation of the media strategy needs to be speeded up. Freedom of assembly and association are constitutionally guaranteed and in general respected. The Office for Cooperation with Civil Society has been very active. Freedom of thought, conscience and religion is in general respected but the registration process for religious communities continues to lack transparency and consistency. The National Mechanism for Prevention of Torture began work but needs further strengthening. Although one new facility was opened, overcrowding in the prison system remains a grave concern. On access to justice, an effective system of free legal aid still needs to be developed.

Economic and social rights (See also Chapter 19 – Social policy and employment)

There has been some progress relating to **women's rights and gender equality**. Serbia signed the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence in April 2012. A general protocol on procedures and cooperation between institutions, agencies and organisations in situations of domestic and partner-relationship violence was adopted in November 2011. The protocol aims to provide better protection for victims. A telephone helpline for victims of domestic violence was introduced in November 2011. A new shelter for up to 20 victims of domestic violence was opened in Pancevo in January 2012, bringing the number of such centres to 13. However, violence against women remains an area of concern. The action plan for the implementation of the National Strategy for Prevention and Suppression of Violence against Women has yet to be adopted. Very often, domestic violence goes unreported and greater coordination is needed, e.g. on collecting and sharing data between all actors in the system for protecting women from violence. Women continue to be discriminated against in the labour market.

Children's rights are guaranteed by the Constitution and broadly respected. Little further progress has been achieved in this area. There has been a steady reduction in the number of children with disabilities placed in residential care institutions and an increase in the availability of community services for family members with disabilities. A media campaign to eradicate violence in schools has started and a telephone helpline for victims of juvenile violence was introduced in November 2011. However, both juvenile violence and violence against children continue to grow and are of great concern. Children's rights, particularly the rights of those belonging to vulnerable groups such as Roma, poor children, children with disabilities, children without parental care and street children, are unevenly protected. There are an increasing number of children living in poverty. Inclusive education is still not fully developed. The school drop-out rate is high among Roma children, children with disabilities and children living in remote areas. Too many Roma children are still being enrolled in special schools.

Some progress has been made concerning the **socially vulnerable and/or persons with disabilities**. The overall legislative framework is in place for the protection, inclusion and education of socially vulnerable persons and persons with disabilities. Efforts have been made to promote their rights, education and inclusion in the labour market. Deinstitutionalisation efforts have further continued, in tandem with the development of community-based services. However, the number of vulnerable persons registered with the National Employment Service remains extremely low. Access to public buildings for persons with disabilities needs to be further improved, especially in rural areas. Overall, social integration of persons with disabilities remains limited and as that of other vulnerable persons it needs further improvement.

There has been some progress on **anti-discrimination policies**. Serbia's anti-discrimination legislation is broadly in line with European standards on combating racism and racial discrimination. The Equality Protection Commissioner's office was active in raising awareness on discrimination and existing mechanisms for protection against discrimination. It received 450 citizens' complaints and dealt with 360 cases. The number of citizens' complaints has been increasing, indicating greater awareness of this problem. The groups most discriminated against are the Roma, persons with disabilities and sexual minorities, who, together with human rights defenders, often face hate speech and threats. Certain aspects of the Serbian anti-discrimination law are not in line with the *acquis*, notably the scope of exceptions from the principle of equal treatment, the definition of indirect discrimination and the obligation of reasonable accommodation for disabled employees. The police response to attacks against the lesbian, gay, bisexual and transgender (LGBT) population has slightly improved. Several physical attacks and threats on members of the LGBT population and those promoting LGBT rights continued to occur and the 2011 and 2012 pride parades were banned because of security threats. For the first time, a Pride Day was marked in June 2012 by events co-sponsored by the government and civil society but so far, the new government has taken no further initiative towards the better inclusion of the LGBT population and a greater understanding across society.

Labour and trade unions rights are guaranteed by the Constitution and broadly respected but no further progress has been made. The 1996 law on strike is not in line with the EU and ILO standards, in particular as regards possible restrictions to the right to strike. Criteria for social partners' representativeness in social dialogue are still an issue: several registered trade unions are still not recognised and concerns remain as to the criteria for participation of employers' organisations. Social dialogue remains limited. The Economic and Social Council was not consulted regularly on draft laws and its meetings were often not attended by government officials. At local level, dialogue has generally been non-existent.

Progress was achieved concerning **property rights**. Implementation of the 2011 Law on Restitution has started. The Agency for Restitution was set up in January 2012 and invited former owners of properties nationalised after World War II, or their heirs, to submit claims for restitution between 1 March 2012 and 1 March 2014. The Agency has started processing the claims and has taken a number of decisions on restitution in kind. Given the ceiling of € 2 billion available for financial compensation, the corresponding individual decisions will only be taken after the deadline for submissions has expired, when the total number of claims is known. A Law on Rehabilitation adopted in December 2011 clarified the procedure and conditions under which members of the occupying forces recruited in Serbia during World War II can be rehabilitated, making them and their heirs eligible under the Law on Restitution.

Overall, the legal framework for the protection of social and economic rights is in place. However, discrimination based on race, ethnicity, gender, age and sexual orientation is widespread and further measures to fight all forms of discrimination are needed, together with efficient mechanisms to improve the protection of women and children against any form of violence. Social dialogue needs to be improved and the issue of social partners' representativeness criteria resolved. Implementation of the 2011 Law on Restitution has started.

Respect for and protection of minorities, cultural rights

A comprehensive legal framework for the protection of **minorities** is in place, in line with the Framework Convention on National Minorities of which Serbia is party, and generally respected. A Governmental Office for Human and Minority Rights was established as of

August 2012, taking over the functions ensured by the previous Directorate within the Ministry for Human and Minority Rights, Public Administration and Local Self-Government. Regular financial reports by the national minority councils to the Office for Human and Minority Rights have been introduced. The 2011 population census included provisions facilitating the participation of minorities such as translation of the questionnaire in nine languages and participation of minority languages speaking enumerators. However, implementation of the legislation needs to be further improved. The Republican Council for National Minorities has remained inactive. The Bosniak minority council has not yet been formally constituted. The recommendations made by the Serbian independent bodies with a view to improving the electoral framework for the national minority councils have not yet been followed up. The legislation is in place but implementation at field level remains uneven throughout the entire territory of Serbia. Generally, Vojvodina is more advanced while South and South-West Serbia lag behind, due in part to a lack of available funding. Coordination between the central and local level needs to be further improved as well as awareness on the minority issues legal framework, including from the minorities themselves. Further improvements are also needed regarding information and education in minority languages, including the provision of all the necessary textbooks.

The inter-ethnic situation in the Autonomous Province of *Vojvodina* remained good. Elections for the Provincial Assembly took place in May 2012. There have been only sporadic inter-ethnic incidents. Reactions to such incidents by provincial officials and the police were adequate but the legal process needs to be improved as the prosecution continued to treat them as misdemeanour cases rather than criminal offences. The Provincial Ombudsman's 2011 annual report noted that out of 1,237 complaints 65 were related to minority issues (5.25%). The law on Vojvodina's own resources, required by the Constitution, has yet to be adopted. The Constitutional Court invalidated in July 2012 some provisions of the law regulating the competences of Vojvodina.

As regards the municipalities of *Presevo, Bujanovac and Medvedja*, the situation continued to be stable overall, although there were sporadic incidents. An Albanian/Serbian Department of Economics was opened in Bujanovac in October 2011 as a branch of the Novi Sad Faculty of Economics and 69 students were enrolled. Students from Presevo and Bujanovac were granted scholarships to study at Novi Sad University. Several textbooks in Albanian were provided for the 2011 school year. In April 2012 the government and the municipal authorities reached an agreement on state investment in small and medium-sized enterprises in the three municipalities. Following calls by their political parties, Albanians however massively boycotted the October 2011 population census and partially boycotted the May 2012 parliamentary elections. Albanians continue to be underrepresented in the public administration and local public companies. The area remains among the poorest in Serbia and requires further commitment from the State authorities for its economic development.

Regarding the *Sandzak* area, the situation has been stable overall. The campaign for parliamentary and municipal elections was calm and no incidents were recorded. Parties from Sandzak which participated in the elections in April 2012 signed a code of conduct for the campaign and largely abided by it. The Bosniak community continued to be underrepresented in the local administration, judiciary and police. A 2011 recommendation to a municipal administration by the Equality Commissioner to ensure the use of the Bosniak language and Latin alphabet has not been followed. The Ombudsman also issued recommendations in April 2012 to ensure adequate use of the Bosniak language in four municipalities. No solution was found to the outstanding issue of the election of the Bosniak national minority council, nor has the issue of the two rivalling Islamic communities been resolved. The area remained 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.

There has been some improvement in the position of the **Roma** population. Serbia has continued to take an active part in the Decade of Roma Inclusion 2005–2015 and has undertaken to implement the operational conclusions of the June 2011 EU-Serbia social inclusion seminar on Roma issues. The government signed in April 2012 a Memorandum of Understanding with the Ombudsman and the UNHCR to provide assistance on the registration of legally ‘invisible persons’ and changes were brought to the law of non-contentious procedures in August 2012 aimed at facilitating later registration in the birth registry. The measure allowing undocumented Roma to register using a provisional address has yet to be implemented. Active measures to increase social inclusion of the Roma have continued. The enrolment rate of Roma children in the education system has increased. 170 Roma teaching assistants have been employed together with 75 health mediators. The school drop-out rate for Roma children remains however high. The 2012–2014 Action Plan for the implementation of the Roma Strategy has not yet been adopted. Most of the Roma population lives in informal settlements under difficult conditions. Some positive steps to comply with international standards were taken regarding the relocation of Roma evicted from such informal settlements. Further sustained efforts are required to fully comply with international standards on forced evictions. The Roma population, and especially Roma women, are the most discriminated against in the labour market. The Roma minority continues to face discrimination, social exclusion and high unemployment. Roma women and children are still frequently subject to family violence, which often goes unreported.

According to the UNHCR, there are around 66.000 **refugees** and 210.000 **internally displaced persons** in Serbia. The number of collective centres fell further from 29 to 24. The programme for supporting municipalities which prepare local action plans for the improvement of the status of refugees and IDPs has continued and some improvement has been recorded concerning the displaced persons housing situation. However, 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.

Overall, the legal framework for the protection of minorities is in place and generally respected. Some positive steps were taken to improve the situation of minorities, including the Roma. Regular financial reporting by the national minority councils has been introduced. Additional efforts are needed to ensure effective implementation of minority legislation throughout the territory of Serbia and address known shortcomings. Serbia needs to do more to support the socio-economic development of Sandzak and Presevo, Bujanovac and Medvedja. The Roma, refugees and internally displaced persons continue to face a difficult situation.

2.3. Regional issues and international obligations

There are no outstanding issues in connection with Serbia’s compliance with the **Dayton/Paris Peace Agreement**. In the framework of the Special Parallel Relations Agreement between the Republika Srpska and Serbia, a joint session of the governments of Serbia and the Republika Srpska took place in Belgrade in December 2011, leading to the signing of four agreements on internal affairs, IT, the environment and agriculture.

Cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** continued to be fully satisfactory. Serbia continued to provide smooth and swift access to documents and witnesses, in support of ongoing or planned ICTY trials. The June report of ICTY prosecutor Brammertz regretted the lack of action against the network of aid to ICTY

fugitives. The War Crimes Prosecutor started criminal proceedings against an aid network in June 2012. A new trial against a previously identified group of 10 people suspected of aiding Ratko Mladic to evade justice was also restarted. However, Serbia must still further intensify its efforts in the conduct of more in-depth investigations into the fugitive networks in order to achieve visible results.

Domestic processing of *war crimes* continued with a number of new indictments, first-instance judgments and final convictions. Cooperation and exchanges of information with Croatia and EULEX developed in 2012. However, serious problems with witness protection hinder the handling of sensitive cases. A review of the 1990s indictments by military courts in the case of Croatia was completed and findings shared with Croatia. A similar exercise involving discussions with EULEX is ongoing in relation to events in Kosovo. An agreement with Bosnia and Herzegovina on sharing evidence remains to be concluded.

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.

Serbia made some progress towards a visible and sustainable improvement in relations with **Kosovo**, the key priority set out in the Commission's Opinion on Serbia's membership application. Serbia continues to contest Kosovo's declaration of independence and to actively oppose recognition by third parties but has participated in a dialogue with Pristina since March 2011. Additional agreements were reached in that dialogue in February 2012 on regional cooperation and representation of Kosovo and on integrated management of border/boundary crossing points (IBM), in the run-up to the March European Council which granted Serbia candidate status. Implementation of these agreements was long delayed. Serbia adopted at first an overly restrictive internal instruction regarding the participation of Serbian delegations in regional meetings and conditions to be observed for its acceptance of Kosovo's participation. Soon after formation of a new government, a revised instruction was adopted in September 2012 which, subject to continued implementation, enables inclusiveness of regional cooperation. Serbia eventually signed the IBM technical protocol in September 2012 but it has yet to be implemented. Other agreements reached in this dialogue between March and September 2011 regarding freedom of movement, civil registries, customs stamps and mutual acceptance of diplomas are being implemented, except for cadastre, on which Kosovo still needs to adopt a law. Some areas are facing technical difficulties, e.g. vehicle insurance and car number plates for the freedom of movement agreement. Gates 1 and 31 remained mostly closed or only partially open, while there has been considerable traffic using unregulated crossing points into and from Serbia.

Serbia was constructive in accepting OSCE facilitation in Kosovo for the holding of its parliamentary and presidential elections there and in not calling local elections in Kosovo. Serbia continued to fund and to maintain its structures, particularly in northern Kosovo, including not only hospitals and schools, but municipal administrations, security services and judicial structures. Cooperation with EULEX has improved. Direct high-level contacts facilitated operational cooperation. Cooperation in combating organised crime has improved but needs to be further developed in regard to some specific cases.

Following the elections and a new leadership in Serbia taking up office, Serbia needs to continue to engage constructively in the next phase of the dialogue in order to achieve further progress towards a visible and sustainable improvement of relations with Kosovo.

Significant 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 who were displaced as a result of the armed conflicts in

ex-Yugoslavia during the 1990s. The four countries signed a ministerial declaration in November 2011 in Belgrade, renewing their political commitment to bringing this chapter to a close. They agreed on a Regional Housing Programme assisting some 27,000 households or 74,000 individuals. The programme was presented for international donor support at the Sarajevo April 2012 donors' conference, which resulted in some € 265 million being pledged. Programme implementation is at an early stage. Good cooperation needs to continue between the four countries on all outstanding issues in the process, including data exchange and statistics, civil documentation and pension rights.

The unresolved fate of **missing persons** from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. As of August 2012, there were still approximately 13,250 people missing from the conflicts in the region. Of these, some 9,550 were related to the conflict in Bosnia and Herzegovina, approximately 1,900 to the conflict in Croatia and over 1,800 to the conflict in Kosovo. In the past year approximately 1,100 remains were identified at regional level. The lack of information on new gravesites and difficulties in identifying exhumed human remains continue to be the key obstacles to solving the remaining cases of missing persons. The Working Group chaired by the ICRC remained the framework within which the Belgrade and Pristina authorities maintained dialogue and exchanged information on persons unaccounted for in relation to the 1998–1999 events in Kosovo. It met twice since September 2011 and held two briefing sessions for the families of the missing, while only 45 cases were solved. Although modest, the progress was achieved mostly owing to the information provided by the Serbian authorities and obtained from international archives. Regarding cooperation between Serbia and Croatia, progress has been limited. No formal meetings of the bilateral Commission on Missing Persons were held. Sustained efforts and enhanced political commitment are needed towards identifying gravesites and clarifying the fate and whereabouts of people still unaccounted for.

Regional cooperation and good neighbourly relations form an essential part of the process of Serbia's moving towards the European Union. In 2012 Serbia held the chair of the South East Europe Cooperation Process (SEECPP), the Migration, Asylum, Refugees Regional Initiative (MARRI), the Adriatic-Ionian Initiative (AII) and the Black Sea Economic Cooperation (BSEC). It continues to play an active part in the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement. The new RCC Secretary General was appointed following a proposal from Serbia. Serbia supports the RECOM initiative on reconciliation and the Igman Initiative. However, the agreement reached on regional cooperation and the representation of Kosovo in the framework of the Belgrade/Pristina dialogue did not immediately result in either smoother or fully inclusive regional cooperation. Between March and August 2012 Serbia chose to walk out of or boycott meetings that did not strictly follow its own interpretation but eventually applied a more flexible approach from September 2012 onwards.

Serbia has good **bilateral relations with other enlargement countries and with neighbouring EU Member States** overall. Then President Tadic participated in February 2012 in a trilateral summit of Presidents of Serbia, Bosnia and Herzegovina and Croatia at Jahorina and in the summit of Presidents of Serbia, Croatia, Slovakia and the Czech Republic in Prague. A first trilateral meeting of the Ministers of the Interior of Serbia, Montenegro and Bosnia and Herzegovina took place in April 2012. However, some unhelpful statements for reconciliation in the region were made by the new Serbian President, Mr Nikolic, at the time of his election and taking office, such as that denying the qualification of genocide for the crimes in Srebrenica. Several regional leaders decided not to attend the inauguration of the

new president. Serbia needs to continue to make a positive and constructive contribution to regional cooperation and reconciliation.

Relations with *Albania* remained good. Several high-profile bilateral meetings took place. An agreement on veterinary cooperation was signed in April 2012. A readmission agreement and an agreement on reciprocal movement of citizens were also signed.

Relations with *Bosnia and Herzegovina* remained good. The speaker of the Serbian Parliament paid a visit to Bosnia and Herzegovina in December 2011, the Minister of Foreign Affairs of Bosnia and Herzegovina visited Belgrade in March 2012 and the Serbian Prime Minister visited Sarajevo in September 2012. Then President Tadic visited Republika Srpska on several occasions. Border demarcation remains an open issue.

Relations with *Croatia* are stable, regardless of a number of outstanding issues (e.g. border demarcation and missing persons). The two countries are working on a bilateral agreement on war crimes prosecution. There have been no tangible results with regard to border demarcation concerning the Danube. The Serbian government submitted its written pleadings supporting its counter-suit against Croatia before the International Court of Justice on genocide allegations in November 2011. A protocol on the return to Croatia of cultural assets taken during the war in the 1990s was signed, thus resolving an outstanding bilateral issue.

Relations with *the former Yugoslav Republic of Macedonia* continued to be good. There were reciprocal presidential visits in December 2011 and January 2012, which were held in a positive atmosphere. Agreements on travelling conditions and on compensation for health protection were signed. There were no developments regarding the dispute between the Orthodox churches in the two countries.

Relations with *Montenegro* remained good, overall. The Serbian Prime Minister led a senior delegation on a visit to Podgorica in December 2011. The Montenegrin President attended the inauguration of the Serbian President. The two governments signed a number of agreements on sectoral policies, an agreement on cooperation on air traffic control and a protocol on cooperation in resolving the fate of missing persons. There were no developments regarding the dispute between the Orthodox churches in the two countries.

Relations with *Turkey* remained good. The prime ministers met in November 2011 and there were several other reciprocal visits at ministerial level.

Serbia's relations with neighbouring EU Member States *Bulgaria, Hungary* and *Romania* remained generally good. Serbia and Romania expanded cooperation on the regulation of the status of their respective national and religious minorities and agreed in March 2012 to a Joint Statement on the Protocol on the second session of the Inter-Governmental Commission on National Minorities. The issue of protection of minorities in Serbia was raised in different contexts by Romania as being of particular concern. Both countries have started to address this bilateral issue through the mediation of the OSCE High Commissioner on National minorities as well as in the framework of their bilateral joint commission.

Overall, Serbia's international obligations are generally complied with. Serbia continued to fully cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY). Domestic processing of war crimes cases continued. Serbia maintained a good level of relations with its neighbours and active involvement in regional cooperation, notably by chairing the South East Europe Cooperation Process (SEECP) and a number of other regional initiatives.

Serbia still needs to achieve further progress towards a visible and sustainable improvement in relations with Kosovo, the key priority set out in the Opinion. New results were achieved in the dialogue with Pristina, with agreements in the areas of regional cooperation and

representation and integrated management of border/boundary crossing points. However, implementation of these agreements was long delayed. Serbia's interpretation of the agreement on regional cooperation and the representation of Kosovo was eventually clarified soon after the formation of a new government and, based on initial implementation, is no longer hampering the inclusiveness of regional cooperation. Serbia eventually also signed the IBM technical protocol in September 2012 which has yet to be implemented. Implementation of other agreements on freedom of movement, the land registry, civil registries, customs stamps and mutual acceptance of diplomas has overall moved forward. Serbia's new leadership has underlined its commitment to implement all agreements already reached in the dialogue with Pristina as well as to begin tackling the broader political issues. Fulfilment of this commitment is key to moving to the next phase of Serbia's EU integration.

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 2012, the government submitted to the European Commission its Economic and Fiscal Programme (EFP) for the period 2012-14. The programme's growth projections are optimistic, especially for 2012, and the plausibility of its targets is constrained by an outdated macroeconomic and fiscal scenario. The programme would have benefited from a more detailed description of policy measures to lead towards the declared objectives — sustainable growth based on exports and investment.

Serbia entered into a precautionary Stand-By Arrangement (SBA) with the International Monetary Fund (IMF) in September 2011. The completion of the first review has been postponed because the 2012 budget deviated from the agreed fiscal programme. After the elections at all levels in May, the new government is facing the challenge to urgently address the increasing fiscal imbalances and present and implement a comprehensive structural reform agenda. The independence of the central bank has been seriously challenged by the adoption of amendments to the Law on the National Bank of Serbia (NBS) in August.

Overall, economic reforms have mostly stalled in the election period. The consensus on the fundamentals of a market economy has been broadly preserved but needs to be reinvigorated in order to improve economic performance and enhance the resilience of the economy.

Macroeconomic stability

In 2011, Serbia's GDP increased by 1.6% in real terms. The pace of recovery slowed down significantly in the second half of the year and economic indicators point to a further deterioration of the economy, which contracted by an estimated 1.3% in the first and 0.6% in the second quarter of 2012. Growth in 2011 was rather narrow-based as key sectors stagnated and even declined. This was particularly visible in manufacturing, real estate and agriculture, which grew by less than one per cent, and in wholesale and retail trade, which fell strongly by a real 5.5% compared to the previous year. Average per capita income in purchasing power standards rose to 35% of the EU average in 2011 from 34% in 2010. *Overall*, the economic recovery proved fragile and the economy has entered another phase of contraction.

Serbia's external position has been affected by the slowdown in the EU economy and in the region. After remaining stable at around 7% of GDP for about two years, the current account

deficit increased to around 9% of GDP in 2011 and continued expanding to double-digit levels in the first half of 2012. A major drop in current transfers, mainly private remittances, was the main factor driving the deterioration in 2011, while trade and net factor income deficits remained broadly unchanged. After a peak in 2009-2010, remittances declined to about 7% of GDP, a level closer to their medium-term average. In 2011, both exports and imports of goods and services increased in euro terms by double-digit rates. Still, the trade deficit remained relatively high at 17.2% of GDP and the surge in exports of the last two years has stalled. Export growth decelerated strongly in the last months of 2011 and even turned negative in early 2012, as foreign demand declined and particularly bad weather reduced general economic activity in the country, before rebounding slightly in the second quarter. Imports decelerated too but continued growing by close to 6% in euro terms in the first half of the year. As a result, the trade deficit expanded by 15% over that period.

The inflow of net foreign direct investments was significant in 2011 but turned negative in the first half of 2012. Portfolio and other investment inflows increased last year, on the back of significant government borrowing, while banks and other sectors reduced their liabilities. In September 2011, the government issued a USD 1 billion 10-year Eurobond. Short-term commercial bank debt was reduced by two thirds, pushing the share of total short-term debt to below 3% of the external debt stock. This helped reduce Serbia's total external debt to below 80% of GDP in 2011. In the first half of 2012, banks continued to reduce their foreign liabilities. However, the external debt rose to 80% of GDP by end-July as its valuation increased following significant dinar depreciation in this period. In 2011, the central bank was able to increase significantly its reserves, but these gains were reversed in 2012 as FDI and portfolio investment inflows fell sharply and the bank intervened heavily to support the falling dinar. Nevertheless, by the end of August, foreign exchange reserves remained at a comfortable level, covering about seven months' worth of imports. *Overall*, the external adjustment remains unfinished, with significant and growing trade and current account deficits. External financing has weakened recently but short-term risks are dampened by the still ample foreign exchange reserves and the favourable external debt structure, with a strong prevalence of long-term debt.

In 2011 labour market indicators deteriorated for a third year in a row and worsened further in 2012. The unemployment rate climbed to 25.5% in April, from 23% in 2011 and 19.2% in 2010. Both activity and employment rates declined to their lowest levels in a decade. Most of the unemployment is structural as around three quarters of all unemployed have been without a job for more than a year. The economic growth of last year has not been conducive to employment creation and, according to the labour force survey, the number of employed people decreased by 6%. Employment declined even in sectors which had positive growth rates, implying gains in labour productivity and probably increasing informalities. Public administration, education and health care were a notable exception to this pattern and continued to expand. Employment continued to decline in the first half of 2012, with the number of registered employed falling by 1.5% compared to the same period in the previous year. Gross and net wages increased on average by a nominal 11% in 2011 and stagnated in real terms. Following the unfreezing of public sector salaries in early 2011, real wages have been growing by 2-3% since mid-2011. Their increase accelerated by the end of 2011 and in the first half of 2012, mostly due to base effects and rapid deceleration in inflation. Following a 13% increase in April, the minimum wage has reached almost half of the average wage. *Overall*, labour market conditions deteriorated sharply and unemployment and sustainable employment creation represent a major challenge.

The monetary policy framework remained unchanged and the National Bank of Serbia maintained its commitment to price stability. The amendments to the Law on the National

Bank adopted in August 2012 seriously challenged its independence, undermining the confidence in the monetary policy. The central bank lowered its end-of-the-year inflation target from 4.5% in 2011 to 4% in 2012, still within an unchanged tolerance band of ± 1.5 percentage points. The target was missed by a wide margin throughout 2011, notwithstanding a gradual reduction of annual inflation to 7.0% by end-2011, compared to 10.2% a year before. Inflation was mainly driven by food prices, while energy and transport became the main sources of inflationary pressure in early 2012. As food prices moderated strongly and even declined for a few months in the spring of 2012, inflation continued to fall, reaching 2.7% in April, thus moving below the NBS target band. The central bank reduced its key interest rate, in several steps in line with falling inflation, from a peak of 12.5% in April 2011 to 9.5% in April 2012. Since then, on the back of renewed pressure from food prices, affected by a drought in the summer, inflation accelerated again, reaching 7.9% in August. The exchange rate of the dinar vis-à-vis the euro remained broadly stable in the second half of 2011. However, it has come under pressure since the beginning of 2012. Political uncertainties linked to the general elections and the formation of a new government, weaker net foreign currency inflows and deteriorating budget performance have led to a depreciation of the dinar, and by end September 2012 it had lost about 10% against the euro since the beginning of the year. In view of the high euroisation of the economy and significant pass-through effects to inflation, the central bank intervened heavily on the market. It sold more than € 1.3 billion and increased the dinar share in the foreign exchange required reserves in an attempt to stem the fall of the dinar. Moreover, since June the bank increased, in three steps, its main policy interest rate to 10.5%. *Overall*, inflation has been volatile and general uncertainty, weaker net foreign currency inflows, and increasing budget deficits have weakened the dinar.

Fiscal performance has deteriorated. The overall budget deficit increased to 5.0% of GDP in 2011, up from 4.7% a year earlier, and compared to a deficit target of 4.6% of GDP in the revised budget adopted in October 2011. The higher than projected budget deficit resulted from lower economic growth and underperforming revenues, especially in the second half of the year. Almost all revenue categories, with the exception of excise duties (due to rises in effective rates) and corporate income tax, have decreased in real terms. Total revenue fell by 1.5 percentage points to 41.0% of GDP in 2011, while total expenditure decreased by 1.2 percentage points but remained high at 46.0% of GDP. Most of the expenditure categories have declined, with the biggest drops recorded in subsidies, social assistance and capital expenditure. However, spending on wages and pensions remained significant, pointing to a major imbalance in the structure of public expenditure. Following the rapid increase in government debt over the previous few years, interest payments to service the debt went up to 1.4% of GDP.

The original 2012 budget law targeted a reduction in the deficit to 4.25% of GDP. However, due to a strong acceleration in expenditure in the first half of the year, the deficit target had quickly become unattainable. In the first six months, total expenditure grew by a real 8.5%, driving the budget deficit to around 3.3% of GDP, more than 50% higher in comparison with the same period last year. There were strong real increases in capital expenditure, subsidies, purchases of goods and services and interest payments. In September, the newly-elected government announced a rebalancing of the 2012 budget, targeting an annual deficit of 6.7% of GDP. Most of the adjustment is expected to come from the revenue side, to be coupled with expected savings mainly due to lower indexations of wages and pensions. However, expenditure pressures related to additional spending on pensions, agricultural subsidies and support for some of the state-owned banks put at risk the achievement of the revised, and not very ambitious, 2012 deficit target.

Government debt continued to rise rapidly in 2012, driven both by the widening deficit and the depreciation of the dinar. It approached 55% of GDP by the end of July, far above the legally binding threshold of 45% of GDP, requiring the government to present a special programme to bring the debt back below 45% of GDP over the medium term. The deteriorating fiscal performance, among other factors, triggered a downgrade of Serbia's long-term sovereign credit rating in August. *Overall*, the budget deficit in 2011 remained high for a third year in a row and continued to increase at a rapid pace in 2012. Government debt went above the legally binding threshold already at the end of 2011 and continued to increase in 2012. The adoption and implementation of urgent and decisive consolidation measures, backed by systemic reforms of the public sector in order to restore public finance sustainability, remain a key challenge.

After several years of loose fiscal policy, fiscal space to cushion further shocks in the economy has been limited and fiscal sustainability is increasingly challenged. Delays in structural reforms are also weighing on the budget and the efficiency of policy responses. High budget deficits have constrained the effectiveness of the macroeconomic policy mix and the main burden of adjustment fell on monetary policy. Moreover, monetary policy continues to be restricted by the high degree of euroisation of the economy, which complicates the attainment of official objectives of inflation targeting and preserving financial stability. *Overall*, the policy mix is relatively imbalanced. Loose fiscal policy and a number of structural weaknesses overburden monetary policy.

Interplay of market forces

Price liberalisation has stalled and has even been partially reversed. The prices of about 22% of the goods and services in the consumer price index basket are administered and, for some of the goods, are kept below cost-recovery levels. The state has introduced indirect price control for certain groups of goods (basic foodstuffs). A government decree, in place until the end of 2012, caps retail trade margins for these products at 10%. The government has continued to control prices of public utilities directly, but also 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. *Overall*, the state control over prices continues to be substantial and price liberalisation has stalled.

State influence in the economy remains high, due also to the predominant share of state ownership in major sectors of the Serbian economy such as energy (electricity and gas), railway and air transport and telecommunications. State-owned companies, which are overstaffed in general, employ more than 10% of all employees in legal entities. They make a loss of around € 1 billion a year or about 40% of all losses in the economy. Privatisation of socially-owned companies has practically come to a halt. In 2011 only two enterprises were sold through a public tender (with sales receipts amounting to € 1.0 million and investment commitments of € 4.3 million) and two enterprises were sold through auctions. As a result of delayed privatisation, cancellation of contracts or re-nationalisation, the state still has control over a number of large companies in the manufacturing sector. Currently, the portfolio of the Privatisation Agency consists of 408 companies. There are 171 companies under a restructuring procedure and most of the remaining firms are to be sold through bankruptcy or liquidation.

In early 2012, the majority state-owned Telecom Srbija bought back 20% of its shares from a foreign investor. With this buy-back, the 1997 privatisation of 49% of Telecom Srbija has been completely reversed (29% had been bought back already in 2003). In April, the Serbian government decided to distribute 6.94% of the shares in Telecom Srbija to the company's current and former employees, while another 15% was offered to all citizens. In another

privatisation reversal, in February 2012, the Serbian government bought back from US Steel the ailing steel mill in Smederevo for a symbolic USD 1. Later, production at the mill, one of Serbia's main exporters and employers, has been temporarily suspended. The steel mill has been running up large losses in the last few years and, until the government is able to re-privatise the company, it will have to secure at least the maintenance costs, adding to government liabilities. *Overall*, in a difficult economic environment, the privatisation process has been very slow and even partially reversed. Sustaining competitive markets remains a key challenge.

Market entry and exit

Some steps have been taken to facilitate market entry. The 'one-stop shop' has further shortened the registration procedure, which now takes only two days on average (five days is still the legal maximum, with the principle of 'silent consent' in place). The registration fee stands at € 45 and the required capital for setting up a limited liability company has been reduced from € 500 to less than € 1. The setting-up of new businesses is still seriously hampered by difficulties in obtaining construction permits and the process of dealing with construction permits and land remains costly and lengthy. Regulatory reform (the 'regulatory guillotine') is ongoing, although it has slowed lately. In an attempt to revive it, a new Strategy for regulatory reform 2011-2014 was adopted in late 2011.

The Law on Bankruptcy has introduced automatic bankruptcy for companies if their accounts are blocked for a certain period and, since the beginning of 2012, this period has been reduced from two to one year. Under the Law, the National Bank of Serbia is required to provide the commercial courts with information about these companies, so that bankruptcy proceedings can be launched. In the first half of 2012, it notified the courts about 11,231 companies with blocked accounts — about 50% more than in the same period the previous year. *Overall*, some steps have been made to simplify and speed up market entry, but red tape and difficulties in obtaining construction permits remain important obstacles. The bankruptcy procedure for companies that have been over-indebted has speeded up.

Legal system

The establishment of a real estate registry and a digital registration system has been completed. The new system will be able to provide quick and accurate information about real estate ownership, and this should facilitate contracts and investment decisions. Restitution legislation has been adopted but its enforcement remains to be tested. The Law on Planning and Construction and its amendments have led to differences in interpretation and thus in implementation at municipal level, which increases uncertainties for investors.

The uneven execution of laws, slow or non-existent enforcement, and proliferation of different administrative fees and charges increase the uncertainty and the cost of doing business. Moreover, the informal economy remains strong and is a major hindrance to fair competition and business development. *Overall*, legal predictability and enforcement of court decisions remain weak. Corruption and unclear property rights continue to hamper economic activities.

Financial sector development

The Serbian financial system is dominated by the banking sector, which had a 92% share of total assets in 2011. A total of 33 banks are operating in the country, unchanged from a year earlier. By the end of March 2012, foreign ownership had risen to about 74% of the banking sector and 21 banks operating in Serbia are owned by foreign entities. The five largest banks accounted for 47% of the total assets of the sector. There are nine state-owned banks, holding about a 19% market share, while the market share of domestic private banks is small at

around 7%. Since the end of 2011, banking sector assets increased by 8.5%, accounting for approximately 94% of GDP by the end of July.

Capitalisation of the banking sector declined but still remains high. The average capital adequacy ratio stood at 17.3% in March 2012, well above the prescribed minimum of 12%. Deposits, of which over 75% are denominated in foreign currency, represent around 57% of the total liabilities of the banking sector. Similarly, loans account for some 60% of banking sector assets. About 70% of the loans are denominated in or linked to a foreign currency, predominantly the euro. More than half of all loans are granted to the corporate sector, while close to a third are extended to households. The quality of bank assets worsened, with the gross non-performing loans ratio reaching 20.4%, from 17.1% a year before. Banks profitability deteriorated in the course of 2011 and the return on equity decreased to just 0.2%. However, this negative development was mainly caused by the significant loss accumulated by Agrobanka. The bank has been put in receivership in the end of 2011, after the central bank established that the level of the bank's capital is not consistent with the degree of risk taken by the bank. The financial situation of Agrobanka did not improve and, in May, the Central Bank revoked its licence and granted an operating licence to the newly-established Nova Agrobanka, which took over all the liabilities and part of the receivables of the old bank. The new bank has been partially recapitalised by the Deposit insurance agency and the government. Following the failure of Agrobanka, in August the central bank took additional measures to increase its supervision of the banking system, focusing in particular on banks with significant share of custody accounts and state ownership. *Overall*, the banking sector remained well-capitalised and liquid, but a weakening economy and depreciating dinar point to a growing risk of further deterioration in the quality of the loan portfolio. Bank supervision has been tightened, following the discovery of significant losses in one of the small banks.

The main index BelexLine of the Belgrade stock exchange fell by around 20% in 2011. This negative trend continued in the first nine months of 2012 and the index lost a further 10.6%. At the end of 2011, there were 28 insurance companies operating in Serbia, up from 26 a year earlier. Altogether 21 of them are in majority foreign ownership, while seven rely on predominantly domestic capital. The insurance sector's share in the total financial sector increased slightly, to 4.4% in 2011. The annual growth of premiums stood at a modest 1.4%, down from a 5.6% rise in 2010. The market was dominated by the non-life insurance segment, which accounted for 83% of the total. *Overall*, the role of the non-banking financial sector remained marginal.

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

Existence of a functioning market economy

Economic recovery has stalled and macroeconomic stability has weakened as domestic and external imbalances increased. Delayed reforms and the economic slowdown have exposed and aggravated structural weaknesses, such as low employment and volatility in prices and exchange rates. State presence and influence in the economy remains significant and has even increased. The private sector continued facing major obstacles. Key laws are in place, but the rule of law remains weak. *Overall*, the functioning of market mechanisms is hampered by distortions, excessive state involvement and legal uncertainty.

Human and physical capital

At present, there is still a large gap between demand for and supply of skilled workforce — with some professions oversupplied and others lacking. Enrolment in education in both primary and secondary schools is high and is increasing over time. The number of people with

higher education is low (currently 6.5 % of the population) but is envisaged to increase sharply in the course of this decade according to the draft education strategy for the period until 2020. Important elements of the strategy are the introduction of mandatory secondary education and the plans to reform vocational training, bringing it closer to the needs of the labour market. To back the achievement of its goals, the strategy envisages an increase in public spending on education to 6% of GDP in 2020, up from 4.2% in 2011. *Overall*, further steps remain to be taken to implement a strategy of reforming the education and training system in order to improve its performance and respond better to labour market needs.

Serbia continues to need significant investments to improve and upgrade its physical infrastructure. Government investments have been constrained by a difficult budgetary situation and declined to 3.5% of GDP. Nevertheless, works on major transport corridors (such as pan-European Corridor X) progressed, albeit slowly, but investments outside the main corridors are lagging behind. Energy efficiency continues to be low and energy infrastructure, in particular electricity generation and distribution, needs further investments. Net FDI more than doubled in 2011, reaching 5.8% of GDP. A large share of the inflows related to a single non-greenfield investment in the retail sector and part of the remaining inflow has benefited from budget subsidies. Besides trade, the other two sectors which attracted most of the FDI were manufacturing and financial and insurance activities. *Overall*, the physical infrastructure needs large investments. Government investments have been constrained by an increasing budget deficit and FDI has been channelled mostly to non-tradable sectors.

Sectoral and enterprise structure

The shares of agriculture and industry edged up slightly in 2011, reaching 10.4% and 27.7% of total value added respectively, while the share of services fell from 63.0% to 61.9%. Employment declined across the three sectors but the fall was more marked in agriculture — its share in total employment dropped from 21.5% in April 2011 to 20.4% in April 2012. The share of industry remained broadly unchanged and employment in services increased to 53.4% of the total. Weak tax and expenditure policies and poor law enforcement, including in the fight against corruption, continue fuelling a sizeable informal sector. *Overall*, the economy continued to be dominated by services and the share of agriculture remained significant. The informal sector is a significant challenge.

State influence on competitiveness

State subsidies reported in 2011 were 6% higher than in 2010, representing 2.6% of GDP. Of the total State aid granted in 2011, only 16.3% was in the form of horizontal aid, 41.1% was for regional aid, 22.1% was sectoral aid, and 20.5% went for agriculture. There was barely any aid to training and to research and development. Most of the aid was given in subsidies (close to 60%) and as tax incentives (31% of total). The state-controlled monopolistic structures remain in a number of sectors (e.g. energy, transport, infrastructure, postal services, telecommunications, broadcasting, agriculture and the environment) and the state continued to subsidise heavily the transport sector, which received almost a fifth of all aid. *Overall*, the state continues to substantially influence competitiveness by providing significant and wide-ranging forms of State aid.

Economic integration with the EU

The EU remains Serbia's main trading partner, accounting for 57.7% of the country's total exports and 55.6% of its total imports in 2011. While the share of exports to the EU has increased somewhat, the share of imports has decreased slightly. The CEFTA countries accounted for 14% of Serbia's trade in 2011, having declined from 14.8% in 2010. The share

of net FDI inflows from the EU in total net FDI inflows reached 88% in 2011. Real gross wage growth, at 0.3% in 2011, was considerably smaller than average labour productivity growth, which translated into a fall in real unit labour costs. In real effective terms (deflated by inflation), the dinar appreciated by 4.4% in 2011. However, by end of July 2012, the real effective exchange rate of the dinar weakened by 8%. *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

No progress can be reported regarding **general principles**. There was no further alignment of Serbia's legislation with Articles 34 to 36 of the Treaty on the Functioning of the European Union and the relevant case law of the European Court of Justice.

There was little progress in relation to **horizontal measures**. The legal framework along the the EU principles and the horizontal *acquis* has been adopted. However, the full alignment of the horizontal legislation remains to be achieved. The overall framework also needs to be completed with the adoption of the remaining implementing legislation on metrology. Two implementing regulations in the metrology field were adopted in June 2012: on emergency measurements and on conditions for performing the verification measuring instruments. The administrative capacity needs improvement, especially regarding further training in the field of metrology. The long-term Quality Infrastructure Strategy for relevant horizontal institutions still needs to be adopted.

Good progress was achieved in the area of *standardisation*. By September 2012, the Institute for Standardisation of Serbia (ISS) had approximately adopted 80% of the European standards (ENs) required for membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC), which the Institute will apply to join in 2013. The total number of standards applied as national ones stood at 18.294; the number of CEN standards applied stood at 11.875, CENELEC standards at 5.231 and ETSI standards at 260, in total 17.366. The number of withdrawn conflicting Serbian standards was 6.395. The ISS has 250 technical committees. The number of full-time employees has increased from 62 to 64. The ISS was certified for information security management systems and for quality management systems to EN ISO standards. The overall administrative capacity of the Institute has improved.

No particular progress can be reported in the area of *conformity assessment*.

Good progress can be reported in the field of *accreditation*. The Accreditation Body of Serbia (ABS) became a full member of the European cooperation for Accreditation (EA) in May 2012, of the International Accreditation Forum (IAF) in December 2011 and of the International Laboratory Accreditation Cooperation (ILAC) in May 2012. It has received the signatory status of the EA Multilateral Agreement in the fields of testing laboratories, calibration laboratories, medical laboratories, inspection bodies and certification bodies for certifying products. It has also broadened its scope of accreditation. The ABS currently has 35 full-time staff members but needs additional qualified human resources. At the end of the reporting period Serbia had 473 accredited conformity assessment bodies.

Little progress can be reported in the area of *metrology*. Serbia still needs to align its legislation to the EU *acquis* on pre-packaging and units for measurements. Overall framework laws are in place, but implementing legislation remains to be adopted. Pursuant to the Law on Metrology, the Directorate for Measures and Precious Metals (DMDM) of the Ministry of Economic Affairs and Regional Development offers time distribution services over the internet as Serbia's national time calibration reference. The Directorate has also increased the number of calibration and measurement capabilities services which are published in the database of the Bureau for Weights and Measurements (BIPM). The Directorate has increased the number of its employees from 120 to 126.

Progress can be reported in the area of *market surveillance*. The adoption of the framework market surveillance law brought this area closer to the 2008 horizontal *acquis*. A new contact point has been designated for the EU's rapid alert system RAPEX. Cooperation amongst different market inspectorate services progressed with the creation of a joint body for the surveillance of chemicals, comprising representatives of the Market, Sanitary and Environmental Protection Inspectorates, and the Chemicals Agency. The Product Safety Council was established and became fully operational as of autumn 2011, comprising representatives of the authorities, chambers of commerce and consumer protection groups. However, market surveillance remains highly fragmented and needs consolidation. Furthermore the Law on General Product Safety needs to be further aligned with the relevant EU *acquis*.

Little progress can be reported in the field of **'Old Approach' product legislation**. Serbia still needs to align its legislation with the *acquis* e.g. on pre-packaging, units for measurements and emissions of pollutants from non-road engines. The alignment of crystal glass and textiles and footwear legislation has been postponed until 2013 and 2014 respectively.

Concerning **'New and Global Approach' product legislation**, progress was made. Serbia has to further align its legislation, e.g. in the field of measurement instruments, non-automatic weighing instruments, toy safety, construction products, cableway installations, recreational craft and noise emissions from outdoor equipment.

No progress can be reported concerning **procedural measures**. Serbian legislation remains to be aligned with the *acquis* in the field of civil firearms and of the return of cultural objects unlawfully removed from the territory of an EU Member State

Conclusion

Some progress was made in the area of free movement of goods. EU standards continue to be adopted and the Serbian accreditation body became a full member of the EA. Serbia has progressed in the adoption of product legislation. Market surveillance remains highly fragmented. Implementation of the legislation, administrative capacity and coordination among institutions need to be enhanced. Overall, preparations in the area of free movement of goods are moderately advanced.

4.2. Chapter 2: Freedom of movement for workers

There has been no progress in the area of **access to the labour market**. The Law on Employment of Foreigners remains to be adopted by the parliament.

Little progress can be reported as regards future participation in the **EURES** (European Employment Services) network. A national vacancy database has not been established yet.

There has been some progress as regards **coordination of social security systems**. An agreement with Bulgaria was approved in the parliament in December 2011. Agreements

were signed with Austria in January 2012 and with Slovakia in March 2012. An electronic system of exchange of information has been established among ex-Yugoslav republics, although for the time being the system operates with Slovenia only. However, public administration resources have remained limited and prevented any development in strengthening the capacity of social security institutions.

No developments were reported in the area of the **European Health Insurance Card**.

Conclusion

There has been some progress in the area of freedom of movement for workers, specifically related to the coordination of social security systems. Further improvements are nevertheless needed and preparations for future participation in EURES must be stepped up. Overall, preparations in this area are moderately advanced.

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

With regard to the **right of establishment**, some progress was made, in particular in relation to registration in the Register of business entities. (*See Chapter 6 — Company law*)

There has been no progress regarding the **freedom to provide cross-border services**. Serbia needs to align its legislation with the Services Directive. The capacity of the administration in charge of the service sector was downsized.

No progress can be reported in the field of **postal services**. The public postal operator remains to be corporatised and its operational processes modernised. The administrative capacity of the Regulatory Agency (RAPUS) needs to be reinforced, in particular its ability to supervise implementation of the regulatory framework.

There was no progress in the area of **mutual recognition of professional qualifications**. Serbia still needs to adopt legislation on the recognition of qualifications for regulated professions.

Conclusion

Little progress was made in the area of the right of establishment and freedom to provide services. Efforts need to be made to align the legislation on the freedom to provide services and also to boost administrative capacity and interinstitutional cooperation. Full alignment with EU postal services legislation remains to be achieved. Overall, in the area of the right of establishment and freedom to provide services, Serbia is moderately advanced.

4.4. Chapter 4: Free movement of capital

Serbia made progress in the area of **capital movement**, with the adoption by the National Bank of Serbia (NBS) of implementing legislation based on the amendments to the May 2011 Law on Foreign Exchange Operations. These decisions further liberalise several types of international transactions. The obligation to notify the Ministry of Economic Affairs when investing abroad was abolished in February 2012.

However, several restrictions remain, including on short-term capital operations and the acquisition of real estate. Agricultural land cannot be owned by foreign individuals or legal entities. Construction land — and properties on such land — can be owned by foreign individuals or legal entities, but only provided that there is reciprocity with the purchaser's home country.

There was no progress in the area of **payment systems**. Serbian legislation largely remains to be aligned with the *acquis*.

There was some progress in the **fight against money laundering**. The Administration for Prevention of Money Laundering (APML) takes part in the Egmont Group and Moneyval meetings on a regular basis. It signed a cooperation agreement in December 2011 with the Securities Commission on the exchange of information in the fight against money laundering and terrorist financing. It also signed memoranda of understanding with the financial intelligence units of Hungary and Estonia in November and December 2011 respectively, and with those of Australia, Belarus, Finland and Columbia in July 2012. The APML adopted guidelines for assessing the risk of money laundering and terrorist financing. It introduced a new internal organisation to optimise its analytical and supervisory capacities in March 2012. However, its capacity has not been reinforced. Its staff numbers are stagnating, no adequate business premises have been provided and the plan to set up a training centre has not yet been implemented.

Conclusion

There was some progress in the area of capital movements, albeit focused on the liberalisation of capital transactions. Further efforts are needed to align the legislation for short-term capital operations, real estate and payment systems with the *acquis*. There has been some progress in the fight against money laundering. In this area, implementation needs to be stepped up. Overall, Serbia's alignment in the area of the free movement of capital is moderately advanced.

4.5. Chapter 5: Public procurement

Some progress was achieved as regards the **general principles**. The Law on Public Private Partnerships (PPPs) and Concessions was adopted in November 2011. It establishes the PPP as a legal instrument for the first time in the Serbian legal system. The law also establishes an intergovernmental Commission for Public Private Partnerships (CPPP) as a collective advisory body. However, the government strategy for upgrading the public procurement system largely remains to be implemented.

There was limited progress regarding the **award of public contracts**. In fulfilling its supervisory role, the Public Procurement Office (PPO) detected irregularities in negotiated procedures representing a total of more than € 28 million in 2011 and € 68 million in the first half of 2012. The CPPP started operating in March 2012 and is supported by a technical secretariat consisting of three employees of the Ministry of Finance and Economy. However, implementing legislation is still missing, and the staff of the Ministry of Finance and Economy needs to be trained on the award of PPP contracts. The Department for Public Procurement in the Ministry of Economy and Finance, which is responsible for legislative initiatives, had its staff increased from 2 to 6 employees.

However, the administrative capacity of the Budgetary Inspectorate of the Ministry of Economy and Finance, in charge of monitoring application of the public procurement law, needs to be strengthened so that it can effectively follow up on the many irregularities detected. In general, tendering authorities do not take appropriate action often enough in cases of established misuse of public money. Overall, institutional cooperation in this field remains weak and needs to be strengthened.

Good progress was made with regard to the **remedies** system. The Republic Commission for the Protection of Rights in Public Procurement Procedure ('Republic Commission'), which is the second-instance body in the procedure for reviewing the award of public contracts, has considerably strengthened its administrative and enforcement capacities. Its staff increased from 9 to 38 employees and it has moved to new, well-equipped offices. With the entry into force of the Law on PPPs and Concessions, the Republic Commission has been given

additional responsibility to decide on complaints in relation to the award of PPPs and concessions. The monitoring and scrutinising of implementation of the Republic Commission's decisions and the notification of cases of non-compliance to the relevant state institutions has stated. The Republic Commission has started to act more transparently by making its decisions public and has set up a new website. However, in general, the work of the Republic Commission is still at an early stage. It needs to build a solid enforcement record, by further ensuring that its decisions are implemented.

Conclusion

There has been some progress in the field of public procurement, particularly in the area of public-private partnerships. Serbia needs to keep up steady efforts to implement its legislative framework on public procurement, and in particular to avoid irregularities in the use of the negotiated procedure. Effective coordination between the main stakeholders, including audit and judicial institutions, needs to be ensured. The enforcement record and administrative capacities of the Budgetary Inspection of the Ministry of Finance in charge of supervision of public procurement needs to be substantially strengthened. Overall, alignment in the area of public procurement is moderately advanced.

4.6. Chapter 6: Company law

Good progress was made in the area of **company law**. A package of new laws and amendments adopted in December 2011 regulates the establishment, organisation and closure of business entities along with their registration and the procedure followed by the Business Registers Agency. These new provisions substantially lower the amounts of capital necessary to establish limited liability companies. The new legislation is meant to simplify the business environment and to further align with EU legislation, thereby facilitating business start-ups.

The Business Registers Agency continues to operate the Register of business entities efficiently.

There was no progress reported in the areas of **corporate accounting** and **auditing**. Full alignment with the Eighth Company Law Directive and with the *acquis* in the area of independent public oversight, quality assurance and investigations remains to be achieved.

Conclusion

Good progress was made in the area of company law, with the entry into force of the new law in February 2012 and the adoption of several amendments to this law. For corporate accounting and auditing, efforts should be stepped up in the areas of independent public oversight, quality assurance and investigations. Overall, alignment in the area of company law is well advanced.

4.7. Chapter 7: Intellectual property law

Good progress was made in the area of **copyright and neighbouring rights**. The Law on Copyright and Related Rights was amended in December 2011 with a view to further aligning it with the *acquis*. Implementing legislation for the Law on Optical Discs was adopted in March 2012 with the aim of reducing the high piracy rate. The Commission for Copyright and Related Rights started taking decisions on tariffs in cases where no agreements were reached with collective rights management organisations.

Good progress has also been made in relation to the legislative framework on **industrial property rights**. The Law on Protection of Trade Secrets was adopted in September 2011. The Law on Protection of Plant Breeders' Rights was amended in November 2011, allowing Serbia to start the procedure for joining the International Union for the Protection of New Varieties of Plants (UPOV). A new Law on Patents was adopted in December 2011. It further

aligns with the *acquis*. However, the 2009 Law on the Protection of Topographies of Integrated Circuits remains to be further aligned with the *acquis*.

Some progress was registered in the field of **enforcement**. The Intellectual Property Office (IPO) conducted a large number of training events for government enforcement agencies and organised promotional activities for stakeholders. No solution has yet been found to the issue of the long-term financial sustainability of the IPO. The Customs Administration of Serbia developed its IT capacity for use in IPR protection. The level of counterfeit goods that it has seized has gone up. The administrative fee for submitting a request for intellectual property rights enforcement has been revoked, leading to an increase in requests. In the course of 2011, the Tax Administration was involved in launching three registers (of producers, of distributors and of software) in collaboration with IPR holders, with a view to facilitating its work and its checks. The Market Inspectorate of the Ministry of Foreign and Domestic Trade and Telecommunications was given the use of twelve warehouses across Serbia for the storage of counterfeit and pirated goods. The number of goods that it confiscated in the first half of 2012 significantly increased with respect to 2011.

However, the number of checks carried out by the Tax Administration has declined. A formal coordination mechanism between the institutions in charge of IPR protection is still lacking. The participation of economic operators and consumers in preventing counterfeiting and piracy remains limited.

Regarding judicial protection of intellectual property rights, the Law on Territorial Organisation of Courts in Serbia still needs to be amended to allow judges to specialise and IPR cases to be concentrated in a limited number of courts. Further specialisation of prosecutors, judges and court panels handling IPR cases remains to be ensured.

Conclusion

Good progress was made in the alignment of Serbian intellectual property law with the *acquis*. The national IPR strategy 2011-2015 is being implemented and capacity has been strengthened. A formal coordination and cooperation mechanism between the institutions in charge of IPR protection still needs to be established. Specialisation of prosecutors, judges and court panels handling IPR cases needs to be ensured. Overall, alignment in the area of intellectual property law is advanced.

4.8. Chapter 8: Competition

Some progress can be reported in the area of **anti-trust and mergers**. The implementing legislation was adopted for applying the competition rules to associations of undertakings and for detecting bid rigging in public procurement procedures. The Commission for the Protection of Competition (CPC) started to apply the leniency programme for parties involved in cartels. The CPC adopted five decisions on restrictive agreements and one decision on abuse of a dominant position. It took five decisions on fines. It approved 73 mergers under the summary procedure and carried out one investigation in which it prohibited a concentration in the sugar production sector. This negative merger decision, as well as a decision on abuse of dominance adopted in 2009, were overturned on appeal on procedural grounds and turned back to the CPC in order to take a new decision. The CPC completed a sector analysis of the oil market in October 2011 and initiated one in the milk sector in August 2012.

The CPC improved its competences in administrative and procedural law. It strengthened its capacity by hiring three economists. International cooperation with a number of peer competition authorities has been established. The CPC has also concluded cooperation agreements with sector regulators, such as RATEL and the Energy Agency.

However, the Law on Competition still contains shortcomings that need to be addressed in the future, not least the short three-year statutory limitation period and the fact that the CPC must pay interest on fines overturned on appeal. The timeframe for in-depth merger investigations could also be extended. Also, sector-specific decrees on price regulation adopted without prior consultation with the CPC may undermine the effectiveness of competition policy in Serbia. The financial plan of the CPC for 2012 was adopted by the government in November 2011. The increase in staff, foreseen in this plan, has however not materialised, due to a lack of office space. With 31 employees, the CPC's capacity remains insufficient. The capacity of the judiciary to assess complex competition cases also needs to be strengthened. Capacity building and advocacy activities among the judiciary as well as with other state bodies that have limited knowledge and awareness of the benefits of competition policy must be stepped up.

There has been some progress in the area of **State aid**. A first comprehensive State aid report was adopted in September 2011. In addition, the government adopted the list of State aid schemes that need to be aligned with the *acquis*. A decree on the rules for granting State aid was amended in December 2011 to broaden its scope to public enterprises. The number of notified State aid measures increased substantially, thanks to increased awareness among relevant State aid grantors at all levels of government. The Commission on State Aid Control (CSAC) took 148 decisions, including 78 conclusions in the *ex post* control procedure. Eight *ex post* control procedures were launched *ex officio*.

However, further efforts are needed to make aid grantors notify their projects before State aid is disbursed and to ensure the timely alignment of existing State aid schemes. The Commission's enforcement record needs to be strengthened and its operational independence is still to be demonstrated. Cooperation and coordination needs to be stepped up between the CSAC and all bodies granting State aid.

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

Conclusion

Some progress was made in the area of competition. The competition authority strengthened its capacity and the State aid authority developed its enforcement record. The record in *ex ante* notifications of State aid measures should be improved. In both the anti-trust and mergers 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

Some progress can be reported in the area of **banks and financial conglomerates**. The preparations for full implementation of Basel II standards have advanced. New decisions on harmonising bank capital adequacy, risk management rules and bank data disclosure with Basel II were implemented by the National Bank of Serbia (NBS) in December 2011. The decision on the classification of bank balance sheet assets and off-balance sheet items was also implemented in December 2011; it aims to ease the burden of supervisory provisions and align with the Basel II regulatory framework. Strengthening of the supervisory capacity of the NBS is ongoing. The amendments to the Law on the NBS adopted in August 2012 will result in the establishment of a specific Authority for the Supervision of Financial Institutions (which include banks, insurance companies and voluntary pension funds), within the NBS.

However, the Basel III requirements have not yet been implemented and alignment with the latest *acquis* on deposit guarantees remains to be achieved.

There was little progress in the area of **insurances and occupational pensions**. Some amendments to the Law on Compulsory Traffic Insurance, which were adopted in October and December 2011, have contributed to further alignment. The amendment to the Insurance Law, which was adopted in December 2011, postponed the separation of composite insurance companies until December 2012. The administrative capacity of the NBS' Insurance Supervision Department was reinforced by the hiring of two new employees. The NBS signed a new memorandum of cooperation with the Insurance Supervision Agency of Slovenia in October 2011. It carried out nine on-site inspections in eight insurance companies in 2011 and three in the first half of 2012. Nine measures requiring the elimination of irregularities were imposed. Alignment with the Solvency II Directive and the rules on occupational pension funds remains to be achieved.

There was no progress in further aligning with the *acquis* in the area of **financial market infrastructure**.

Some progress can be reported in the area of **securities markets and investment services**. The Securities Commission adopted 22 pieces of implementing legislation in order to regulate more precisely the capital market legal framework. Amendments to the Law on Takeovers of Joint-stock Companies entered into force in February 2012. They aim to further align the new Serbian Capital Market Law and Company Law with the *acquis*. The Securities Commission adopted a new statute in September 2011 which defines its organisation, competences and procedures. Its capacity to file criminal charges was extended. It signed a declaration of cooperation with securities regulatory authorities from Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Slovenia in November 2011. However, there has been no progress in further aligning with the *acquis* on rating agencies and on undertakings for collective investment in transferable securities (UCITS).

Conclusion

Some progress was made in the area of financial services. Steps were taken towards implementation of the Basel II requirements. Serbian legislation must be further aligned with the *acquis* and effectively implemented in the medium term. Overall, alignment in the area of financial services is moderately advanced.

4.10. Chapter 10: Information society and media

Some progress can be reported in the areas of **electronic communications and information and communications technology (ICT)**. The General Authorisation Regime applies to all types of communication services since January 2012. The National Regulatory Agency (RATEL) completed the first round of market analysis in 2011 and adopted the specific regulatory obligations for operators with significant market power in November 2011. These cover the seven markets listed in the Commission's 2008 Recommendation and two additional retail markets. RATEL acquired observer status at the Body of European Regulators for Electronic Communications in April 2012. At the end of 2011, the overall broadband penetration per population stood at 13.4% (EU average being 27.7%). Preparations for introduction of the emergency number 112 have started. However, the implementation of laws and competitive safeguards generally lags behind. Decision-making is often not transparent, creating uncertainty for market players. Specialised expertise of judges handling telecom cases needs to be developed. The radio spectrum provisions remain to be aligned with the EU regulatory framework. The parliament adopted in December 2011 a Law on Cinematography directing 10% of RATEL's revenues to 'national cinematography', thereby

constraining its financial independence. The capacity of the units responsible for ICT and digital administration within the Ministry of Culture, Media and Information Society remains insufficient.

In the field of **information society services**, little progress was achieved. A National Broadband Council was set up in April 2012. As regards e-government, in spite of the recent improvements, the overall IT capacity in the country needs to be strengthened, especially at local level. However, the sequencing of transition to digital phases remains to be determined. There is a major digital divide in electronic access and a broadband strategy needs to be finalised. Further alignment with the conditional access and e-commerce EU legislation is needed.

There was little progress as regards **audiovisual policy**, particularly in the implementation of the Media Strategy which aims at aligning with the EU *acquis* in this area. The working groups for drafting the new Law on Public Information and Law on Public Service Broadcasting were set up. The Action Plan for the implementation of the Media Strategy, covering the issue of State aid to the media and its alignment with the *acquis* as of 1 January 2012, remains to be implemented. The government adopted in March 2012 amendments to the Strategy for switchover from analogue to digital broadcasting of radio and television programmes, shifting from a single switchover date, originally scheduled for 4 April 2012, to a phased approach so that the final analogue TV switch-off date is set on 17 June 2015. The first digital network was launched in April 2012 with a digital test signal accessible to 50% of the territory across Serbia, with national broadcasting without analogue signal switch-off. Switchover from analogue to digital signal remains to be fully ensured. Provisions allowing for the financing of certain media from the State budget remain to be brought into line with the EU *acquis* as it constitutes State aid.

Conclusion

Little progress can be noted in the area of information society and media. Regarding electronic communications, the general authorisation regime for telecom providers came into force in full and some key competitive safeguards were introduced. The switchover from analogue to digital broadcasting has begun. However, the telecom regulators' financial independence needs to be improved and Serbia's legislative framework remains to be aligned with the *acquis*. Overall, alignment with the *acquis* in the area of information society and media is moderately advanced.

4.11. Chapter 11: Agriculture and rural development

Limited progress was made regarding **horizontal issues**. The 2012 agricultural budget was increased by 19% compared to the previous year. Direct aid payments account for more than 90% of the support measures. There was an increase in the allocation for rural development measures in the budget. The livestock sector continues to benefit from headage payments and milk subsidies. These are linked to compliance by producers with legislation on animal identification, registration and movement control and participation in national animal health measures. Direct payments will gradually need to be brought into line with EU rules, decoupling direct aid payments from production. Support measures continue to be reviewed and revised on an annual and ad hoc basis. This does not provide security and predictability for producers and processors to engage in the required investments to modernise and prepare for the absorption of future EU assistance and competitive pressures in an increasingly liberalised economic environment. The Agricultural and Rural Development Strategy for the period 2011–2020 has not yet been adopted.

Progress can be reported with regard to establishing a reliable database for policy decisions and monitoring policy impact. Preparations for the agricultural census are ongoing and the census is expected to be carried out in the autumn of 2012. Structures to implement the Farm Accountancy Data Network (FADN) are being established with key responsibilities assigned, core staff appointed and trial data collection under way. Preparations are under way for setting up an Integrated Administration and Control System (IACS).

The Market Inspection Division of the Ministry of Agriculture, Trade, Forestry and Water Management carried out a total of 2,507 inspections in the market surveillance area in 2011, including compliance with technical regulations and product safety. However, administrative capacities in terms of training and material assets remain inadequate.

Preparations in the area of horizontal issues are on track.

Some progress can be reported with regard to alignment with the **common market organisation**. The adoption of legislation in line with the *acquis* is continuing, with the adoption of implementing regulations on fruit juice in October 2011 and coffee and chicory in 2012. Implementing legislation was also adopted in the wine sector, on a vineyard register in September 2011, on quality standards for wine with geographical indication and on labelling in November 2011, and on the testing of grape must, wine and other products in December 2011. Work has begun on viticulture zoning. The vineyard register was opened in June 2012. Three oenological laboratories have been authorised to carry out analyses. However, the capacity of the administration in charge of the wine market organisation needs to be strengthened. A law on spirit drinks is in preparation with a view to aligning with the *acquis* in the spirit sector. Preparations in this area remain at an early stage.

Regarding **rural development**, progress can be reported concerning the preparations for the management and control system under the Instrument for Pre-Accession Assistance in Rural Development (IPARD). The Department for Rural Development in the Ministry of Agriculture, Trade, Forestry and Water Management (MATFWM), which is planned to become the future Managing Authority, is finalising its organisational structure and procedures as provided for in the IPARD programme. The Directorate for Agrarian Payments, which at present has an allocation of 105 posts, needs to strengthen its capacity in order to implement the pre-accession assistance. The capacity of the National Fund and the Audit Authority still needs to be supported so that they can fulfil their role in the implementation of IPARD. Preparations in the area of rural development are on track.

Little progress can be reported in the area of **quality policy**. Efforts have focused on promoting the opportunities which the Law on Geographical Indications offers to producers and processors. Preparations in this area have started.

Progress in **organic farming** is limited. The Ministry established a task force to prepare a national action plan for the development of the organic sector in Serbia over the next 5 years. Preparations in the area of organic farming are at an early stage.

Conclusion

There has been progress in the area of agriculture and rural development, including with regard to agricultural statistics. Structures and resources for the implementation of rural development under IPARD have advanced well, but additional capacity building is still essential. 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

Little progress has been made as regards **general food safety** principles. The Food Safety Law already includes most of the principles required in the *acquis*. Some of the features introduced by the Food Safety Law started to be applied, such as the principle of risk analysis and the implementation of hazard analysis and critical control points (HACCP). Both have to be improved further and associated IT systems need to be upgraded. Both the skills base and the equipment of the authorities responsible for official controls and policymaking have been improved but further strengthening is needed. The process of aligning the labelling of foodstuffs with the *acquis* has started. However, enforcement of the law needs to be improved. The National Reference Laboratories Directorate is severely understaffed and thus unable to perform the duties assigned to it by the Food Safety Law. Preparations in the area of general food safety are moderately advanced.

Some progress can be reported in the alignment and implementation of the *acquis* in the field of **veterinary policy**. Implementing legislation has been adopted in this field along with instructions for applying it. Veterinary IT systems are being upgraded. Serbia started participating in the EU Trade Control and Expert System (TRACES) in January 2012. Instructions were adopted for risk analysis at pig farms based on bio-safety questionnaires. The first three campaigns for oral vaccination of foxes against rabies resulted in the number of registered cases of rabies in wild animals in 2011 falling by 75% in comparison to 2009. A system for the identification and registration of bovines is in place and the registration of sheep and goats has started. However, the registration of sheep and goats and their movements needs to be completed. Preparations in the veterinary field are moderately advanced.

Some progress has been made as regards the **placing on the market of food, feed and animal by-products**. Serbia has adopted and implements new national hygiene rules for food and feed establishments. However, the national upgrading programme for establishments still needs to be prepared. The national system for the management of animal by-products needs to be upgraded in order to comply with EU requirements. In this area, Serbia has started to address its priorities.

Some progress has been made on **phytosanitary policy**. A strategy was adopted for the introduction of a plant passport system, along with a manual for its implementation. Implementing legislation on plant health was adopted in December 2011 and March 2012. However, Serbia's phytosanitary inspection procedures are outdated and need to be improved. The procedure for registering new plant protection products is not yet aligned with the *acquis*. Although parts of the legislation on the placing on the market of plant protection products have been transposed, alignment with the *acquis* still needs to be completed. A pesticide residues monitoring programme meeting EU requirements has yet to be put in place. The capacity of the national reference laboratory and of the regional laboratories for control of seed and seed material and for pesticide residue analysis requires further strengthening to meet EU requirements. Preparations in the area of phytosanitary policy are on track.

There was no progress in the area of **genetically modified organisms**, where Serbia still needs to bring its legislation into line with the *acquis*. This is also one of the conditions for Serbia to become a WTO member. Preparations in this area are at an early stage.

Conclusion

Some progress was made in the area of food safety, veterinary and phytosanitary policy. Further strengthening of the administrative capacity of the institutions involved in monitoring food chain safety, in particular the veterinary, phytosanitary and national reference

laboratories, is needed. Efforts are needed as regards upgrading of food and feed establishments, the management of animal by-products and genetically modified organisms. 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. There has been no progress on the establishment of a national catch certification scheme for imports and exports of fishery products.

No progress can be reported on **structural action** for small-scale commercial fisheries and inland fisheries. Serbia does not have an operational fisheries programme that could be a basis for the introduction of structural measures.

Some progress can be reported in **market policy**. Another export facility was added to the list for exports of fishery products to the EU in 2012. No developments can be reported on establishing producers' organisations and collecting market data. The capacity of the administration dealing with management and control for imports and exports of fishery products remains to be enhanced and brought into line with the obligations of the common fisheries policy.

Some progress can be reported regarding **State aid**. Aquaculture producers received aid to buy juvenile fish, and fisheries organisations are eligible to apply for subsidies for the protection and sustainable use of fish in order to improve the catch per unit effort, the preservation of the diversity of ichthyofauna and the ecological integrity of aquatic systems.

Serbia signed **international agreements** in the veterinary and food safety area, which also covers fishery products, with the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Uruguay, Algeria and Montenegro. Furthermore, an agreement on the protection and sustainable use of the Danube salmon population in the River Drina was signed in March 2012 with Bosnia and Herzegovina.

Conclusion

Some progress can be reported under this chapter with the signing of some international agreements. However, the collection of market data needs to be improved and a national catch certification scheme for imports and exports of fishery products needs to be established. Overall, preparations in the area of fisheries are moderately advanced.

4.14. Chapter 14: Transport policy

Some progress can be reported in the area of **road transport**. The Law ratifying amendments I-VI to the European Agreement on the work of crews of vehicles engaged in international road transport (AETR) and the Law ratifying the Agreement on the international carriage of perishable foodstuffs and on the special equipment to be used for such carriage (ATP) were adopted in December 2011. The digital tachograph system has been introduced and in January 2012 the Road Traffic Safety Agency started issuing memory cards for digital tachographs. The Agency has continued to increase its capacity and 47 of the 65 planned posts are filled. A Road Safety Coordination Body to coordinate work on reducing the number of traffic accidents was established in September 2011. Implementing legislation remains to be adopted to comply with the EU rules on access to the international road market and to the occupation of road transport operator, the driving and rest periods of drivers engaged in domestic transport and the transport safety conditions for tunnels. The transparency of the fees charged

for special transport operations exceeding the permitted vehicle dimensions, total mass and axle load needs to be ensured. Further alignment with recent road safety and dangerous goods *acquis* is still necessary.

There has been little progress in **rail transport**. The further transformation of Serbian railways JSC into a holding with four different daughter companies is on-going. The new Law on railways and the railway safety and interoperability Law have not been adopted. The independence of the infrastructure manager from the railway operator, fair access to the market and transparent infrastructure charging system remain to be achieved. The market remains virtually closed due to the high cost of the license and its maximum duration of one year. The network statement has not been published. The railway regulatory body and independent accident investigation body have not been set up. The Border Crossing Agreement between Montenegro and Serbia needs to be further aligned with the EU legislation.

Some progress was made in the area of **inland waterway transport**. Implementing legislation on the programme, method and cost of a special examination for navigation safety inspectors, and on the format of the official navigation safety inspector's identity card was adopted in February 2012. A Rulebook on the qualification and conditions for obtaining certificate for competence of onboard crew member of merchant inland waterway vessels was adopted in July 2012. The implementation of River Information Services is ongoing also for the River Sava.

Little progress can be reported in the area of **combined transport**. The project documentation for the construction of an intermodal terminal in Belgrade was completed in March 2012.

Good progress can be reported in the area of **air transport**. In all 22 regulations implementing the Law on Air Transport have been published. Some of these provisions amend the responsibilities of the independent body for investigating accidents and serious incidents and the inspection oversight duties of the Civil Aviation Directorate, with the aim to align national law with the relevant EU rules. Implementation of the requirements under the first transitional phase of the European Common Aviation Area Agreement (ECAA) continued. The Law on Obligations and the Basics of Property Relations in Air Transport, aiming to align national provisions with with the EU legislation on passengers' rights, was adopted in November 2011. A specific national body to enforce the law has yet to be established. Provisions aligning with the EU and international rules (Montreal Convention) on air carrier liability in the event of accidents have been introduced. Further national provisions intending the alignment with the Single European Sky legislation has been achieved, in particular concerning the provision of air navigation services (ANS), the methodology for determining and calculating the ANS charges, the regulation of air space management, and the interoperability of the ATM systems. Implementation of the rules on slot allocation, ground handling and airport charges needs to be concluded.

Little progress can be reported in the area of **maritime transport**. The Law on Maritime Navigation has been adopted and entered into force in November 2011.

No progress was made in the area of **satellite navigation**. Serbia has announced its intention to take part in the Galileo satellite navigation programme.

Conclusion

Some progress can be reported in the area of transport policy, particularly in road, inland waterways and air transport. Further strengthening of capacity is needed, in particular for enforcement and inspection. The new Law on Railways and the Railway Safety and Interoperability law need to be adopted. Attention needs to be paid to fair market access;

further efforts need to be made in separation of infrastructure manager and railway operator, as well as a properly defined regulator. *Overall*, Serbia is moderately advanced in its alignment with the *acquis* in the area of transport policy.

4.15. Chapter 15: Energy

Little progress was made as regards **security of supply**. As regards oil stocks, the draft Law on Commodity Reserves, regulating the compulsory reserves of oil and oil derivatives, remains to be adopted. A feasibility study for the Serbian part of the South Stream gas pipeline was completed in April 2012. The company South-Stream Srbija was established in December 2011 to carry out all activities involved in implementation of the project. The feasibility study for construction of the Nis-Dimitrovgrad gas interconnector linking Serbia to Bulgaria has been finalised, but the financing of the project needs to be secured.

As regards **the internal energy market**, little progress was made. The 2011 Energy Law is largely in line with the requirements of the Energy Community but the adoption of implementing legislation is progressing slowly. The unbundling of distribution and supply functions in the publicly owned generation, distribution and supply electricity company Elektroprivreda Srbija (EPS) has not yet been achieved. The electricity market has been opened for all non-household consumers. The energy regulator approved the new methodologies for establishing the costs for connection to electricity and gas transmission and distribution systems and the cross-border capacity allocation rules for electricity for 2012. However, no eligible customers have switched supplier. All eligible customers connected to the distribution system are entitled to be supplied at regulated tariffs until 2013. EPS, holds a de facto monopoly, due to the persistence of regulated prices which are set at levels below the market price. Under the new Energy Law, the tasks and powers of the Energy Agency of the Republic of Serbia (AERS) are largely in line with the second package of the EU energy *acquis*, but the implementation of the new law will require an increase in the AERS' staff and further capacity building. Adoption of the Electricity Market Code is still pending. Serbia needs to start preparing for alignment with the EU's third internal energy market package. The state-owned Srbijagas has not been unbundled. It remains a fully integrated company and is the only wholesale supplier on the market.

Further to the complaint against Serbia issued under the Energy Community dispute settlement mechanism on the absence of compensation for electricity transit to the Kosovo electricity transmission system and market operator (KOSTT) and the allocation of cross-border capacities, the Energy Community Secretariat issued a Reasoned Opinion in October 2011. According to that opinion, Serbia has failed to fulfil its obligations under the Energy Community Treaty. Since then Serbia has not addressed the issue referred to in this opinion.

There has been little progress in **renewable energy and energy efficiency**. The Energy Law is partly in line with the Renewable Energy Sources Directive. Revised feed-in tariffs, which were due by the end of 2011, have not yet been adopted. The administrative procedures for issuing construction permits, licensing and network connections remain the biggest obstacle to the uptake of renewables. Further efforts need to be taken to strengthen administrative capacity and create a regulatory environment that fosters the increased use of renewable energy sources in all sectors. Serbia has not yet adopted the planned framework law on rational use of energy. A first annual programme for financing energy efficiency projects in the public sector was adopted in March 2012, with a budget of € 13 million.

There has been some progress in **nuclear safety and radiation protection**. The Agency for Protection from Ionising Radiation Protection and Nuclear Safety (SRPNA) has issued legislation to implement the Law on Ionising Radiation Protection and Nuclear Safety. The transfer of inspection functions from the line ministries to the SRPNA has not yet been

achieved. Effective financial independence and sufficient levels of staff and funding are needed to ensure that the Agency functions properly, particularly for licensing nuclear facilities. Serbia still needs to adopt a national programme for spent fuel and develop a national strategy for radioactive waste management and the decommissioning of its RA research reactor at Vinča. Further efforts are required to improve the radiological situation at the Vinča site, to abandon the Kalna mine and to improve radioactive waste management at national level.

Conclusion

Little progress can be reported in the area of energy. Further efforts are needed to achieve real market opening, unbundling and cost-reflective tariffs. Framework legislation on rational use of energy as well as legislation on commodity reserves remains to be adopted. The role and independence of the AERS and the nuclear regulator need to be strengthened. As a matter of urgency, Serbia needs to address the issue referred in the Reasoned Opinion of the Energy Community. Overall, preparations in the area are moderately advanced.

4.16. Chapter 16: Taxation

There was little progress on alignment in the area of **indirect taxation**. The law on *excise duties* was amended in December 2011 to further approximate with the *acquis* on tobacco taxation. The excise duties charged on the retail price were increased. The concept of weighted retail price — similar to the one in the EU — has also been introduced, replacing the most popular price as the basis for calculating the minimum excise duty. 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*.

Little progress was achieved in **direct taxation**. Amendments to the Property Tax Law were adopted in October 2011, postponing a tax increase until after 2012. Changes were made to the law on tax on profits in December 2011 to provide certain tax reliefs for companies undergoing financial restructuring. Tax reliefs were introduced for profits generated by production in free zones. The amendments to the Law on Tax Procedure and Tax Administration were adopted in December 2011 aim to strengthen fiscal discipline and clarify some tax procedures. They also allow companies undergoing financial restructuring to pay their taxes in instalments over a longer period.

Some progress was made as regards **administrative cooperation and mutual assistance**. The B-6 (Balkan countries) agreement on cooperation among tax administrations in the region was extended to Croatia. Agreements on avoidance of double taxation were signed with Canada, Georgia and Tunisia in April 2012, while the agreements with Montenegro and Iran came into force as of 1 January 2012.

Progress was made in the area of **operational capacity and computerisation**. The Serbian Tax Administration (STA) has started to implement its corporate strategy for 2011-2015. It adopted in December 2011 the 2012 compliance plan focussing on taxpayers with a poor compliance record. The Large Taxpayers Office has hired an additional 22 staff and has increased the number of taxpayers under its jurisdiction by more than 20%. It has introduced a new operational plan aimed at boosting total tax revenues. The STA started routinely publishing data about its biggest debtors. The Contact Centre — which started operating in 2011 — has become a key customer service unit. As of April 2012, all VAT payers have the option of declaring their tax electronically. However, the IT system needs to be further improved. A better coordination in the STA is necessary.

Conclusion

Some progress can be noted in the area of taxation. The corporate STA strategy is being implemented, but modernisation needs to continue. Tackling the grey economy remains a challenge. Substantial efforts are required to improve the IT system and communication with taxpayers and to further align the legislation on excise duties. Overall, preparations in the area of taxation are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

No progress can be reported in the area of **monetary policy**. The National Bank of Serbia's (NBS) independence has been seriously challenged by the adoption by the Parliament of amendments to the Law on the NBS in August 2012. These amendments, which inter alia force the immediate replacement of the Governor - within 90 days after their entry into force and without proper justification - led to the resignation of the incumbent Governor, one vice Governor and several NBS Council Members. Another amendment violates the EU Treaty by removing the right of judicial review in case of dismissal of the Governor.

As regards **economic policy**, Serbia continues to participate in pre-accession economic policy surveillance. It submitted its 2012 economic and fiscal programme (EFP) in January. This programme covers the period 2012-2014, providing an overview of expected macroeconomic developments. As regards the macroeconomic and fiscal framework, the programme gives a clear overview of past economic developments, in line with the requirements. As regards the structural reforms framework, the programme fails to provide fully convincing action plans as regards the medium-term policy priorities. As a candidate country, Serbia has also been included in the bi-annual Economic Forecast prepared by the European Commission.

As regards fiscal responsibility, the level of public debt has exceeded the maximum set by national legislation at 45% of GDP and is now over 55%. In view of the huge financing needs, the problem of a possible further rise in government debt remains acute. The capacity for economic policy formulation and coordination needs to be further improved.

Conclusion

No progress was made in the area of economic and monetary policy. The amendments to the Law on the NBS seriously challenge the independence of the central bank and thus, constitute a significant step back in the alignment to the EU *acquis*. The capacity for economic policy formulation and coordination needs to be improved. Overall, in the area of economic and monetary policy, Serbia is moderately advanced in addressing the *acquis*.

4.18. Chapter 18: Statistics

Some progress was made in the area of **statistical infrastructure**. A plan for statistical surveys in 2012 was adopted in December 2011. The Statistical Office of the Republic of Serbia (SORS) also adopted the procedure for granting access to non-identifiable individual data for scientific/research purposes. The action plan for harmonisation with the European Statistics Code of Practice based on the results of the Light Peer Review is under timely implementation.

Given the tasks required to comply with the *acquis*, the number of qualified staff at the SORS will need to be increased over the next few years.

There was some progress in the area of **classifications and registers**. The revised classification of activities, NACE rev.2, has been further applied to time series of national accounts. The issue of the regional statistical classification (future NUTS) remains open. This goes beyond the scope of technical expertise and requires a political decision.

There was good progress in the area of **sectoral statistics**. The population census was carried out in 2011; field work has been completed and data processing is ongoing. Preparations for the agriculture census are under way. Implementation of the *acquis* on agricultural statistics needs further attention. As regards social statistics, the survey of income and living conditions (SILC) is about to be introduced. The SORS has to step up preparations for the comprehensive delivery of national accounts data according to ESA 95 and its transmission programme.

Conclusion

Good progress can be reported in the area of statistics. The population and housing census was carried out according to plan. The capacity of the Statistical Office of the Republic of Serbia will have to be reinforced over the next few years in order to allow comprehensive implementation of the statistical *acquis*. Overall, Serbia is moderately advanced in the area of statistics.

4.19. Chapter 19: Social policy and employment

There has been no progress in the field of **labour law**. Further efforts are needed in this area.

There has been some progress in the area of **health and safety at work**. Serbia has adopted rules further aligning its legislation with the *acquis* on exposure to vibrations, to noises and to carcinogens or mutagens at work. The Labour Inspectorate carried out a considerable number of inspections, and training and awareness-raising activities targeting workers and social partners continued. Preparations in this area are well on track.

There has been little progress in the area of **social dialogue**, which continues on a tripartite basis within the Economic and Social Council at national level. The issue of representativeness of member organisations continues to hamper the work of the Council. The Council is still not being consulted on a regular basis on labour-related draft laws, which remains a major problem for its work. An agreement on the minimum wage was signed in April 2012 by all members of the Economic and Social Council. At local level, 18 Economic and Social Councils are in operation, of which two were recently established. However, they lack financial resources, have no work programmes and do not meet regularly. The weakness of employers' organisations at local level is a further obstacle.

There has been some progress as regards **employment policy**. The annual performance agreement between the Ministry of Economic Affairs and Regional Development (MoERD) and the National Employment Service (NES) was concluded in March 2012. The National Employment Action Plan for 2012 has been adopted in accordance with the priorities specified in the National Employment Strategy 2011-2020. Two new measures were introduced in order to address the problems of unemployed people without working experience or qualifications. A specific decision was adopted on co-financing of local employment measures for 134 local employment plans and 15 licences were issued to private employment agencies. Also in 2012, a special public call for inclusion of Roma and people with disabilities in active employment measures was published. The administrative capacities of the MoERD and the NES have been further developed. Employment policy was transferred from the Ministry of Economy back to the Ministry of Labour and Social Policy.

However, the annual budget for active labour market measures was reduced by 14% compared to 2011 and the total allocations for active employment policy continue to represent only 0.1% of GDP. As a result, the 'First Chance' programme, in favour of youth employment, will not be expanded. The coverage of active labour market measures remained limited as only 20% of the unemployed participated in labour market measures and only a third of them became employed in 2011. Employment policies failed to impact meaningfully

on the labour market situation which further deteriorated. Undeclared work remains high, at an estimated 17% of the work force, youth unemployment increased and activity and employment rates decreased, notably for women. 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. Preparations in this area are on track.

There has been some progress as regards preparations for the **European Social Fund**. The MoERD has reorganised the employment department and provided intensive training for all staff. Preparations in this area are on track.

There has been some progress in the field of **social inclusion**. The adoption of implementing legislation on welfare allowances and the introduction of earmarked transfers to local municipal governments for community services have provided a basis for the implementation of the Law on Social Welfare. Social services are being improved. The law has introduced new concepts in terms of accessibility to social services, including the right for beneficiaries to complain. Active measures to increase social inclusion of the Roma have continued. The enrolment rate of Roma children in the education system has increased. 170 Roma teaching assistants have been employed together with 75 health mediators. However, the availability of community-based social services across the country remains limited. The Roma community, one of the most vulnerable groups, is exposed to multiple forms of exclusion and is particularly in need of cross-sectoral coordinated support. The strategy to improve the situation of disabled people for 2007-2015 is being applied. The first results of implementation of the Law on Professional Rehabilitation and Employment of People with Disabilities are positive. Preparations in this area are on track.

No progress can be reported in the area of **social protection**. As a result of the deterioration of the Serbian economy, which has affected many businesses, but also due to insufficiently developed mechanisms of enforcement and control, the pension and health fund deficits have increased further. In the absence of sufficient funds for the payment of pensions, transfers from the budget have become the largest single item on the expenditure side. The health insurance fund has accumulated debt which was estimated to stand at about € 790 million in February 2012. Comprehensive restructuring and reforms are needed in order to regain sustainability. Integrated/cross-sectoral social services need to be further developed. Preparations in this area are not very advanced.

There has been some progress in the field of **anti-discrimination**. The capacities of the Commissioner for the Protection of Equality have been improved. Office space has been provided, and the office has 18 staff. In 2011, the Commissioner issued 98 opinions and 17 recommendations to public authorities for the establishment of equality, and filed charges for violation of the Anti-discrimination Law in three cases. However, further efforts are needed to establish a track record of prosecutions and final convictions for offences related to discrimination. A number of provisions of the Serbian Anti-discrimination Law are not in line with the *acquis*: exceptions granted to religious institutions are too wide, there is no mention of the obligation to provide reasonable accommodation to disabled employees, the definitions of indirect discrimination and instruction to discriminate are not in line with the *acquis*, and the role of NGOs and associations in judicial proceedings is not explicitly provided for. Those most exposed to discrimination are Roma, women, persons with disabilities and the LGBT population. They are frequently victims of intolerance, hate speech and even physical attacks. Public officials have been reluctant to publicly condemn such incidents. Serbian authorities need to develop a proactive approach towards the better inclusion of the LGBT population and a greater understanding across society. Serbia has started to address its priorities in this area.

No progress can be reported on **equal opportunities** between women and men. Implementation of the Strategy for the enhancement of women's position and gender equality (2010-2015) and the related Action plan needs to be followed up better. Implementation of the National Strategy for Prevention and Elimination of Violence against Women should also be continued. Further streamlining of the administrative capacities of bodies dealing with gender equality is needed as women remain exposed to discrimination and lower salaries, pensions and employment rates. Preparations in this area are moderately advanced.

Conclusion

Some progress can be reported in the area of social policy and employment, especially in the fields of employment policy, health and safety at work and social inclusion. However, employment policies in general are affected by adverse economic developments and limited budget allocations and need to be enhanced. Increased efforts are also needed to restructure and reform social protection and regain sustainability. Overall, Serbia has started to address its priorities in this area.

4.20. Chapter 20: Enterprise and industrial policy

Progress was made in the area of **enterprise and industrial policy principles**. A new definition of SMEs was adopted in December 2011 in line with the EU recommendation. The strategy for the development of competitive and innovative small and medium-sized enterprises for the period 2008-2013 continued to be implemented. The SME policy is also part of a number of other strategies, such as the industrial development and regional development strategies adopted in 2011. The Business Council established at the Chamber of Commerce is working well. The SME Council has not been active.

Implementing legislation on measures to prevent delayed payments by the public sector to business operators was adopted in October 2011. It partly aligns Serbian legislation with the Late Payment Directive and sets the maximum deadline for payment at 60 days. So far, the new rules have had a limited effect. Serbia still needs to pass legislation against delayed payments between businesses. Substantial delays in payments between economic operators persist, resulting in their chronic illiquidity.

Regarding **enterprise and industrial policy instruments** progress has been made; Serbia continues to implement the Small Business Act and to participate in other projects under the European Entrepreneurship and Innovation Programme (EIP). However, further efforts are needed in relation to company registration, business incubators and access to finance for SMEs.

The Innovation Fund has started working, providing grants for innovations. The Agency for Regional Development supports the establishment of incubators. The Development Fund has no new funds available for loans, but channels the repayments of old loans into some new projects, such as support for women entrepreneurship.

No progress has been registered in relation to **sector policies**.

Conclusion

Progress was made in the area of enterprise and industrial policy. Serbia implements the Small Business Act in an appropriate manner and other preparations in enterprise and industrial policy are on track.

4.21. Chapter 21: Trans-European networks

Some progress was made in the area of trans-European **transport networks** (TEN-T). Serbia cooperated actively in the implementation of the Memorandum of Understanding on the

development of the South East Europe Regional Transport Network (SEETO). The SEETO transport network has been integrated into Serbia's Strategy for the development of railway, road, waterway, air and intermodal transport from 2009 to 2015. Implementation of the action plan for the construction of road corridor X has advanced. The procurement procedures have started for several remaining sections on the E80 (Nis-Dimitrovgrad) and E75 (Nis-former Yugoslav Republic of Macedonia) motorways and the Belgrade bypass. Several major projects to develop project documentation for rail corridor X are under way or in preparation.

Some progress was made in carrying out infrastructure projects and enhancing navigation conditions on the inland waterways network along the River Danube and the River Sava including River Information Services.

As regards trans-European **energy networks** (TEN-E) little progress was made. The feasibility study and general design for the South Stream gas pipeline were prepared. (*See Chapter 15 — Energy*) Serbia continues to support implementation of the Gas Ring project for south-east Europe. The feasibility study for construction of the Nis-Dimitrovgrad gas interconnector linking Serbia to Bulgaria has been finalized. However, the financing for the project needs to be secured. Concerning electricity, the construction of section 2 (Leskovac-Vranje-border substation) of the electricity line from Nis to the border with the former Yugoslav Republic of Macedonia was completed in November 2011. Construction of the Leskovac and Vranje substations is ongoing. Further project documentation for an interconnection project with Romania, connecting Pancevo (Serbia) to Resita (Romania), is being prepared. As regards oil infrastructure, Serbia continues to support the planned pan-European oil pipeline.

Conclusion

Serbia has made some progress in the area of trans-European networks. It is continuing to develop its transport and energy networks and to participate actively in the work of the South East Europe Transport Observatory and the Energy Community. However, 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

There has been little progress on the **legislative framework** impacting on regional policy. The government adopted in May 2012 the updated Decree on the Decentralised Management of EU Pre-accession Assistance under the Instrument for Pre-accession (IPA). Efforts are needed in all areas relevant for implementation of the cohesion policy in line with the *acquis*.

There has been progress with regard to the **institutional framework**, not least in terms of preparing the operating structures for the implementation of all IPA Components. Units for programming and implementation of IPA have been established. However, efforts are needed to avoid the parallel systems, namely for national policy and for the Cohesion Policy.

Progress can be reported with regard to **administrative capacity**. Serbia finalised preparations under the Roadmap and Action Plan for decentralised management of IPA funds for Components I-IV and in June 2012 submitted the accreditation package for the conferral of management of these Components. Considerable additional efforts are required in order to ensure adequate administrative capacity in line with the future workload.

There has been some progress in the area of **programming**. The Serbian government has further developed the draft Strategic Coherence Framework and the Operational Programmes (OPs) for IPA Components III and IV, providing a good basis for the next financial perspective and the relevant policy areas. Interministerial coordination has improved. Despite

efforts to prepare a pipeline of projects, the lack of strategically developed investment plans remains an obstacle. Projects continue to be selected on an ad hoc basis rather than on the basis of strategic sectoral priorities. Coordination between the operating structures responsible for programming and final beneficiaries, and the capacity of final beneficiaries to develop project documentation in line with the EU standards, are still not sufficient.

Some progress can be reported with regard to **monitoring and evaluation**. The secretariat of the National IPA Coordinator (NIPAC) is responsible for monitoring and evaluating programmes. The sectoral working groups are increasingly taking on more ownership of programming and will be gradually transformed into sectoral monitoring committees.

There has been good progress in the area of **financial management, control and audit**. The Audit Authority now has minimum staffing, including three auditors. Further staffing and improvement of audit capability is required.

Conclusion

Progress was noted in the area of regional policy and coordination of structural instruments. Serbia has completed the preparatory stages for the decentralised management of IPA for four Components. Adequate implementation capacity needs to be further ensured. Programming needs to be improved, especially in terms of preparing a solid project pipeline based on relevant strategies. Overall, preparations in this area are advancing.

4.23. Chapter 23: Judiciary and fundamental rights (*See also Political Criteria*)

Serbia has made only little progress in the area of the **judiciary**.

There was little progress regarding the *independence* of the judiciary. The High Judicial Council (HJC) and the State Prosecutorial Council (SPC) took over the administration of the budget of courts and prosecution services in March 2012. However, the legal framework still leaves room for undue political influence over the judiciary. There were shortcomings in the composition of the HJC. The HJC and the SPC have not yet finalised the appointments of court presidents and public prosecutors. The HJC and the SPC have not yet adopted rules on regular evaluation of the work and performance of serving judges and prosecutors. The foreseen evaluation of the magistrates newly recruited in 2009 for a three year term is in particular pending.

The HJC and SPC finalised the review procedure for non-reappointed judges and prosecutors on the basis of objective guidelines. The review was intended as an additional remedy to address the petitioners' claims without limiting their right to subsequent judicial review by the Constitutional Court. The review was open to external monitoring, based on individual hearings and concluded with individual, detailed, written decisions. However, it was not conducted fully in line with the letter and spirit of the guidelines. Serious procedural shortcomings were identified, including lack of quorum and voting patterns in the HJC. This raised concerns that contrary to the guidelines the ex-officio members (the President of the Supreme Court of Cassation, the Minister of Justice and the President of the Parliamentary Committee for Judicial Affairs), who had participated in the initial reappointment procedure, had substantially influenced the decisions taken on the basis of the review commissions' proposals. Evidence used in the decisions was not always admissible according to the guidelines or was introduced at too late a stage. For these reasons, in two rulings in July 2012, the Constitutional Court revoked all the decisions taken by the HJC and SPC of non-reappointment challenged by the petitioners so far and instructed the HJC and the SPC to reinstate all of them. Cases returned by the Constitutional Court will need to be re-examined diligently and in full accordance with the Constitutional Court's rulings.

The *impartiality* of judges continues to be broadly ensured thanks in particular to automated allocation of court cases, which has now been introduced in all commercial courts and courts of general jurisdiction. In order to enforce *accountability*, the SPC adopted a first set of Rules on disciplinary procedure and liability in July 2012, which needs to be further aligned with EU standards. The HJC has started to investigate and impose penalties in disciplinary cases.

The Judicial Academy has a key role to play in ensuring that professional standards and merit-based principles are applied in the judiciary. A second generation of new students was selected and the Academy provided a variety of in-service training programmes for judges, prosecutors, judicial staff and attorneys. A proper merit-based career system for judges and prosecutors remains to be fully developed. It is still possible to enter the judicial profession, in particular at higher levels, on the basis of unclear criteria without having passed through the Judicial Academy.

A number of laws came into force aimed at improving the *efficiency* of the judiciary and applying international standards in national courts. In 2011, following a new accounting methodology, the courts received 2.23 million new cases, resolved 2.65 million cases and were left at the end of the year with a backlog of 3.34 million cases. However, major imbalances persist in the courts' workload and a comprehensive analysis of the functioning of the new court network is needed. The quality of statistics needs to be improved. Amendments aimed at improving the efficiency of the Constitutional Court were adopted but the Court continued to face a significant and rapidly growing backlog of cases.

Serbia has made little progress on **anti-corruption policy**. The Government has not yet finalised its National Anti-Corruption Strategy for 2012-2016 nor its corresponding Action Plan.

The Anti-Corruption Agency's operations increased, mainly focusing on prevention. The Agency started to implement the 2011 Law on the Financing of Political Activities, and continued to make targeted checks on asset declarations collected and to process cases of dual public functions presenting a risk of conflict of interest. However, the Agency has still to establish a track record of effective checks on party funding and electoral campaign. It also needs to improve cooperation with relevant stakeholders to investigate declarations of assets effectively. There was little action to protect whistleblowers. There has been no further follow-up to the reports of the Anti-Corruption Council on high-profile cases.

The special prosecutor for corruption and organised crime launched new investigations in 115 corruption cases in 2011, while 2770 ones were launched from other public prosecutors' offices during the same period. These included several medium- to high-level cases. Further efforts are needed in order to establish a track record of prosecution and conviction, particularly in high-level cases. The law enforcement bodies need to become more proactive and develop their ability to conduct financial investigations.

Public procurement, management of public enterprises, privatisation procedures and public expenditure remain areas of serious concern, especially in the Health and Education domains, in which independent supervision and capacity for early detection of wrongdoing are underdeveloped. Comprehensive risk analyses for areas vulnerable to corruption are needed. Coordination between all stakeholders needs to be strengthened to ensure effective prevention and handling of corruption cases.

Little progress has been made in the area of **fundamental rights**.

Regarding the *prevention of torture and ill-treatment* the Ombudsman carried out his first inspections acting as the newly designated National Prevention Mechanism. Overcrowding in the *prison system*, poor living conditions in detention facilities, unsatisfactory healthcare and

the lack of adequate and specific treatment programmes are still a matter of concern. The internal control of the police needs to be enhanced. Alternative sanctions need to be introduced on a wider scale. Constitutional guarantees on *access to justice* are in place. Legislation and funding for an effective system of free legal aid still need to be developed. The legal framework providing for *freedom of expression* and the media is in place. Attacks and threats against journalists have decreased slightly but a more comprehensive and proactive approach by the police and the judiciary remains essential. Transparency of media ownership still needs to be fully ensured and the implementation of the media strategy needs to be speeded up. *Freedom of assembly and association* is constitutionally guaranteed and in general respected. The Serbian Constitutional Court developed its case law regarding freedom of assembly. *Freedom of thought, conscience and religion* is guaranteed and generally respected. 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.

There has been some progress relating to *women's rights and gender equality*. Serbia signed the Council of Europe Convention on preventing and combating violence against women and domestic violence. A special telephone line and a new shelter for victims of domestic violence were opened. However, violence against women still remains an area of concern and there is no coordinated collection and sharing of data on violence against women and violence in the family. As regards *children's rights*, little progress has been achieved. A special telephone line for victims of juvenile violence was introduced. Children's rights are unevenly protected. Some Roma children are still being enrolled in special schools. Some progress has been made concerning the *socially vulnerable and/or persons with disabilities*, notably with regard to their promotion, education and inclusion on the labour market and the development of community-based services. There has been some progress in the area of *anti-discrimination policies*. Serbia's anti-discrimination legislation is broadly in line with European standards on combating racism and racial discrimination. The Equality Protection Commissioner's office was active in raising awareness of discrimination and ways of addressing it. Police improved their response to attacks against some groups. However, discrimination based on ethnicity, gender, and sexual orientation remains widespread. Serbian authorities need to develop a proactive approach towards the better inclusion of the LGBT population and a greater understanding across society. No progress has been made regarding *labour and trade union rights*. Several registered trade unions are still not recognised. Concerns remain as to the criteria for social partners' representativeness in the social dialogue which remained limited at both national and local level. Regarding *property rights*, implementation of the 2011 law on restitution has started.

Limited progress has been made regarding *respect for and protection of minorities and cultural rights*. The legal framework is in place and generally respected. Some positive steps were taken to improve the situation of minorities, including the Roma. However, additional efforts are needed to ensure effective implementation of the legislation throughout the territory of Serbia and to address shortcomings. Roma, refugees and internally displaced persons continue to face a difficult situation. Additional efforts are required to comply with international standards on forced evictions.

There has been no progress regarding the *protection of personal data*. The legal and institutional framework is broadly in place. Several provisions of the Law on Protection of Personal Data are not fully in line with EU standards. An action plan implementing the strategy still needs to be adopted. The office of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection, faced with a constant increase in the number and complexity of the cases, still lacks sufficient resources. Further

efforts are needed in order to ensure the collection and processing of personal data in line with EU standards.

There were no developments in relation to **EU citizens' rights**.

Conclusion

There has been little progress regarding the judiciary and fundamental rights. The review of reappointments of judges and prosecutors did not correct the existing shortcomings and was overturned by the Constitutional Court who ordered the reinstatement of all judges and prosecutors that had appealed their non-reappointment. A new strategy for judicial reform, based on a functional review of the judiciary, is needed. Implementation of the legal framework to fight corruption has continued. However, a new Anti-Corruption Strategy and Action Plan are still pending. Stronger political direction, more effective inter-agency coordination and a proactive approach in investigating and prosecuting corruption are needed. Regarding fundamental rights, the legislation is in place and broadly respected. Freedom of expression is in general guaranteed but the implementation of the media strategy needs to be speeded up. Discrimination based on ethnicity, gender, and sexual orientation remains widespread and further measures to fight all forms of discrimination are needed. A proactive approach towards better inclusion of the LGBT population and a greater understanding across society is needed. Some positive steps were taken to improve the situation of minorities, including the Roma, but additional efforts are needed to achieve consistent implementation of the legislation across Serbia. Overall, Serbia has started to address its priorities regarding alignment with the *acquis* in the area of the judiciary and fundamental rights.

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 on-going implementation of the commitments taken, a post visa liberalisation monitoring mechanism has been established. The Commission presented its second monitoring report to the European Parliament and the Council in December 2011 and adopted the third in August 2012. The increase observed in the previous years in the number of unfounded asylum applications by Serbian citizens under the visa-free regime was stopped in 2011, following decisive measures by the Serbian authorities. It nevertheless increased again in the first months of 2012. With more than 13,900 applications in 2011 and more than 5000 in the first seven months of 2012, Serbian nationals remained one of the highest-ranked nationalities of asylum applicants in the EU. This nonetheless corresponded to a 25% decrease in 2011 applications compared to 2010 (more than 17,000 applicants at that time). The number of Serbian citizens finally granted asylum in EU Member States remained stable in 2011 (310) compared to 2010 (315). Efforts to address this issue need to be strengthened. Overall, Serbia is moderately advanced in addressing the unfounded asylum applications by Serbian citizens under the visa free regime.

There has been no progress regarding **migration** management. The number of irregular migrants passing through Serbia and whose final destination is the EU has increased: about 9,500 irregular migrants were registered in 2011, as compared to 2010, when approximately 2,500 were recorded. The 2012 Action Plan for the implementation of the migration management strategy was adopted in May 2012. Coordination amongst bodies responsible for implementing the migration strategy still needs to be improved and sufficient financial means allocated. The readmission agreement between the EU and Serbia continued to be implemented without significant problems, although the capacities and resources for integrating returnees from the readmission process are very limited. Some 5,150 persons were returned to Serbia from an EU Member States in 2011 (3,979 in 2010). Under the Agreement, a new bilateral implementing protocol has been concluded with Estonia. The main countries

from where returns take place are, by decreasing number, Germany, Sweden, Switzerland, Denmark, France and the Netherlands. Overall, migration management in Serbia continues to be moderately advanced.

Regarding **asylum**, no progress has been made. Claims are still temporarily processed by the Border Police Asylum Unit, as the Asylum Office intended to operate as the first-instance body has not yet been formally established. The mandate of the Asylum Commission, the second-instance body, was renewed in September 2012 and its members were appointed. The number of asylum claims has increased. Criteria for verifying safe countries of origin and the list of safe third countries still remain to be fully aligned with the *acquis*. A new reception centre is being built but additional reception facilities for asylum seekers are needed. Capacities and practices, including staff training, need to be improved. A national database for checking personal data and fingerprints of asylum-seekers is still missing. Overall, Serbia continues to be in the early stages of implementing the asylum policy.

There has been some progress on **visa policy**. As regards requirements to be met as of accession to the Schengen area, a new software and a Visa Centre which offers an online, prompt and more transparent procedure in line with the Visa Information System (VIS) has been operational since May 2012.

The list of countries for which a visa is required needs to be brought fully into line with the *acquis*. Overall, Serbia is moderately advanced in aligning its visa policy with European standards.

Progress has been achieved in the area of **external borders and Schengen**. The coordination body for implementing the Integrated Border Management (IBM) strategy has become operational. Serbia has continued to improve the infrastructure and equipment at border crossing points by completing installation of the TETRA system. Additional border police posts have been connected with the central database of the Ministry of the Interior. Serbia has been involved in joint operations, regular exchanges of data and best practices, and training activities with Frontex; it participates in the Western Balkans Risk Analysis Network. International cooperation continued to improve and an agreement between Serbia and Hungary on border control of road, railway and water traffic was signed in January 2012. Police cooperation with Bulgaria has also been enhanced with the establishment of joint patrols on the Serbian-Bulgarian border. However, the revised IBM strategy and its action plan, the protocol on information exchange among services, the concept for joint training among services, and the guidelines for risk analysis in border policing still need to be adopted. Operational coordination between border police, customs and phytosanitary services remain to be improved. Further modernisation and upgrading of equipment and infrastructure is needed, both at border crossing points and for surveillance purposes, including access to relevant Interpol databases. The border police needs to further improve its risk analysis capacities. Overall, Serbia continues to be moderately advanced on border management.

Some progress was achieved regarding **judicial cooperation in civil and criminal matters**. Further efforts were made to streamline practical cooperation, especially at regional level. Agreements were signed in November 2011 with Slovenia on mutual legal assistance in the enforcement of court judgments and with the former Yugoslav Republic of Macedonia on extradition of own citizens. Cooperation continued with Croatia in matters of extradition, enforcement of criminal judgments and war crimes processing. However, further improvements are still needed to ensure practical enforcement of the legal framework. Action is also needed to ensure effective cooperation with Eurojust. Overall, Serbia remains moderately advanced in the areas of judicial cooperation in civil and criminal matters.

Serbia has made progress in the area of **police cooperation and the fight against organised crime**. The law on Police was amended in December 2011 to better define police cooperation at operative level through joint actions, teams and exchange of liaison officers. Measures have been taken to improve the methodology and standards of police work, including an information booklet on anti-corruption for police officers. Cooperation between relevant agencies has improved within the country, in the region and internationally, leading to good results in a number of high-profile investigations into organised crime groups. An agreement on police cooperation was signed with the former Yugoslav Republic of Macedonia in November 2011. A secure link at the Ministry of the Interior has been established for improving cooperation with Albania, Bosnia and Herzegovina, Croatia, Montenegro and the former Yugoslav Republic of Macedonia. The Ministry of the Interior signed an amendment to the bilateral technical agreement with Europol in March 2012 and an expert mission from Europol took place in December 2011. However, organised crime still remains a serious concern in Serbia. Final convictions remain rare. Capacity to carry out complex, in particular financial, investigations needs to be built up. Specialised services, in particular the unit for witness protection, still lack sufficient staff, resources and adequate premises. Cooperation and information flow between law enforcement agencies needs to be improved. Statistical data needs to be harmonised and a centralised criminal intelligence system still remains to be established. Risk assessments and crime mapping need to be used more broadly and intelligence-led policing is to be developed. The capacity of the police to carry out, independently of the security intelligence agencies, certain special investigative measures in criminal investigations needs to be established in line with EU standards. Overall, Serbia is moderately advanced as regards police cooperation and the fight against organised crime.

Regarding seizure of assets, out of 134 requests to confiscate assets, 63 were approved in full, 14 partially and 36 denied in 2011. There was a significant increase in the staff of the Directorate for assets seizure. However, further sustained efforts are needed to enhance the effectiveness of legislation in this area. Coordination between the prosecutors and institutions involved in asset recovery needs to be further improved. The Directorate and the Financial Investigation Unit (FIU) lack sufficient means and technical expertise. Specialised training on financial instruments needs to be provided to judges and prosecutors in order to be able to process adequately data provided by the FIU and open financial investigations when justified.

Some progress was achieved in the fight against money laundering. (*See also Chapter 4 — Free movement of capital*) The number of identified cases of tax fraud and of final convictions for money laundering offences has increased. However, the staff and analytical capacity of the Administration for the Prevention of Money Laundering need to be further built up. The number of suspicious transactions identified remains low and reporting, especially from outside the banking sector, needs to develop. Law enforcement and judicial authorities still lack expertise to handle money laundering cases. 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. Some steps were taken to implement the action plan of the national strategy to combat human trafficking. A temporarily seized house was in October 2011 turned into a safe house for victims of trafficking. However, the strategy and associated action plan remain to be updated. A uniform database for criminal reports and proceedings and a specific monitoring mechanism in this area have not been established. The effective compensation and social inclusion of victims, through a special fund, in line with existing EU standards remains to be ensured. Overall, Serbia is moderately advanced in fighting trafficking in human beings.

Serbia has made little progress regarding the **fight against terrorism**. Within the Security Information Agency, a unit was created for combating international organised crime,

including money laundering and terrorist financing. However, a national database and more efficient information exchange procedures need to be established and inter-agency cooperation improved. Overall, Serbia is moderately advanced in fighting terrorism.

Some progress was achieved concerning **cooperation in the field of drugs**. An interministerial commission for controlled psychoactive substances was established in November 2011. Actions were taken in education and anti-drugs campaigning. A national report on the drug situation and an action plan for a drug information system were developed in cooperation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). The national focal point for EMCDDA, aimed at further improving cooperation and coordination at national level and strengthening data collection, is now operative since February 2012. Good results were achieved in international and regional cooperation and several joint actions led to a number of arrests and drugs seizures at border crossing points with Croatia, Bulgaria and Hungary. Operational information exchanged with Interpol led to successful actions in countering increased activities of some criminal groups. However, Serbia remains on the main drug trafficking routes. The national focal point for European Monitoring Center for Drugs and Drug Addiction, aimed at further improving cooperation and coordination at national level and strengthening data collection, is now operative. Destruction of seized drugs still remains to be ensured. Overall, Serbia is moderately advanced regarding the cooperation in the field of drugs.

Concerning **customs cooperation** (*see also Chapter 29 – Customs Union*), some progress was achieved. The Customs Administration of Serbia (CAS) concluded agreements on international cooperation with Azerbaijan, Belarus and Georgia. Implementation of the integrated border management strategy and action plan has continued. The CAS engaged in joint cases with all 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 and to ratify and implement the ‘Naples II’ Convention on mutual assistance and cooperation between customs administrations. Overall, Serbia is moderately advanced regarding the cooperation in the field of customs.

For **protection of the euro against counterfeiting**, *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 and law enforcement agencies generally have sufficient capacity to carry out standard investigations. Additional efforts are needed to increase capacities to carry out complex investigations and to strengthen coordination between law enforcement agencies and the judiciary. A track record of proactive investigations and final convictions in organised crime cases needs to be built up. Overall, preparations in the area of justice, freedom and security are moderately advanced.

4.25. Chapter 25: Science and research

Some progress has been made regarding **research and innovation policy**. Serbia has taken actions to stimulate innovation and strengthen its research infrastructures. However, public investment in research remains at 0.5% of GDP, below the national target, and the number of researchers has not increased.

Regarding **framework programmes**, Serbia’s participation in the 7th EU Research Framework Programme (FP7) remains good, although further efforts are necessary in order to involve more small and medium-sized enterprises, obtain Marie Curie actions and participate

successfully in the specific programme ideas governed by the European Research Council. Serbia has continued to promote research cooperation with EU and other international partners and is well integrated in a number of key research themes. Serbia participates actively in COST and EUREKA actions. The implementation of the Memorandum of Understanding on scientific and technological cooperation between Serbia and the Joint Research Centre (JRC) is well on track.

Serbia became an associate member of the European Organisation for Nuclear Research (CERN) in February 2012.

Regarding the **European Research Area**, Serbia has started to apply the European Charter and Code of Conduct on the recruitment of researchers. The national Euraxess portal is functioning well. Since May 2012, Serbia is a founding member of a European research infrastructure consortium in the area of nanotechnology and material science – C-ERIC. With respect to the Innovation Union, an Innovation Fund was established delivering grants in support of innovation to companies in the IT, biotechnology, nanotechnology and agro-food sector. Construction of research infrastructure and purchase of scientific equipment has progressed well, but a Research Infrastructure roadmap, in accordance with the European Strategic Forum for Research Infrastructures is still missing. The implementation and monitoring of the action plans and national targets in particular on investment and on mobility of researchers remains generally weak and needs to be improved.

Conclusion

Some progress was registered in the area of science and research. Both public and private investment in research remains low and Serbia generally needs to reinforce its national research capacity and monitoring as well as implement the actions envisaged. Overall, preparations in the area of science and research are on track.

4.26. Chapter 26: Education and culture

Limited progress has been made in the field of **education and training**. Serbia's higher education institutions continue to operate according to Bologna standards. Serbia is one of the leading partner countries in the Tempus programme. It has made some progress as regards the social inclusion of children from marginalised groups, including through the introduction of pedagogical assistants and greater enrolment of Roma children. As regards quality assurance in elementary schools, a new version of the final exam has been introduced and reforms are ongoing.

However, implementation of educational reforms remains slow and the human and financial resources of the Ministry weak. Capacities for sound financial management and control still need to be strengthened in view of Serbia's participation in EU programmes. There has been limited progress regarding the introduction of a National Qualifications Framework in higher education. The Serbian vocational education and training (VET) system needs further reforms and modernisation, including the introduction of new curricula, with a view to responding better to labour market needs.

In the field of **youth** policy, progress has been made in implementing the youth law and strategy. Out of 131 established youth offices across Serbian municipalities, 115 have adopted local action plans. Serbia remains an active participant in the Youth in Action programme with 40 accredited organisations. The Ministry of Youth and Sports has been active in supporting youth volunteering initiatives and providing career guidance to young people across Serbia.

Little progress can be reported in the field of **culture**. Serbia is actively participating in the EU Culture programme. The highest number of applications for the literary translation component of this programme came from Serbia.

Conclusion

Little progress can be reported in the area of education and culture. There was progress in making the education system more socially inclusive, and in introducing quality assurance standards in elementary education. Better implementation of higher education reforms remains a challenge and reforms in the VET sector still need to be speeded up. Financial management and financial control still need strengthening in view of Serbia's participation in the future Education, Youth and Sport programme. Overall, in the area of education and culture, alignment with EU standards is moderately advanced.

4.27. Chapter 27: Environment and climate change

As regards the **environment**, some progress was made with regard to *horizontal legislation*. Serbia adopted its National Environmental Approximation Strategy in October 2011. A Strategy for the Implementation of the Aarhus Convention was adopted in December 2011. A law ratifying Serbia's accession to the Pollutant Release and Transfer Register (PRTR) of the UN Economic Commission for Europe was adopted in October 2011. The National Strategy for Sustainable Use of Natural Resources and Goods was adopted in May 2012. The Serbian Environmental Protection Agency (SEPA) has been designated to host and manage Serbia's E-PRTR database. To date around 60% of the estimated 600 operators that fall under reporting obligations are using the system. Although the alignment with the Environmental Impact Assessment Directive is fully achieved, the implementation needs to be improved, in particular the public consultation process and the quality of the dialogue with the NGOs. Some progress can be reported with regard to *air quality*. The Law ratifying the Protocol on heavy metals and the Law ratifying the Protocol on persistent Organic Pollutants have been adopted in January and March 2012 respectively. Air quality monitoring was further enhanced with the commissioning of a national calibration laboratory for air monitors and an analytical laboratory for air pollutants at SEPA. However, SEPA's capacity and budget for air quality-related work alone is largely insufficient.

Progress can be reported in the area of *waste management*. The Law on Mining and Geological Research regulating the management of mining waste was adopted in November 2011. Implementing legislation on environmentally sound disposal of waste containing persistent organic pollutants was adopted in September 2011. With the adoption of implementing legislation on procedures for the management of TiO₂-containing waste, alignment with the *acquis* on hazardous waste legislation has been largely completed. However, Serbia still needs to fully align with the Waste Framework Directive. Preparation of national plans for specific hazardous waste streams, e.g. asbestos, batteries, accumulators, electrical and electronic equipment, waste oil is progressing well. Concessions for two EU-compliant regional landfills have been granted to private operators. The collection rate of household waste has increased from 60% to 72%. Pilot projects for primary waste segregation have been launched in selected communities. A system of data collection, registration and reporting on waste is operational as part of the national register of pollution sources. However, disparities between urban and rural areas remain. The participation of waste generators in providing relevant data needs to be improved. So far, four landfills were built under a concession agreement.

Some progress can be reported in the area of *water quality*. Serbia has aligned its legislation with EU *acquis* on emission limit values (ELVs) for water pollutants and deadlines for complying with them, as well as on parameters of ecological and chemical status of surface

and of chemical and quantitative status of ground waters. The process of characterising the Serbian part of the Danube River Basin Management Plan has been completed in line with the Water Framework Directive. Progress has been made in the construction of wastewater treatment plants: one waste water treatment plant in Subotica has been completed while the construction of plants in Vrbas, Kula, Leskovac and Sabac is ongoing. Funds and own resources are allocated with priority to waste water collection and treatment. However, the service levels continue to be very low. The capacity of the Ministry of Agriculture's Water Directorate needs to be substantially enhanced.

The Law on Public Utility Services is largely in line with the tariff principles of the Water Framework Directive. However, cost-covering tariffs for water remain to be introduced in the Water Law. The development of the groundwater monitoring network needs to advance.

Little progress can be reported in the area of *nature protection*. Three protected areas (Gutavica, Paljevina, Bukovicka Banja Park) were established in December 2011. Organisation of the work of Natura 2000 stakeholders has been clarified and pilot management plans for selected protected areas have been prepared. The first import and export certificates under the Convention on International Trade in Endangered Species (CITES) were issued and licensing of zoos commenced in line with the provisions of the EU Zoos Directive. However, the administrative capacity in relation to protected areas is insufficient. The involvement of NGOs in the national nature protection effort is lagging behind.

Little progress was made in implementing the legislation on *industrial pollution and risk management*. The integrated approach to permitting must be institutionalised and the administrative capacity strengthened. Thirty four safety reports and emergency plans have been received from operators of upper tier installations belonging to Seveso establishments. The risk management group is sufficiently staffed. However, its administrative capacity remains to be improved.

Good progress can be reported in the area of *chemicals*. The Law amending the Law on Chemicals and the Law amending the Law on Biocidal Products were adopted in December 2011. A joint body comprising three inspectorates, namely the Environment Inspectorate, the Trade Inspectorate and the Sanitary Inspectorate was established. The downstream legislation (annexes) with regard to the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the Classification, Labelling and Packaging of Chemical Products (CLP) and the Biocidal Products Directive (BPD) has been updated to follow the changes in the EU legislation. The helpdesk of the Serbian Chemicals Agency (SHemA) acquired in December 2011 observer status with the European Chemicals Agency. Law enforcement has improved with the implementation of annual plans for the inspection and supervision of industry/manufacturing as regards the classification and labelling of chemicals and biocides. An inspection campaign was performed during the summer. The administrative capacity of SHemA was increased to 42 staff members. However, in September, the Agency was abolished and its activities were transferred to the Ministry of Energy, Development and Environmental Protection. It should be ensured that the agency's transferred competences and administrative capacity are preserved.

There is no progress to report in the area of *noise* pending the designation of competent authorities, the identification of areas for strategic noise mapping and the drawing-up of corresponding action plans.

Regarding *civil protection*, in October 2011 a bilateral agreement on emergency assistance was concluded with Slovakia, and letters of intent were signed with France. In March 2012 a memorandum of understanding on emergency management was signed with Italy. A bilateral

Serbia-Russia humanitarian centre was opened in Nis in April 2012. Cooperation with the EU Civil Protection Mechanism in order to develop a regional approach with a strong EU dimension to disaster prevention, preparedness and response remains to be ensured.

The administrative capacity in the environment sector needs to be strengthened.

In the area of **climate change**, no progress was made on general policy development; a comprehensive climate strategy is still to be developed. Climate considerations are being increasingly integrated in the energy policy, but substantial efforts are required in order to fully integrate climate change into sectoral policies and strategies.

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 did nevertheless not yet put forward a mitigation commitment by 2020. Serbia should consider taking 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. Limited progress was achieved in alignment with climate *acquis*. Serbia took initial steps to identify stationary installations for the purpose of future implementation of an emissions trading system (ETS). All Serbian aircraft operators who participate in the EU ETS have developed and submitted their monitoring plans and CO₂ emission reports for 2010 and 2011. The legislation on geological storage of carbon dioxide, and ozone-depleting substances was partially aligned. In January 2012 the first centre for recovery and recycling of hydrochloric fluorocarbons (HCFCs) was established. Serbia started reflection on a future ETS. Significant efforts are required to strengthen the country's monitoring, reporting, and verification capacities because the respective EU legislation sets the foundation for progress with the entire EU climate *acquis*.

Serbia participated regularly in the climate work under the Regional Environmental Network for Accession (RENA). A successful high level event was organised in February 2012 under RENA on EU-Serbia Climate Cooperation. There continues to be a significant need for awareness-raising at all levels. Initiatives to raise awareness and promote co-operation between stakeholders should be further intensified.

Steps are taken to recruit further staff in the Ministry of energy, environmental development and protection. However, the shortage of administrative capacity and ad hoc inter-institutional cooperation are delaying the preparation and implementation of a climate policy in line with the *acquis*. The administrative structure on climate change should be considerably strengthened, and capacity building support is required in order to address the significant capacity, cooperation and coordination needs in the area.

Conclusions

Some progress has been achieved in the area of the environment. Alignment with the environmental *acquis* and the ratification of international environmental conventions continued. Significant further efforts are needed in order to implement the national legislation, especially in the areas of water management, industrial pollution control and risk management, nature protection and air quality. The strengthening of the administrative capacity should remain a priority. Little progress was achieved in alignment with the climate *acquis*. Considerable efforts are required on awareness-raising on opportunities and challenges of climate action, setting a more strategic approach for the country, aligning with and implementing EU climate *acquis*, as well as strengthening administrative capacity and inter-institutional cooperation. Overall, Serbia has started to address its priorities in the field of the environment and climate change.

4.28. Chapter 28: Consumer and health protection

There has been some progress in the area of **consumer protection**. As regards *horizontal aspects*, cooperation with consumer protection organisations has improved, as have awareness-raising and education campaigns for consumers. However, the administrative capacity of the Department for Consumer Protection within the Ministry of Agriculture, Trade, Forestry and Water Management, and coordination with line ministries and regulatory bodies remain weak. The National Council for Consumer Protection has not been yet established.

There has been no progress as regards *product safety-related issues*. Tools and procedures for the mediation process remain to be strengthened in order to ensure proper and effective enforcement of consumer protection rules and market surveillance. There was no further legal alignment.

There has been some progress with regard to *non-safety related issues*. Legislation on consumer credit has been further aligned with the *acquis*. However, further alignment of the law on protection of users of financial services is required.

There has been no progress in the area of **public health**. Overall financial sustainability of the public health system in Serbia is seriously endangered by the poor financial situation of the public health fund.

There has been no progress in the area of *tobacco control*. Complete alignment with EU tobacco legislation has yet to be achieved.

Little progress has been made in the area of *communicable diseases*. Some case definitions for reporting communicable diseases, including clinical, laboratory and epidemiological criteria, are still missing and EU case definitions have to be progressively adopted. The surveillance and response capacity remains limited and requires modernisation, in particular in the form of human resources and material. More attention is needed for effective implementation of the national HIV/AIDS strategy and awareness raising.

There has been no progress 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.

There has been no progress to report in the field of *mental health*. Administrative capacity is still very weak and inadequate to ensure implementation of the Strategy for the development of mental healthcare. Community-based mental health services should be further supported as an alternative to institutional care, across the life-span. Further action needs to be taken to promote inclusion of people with mental health problems and ensure equal enjoyment of basic human rights and equal access to employment, education and social services.

Regarding *cancer screening*, implementation of the national screening programmes for cervical, breast and colorectal cancers is ongoing. Additional efforts are needed to implement the EU guidelines in this field. There has been some progress in the area of *drug abuse prevention* as regards measures to curb the supply of illicit drugs and also in the provision of needle exchange and substitution treatment in the framework of HIV prevention. There was no development in the area of *alcohol* consumption.

Conclusion

There has been some progress in the area of consumer and health protection. Efforts need to focus on implementing the existing legislative framework and further aligning with the *acquis*. Institutional coordination between the relevant actors and administrative capacity in

both the areas of consumer protection and public health need to be strengthened. Overall, preparations in the area of consumer and health protection are moderately on track.

4.29. Chapter 29: Customs union

There has been good progress on **customs legislation**. The Serbian government amended the decree on customs tariff nomenclature in November 2011 with the aim of aligning it with the 2012 EU Combined Nomenclature and with the liberalisation schedule of the Interim Agreement. Serbia increased duty relief for postal packages in October 2011. However, the rules are still not fully in line with the *acquis*. The Law on the Customs Service remains to be established and the classification practice is to be upgraded to EU standards.

Legislation has been adopted on customs-related security initiatives, including authorised economic operators. This legislation remains to be implemented. A regulation on the application of measures for the protection of intellectual property rights was adopted. However, the Customs Administration of Serbia (CAS) still needs to utilise fully the electronic exchange of data with IPR holders. An adequate legislative framework on cultural goods is to be established. The provisions on cash control remain to be aligned with the *acquis*. Preparations in the area of customs legislation are on track.

There has been some progress concerning **administrative and operational capacity**. The CAS has continued to improve its administrative capacity to effectively enforce the customs legislation. It applied integrity procedures for customs officials and stepped up the fight against corruption. Post-clearance controls and risk analysis systems were further strengthened by adopting a strategy for post-clearance audit, systematisation of procedures and setting up of an electronic database of customs offenders. Auditing has been reinforced and the central customs administration has been authorised to carry out audits of individual customs offices. In December 2011, the State Audit Institution reported on faultless 2010 financial records for the CAS in December 2011. The coordination between CAS and the Ministry of Finance and Economy has also improved and new instructions have been issued on cooperation between the two entities. The CAS is establishing a fully functioning IT system based on interconnectivity between its various departments. Around 90% of customs declarations are submitted electronically and the concept of electronic signature introduced. However, the Customs Declaration Processing System (CDPS) should be renewed or upgraded and a properly equipped and functioning customs laboratory is needed.

In terms of trade facilitation, the CAS implements the system for exchanging pre-arrival information with Bosnia and Herzegovina, Montenegro and the former Yugoslav Republic of Macedonia. It continues to actively engage in international activities concerning the fight against illegal trade in goods (narcotics, oil and cigarettes) and cross-border movement control.

Customs procedures between Kosovo and Serbia have stabilised further since the adoption of two Belgrade-Pristina dialogue agreements on customs stamps and integrated border management (IBM). However, the situation at gates 1 and 31 remains complicated in terms of procedures to be applied. The Serbian side eventually signed the Implementation Protocol on IBM in September 2012, but it has yet to be implemented. In the meantime, the Administrative Border/Boundary Line (ABL) between Kosovo and Serbia remains vulnerable to illicit activities. Trade in goods between Serbia and Kosovo remains handled by the Serbian Tax Administration and its Special Department and not by the Serbian customs. This includes most excise goods. Customs procedures to guarantee the application of the *acquis* at the ABL with Kosovo have yet to be introduced.

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

Conclusion

Serbia made good progress in the area of the Customs Union with the adoption of new laws and sustained efforts to enhance its administrative capacity, in particular in the audit and post-clearance sector. Coordination between the customs administration and the Ministry of the Economy and Finance in charge of customs policy needs to be further improved. Serbia also needs to ensure the proper application of the *acquis* at the ABL with Kosovo. Customs related security legislation should be implemented and the CDPS system renewed or upgraded. Overall, preparations in the area of the Customs Union are well on track.

4.30. Chapter 30: External relations

Some progress was made in the area of the **common commercial policy**. Serbia is in the final stage of the procedure for joining the World Trade Organisation (WTO). However, the finalisation of its WTO membership remains dependent on the pace at which bilateral negotiations are completed, in particular with Ukraine. Serbia also needs to adopt a WTO-compliant law on genetically modified organisms.

The Law on Foreign Trade Transactions was amended in November 2011 in order to harmonise it with the Law on Customs, company law and the Law on Foreign Exchange Transactions. Regarding organisational changes, the group for the foreign trade system and safeguard measures within the Ministry of Foreign and Domestic Trade and Telecommunications has experienced considerable downsizing. No decision introducing final safeguard measures against importers has been taken. No progress was registered in terms of administrative capacity for improved coordination between various ministries.

Concerning the export credits scheme, the Serbian Export Credit and Financing Agency continues to cover both short-term and medium-/long-term export credit insurance.

In relation to dual-use export controls, Serbia continues to participate in relevant international fora and to comply with the European Union list of dual-use goods and technologies. The national control list for dual-use goods and military equipment was adopted and aligned with relevant *acquis*. However, administrative capacities in this area remain insufficient, requiring more staff and training.

In the area of bilateral agreements with third countries, Serbia is currently negotiating a free trade agreement (FTA) with Ukraine. The renegotiation of its trade arrangements with the Russian Federation and Belarus are ongoing, since the two countries now form a customs union with Kazakhstan. Serbia has ratified three more bilateral investment treaties (BITs) with Azerbaijan, Kazakhstan and Indonesia and has signed one with Algeria.

Conclusion

Some progress has been made in the field of external relations. Accession to the WTO is pending the completion of bilateral negotiations. Overall, preparations in the area of external relations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

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

As regards the **common foreign and security policy (CFSP)**, Serbia has significantly improved its record of alignment. When invited to, Serbia aligned itself with 69 out of 70 relevant EU declarations and Council decisions (99% alignment). (*As regards the*

International Criminal Court, see Political criteria 2.3 — Regional issues and international obligations)

Serbia continued to implement the UN Security Council's *restrictive measures*. However, the Law on Restrictive Measures remains to be adopted together with a system for tracking Serbia's implementation of EU restrictive measures.

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

Regarding *non-proliferation*, a first EU-Serbia political dialogue at working level on conventional arms issues took place in April 2012. Serbia applied for membership of the Nuclear Suppliers Group in 2012. Serbia's 2008 application to join the Wassenaar Arrangement on export controls for conventional arms and dual-use goods and technologies is being processed. The National Coordinator for the implementation of the small arms and light weapons strategy was appointed in December 2011. An Action Plan for the implementation of this strategy remains to be adopted. Serbia has yet to fully align with the *acquis* laying down common rules governing exports of military technology and equipment.

Serbia continued to engage actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.). It was designated in February 2012 for the chairmanship of the OSCE for 2015 and in June 2012 for the presidency of the 67th UN General Assembly.

As regards *security measures*, in February 2012 Serbia ratified the May 2011 agreement with the EU on security procedures for exchanging and protecting classified information.

Concerning the **common security and defence policy (CSDP)**, in February 2012 Serbia ratified the June 2011 agreement establishing a framework for Serbia's participation in *civil and military crisis management* operations. Serbia participates in the EU Navfor-Atalanta Somalia operation and EUTM Somalia operation with one member each. Serbia attended the EU Battlegroups conference in April 2012. Following the granting of candidate status, Serbia started to participate in meetings of the EU Military Committee in March 2012.

Conclusion

Serbia significantly improved its alignment with EU declarations and Council decisions in the field of CFSP and showed continued commitment to participate in EU civil and military crisis management operations. Overall, preparations in the area of foreign, security and defence policy are well on track.

4.32. Chapter 32: Financial control

There was limited progress in the area of **public internal financial control (PIFC)**. Implementing legislation on internal audit (IA) and financial management and control (FMC) was further aligned with international standards in December 2011. It now better defines managerial accountability and separation of the roles of a manager and an accountant. The Central Harmonisation Unit (CHU) continued to focus on technical activities, especially training and certification of internal auditors.

However, the PIFC Policy Paper needs updating, because the action plan is largely outdated. Also the Budget System Law needs to be amended, especially regarding provisions on FMC and inspection. Managerial accountability and FMC are still understood in a narrow sense. FMC focuses on the legality and regularity of financial transactions, without explicit consideration of economy, efficiency and effectiveness. More awareness-raising with senior public sector managers is needed to increase their understanding of their specific role and responsibilities in setting up internal control systems and of the role of an internal auditor within their organisation. Preparations in this area are at an early stage.

There was progress in the area of **external audit**. The State Audit Institution (SAI) continued to gradually build up its capacities, and further auditors were recruited. The SAI has now approximately 130 staff, including over 100 auditors. A strategic development plan for 2011-15 was adopted by the SAI Council in November 2011. The SAI continued to work on improving audit methodology. It also further increased audit coverage. However, the SAI Law does not provide for full financial and operational independence in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). The SAI is still in the institution-building phase, as it has only operated for four years. It is under-resourced, and the audit coverage is still rather limited. Performance audit work has not yet started. In addition, according to the requirements of the SAI Law, the SAI continues to have a specific responsibility to submit requests for filing misdemeanour and/or criminal charges to the competent authority. This responsibility, which rather should be part of wider budget inspection activities, takes up some of the SAI's limited resources that could be instead used for additional audit work. Preparations in this area are at an early stage.

There was no progress in the area of **protection of the EU's financial interests**. Serbia has not yet designated an authority as a contact point for cooperation with the European Commission. Preparations in this area are at an early stage.

There was limited progress in the area of **protection of the euro against counterfeiting**. Serbian authorities continued to participate in relevant EU and international training programmes. The National Bank is still in the process of reorganising the procedures for technical analysis and processing of information on counterfeit bank notes and coins in order to act as a national analysis centre. Preparations in this area are not very advanced.

Conclusion

Some progress was made in the area of financial control, particularly as regards external audit. Substantial efforts are needed to develop public sector financial management and control based on the underlying concept of managerial accountability. Overall, preparations in this chapter are still at an early stage.

4.33. Chapter 33: Financial and budgetary provisions

No progress can be reported in the field of **traditional own resources**, the **VAT resource** and the **GNI resource**. (*For progress in the underlying areas, see Chapters 16 — Taxation, 18 — Statistics, 29 — Customs union and 32 — Financial control*)

With regard to **administrative infrastructure**, the administrative capacity of the institutions in the underlying policy areas needs to be further strengthened. Also, a fully operational coordination structure is required in order to ensure the correct calculation, accounting, forecasting, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. Effective tools to fight tax evasion and fraud and reduce the informal economy need to be further developed.

Conclusion

There has been no progress regarding financial and budgetary provisions. The necessary administrative infrastructure, including coordination and organisational and procedural links between various institutions involved in the own resources system, needs to be developed in due time. Overall, preparations in this area are at an early stage.

Statistical Annex

STATISTICAL DATA

Serbia

Basic data							
	Note	2001	2007	2008	2009	2010	2011
Population (thousand)		7 505	7 398	7 366	7 335	7 307	7 276
Total area of the country (km ²)		77 474	77 474	77 474	77 474	77 474	77 474
National accounts							
	Note	2001	2007	2008	2009	2010	2011
Gross domestic product (GDP) (million national currency)		762,178	2,276,886	2,661,387	2,720,084	2,881,891	3,175,025e
GDP (million euro)		12 819	28 474	32 679	28 952	27 968	31 143e
GDP (euro per capita)		1 708	3 849	4 437	3 947	3 828	4 280e
GDP (in Purchasing Power Standards (PPS) per capita)		:	8 188	8 940	8 340	8 406	:
GDP per capita in PPS (EU-27 = 100)		:	33	36	36	35	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		5.3	5.4	3.8	-3.5	1.0	1.6e
Employment growth (national accounts, % change on previous year)		2.0	2.3	1.0	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		3.5	4.5	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	10.1	10.4	9.4	9.9	10.4e
Industry		24.6	22.5	21.9	22.3	22.5	23.0e
Construction		3.3	5.1	5.5	4.8	4.6	4.7e
Services		52.6	62.3	62.2	63.5	63.0	61.9e
Final consumption expenditure, as a share of GDP (%)		104.0	96.9	97.1	99.6	99.8	:
Gross fixed capital formation, as a share of GDP (%)		10.7	24.3	23.8	18.8	17.8	:
Changes in inventories, as a share of GDP (%)		1.0	4.7	6.0	-0.7	-0.5	:
Exports of goods and services, relative to GDP (%)		25.6	30.6	31.4	29.4	36.0	:
Imports of goods and services, relative to GDP (%)		41.3	56.5	58.2	47.1	53.0	:
Industry							
	Note	2001	2007	2008	2009	2010	2011
Industrial production volume index (2005=100)		94.3	108.5	110.0	96.1	98.5	100.6
Inflation rate							
	Note	2001	2007	2008	2009	2010	2011
Annual average inflation rate (CPI, % change on previous year)		93.3	6.5	11.7	8.4	6.5	11.0
Balance of payments							
	Note	2001	2007	2008	2009	2010	2011
Balance of payments: current account total (million euro)		282	-5 053	-7 054	-2 084	-2 082	-2 968
Balance of payments current account: trade balance (million euro)		-2 602	-7 069	-8 501	-5 118	-4 774	-5 514
Balance of payments current account: net services (million euro)		272	-261	-185	18	5	161
Balance of payments current account: net income (million euro)		7	-599	-922	-502	-670	-758
Balance of payments current account: net current transfers (million euro)		2 605	2 876	2 554	3 518	3 356	3 143
of which government transfers (million euro)		652	166	163	197	193	206
Net foreign direct investment (FDI) (million euro)		184	1 821	1 824	1 372	860	1 827
Foreign direct investment (FDI) abroad (million euro)		-14	-692	-193	-38	-143	-122
of which FDI of the reporting economy in EU-27 countries (million euro)		:	-53	-78	-28	-33	-84
Foreign direct investment (FDI) in the reporting economy (million euro)		198	2 513	2 018	1 410	1 003	1 949
of which FDI of EU-27 countries in the reporting economy (million euro)		:	1 813	1 470	808	778	1 690
Public finance							
	Note	2001	2007	2008	2009	2010	2011
General government deficit/surplus, relative to GDP (%)		:	-2.0	-2.6	-4.5	-4.7	-5.0e
General government debt relative to GDP (%)		104.8	31.2	26.9	34.0	43.5	46.5e
Financial indicators							
	Note	2001	2007	2008	2009	2010	2011
Gross foreign debt of the whole economy, relative to GDP (%)		85.6	60.2	64.5	77.7	85.0	77.5e
Gross foreign debt of the whole economy, relative to total exports (%)		407.3	197.3	207.6	265.3	236.2	210.3
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	1)	975	3 141	2 717	2 695	2 401	2 807
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	2)	1 141	4 928	4 459	4 555	3 891	4 663
Money supply: M3 (M2 plus marketable instruments, million euro)	3)	2 101	11 407	11 198	12 573	12 899	14 339

Total credit by monetary financial institutions to residents (consolidated) (million euro)		4 866	10 771	12 926	14 863	17 544	18 995
Interest rates: day-to-day money rate, per annum (%)		:	8.3	18.4	9.5	12.0	8.5
Lending interest rate (one year), per annum (%)		16.9	12.5	20.3	12.0	14.0	12.3
Deposit interest rate (one year), per annum (%)		:	7.5	15.3	7.0	9.0	7.3
euro exchange rates: average of period - 1 euro = ... national currency	4)	59.458	79.964	81.441	93.952	103.043	101.950
Effective exchange rate index (2005=100)	5)	125.6	106.2	105.8	122.1	115.3	127.1
Value of reserve assets (including gold) (million euro)		:	9 634	8 162	10 602	10 002	12 058

External trade	Note	2001	2007	2008	2009	2010	2011
Value of imports: all goods, all partners (million euro)		:	13 501.0	14 316.0	10 386.0	12 475.0	13 925.0
Value of exports: all goods, all partners (million euro)		:	6 615.0	5 157.0	4 094.0	7 067.0	8 058.0
Trade balance: all goods, all partners (million euro)		:	-6 886.0	-9 159.0	-6 293.0	-5 408.0	-5 868.0
Terms of trade (export price index / import price index)	6)	103.1	102.6	97.6	100.9	99.6	99.2
Share of exports to EU-27 countries in value of total exports (%)		:	58.1	48.5	46.7	58.7	59.0
Share of imports from EU-27 countries in value of total imports (%)		:	55.1	51.4	52.9	54.8	53.7

Demography	Note	2001	2007	2008	2009	2010	2011
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		-2.7	-4.7	-4.6	-4.6	-4.8	-5.1
Infant mortality rate: deaths of children under one year of age per 1000 live births		10.2	7.1	6.7	7.0	6.7	6.3
Life expectancy at birth: male (years)		69.6	70.9	71.3	71.4	71.4	71.6
Life expectancy at birth: female (years)		75.0	76.5	76.6	76.7	76.6	76.8

Labour market	Note	2001	2007	2008	2009	2010	2011
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	67.3	67.0	64.7	63.7	64.1
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	55.2	57.8	54.1	51.2	49.2
Employment rate male (20-64) (%)		:	65.1	67.5	63.0	59.2	56.8
Employment rate female (20-64) (%)		:	46.5	48.9	46.4	43.5	41.7
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		42.1	33.5	37.6	35.4	32.8	31.4
Employment by main sectors (%)							
Agriculture	7)	:	20.8e	25.1e	23.9be	22.3e	21.2e
Industry	7)	:	23.4e	19.9e	20.1be	21.0e	21.5e
Construction	7)	:	6.1e	6.3e	5.2be	5.0e	5.3e
Services	7)	:	49.7e	48.6e	50.8be	51.7e	52.0e
Unemployment rate: share of labour force that is unemployed (%)		13.3	18.3	13.6	16.3	19.2	23.0
Share of male labour force that is unemployed (%)		11.5	16.0	11.9	14.8	18.4	22.4
Share of female labour force that is unemployed (%)		15.7	21.2	15.8	17.8	20.2	23.7
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		46.4	43.7	35.2	41.6	46.2	50.9
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		9.0	14.8	9.7	10.5	13.3	16.9

Social cohesion	Note	2001	2007	2008	2009	2010	2011
Average nominal monthly wages and salaries (national currency)	8)	8 691.0	38 744.0	45 674.0	44 147.0b	47 450.0	52 733.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	8)	118.4	266.1	275.7	275.6b	277.4	277.9
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	12.6	11.6	9.3	8.2	8.5

Standard of living	Note	2001	2007	2008	2009	2010	2011
Number of passenger cars per 1000 population	9)	184.2	199.7	201.8	223.2	214.3	230.5
Number of subscriptions to cellular mobile telephone services per 1000 population		251.1	1 142.6	1 194.2	1 351.3	1 357.0	1 399.4

Infrastructure	Note	2001	2007	2008	2009	2010	2011
Density of railway network (lines in operation, per 1000 km ²)		49.2	49.2	49.2	49.3	49.3	49.3
Length of motorways (km)		370	370	465	495	495	595

Innovation and research	Note	2001	2007	2008	2009	2010	2011
Spending on human resources (public expenditure on education in % of GDP)		2.4	3.5	3.6	3.8	3.7	:
* Gross domestic expenditure on R&D in % of GDP		:	:	0.4	0.9	0.8	:
Percentage of households who have Internet access at home (%)		:	26.0	33.2	37.0	39.0	41.2

Environment	Note	2001	2007	2008	2009	2010	2011
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	660.7	:	:	:	:
Electricity generated from renewable sources in % of gross electricity consumption		43.3	37.9	35.1	39.3	37.4	:
Road share of inland freight transport (% of tonne-km)		13.8	15.9	16.3	23.6	27.8	30.5

Energy	Note	2001	2007	2008	2009	2010	2011
Primary production of all energy products (thousand TOE)		:	8 797	9 441	9 487	9 876	:
Primary production of crude oil (thousand TOE)		:	654	652	676	929	:
Primary production of hard coal and lignite (thousand TOE)		:	7 073	7 369	7 330	7 226	:
Primary production of natural gas (thousand TOE)		:	198	231	232	342	:
Net imports of all energy products (thousand TOE)		:	7 260	7 477	5 046	6 320	:
Gross inland energy consumption (thousand TOE)		:	14 996	15 620	14 657	15 093	:
Electricity generation (thousand GWh)		31.0	37.0	37.0	38.0	38.0	:

Agriculture	Note	2001	2007	2008	2009	2010	2011
Agricultural production volume index of goods and services (producer prices, previous year=100)		118.0	92.0e	108.0	101.0	99.4	100.9
Total utilised agricultural area (thousand hectare)		5 077	5 053	5 055	5 057	5 052	5 056
Livestock: cattle (thousand heads, end of period)	10)	1 128	1 087	1 057	1 002	938	937
Livestock: pigs (thousand heads, end of period)	10)	3 587	3 832	3 594	3 631	3 489	3 287
Livestock: sheep and goats (thousand heads, end of period)	10)	1 612	1 756	1 760	1 647	1 604	1 590
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	11)	1 594	1 562	1 548	1 488	1 471	1 445
Crop production: cereals (including rice) (thousand tonnes, harvested production)	12)	9 001	6 212	8 833	9 111	9 280	9 066
Crop production: sugar beet (thousand tonnes, harvested production)		1 806	3 206	2 300	2 798	3 325	2 822
Crop production: vegetables (thousand tonnes, harvested production)		1 283	1 128	1 277	1 257	1 314	1 305

: = not available

- = not applicable

p = provisional

e = estimated value

b = break in series

* = 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) 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.
- 2) The money to M1, supply M2, in addition includes other dinar deposits, both short-and long-term.
- 3) The money supply M3, in addition to M2, includes short-and long term foreign currency deposits (without the so called frozen foreign currency savings).
- 4) 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.
- 5) 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.
- 6) From 2004 onwards the data are not comparable with the previous years as since January 2004 Uniform Customs Document harmonized with EU regulations has been used.
- 7) 2004 - 2009, data were provided according to NACE Rev. 1.1.
- 8) From January 2009, the Statistical Office of the Republic of Serbia is expanding the coverage of units. 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 Affaires excluded the vehicles that were not registered before the given deadline (1 month).
- 10) Since 2006, the reference date is 1 December (instead 15 January as it was before).
- 11) In million litres, includes cows and sheep milk.
- 12) No rice production; since 2005, triticale is included.