Economic Reform Programme for the period 2020-2022

Belgrade, January 2020

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I. OVERALL PUBLIC POLICY FRAMEWORK AND MAIN OBJECTIVES

Owing to a complex set of adequately measured, timely implemented and harmonised macroeconomic measures, the Serbian economy exited the vicious circle in which it found itself in early 2010s. Twin deficits, the threat posed by the high public debt, the unemployment rate among the highest in Europe and double-digit inflation were the challenges which were relatively quickly resolved with success. After attaining fiscal stability and dynamic economic growth rates, the Government of the Republic of Serbia focused on the intensification of initiated systemic reforms, aimed at achieving structural balance of the economy. With these activities, functional shortcomings and constraints will be neutralised, while available resources and capacities will be employed more efficiently, which will accelerate convergence to the advanced countries and ultimately ensure higher standard of living of the population.

The medium–term macroeconomic framework is designed in line with the efforts to preserve the results achieved so far, with concrete investment incentives. Continued foreign direct investment (hereinafter: FDI) inflow growth and significantly higher efficiency of public infrastructural project implementation will be accompanied in the following period by stronger domestic investment, primarily by small and medium-sized enterprises.

In the light of the fourth industrial revolution, apart from concrete reform processes, digitalisation and innovative activity have been recognised as important tools for aligning the structure of the economy with the needs of society and modern civilisation developments. Clear measures have thus been defined and taken with the aim of accelerating the process of digitalisation and promotion of innovative initiatives.

Social inequalities have been identified as an important constraint on economic growth, as well as overall social progress. Education reform, regional dispersion of FDIs, employment incentives for youth as well as vulnerable groups, support to social entrepreneurship, gender budgeting and new increase in the minimum price of labour are only some of the measures that should ensure inclusive growth equitably distributed from the social point of view and resulting in poverty reduction through the established environment characterised by social cohesion.

In February 2018, the Republic of Serbia successfully completed the fiscal consolidation programme which was the focus of a three-year precautionary arrangement with the IMF. With the successful implementation of the programme, the set goals were achieved ahead of schedule. The Government's new economic programme and reform efforts will be supported by the IMF's Policy Coordination Instrument, which includes the advisory role of this institution in a 30-month period, without financial support, since sustained fiscal improvements have been achieved.

It is precisely the attained sustainability of fiscal improvements that has enabled the abolishment of the Law on Temporary Reduction of Pensions, increase in public sector wages, and, above all, significant increase in funds earmarked for investment.

The reduction of burden on the economy has been initiated with concrete measures: raising the personal tax allowance, reducing the contribution rate and changing the method of tax depreciation calculation. Additionally, the reform of the Customs Administration and the Tax Administration will support the process of reducing the burden on economic operators, as well as ensure greater efficiency in combating the informal economy.

The Government also remains committed to full membership in the European Union (hereinafter: EU) as its strategic goal. Chapters 13 – Fisheries and 33 – Financial and budgetary provisions were opened in mid-2018, with two chapters opened in December: Chapter 17 – Economic and monetary policy and Chapter 18 – Statistics, while two chapters were opened in 2019: 9 – Financial services and 4 – Free movement of capital. Regular political and economic dialogue on open issues from the Stabilisation and Association Agreement (hereinafter: SAA) between the European Communities and their member states, on the one hand, and the Republic of Serbia, on the other, as well as the adoption of general and sectoral national development strategies are aimed at Serbia's fulfilment of economic requirements for membership laid down in the *acquis communautaire* in the shortest time possible.

II. IMPLEMENTATION OF THE POLICY GUIDANCE

Fulfillment of Recommendation (Policy guidance – PG) for individual policies as part of the Joint Conclusions on the Economic Reform Program (ERP) 2019-2021, adopted at the ECOFIN Council meeting held on 17 May 2019 in Brussels, within the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, are reflected in numerous reform measures and activities of the Government of the Republic of Serbia.

Table: Fulfillment of Recommendations of the ECOFIN Council for the Republic of Serbia of May 2019

RECOMMENDATION	PROGRESS ACHIEVED
Recommendation 1: **Maintain the identified medium-term budgetary objective close to balance.**	Medium-term Fiscal Framework foresees a deficit of 0.5% of GDP annually throughout the period, as well as a reduction of the share of general government debt to below 50%. These objectives will be reached by containing the growth of the expenditure side of the budget, in particular the largest categories such as wages and pensions. The nominal growth of GDP will outpace that of total general government expenditure.
Contain overall spending on wages and pensions as a percentage of GDP.	During the next three years wages will remain at 2019 level of 9.5% of GDP. As of 2021, pensions will be indexed according to the Swiss formula, which will ensure a 5-6% nominal growth annually in the long term. On the revenue side, the plan is to continue reducing the tax burden, in particular the personal income tax rates and social insurance contributions.
Implement the public sector wage system reform under the 2020 budget covering also security sector employees.	The new wage system for all public sector employees will be put in place in 2020 and ready for implementation in 2021. As part of preparation for this move, a decree setting coefficients in the new wage system is planned to be adopted.

<u>Recommendation 2:</u> **Increase government capital spending supporting long-term growth as a share of GDP in 2019 and over the medium term.**	Medium-term Fiscal Framework provides for an increase in the share of capital spending in GDP to 4.7% in 2022 relative to 4.4% in 2019. The originally envisaged expenditure level in 2019 was 4.2% of GDP, relative to 3.9% of GDP in 2018.
Develop a single mechanism for prioritising and monitoring all investment regardless of the source of financing.	A single methodology / system for managing the planning and implementation of capital projects was adopted in 2019, while in July 2019 the Government adopted a new Decree on Capital Project Management, which enters into force in January 2020, and will apply to all capital projects regardless of the source of financing. During April 2019, the Government of the Republic of Serbia also established the Capital Investment Commission as a key decision maker for capital projects, as foreseen by the new Decree on Capital Project Management. The Capital Investment Commission is composed of representatives of nine ministries and chaired by the Prime Minister of Serbia. Ministry of Finance has established a new Group for Capital Projects Evaluation and Monitoring, published seven new rulebooks foreseen in the Decree on Capital Investment Management, which regulate in more detail the mechanisms foreseen by the Decree, organised training courses and workshops for future capital project beneficiaries and started drafting tender documentation for the development of the Capital Investment Management Information System.
Strengthen the fiscal responsibility framework by improving the system of fiscal rules, increasing its credibility and making it more binding and capable of anchoring fiscal policy.	Fiscal rules are expected to be fully in place in 2020, with implementation beginning in 2021. The Ministry of Finance has established a Working Group responsible for amending the Budget System Law, which contains provisions on fiscal rules. The first step in redesigning fiscal rules was to regulate a new pension indexation method. Fiscal rules will define the level and dynamics of public debt and fiscal result, as well as define the growth of public sector wages and pensions.

<u>**Recommendation 3:**</u> **Continue promoting the use of the local currency inter alia by fostering the development of interbank markets and secondary markets for government securities, and by considering additional ways to enhance long-term bank funding in dinar and hedging instruments.**	The National Bank of Serbia will continue to use its measures to support the dinarisation process. In December 2018, the National Bank of Serbia and the Government of the Republic of Serbia signed a new Memorandum on Dinarisation Strategy, https://www.nbs.rs/internet/english/30/Memorandum_Dinarisation_Strategy_2018.pdf, reaffirming their strategic commitment to further increasing the use of the domestic currency in Serbia's financial system. In order to promote dinar savings, the National Bank of Serbia regularly publishes various analyses and information, pointing out the benefits of saving in local currency. Overall stability resulted in an increase in dinar savings by 22% in 2018 and about 30% in 2019. In addition, in order to encourage greater dinar-denominated lending to businesses, at the end of 2019 the National Bank of Serbia adopted regulations introducing a maximum percentage of new foreign currency-indexed non-earmarked and non-investment loans and foreign currency loans to businesses. In parallel, for purely dinar loans approved to SMEs and sole traders, banks will allocate less capital to cover risk than on the basis of non-dinar and foreign currency-indexed loans, thus, based on more favorable terms, providing additional support for dinar lending to SMEs and sole traders. Further efforts will be invested in improving the currency structure of public debt in favor of the dinar and issuing long-term benchmark dinar securities, expanding the investor base and promoting the secondary market for those securities, as well as their inclusion in the international bond index (JP Morgan GB Index). The process of establishing the primary dealer system and enabling clearing and settlement of dinar securities with Euroclear is in progress.
Implement the measures included in the recently adopted programme for resolving non-performing loans (NPLs) and the related action plan, including those aimed at further	Implementation of the measures prescribed by the NPL Resolution Programme and the related action plan is progressing smoothly and in accordance with the foreseen timeframe. In 2019 the following activities were completed / initiated: In June 2019, the Deposit Insurance Agency (DIA), supported by the Ministry of Finance (MoF), successfully completed the sale of the so-called Pilot Portfolio of claims managed by the Agency in the name and on behalf of the Republic of Serbia and financial institutions in bankruptcy, in the nominal amount of EUR 242

addressing NPLs in state-owned banks and government agencies.	million. This is the first transaction aimed at preparing the so-called Large Portfolio. In September 2019, the DIA, with the support of the MoF, announced the sale of a portfolio of claims in a nominal amount of EUR 1.82 billion, in accordance with the NPL Resolution Programme. The deadline for completion of this measure is the second quarter of 2020. The implementation of additional two measures provided for by the NPL Resolution Programme is underway, involving the preparation of the Corporate Debt Study and prevention of the accumulation of non-performing loans and establishing an internet portal for online auctions of bankruptcy assets, which are planned to be completed in the first quarter of 2020.
Finalise the privatisation and restructuring process of the remaining state-owned banks.	The process of privatisation of Komercijalna Banka is ongoing and is expected to be completed by the mid February 2020. In accordance with the RS Government's Strategy for State-owned Banks, on 21 January 2019, a Working Group was established tasked with transforming Srpska Banka into a specialised financial institution providing all types of financial services and support to the RS defense industry. The preparation of proposals on the scope of business, the specifics of initial capital, contributions of existing shareholders, recapitalisation, cash and non-cash assets is underway, as all this must be regulated by law. Banka Poštanska štedionica a.d. Beograd is in the process of implementing a new strategy, aimed at (i) commercially refocusing the bank to operations with individuals, sole traders, micro and small enterprises, (ii) improving the bank's internal organisation, corporate governance and risk management, (iii) improving IT infrastructure and (iv) implementation of the Business Strategy of the Banka Poštanska štedionica for the period 2020-2022.
<u>Recommendation 4:</u> **Use findings of the smart specialisation exercise to finalise a new industrial strategy.**	In May 2019, a Working Group was established tasked with developing the Industrial Policy Strategy of the Republic of Serbia for the 2021-2030 period and developing the Strategy for Research and Innovation for Smart Specialisation (chaired by a representative of the Prime Minister's Office, whose two deputies are the Assistant Minister in the Ministry of Economy in charge of the work on the Industrial Policy Strategy, and the Secretary of State in the Ministry of Education, Science and Technology Development in charge of the Smart Specialisation Strategy). As

	part of the preparation of the Industrial Policy Strategy, in May and June 2019, 13 public-private dialogues were held across Serbia, involving 363 entities - businesses, business associations, representatives of scientific community, government institutions and city representatives. A report has been prepared on these forums, which, upon the completion of the diagnostic phase, will serve as a basis for defining strategic goals and initiatives for each of the areas of the Strategy. Bearing in mind that public-private dialogue was conducted as part of the preparation of the Smart Specialisation Strategy, reports from both public-private dialogues have been exchanged and will be included as material in the development of the Industrial Development Strategy. On 17 September 2019, the final public-private dialogue was conducted at this stage of the preparation of the industrial strategy, where the findings of public-private dialogues conducted during May and June 2019 were presented and views of all stakeholders exchanged. In December 2019, the Draft Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 was prepared, and put to public debate from December 13, 2019 to January 3, 2020. The stated draft strategy contains a vision, a goal and objectives with a set of measures within the six horizontal areas of intervention. During January 2020, the Government is to adopt the Draft Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, while, by the end of the second quarter of 2020, the process is to be completed, together with the Action Plan and an implementation mechanism.
Adopt specific legislation on the alternative investment vehicles.	At its session on 10 October 2019, the Parliament of the Republic of Serbia adopted the Law on Open Investment Funds with a Public Offering and the Law on Alternative Investment Funds.
Ensure that businesses and all social partners are consulted in time on all drafts of new legislation concerning their operations.	During 2019, the Republic of Serbia significantly improved the legislative framework that regulates and ensures conditions for active participation of the public, both citizens and representatives of the business community and civil society, in the adoption of regulations and public policy documents. Following the adoption of the Law on the Planning System and amendments to Article 77 of

	the Law on Civil Service in 2018, relevant bylaws were adopted last year, creating conditions for public participation in decision-making process from the earliest phase, together with the aforementioned laws. In accordance with the aforementioned regulations, state administration bodies are obliged to announce the beginning of work on new regulations and conduct ex ante analyses that should identify the key problems and potential solutions, as well as to involve the public in these processes through consultations. In addition to consultations that may take place in early stages of drafting regulations, the established legislative framework also foresees the obligation to conduct public hearings for draft regulations and proposals of public policy documents, which represent the final phase in which the public can be involved in these processes. By way of comparison, prior to the changes of the legislative framework initiated by the incumbent Government, the obligation of the state administration bodies to involve the public in drafting regulations existed only for certain categories of laws in the form of a public hearing (in accordance with Article 41 of the Rules of Procedure), but not in the earlier phases, while there was no obligation to consult the public when preparing public policy documents. During 2019, through the Office for Cooperation with Civil Society, 44 calls for consultations and public hearings were conducted, which were carried out in the process of drafting regulations and public policy documents, which is a significant improvement taking into consideration that in 2018 the number of those calls was 31. The aforementioned calls were published on the website of the Office and for the largest number of them, the competent proposers turned to the Office for support in their distribution to the interested public, primarily civil society.
<u>Recommendation 5:</u> **Gradually adjust electricity tariffs to reflect actual costs, including the costs of necessary maintenance and investments to upgrade the energy network and of meeting environmental**	The current methodology for determining the price of access to the electricity transmission and distribution system already provides that the price of access to the electricity transmission and distribution system is determined in such a way as to provide the recovery of justified operating costs, as well as an adequate return of effectively invested funds in the area of electricity transmission and distribution system management in order to to ensure short- and long-term security of supply and sustainable development of the system. The average electricity price for customers who are entitled to a guaranteed supply at regulated prices (households and small

standards and climate goals.	customers) is 7.3 RSD / kWh, excluding taxes and fees, and is 3.9% higher than the current average price. The new guaranteed supply price is effective as of 1 December 2019. Functional unbundling of the transmission system operator (EMS) is complete. AD EMS has been certified as a transmission system operator by the Energy Agency of the Republic of Serbia since 2017, in accordance with the provisions of the Energy Law.
Finalise unbundling of state-owned energy enterprises: **- fully implement the long-delayed unbundling of Srbijagas and EMS,** **- complete the functional unbundling of EPS in a compliant manner,** **- provide third-party access to gas infrastructure.**	The legal unbundling of energy companies in the field of electricity has been completed. The legal unbundling of JP EPS and ODS EPS Distribucija has been completed, and as for the functional unbundling, JP EPS has adopted the Articles of Association, and the Articles of Incorporation of ODS EPS Distribucija have been aligned and adopted. Once the Government of the Republic of Serbia has approved this document, and once it enters into force, conditions will be created for the complete legal and functional unbundling of the distribution system operator. In the previous period, JP SRBIJAGAS continued with its efforts on the unbundling of energy activities in terms of creating business, financial and technical preconditions for the functional and sustainable operation of separate energy entities in open market conditions, in accordance with the decisions and recommendations of the International Monetary Fund and the World Bank, conclusions of the IPA 2013 technical assistance consultant, as well as the Energy Community Secretariat (telemetry system requirement). In that regard, JP SRBIJAGAS is in the process of procuring the telemetry system and the necessary metering platform. In cooperation with the Ministry of Mining and Energy, the Ministry for EU Integrations and the EU Delegation to Serbia, through the mechanism of unallocated IPA funds, discussions are underway on the possibility of securing funding for the intervention: „Metering equipment for TSO Srbijagas“ and „Code Operation Platform“ from unallocated IPA funds. As of 1 October 2019, the transport system operator Transportgas Srbija has been operating independently with more than 250 employees. The transport system operator Transportgas Srbija has relocated its employees who perform the tasks related to transport and transport

	system management to a new location, i.e. to the company headquarters. The regulation of business relations between JP Srbijagas and Transportgas Srbija are ongoing. An agreement on annual and monthly capacity lease has been signed, as well as a lease agreement regulating the lease of property for the purpose of performing the activity of the natural gas transportation system. An agreement on the supply of natural gas for the transportation system is under preparation. Further harmonisation and preparation of a series of documents required for the operation of new companies is forthcoming.
<u>**Recommendation 6:**</u> **Significantly increase funding and the implementation of active labour market measures adjusted to the needs of the unemployed, in particular women, youth, including highly skilled persons.** **Adopt measures to incentivise the formalisation of labour in non-agricultural sectors.** **Reduce the high non-wage labour cost of jobs**	In 2018, RSD 3.65 billion were allocated for the implementation of active employment policy measures, and in 2019 the amount of allocated funds was increased to RSD 4 billion. In the Budget Fund for Vocational Rehabilitation and Employment of Persons with Disabilities was allocated the same amount of RSD 550 million in both years. In 2020, an amount of RSD 3.7 billion is projected for the realization of active employment policy measures, as well as RSD 550 million from the Budget Fund for Professional Rehabilitation and Employment of Persons with Disabilities, which represents a decrease compared to previous years. The National Programme for Combating the Informal Economy in Serbia for 2019 and 2020 and the related Action Plan envisage the extension of the scope of the Law on Simplified Employment in Seasonal Activities to other activities - home support services. The objective is to simplify the tasks of home help staff of limited duration in order for their engagement to be formalised and to simplify the payment of taxes and contributions, and the manner of engagement, as well as to secure the rights of employees in accordance with international standards (implementation deadline: third quarter of 2020). The minimum labour price for the period January - December 2020 has been increased to RSD 172.54 (net) per working hour. The

at the lower sections of the wage distribution.	decision was adopted by the Government in September 2019. The proposed amendments to the Law on Personal Income Tax and the Law on Mandatory Social Insurance Contributions (adopted by the Government on 31 October 2019) relate to: an increase in the non-taxable personal allowance from RSD 15,300 to RSD 16,300 per month (this means that the personal income tax base and the corresponding amount of tax are reduced, thus ensuring lower fiscal burden on labour income earned by individuals) and a decrease in contribution rates for pension and disability insurance from 26% to 25.5%, and will be effective from the beginning of 2020.

III. MACROECONOMIC FRAMEWORK

3.1. FORECASTS FOR THE INTERNATIONAL ECONOMIC ENVIRONMENT

Autumn projections of relevant international institutions point to the materialisation of the downside risks identified in the previous period. The European economy slowed down during the first half of 2019, while the latest indicators indicate that the recovery, projected for the second half of this year, will start later. Trade tensions between individual countries and a possible escalation of protectionism, geopolitical instability due to unresolved domestic issues in some of the developing countries, as well as the prolonged Brexit uncertainties, have resulted in downward revisions of annual growth rates in both advanced and emerging countries. This is accompanied by a reduction of scope for improving prospects as trade costs rise and proposed reforms are not pursued at the desirable pace. Although financial markets in advanced countries remain accommodative, in the event of further intensification of negative trade measures or market shocks, there may be an increase in uncertainty in the financial market. This, coupled with a strong response from the US Federal Reserves (hereinafter: FED) and the sensitivity of financial markets, would affect global currency parities, the volume of capital inflows, and levels of public debt in the emerging countries. The global recovery in the past few years contributed to the improvement of the labour market through wage and employment growth, strengthening balance-of-payments positions, but also expanded the scope for building contingency mechanisms. However, in order to ensure stronger growth and global expansion, consistent implementation of adequate measures and structural reforms is required. Fiscal and monetary policies should be calibrated so as to ensure low, stable and predictable inflation and support output without compromising the public debt trajectory.

According to the IMF analyses, global economic activity has slowed down, with 2019 growth revised downwards from 3.3% in April projection to 3.0% currently, which is the lowest growth since the global economic crisis. Also, the new 2020 projected growth rate of 3.4% presents a 0.2 p.p. decrease. These developments are a result of increasing trade barriers, pronounced trade and geopolitical uncertainties, individual factors that create macroeconomic instability and structural factors such as low productivity growth and aging population in advanced countries. The causes of slower growth could also be found in the rapid and widespread slowdown in manufacturing industry, especially car manufacturing, as well as lower investments and lower demand for capital goods due to imposed trade tariffs. On the other hand, the growth of the service sector, which has maintained the labour market and wage growth, has contributed to the global economic growth. It is worth noting that low global growth has been registered during a period of significantly relaxed monetary policy in both advanced and developing countries. Advanced economies continue to strive for long-term potential with their slower growth. Growth in developing countries remains strong but unevenly distributed, as economies exporting natural resources can expect lower growth. Risks to projection remain significant. Eliminating trade barriers and easing geopolitical tensions should top the list of priorities in the near future. Achieving these goals would increase confidence, accelerate investment, kickstart the stalled global trade and output, which would ultimately have a positive impact on global growth.

In advanced economies, the growth will slow down slightly from 1.7% in 2019 to 1.6% in the medium term. At the same time, expectations for developing countries were lowered by 0.5 p.p. and 0.2 p.p. in 2019 and 2020, respectively. The expected acceleration of their economic activity from 3.9% in 2019 to 4.8% in 2022 has been maintained. Economic growth in the US will be 2.4% in 2019, followed by a predicted slowdown, and then by stagnation, primarily due to the effect of fading fiscal stimulus and shift from an expansionary fiscal policy to a neutral one. The euro area will post a 1.2% increase in economic activity in 2019, while in the medium term, a slight acceleration and stabilisation of growth are expected, due to higher external demand, but with potential risks caused by trade measures and Brexit.

Asian developing countries remain a major driver of global economic growth; however, their impact has been partly mitigated by a slowdown in China due to imposed tariffs and lower external demand. Although Russia's growth for 2019 has been revised downwards, expectations for the rest of the period are better than previously anticipated, and similar can be expected for Turkey. Financial instability in Venezuela, Mexico's problems with investments and Brazil's with ore supply, as well as rising geopolitical tensions in the Middle East and North Africa, are factors that could constrain global growth.

According to the European Commission's autumn forecasts (hereinafter: EC), economic activity in the euro area will continue to grow, but at rates lower than previously forecast. After a 1.1% increase in GDP in 2019, economic growth will reach 1.2% both in 2020 and 2021. The euro area's economic activity in the coming period will grow against the backdrop of low inflation, accommodative monetary policy, neutral fiscal policy and a slightly positive output gap.

Economic activity in the EU is set on a trajectory of modest growth and low inflation, which, coupled with high uncertainty and reduced support from the external environment, has an impact on the manufacturing sector. This year, global growth will find itself on a trajectory usually associated with the onset of a recession. Global trade is stagnant at best, as previously identified risks such as escalation of trade tensions and geopolitical conflicts have materialised, while Brexit issues and high trade policy uncertainty have not been resolved. The main indicators point to weaknesses in global production continuing in the short term.

The euro area growth projection for 2020 has been revised downwards by 0.3 p.p. compared to the May one. Particularly significant are the revisions to Germany's GDP growth projections of 1.0%

and Italy's to 0.4% in 2020, compared to spring projections of 1.5% and 0.7%, respectively. The slowdown in the German economy can be explained by the decline in exports of the manufacturing industry, especially automotive products, lower-than-expected external demand and low investment that will reduce domestic demand. In Italy, moderate growth will be supported by rising external demand and moderate private consumption, while labour market weaknesses will have an opposite effect.

The contribution of domestic demand to the euro area GDP growth is expected to slow from 1.5 p.p. in 2019 to 1.3 p.p. in 2021, driven primarily by slower investment growth. Following the negative contribution of net exports in 2019, they are expected to have a largely neutral contribution in the next forecast period. Private consumption will maintain a 1.2% growth rate over the next two years due to the expected gradual decline in disposable income, while government spending will be at a slightly higher level. Investment is projected to continue to grow, albeit at a slightly slower pace than expected (1.9% in 2021), driven by weaker domestic demand and lower profit margins. Euro area's projected exports growth will be lower than external demand directed towards the euro area, implying market losses and posting a slight recovery from 2.1% in 2020 to 2.3% in 2021. Also, the policy interest rate stagnation and continuation of the ECB's accommodative monetary policy are expected in the coming period, and as early as December 2019 net asset purchase program was reintroduced in order to steer inflation into the target band.

Table 1. Macroeconomic projections for the euro area, changes in comparison to the previous year, %

	Current forecast			Previous (autumn) forecast	
	2019	2020	2021	2019	2020
GDP	1.1	1.2	1.2	1.2	1.5
Private consumption	1.1	1.2	1.2	1.3	1.5
Government consumption	1.6	1.5	1.3	1.4	1.3
Gross fixed capital formation	4.3	2.0	1.9	2.3	2.3
Export	2.4	2.1	2.3	2.3	3.0
Import	3.2	2.6	2.7	2.8	3.3
Employment	1.1	0.5	0.5	0.9	0.8
Unemployment rate	7.6	7.4	7.3	7.7	7.3
Inflation	1.2	1.2	1.3	1.4	1.4
Unit labour costs	2.0	1.4	1.4	1.7	1.5
Fiscal general government result, % GDP	-0.8	-0.9	-1.0	-0.9	-0.9
Gross general government debt, % GDP	86.4	85.1	84.1	85.8	84.3
Current account balance, % GDP	3.3	3.2	3.1	3.3	3.2

Source: Autumn Economic Forecast, November 2019

Despite slowing economic growth, euro area labour market conditions have improved over the past year and employment growth is expected to stabilise in the coming period at 0.5%, with a further decline of unemployment rate to 7.4% in 2020, which is approximately the same as in the previous projection. Short-term indicators point to continued employment growth, but at a more moderate pace, due to the effects of slowing GDP growth, but also due to problems in the manufacturing sector and the weakening effects of high participation rates. The unemployment rate has been on a downward path since 2013 and in 2019 it fell below the pre-crisis level, which, with significant wage growth and low borrowing costs, has enabled relatively stable domestic demand expansion and had a positive impact on growth.

So far, inflation has been on a downward path due to falling energy product prices and the impact of low core inflation. Inflation is projected at 1.2% and 1.3% in 2020 and 2021, respectively. Inflationary expectations remain anchored, as are commodity prices, which, coupled with moderate wage growth, has a curbing effect on price dynamics.

Fiscal policy will give a neutral contribution to growth in the coming period. A slight increase in the fiscal deficit in the euro area is expected from 0.8% to 1%, due to slower GDP growth. The projected decline in revenue is a dominant factor in this expected increase, as growth below potential and relaxed fiscal policies in some member states affect structural revenues, while structural expenditure will remain largely stable. The share of total debt in GDP is expected to continue to decline continuously over the forecast period, reaching about 84% in 2021.

The EU economy is facing a period of significant uncertainty regarding trade and other issues, which will continue throughout the forecast period. Outside Europe, any departure from the assumption that the current trade and geopolitical situation (especially in terms of the US-China relationship) will not escalate could lead to continued slower growth. Also, higher US tariffs on car imports, a significant slowdown in China's growth and oil shocks are some of the potential external risks. Within the EU, any deviation from the prediction that trade relations will not change significantly with the advent of Brexit may slow down projected growth. Also, a significant downside risk to the projection may be the deepening of recession in the manufacturing sector, but also its spillover into the services sector, which would reduce investor confidence and domestic demand, decelerate job creation and ultimately lead to a slowdown in expected growth.

3.2. RECENT MACRO ECONOMIC DEVELOPMENTS

Real sector. According to the data of the Statistical Office of the Republic of Serbia (hereinafter: SORS), a real economic growth of 4.4% was achieved in 2018. The attained economic growth rate exceeded original expectations by 0.9 p.p. The higher-than-projected rate results from the activation of a number of upside risks identified during projection. Even though in the second half of the year the external demand slowed down, part of the internal risks related to agricultural production and the dynamics of construction activity materialised with an intensity that outweighed the exogenous factors. In line with these developments, observed from the expenditure part of GDP calculation, the investments represent the most significant source of additional growth.

According to quarterly SORS data, GDP growth in the first two quarters of 2019 was 2.7% and 2.9%, respectively. The growth achieved in the first half of the year is slightly below expectations; however, the temporary character of the decelerating factors, located primarily in the oil and chemical industry, was clearly identified. Namely, the regular planned overhauls in the leading companies in these activities resulted in negative growth rates of the overall industry in the first two quarters of 1.4% and 2.0%, respectively, which in the first half of the year made a negative contribution of 0.8 p.p. On the other hand, the growth of economic activity in the first six months of 2.8% was determined by the stable growth of the service sector by 3.7% and the dynamic increase in construction by 14.6%, as well as by agricultural production which was at the level from the previous year. In terms of use components, growth in the first half of the year was driven by an increase in household private consumption due to improvements in the labour market, both through employment growth and wage growth, as well as due to intensive investment activity.

The third quarter of 2019 confirms the temporary nature of the slowdown. The oil and chemical industries are recovering, with the total industry segment recording a real year-on-year growth of 2.0%. The service sector is accelerating and is up by 4.2% relative to the same quarter of last year. The continuation of the investment cycle, both through the activities of the private sector and the intensified infrastructure works by the government, was the driver of growth in construction by as much as 34.7%. In the third quarter, the agricultural sector recorded the same result as last year. These developments determined the growth of total economic activity in the third quarter by 4.8%, a result rendering the projected annual growth rate of 3.5% achievable. It should be borne in mind that due to the materialisation of a number of upside risks in the last quarter, the projected growth rate for 2019 may be exceeded.

Viewed by use components, investment activity is a dominant economic growth driver, with a contribution of 3.5 p.p. Improvements in the labour market continued, resulting in a 3.1% increase in household private consumption. There was also a slight improvement in the effects of foreign trade, which is reflected in the reduction of the negative impact of net exports on GDP growth.

High-frequency indicators for the first ten months also indicate an acceleration of economic activity in the second half of the year. The physical volume of the total industry in this period decreased by 0.7% y-o-y. The slowdown effect from the first half of the year is still noticeable, but the results recorded in recent months indicate a recovery primarily for the oil and chemical industry. The growth drivers of the industry were the metal and pharmaceutical industry, supported by a larger volume of production of rubber and plastic products. A significant slowdown in this period also came from the food industry, which recorded a 4.4% decline, largely as a result of Pristina's prohibitive measures. At the same time, the electricity sector had a neutral influence on the path of total industrial production. The service sector is growing steadily and is still the dominant economic growth engine. In the January-October 2019 period, relative to the same period of the previous year, the retail trade volume was 8.9% higher in real terms. In terms of constant prices, the highest growth of 10.2% was posted by non-food product trade. The volume of trade in food, beverages and tobacco increased by 8.4%, while the sale of motor fuels increased by 7.6%. Over 3 million tourist arrivals and over 8 million overnight stays were registered in this period, an increase by 6.4% year-on-year. In the January–September period, foreign currency inflow from tourism amounted to EUR 1,042.7 million, up by 7.5% year-on-year, while the catering industry sales increased at the same time by 9.4% in real terms.

Labour market. Economic growth, coupled with a favourable investment environment, newly opened and expanded production facilities, as well as active employment and self-employment policy measures, have had a positive impact on the labour market, which saw a decline in unemployment since 2014. Also, from 2019, the employer's obligation to pay unemployment insurance contributions was abolished, thus reducing the tax wedge on net wages. Year 2019 saw exceptionally favourable developments in the labour market. According to HBS data, the year-on-year unemployment rate in the third quarter was reduced by 1.8 p.p. to a record low of 9.5%. At the same time, total employment was up 0.3%, with a formal employment increase by 56.2 thousand and a drop in informal employment of 46.7 thousand, which is primarily a result of efficient operation of inspection services in combating the informal economy. In addition to a significant decrease in the unemployment rate and growth in the total number of employees, structural improvements in the labour market were also recorded. Improvements are also evident in the structure of the labour market, so in the female population, the unemployment rate was 10.8%, down by 1.4 p.p. relative to the same quarter of 2018, and the long-term unemployment rate decreased by 1.6 p.p. to 5.2%. The favourable labour market developments are also confirmed by data from CROSO (Central Mandatory Social Insurance Registry), according to which, in the January-October period, the number of employees increased by 47.4 thousand, or 2.3%, on a year-on-year basis. This is entirely a result of an increase in the number of employees in the private sector by 54.0 thousand, while public sector employment decreased by 6.6 thousand. By sector, the manufacturing sector ranks first, employing 14.8 thousand new workers, followed by construction, with 9.3 thousand. Also, another confirmation of the good results in the labour market is the National Employment Service (NES) data, according to which in the January-October 2019 period, the number of unemployed persons decreased by 54.9 thousand, or 9.3%, y-o-y.

Positive wage developments continued at a faster pace in 2019, which, in addition to fiscal relaxation, was also driven by an increase in the minimum hourly wage. Thus, in the January-September period, average net wage increased nominally by 10.1%, and in real terms by 7.9% y-o-y, to RSD 54,194. Largely as a result of fiscal relaxation measures, real wage growth in the public sector was 7.6% and was supported by an increase in private sector wages of 8.4%. In terms of sectors, the largest contribution to the growth of average wage, as in 2018, came from manufacturing and trade.

External sector. Serbia reduced its current account deficit from 10.9% of GDP in 2012 to 5.2% of GDP in 2018 in the last eight years. The current account deficit is expected to fluctuate at around 5.9% of GDP in 2019, which would mean that for the seventh consecutive year, Serbia will achieve a current account deficit that is lower than the current account deficit which is considered sustainable in the medium term, estimated at 6-8% of GDP. In addition, for the fifth consecutive year, the current account deficit is more than fully covered by the net inflow of foreign direct investments (FDIs).

In the nine months of 2019, the current account deficit stood at around EUR 2.3 billion (6.9% of GDP) and increased by 39.3% compared to the same period of the previous year, primarily due to a 13.4% increase in the trade deficit (to EUR 4.0 billion), which is largely a result of the investment cycle in the country and, consequently, the greater demand in the economy for raw materials and equipment, and, to a lesser extent, of the growth of consumer demand. The service trade surplus (of EUR 807 million) increased by 5.9% in the observed period and was driven by growth in net exports of information and communications technologies – ICT (31.9% y-o-y) and other business services (21.2% y-o-y). The deficit in the primary income account (EUR 1.8 billion) increased slightly (1.7%) due to outflow growth outpacing inflow growth. In the outflow structure, outflow related to FDIs increased by 2.7% y-o-y in comparison with the same period of the previous year, while outflow related to portfolio investments decreased by 4.0% y-o-y, primarily due to the repayment of Eurobonds maturing, and the swap of Eurobonds maturing in 2020 and 2021 with new bonds at a significantly more favourable interest rate. The secondary income surplus (EUR 2.7 billion) was reduced by 6.2% y-o-y, primarily due to a lower net inflow of other transfers (by EUR 241.3 million y-o-y), as a consequence of the introduction of fees of 100% on products sold in the Autonomous Province of Kosovo and Metohija, while remittance inflows remained virtually unchanged compared to the previous year. It is estimated that in the observed period in 2019, the terms of trade remained practically unchanged, as import and export prices recorded a similar increase (0.6% vs. 0.5%).

The dynamic growth of goods exports continues despite the fall in demand from our main foreign trade partners (euro area and CEFTA Parties). This was contributed to by the improvement of the business environment and implementation of FDI projects from previous years, and during the nine months of 2019 goods exports increased by 8.5% y-o-y, characterised for some time by greater production and geographical diversification. The export driver is manufacturing industry with an export growth of 6.4% y-o-y in the first nine months of 2019. The largest positive contribution to export growth came from exports of electrical equipment (26.9% y-o-y, contribution 2.1 p.p.), miscellaneous machinery and equipment (22.6% y-o-y, contribution 1.2 p.p.), followed by agricultural production, hunting and related service activities (22.0% y-o-y, 1.2 p.p.), as well as rubber and plastic products (11.2% y-o-y, contribution 1.0 p.p.). On the other hand, exports of motor vehicles and trailers decreased (5.0% y-o-y, contribution –0.7 p.p.), as well as oil products (11.5% y-o-y, contribution –0.3 p.p.) due to the overhaul in the oil company, which lasted for most of the observed period.

Imports of goods increased by 9.7% y-o-y, while maintaining their favourable composition, since most of the growth in imports (about 60%) is the result of growth in imports of equipment and raw material, and to a lesser extent consumption. The increase in imports of raw material (6.3% y-o-y), primarily base metals, metal ores, coke and oil products, contributed to total goods imports with 3.6 p.p., the increase in equipment imports (13.5% y-o-y) contributed with 1.7 p.p., while consumer goods (14.8% y-o-y) contributed with 2.7 p.p.

The financial transaction account (excluding changes in foreign reserves) in the January-September 2019 period recorded a net inflow of EUR 3.3 billion, with FDI accounting for most of this inflow. The net inflow from FDIs in the first nine months of 2019 amounted to EUR 2.7 billion (an increase of 35.1% y-o-y) and more than fully covered the current account deficit (118.9%). According to flash nine-month estimates, FDI inflows remained diversified in terms of projects and mostly focused on the manufacturing industry (26%), construction (24%), financial sector (15%) and transport (11%). Broken down by country, the largest part of FDIs came from the EU member states (54%), non-EU European states (33%) and Asian countries (8%). According to projections, in 2019 net FDI inflow is expected to reach EUR 3.3 billion (7% of GDP), which will ensure a full coverage of the current account deficit for the fifth consecutive year. Portfolio investments in the January-September 2019 period recorded a net inflow of EUR 197.0 million, of which the inflow from investment in government bonds amounted to EUR 239.1 million (primarily in a 7-year dinar bond). Interest in investing in government securities was also confirmed in the international financial market, with a successful Eurobond issue in June this year, amounting to EUR 1 billion, with these funds being fully utilised for the early redemption of a portion of dollar-denominated Eurobonds maturing in 2020 and in 2021, which were then issued at much less favourable interest rates. In November, Republic of Serbia reissued this security on the international market at even more favourable terms, and the funds were used to repurchase the remaining dollar Eurobonds maturing in 2020. As regards financial loans, foreign net borrowing by residents amounted to EUR 948.6 million, with both the private sector (EUR 701.0 million) and the public sector (EUR 247.6 million) engaging in net borrowing. Foreign reserves of the National Bank of Serbia (excluding intercurrency and price changes), which increased by EUR 1,685.2 million in this period, are at an adequate level ensuring protection from external shocks – considering they cover almost six months of imports of goods and services and 252.3% of debt[1] maturing in the following year.

During 2019, **inflation** averaged at about the same level as in the previous year (about 2%). Trends in year-on-year inflation were largely driven by a shift in food and energy product prices throughout 2019. Between January and April, year-on-year inflation rose, peaking at 3.1% in April, driven mainly by rising vegetable prices. Since May, inflation saw a significant slowdown due to lower prices of vegetables and oil products. These two price categories explain the entire slowdown in y-o-y inflation to 1.5% in November. At the same time, core inflation was stable and ranged between 1.0% and 1.5% throughout the year, indicating low inflationary pressures. Low inflationary pressures are also indicated by inflationary expectations of the financial sector and corporates, which, both for the year and for two years, fluctuate below the central target value, but within tolerance band.

Exchange rate. Appreciation pressures which were present in the previous two years prevailed in 2019 as well. Export growth and high FDI inflows contributed to lower net purchases of foreign currency by companies in their transactions with banks. In addition, appreciation pressures were compounded by increased interest and growth in non-resident investments in long-term dinar government securities, especially in June and July, growth in currency-indexed lending, i.e. currency-indexed bank assets[2], as well as high purchase of foreign currency cash and increased amount of payments by non-resident payment cards in Serbia. Appreciation pressures gradually weakened since end-October, as a result of greater balance between foreign currency supply and demand, with even mild depreciation pressures recorded on some days. From the start of the year to the end of November, the dinar appreciated against the euro by 0.5%. For the purpose of smoothing excessive short-term dinar exchange rate fluctuations, in the same period the National

[1] As of June 2019.

[2] In an attempt to balance their open long foreign currency position, thus reducing their exposure to foreign exchange risk, banks sell foreign currency, resulting in dinar appreciation.

Bank of Serbia intervened on the interbank foreign exchange market in both directions – by purchasing EUR 2,730 million and selling EUR 390 million.

Credit activity and monetary trends. The past monetary policy easing by the National Bank of Serbia, acceleration of economic activity, recovery of the labour market, sharp drop in country risk premium, competition in the banking sector and low interest rates in the euro money market, all contribute to further growth of credit activity. The results of lending surveys (conducted by the National Bank of Serbia, as well as by the European Investment Bank for banks with subsidiaries operating in Serbia) indicate that credit activity growth is supported by factors on both the supply and demand side, with greater impact during the previous and this year coming from demand-side factors, primarily from SMEs.

Domestic lending activity recorded double-digit y-o-y growth throughout much of 2019. After excluding the exchange rate effect[3], this growth reached 11.0% in October (against 9.9% in December 2018). From the beginning of H2, corporate lending contributed more to this growth than household lending (6.4 p.p. vs. 4.5 p.p.).

Year-on-year growth in corporate loans accelerated to 12.6% (from 8.1% at the end of 2018), driven by a 28.7% growth in investment loans in October, indicating that lending activity significantly supports investment growth. Broken down by the size of enterprises, in the January-October period about 62% of new loans were granted to micro, small and medium-sized enterprises, and the growth of loans to this segment in October was 13.7% higher than a year before. Household loan growth slowed to 9.5% y-o-y (from 12.5% y-o-y at end-2018), influenced by the lower disbursement of cash loans, and temporarily, in the period from May to July, the write-off of part of the principal during the conversion of housing loans indexed in Swiss francs into euro-indexed loans. Cash loan growth started slowing down a year ago, reaching 14.9% y-o-y in October, displaying a trend of shorter maturity up to eight years, resulting from the measures aimed at limiting approval of unsecured non-purpose loans to households at unreasonably long maturities, which the National Bank of Serbia adopted towards the end of 2018[4]. On the other hand, housing lending recovery continues, supported by favourable developments in the labour market and the recovery of the real estate market, which is confirmed by the disbursement of new housing loans, the amount of which, after excluding the loans refinanced with the same bank, rose by 23.4% in the ten months of this year compared to the same period of 2018.

The analysis of credit activity for the purpose of setting the rate of the countercyclical capital buffer as of September 2019 shows that, despite its growth, credit activity as the share of total real credit in real GDP is below its long-term trend (-6.3 p.p.). Credit activity analysis by sector shows that excessive credit growth is not present in the corporate sector nor in the household sector and that they are still below their long-term trend. This indicates that credit activity poses no risk to either price or financial stability. However, in the previous period, a faster narrowing of the gap was

[3] Calculated at the dinar exchange rate against the euro, Swiss franc and US dollar as of 30 September 2014 (the so-called programme exchange rate used for monitoring the performance under the IMF arrangements) taking into account the current structure of loan receivables.

[4] In accordance with the same regulations, cash loan maturity should continue to decrease during 2020 and 2021 as well, to seven and six years, respectively.

observed in the household sector, predominantly driven by accelerated growth in household cash loans. Taking a proactive approach, at the end of 2018, the National Bank of Serbia adopted a set of measures aimed at mitigating this risk to the stability of the financial system.

We expect that credit growth will continue in the coming period, supported by the easing of the monetary policy of the National Bank of Serbia, sustainable economic growth, low interest rates in the euro area, growth of employment, wages and pensions, and progress made towards resolving NPLs.

Credit activity growth also has a positive effect on the growth of monetary aggregates during 2019, while, owing to the country's improved fiscal result, the increase in government deposits in the banking system acted in the opposite direction. Viewed at y-o-y level, in October the growth of dinar monetary aggregates M1 (17.0%) and M2 (17.8%) was higher, while that of the broadest aggregate M3 (10.8%) was lower than at the end of 2018. The dinar money supply growth was primarily driven by the growth in corporate and household transactional deposits. Owing to the achieved price stability and relative stability of the exchange rate, higher interest rates on dinar than on foreign currency savings deposits and their more favourable tax treatment, household dinar savings continued to grow during 2019, peaking at RSD 74.3 billion in October, which is 31.2% more than a year ago. This resulted in an increase in the share of dinar household deposits from 8.8% at the end of 2012 to 20.7% in October this year, as well as an increase in the dinarisation of total corporate and household deposits from 19.1% to 33.5%. This indicates that the Dinarisation Strategy adopted in 2012 and updated at the end of 2018 is producing positive results.

Financial sector. During 2019 there were no major changes in the structure of Serbia's financial system, i.e. the banking sector still presents the dominant form of financial intermediation (with a share of over 90% in total financial sector assets).

By 31 October 2019, 26 banks operated in Serbia’s banking sector, of which 19 with majority foreign ownership (members of banking groups from 13 states), while 4 banks were majority-owned by the Republic of Serbia, and 3 banks were majority-owned by domestic legal entities. Banks with majority foreign ownership dominate the market and account for 76.3% of total balance-sheet assets, 82.4% of total gross loans and 74.8% of total deposits of Serbia's banking sector. In terms of individual share of banks, the banking sector of Serbia is diversified in all relevant market categories, indicating a high degree of competition among banks.

The banks' total assets and capital at the end of October 2019 amounted to RSD 3,994 billion and RSD 696 billion, respectively. At the end of September 2019 the capital adequacy ratio was 23.6%, which is significantly above the regulatory threshold of 8%. The financial leverage ratio of 13.7% in September 2019 confirms the banking sector's high solvency.

The banks in Serbia are characterised by high liquidity, which is obvious by looking at the key liquidity ratios and asset maturity structure, which are at very satisfactory levels by all relevant criteria. The average monthly current ratio for the banking sector was above 2.0 throughout 2019 and 2.1 in October (the regulatory minimum is 1.0). On 31 October 2019, liquid assets accounted for 36.9% of total balance-sheet assets and 51.7% of total short-term liabilities. The liquidity coverage ratio (LCR) introduced in line with Basel III is 214.6% and also confirms the high liquidity of the banking sector.

Satisfactory profitability of the banking sector was also maintained in 2019. By the end of October 2019, total net pre-tax income amounted to RSD 59.9 billion, with the ROA and ROE profitability ratios standing at the end of October at 1.9% and 10.5%, respectively.

Although the National Bank of Serbia implemented all the activities envisaged by its Action Plan for the Implementation of the NPL Resolution Strategy, it continues to take additional regulatory steps for the purpose of encouraging banks to resolve NPLs more efficiently and to establish a system that will prevent their accumulation. Through the established instruments and mechanisms for supervising their operations, the National Bank of Serbia guides the banks to commit towards resolving this issue. Moreover, on 30 September 2017 the implementation of the Decision on the Accounting Write-off of Bank Balance Sheet Assets began, providing for the introduction of mandatory transfer of the worst part of NPLs to off-balance sheet records.

During just over four years since the adoption of the Strategy, the share of the banking sector's NPLs declined by 17.7 p.p. and at the end of October 2019 this share was 4.56% of total loans. The NPL stock was lower by 74% at the end of October relative to the start of the Strategy implementation. In the past four-year period of the Strategy implementation, the following were the most important channels for bank NPL reduction: **1) direct write-off and 2) sale of receivables.**

From the moment of the Strategy adoption until 31 October 2019, the total reduction of NPLs through direct write-off amounted to RSD 198.5 billion, spread out across all banks irrespective of their ownership structure. The net amount of receivables sold since the introduction of the Strategy was RSD 92.3 billion. In terms of sectors, the NPL ratio in the corporate sector is 3.70%, while the NPL ratio for households stood at 4.04% at the end of October 2019. Non-performing loans are for the most part covered, both by allowances for impairment in accordance with international accounting standards (at end of October 60.3%).

In addition to the successful implementation of the Strategy, the need for additional activities to identify and address the remaining issues and ensure the sustainability of the results achieved has been identified. At the end of 2018, the Government of the Republic of Serbia adopted the Program for Resolution of NPL for the period 2018-2020 together with the Action Plan. The aim of the adopted Program is to resolve problematic receivables in a timely manner and to establish a system that will prevent the accumulation of new ones, which can negatively affect credit activity and economic growth. Several key areas have been identified that need to be improved: resolving problematic receivables of government financial creditors; institute of bankruptcy framework and activities aimed at preventing the accumulation of new problem loans.

Taking into account the specificity of the domestic market and carefully reviewing the EU activities in this area, the National Bank of Serbia will continue with regulatory efforts aimed at further resolution of the issue of NPLs in the banking sector of Serbia, in line with its competencies, with the view of preserving and reinforcing the stability of the financial system.

The regulations introducing Basel III standards in Serbia, which the National Bank of Serbia adopted **in December 2016** (*Decision on Capital Adequacy of Banks, Decision on Disclosure of Data and Information by Banks, Decision on Reporting on Capital Adequacy of Banks, Decision Amending the Decision on Reporting Requirements for Banks, Decision on Liquidity Risk Management by Banks, Decision Amending the Decision on Risk Management by Banks*), have been successfully implemented since 30 June 2017. This is a significant step towards the harmonisation of the domestic regulatory framework for banks, considering that the provisions on prudential requirements for credit institutions applied in the EU have, for the most part, been implemented through the above implemented legislation. In addition to the harmonisation with the relevant EU legal acts in the banking field, the main goals achieved by their adoption are the following: increasing the resilience of the banking sector through increasing the quality of capital and introducing capital buffers, better monitoring and control of bank exposure to liquidity risk, further strengthening of market discipline and transparency of bank operations in the Republic of Serbia by disclosing all relevant information on bank operations, as well as adapting the reporting system to new regulatory provisions.

In line with the implementation of the Basel III standards, in June 2017 the National Bank of Serbia adopted a set of decisions which determine the rates and manner of maintaining capital buffers with the aim to maintain and strengthen the stability of the financial system. Since 30 June 2017, banks in Serbia are obliged to maintain the following capital buffers:

- *Capital conservation buffer* (equal to 2.5% of risk-weighted assets);

- *Countercyclical capital buffer* (the countercyclical capital buffer rate is set at 0%, and the National Bank of Serbia determines this buffer rate quarterly, based on the deviation of the credit-to-GDP ratio from its long-term trend and other relevant variables);

- *The capital buffer for systemically important banks* (the National Bank of Serbia determines at least annually the systemically important banks and a capital buffer for these banks. Nine banks are currently found to be systemically important for the domestic economy and these banks are obliged to maintain an additional capital buffer at the level of 1% or 2% of their risk-weighted assets);

- *Systemic risk buffer* (introduced in order to limit the risk of euroization - all banks whose share of foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic in Serbia in total placements of that bank approved to corporates and households in the Republic of Serbia exceeds 10% are obliged to maintain a systemic risk buffer at 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia. The specificity of this systemic risk buffer is the basis for calculating capital requirements, since, instead of the bank's total risk-weighted assets, the systemic risk buffer is applied directly to domestic exposures – to banks' foreign currency and foreign currency-indexed placements. In this way, banks are encouraged to reduce their exposure to systemic risk caused by euroization since the level of capital requirements will decline if they reduce the amount of those placements. In addition, while all banks are required to maintain the same rate, the capital requirements for individual banks vary depending on their degree of euroization).

In line with its strategic commitment to continuous improvement of the legal framework for banks, while taking into account the specific features of domestic regulations and market, and considering the fact that the Republic of Serbia has accepted the EU acquis in Chapter 9 – Financial Services, the National Bank of Serbia continues to monitor the amendments to the regulations governing the operation of credit institutions in the European Union and to adapt the regulations in this field. In connection with this, regulatory activities continued in 2017 and 2018 according to the planned schedule. The National Bank of Serbia adopted the Decision Amending the Decision on Consolidated Supervision of a Banking Group in June 2017 to provide for the harmonisation with the new, already adopted regulations implementing Basel III standards in the Republic of Serbia on a consolidated basis as well. In July 2017, the NBS also adopted the Guidelines for the Identification of Default, providing solutions based on those offered by the European Banking Authority. In September 2017, the National Bank of Serbia adopted the Guidelines for the Implementation of Specific Provisions of the Decision on Capital Adequacy of Bank Relating to Bank Capital, in order to harmonise with delegated EU regulations and create additional regulatory preconditions for the achievement of one of the main goals of Basel III standard – increasing banking sector resilience through the increase in bank regulatory capital quality. For the purpose of enabling the implementation of IFRS 9 in banks as of 1 January 2018, **in November 2017** the National Bank of Serbia adopted the following regulations: *the Decision Amending the Decision on the Chart of Accounts and Content of Accounts in the Chart of Accounts for Banks; the Decision on Forms and Content of Items in Financial Statement Forms to be Completed by Banks; the Decision on the Collection, Processing and Submission of Data on the Balance and Structure of Accounts in the Chart of Accounts; the Decision Amending the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items; the Decision Amending the Decision on Reporting Requirements for Banks.* Additionally, with the adoption of appropriate implementing legislation in 2018 as well, risk management has been improved in banks, as well as consolidated supervision of a banking group.

In December 2018, the National Bank of Serbia adopted a set of regulations to encourage the practice of sustainable lending to households, namely: *Decision on concentration risk management based on bank exposure to certain types of products, Decision on Amendments to the Decision on Capital Adequacy of the Bank and the Decision amending the Decision on the classification of the Bank Balance Sheet Assets and Off-balance Sheet Items*. The aforementioned regulations, effective from January 1, 2019, aim to contribute to preventing the emergence of NPLs in the banking sector and to prevent the potential consequences for financial stability and citizens if the risks inherent in the uncontrolled approval of non-purpose loans to households unjustifiably materialize in long maturities. The positive effects of the prescribed measures are reflected in the reduction of concentration risk indicators at the banking sector level by 7.77 p.p. between January and October 2019 (from 25.19% to 17.42%). An additional effect is reflected in the fact that the granting of consumer, cash and other loans covered by measures for periods of eight and more than eight years is more an exception this year than the rule.

With the start of application of the Law on Payment Services (as of 1 October 2015) and implementing legislation adopted on the basis of this law, the National Bank of Serbia finalised its numerous activities aimed at the establishment of a comprehensive regulatory framework in the field of payment services and issuance of electronic money. Since the above legislation set up an effective legal basis for the establishment and operation of payment institutions and electronic money institutions, by 2019, the National Bank of Serbia issued 13 decisions granting the same number of licences for the provision of payment services to interested undertakings that applied and met the prescribed requirements. In addition, two undertakings were granted a licence for the issuance of electronic money as an electronic money institution. To develop further this segment of the financial market, the National Bank of Serbia is undertaking activities on the harmonisation of the national legislation with the EU acquis in the field of payment services, primarily through the implementation of the new Payment Services Directive (PSD2). The national regulatory framework will, thus, be in line with the EU standards introducing new payment service providers (*payment initiation service providers and account information service providers*) that will engage in innovative and technologically advanced services.

The beginning of work of the instant payment system – IPS NBS system in October 2018 marked a further step in the payment system development in the Republic of Serbia, which was initiated with a comprehensive reform in 2014. The National Bank of Serbia, as the IPS NBS system operator, manages the infrastructure which enables on the most modern way an advanced, reliable and efficient execution of money transactions. The IPS NBS system enables the payment service users to execute payment transactions amounting up to RSD 300,000 24/7/365, with near real-time transfers (within only a couple of seconds). Apart from encouraging cashless payment increase, the IPS NBS system also contributes to better liquidity management by payment service users. During 2019, the process of connecting all banks to the IPS NBS system has beencompleted, and activities aimed at facilitating instant payments and at the merchant's point of sale continued, further enhancing competition with card payments . The new payment method will be faster (money transfer within just a few seconds), more efficient (funds immediately approved in the merchant account), easier to use (using a mobile phone), cheaper (given the multiple lower fees charged by the National Bank of Serbia as a system operator to banks participants, compared to international card systems). This is expected to lead to a reduction in the cost of cashless payments. In December 2019, 15 banks were already in the pilot testing phase of point-of-sale instant payment applications and are expected to offer their application solutions to all their users very soon. With the adoption of important payment system laws in June 2018 upon the proposal of the National Bank of Serbia, the regulatory framework in our country has been improved in line with the relevant regulations of the European Union and conditions have been created for further development of the existing methods for conducting payment operations and creation of new ones during 2020 and thereafter, while, by performing the tasks of payment system operator and supervisor of payment service providers, the National Bank of Serbia will continue to perform one of its basic functions, i.e. regulating, supervising and improving the smooth functioning of domestic and foreign payment operations.

In the forthcoming period, the regulatory activities of the National Bank of Serbia will be aimed at further harmonization of the domestic legal framework with the EU acquis communautaire, while respecting the specifics of domestic regulations and the financial market in a way that ensures the preservation and strengthening of the stability of the banking and financial system.

3.3. MEDIUM-TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, in the 2020-2022 period the cummulative growth rate will be 12.5%, driven by domestic demand growth. This source of growth is determined by the steady growth of investment, as well as private consumption growth due to rising living standard of the population. Economic growth and good fiscal result, with established fiscal discipline and significantly strengthened Serbia's credibility with the investors, with more favourable lending terms in the international financial market, will ensure the continuation of the accelerated pace of the public debt-to-GDP ratio reduction. The public debt of the general government is projected at 48.3% of GDP at the end of 2022. On average, the Serbian economy will grow at a rate of 4.0% annually. The increase in private consumption is projected at a lower rate than the acceleration of economic activity and will amount to 3.7% on average. This increase does not in itself contain the distorting elements in the established equilibrium. It is based on sound sources, first of all on the increase of employment but also on the favourable effect of price and credit developments on disposable income. Investments are expected to grow steadily, averaging around 6% annually, which will gradually raise their share in GDP, which, at the end of the forecast period should amount close to 25%. Exports will grow at an average annual rate of 8.3%, outpacing the expected annual import growth of 7.2% on average. This dynamics of foreign trade flows will improve the current account balance and ensure the positive impact of net exports on the medium-term economic growth rate. Also, an ever increasing growth in service exports should also contribute to the improvement of the current account deficit.

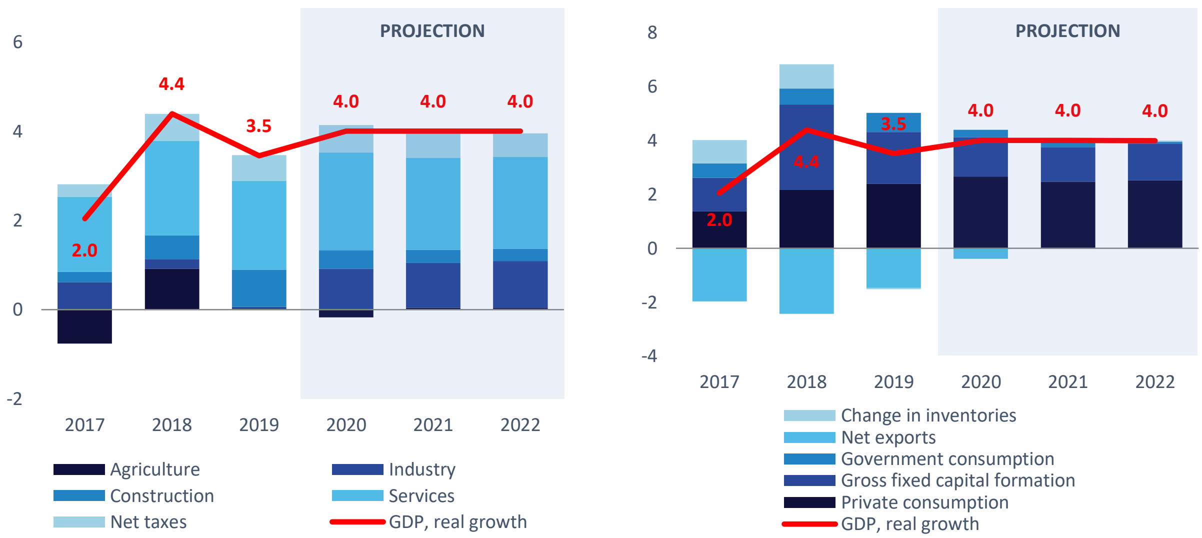
Table 2. Outlook for main macroeconomic indicators for the Republic of Serbia

	Estimate	Outlook		
	2019	**2020**	**2021**	**2022**
GDP, RSD billion (current prices)	**5,417**	**5,827**	**6,264**	**6,740**
Real GDP growth, %	3.5	4.0	4.0	4.0
GDP deflator, %	3.3	3.4	3.4	3.5
Real growth of individual components of GDP, %				
Private consumption	3.5	3.9	3.6	3.7
Government consumption	4.1	1.5	1.3	0.4
Gross fixed capital formation	8.8	6.4	5.4	5.7
Exports of goods and services	8.6	8.1	8.4	8.4
Imports of goods and services	9.6	7.4	7.1	7.2
Balance of goods and services, in EUR, % GDP	-10.3	-9.6	-8.9	-8.2
Current account balance, in EUR, % GDP	-5.9	-5.3	-5.2	-4.7
Inflation, period average, in %	1.9	2.0	2.2	2.5

Source: Ministry of Finance

In the 2020–2022 period, a steady FDI inflow of EUR 3.0 billion annually is expected. In addition, the effect of FDIs from the previous period will contribute to increasing competition and influence the efficiency of domestic producers, while, on the other hand, new sales channels and new market niches will be opened. Also, concrete measures remove obstacles and free up resources for accelerated investment by domestic producers, stimulate and encourage every form of domestic inventiveness and proactiveness. As regards the supply side, the service sector and industry will retain the role of dominant sources of growth and increase the created GVA by an average of 4.1% and 4.6% per year, respectively. The positive contribution will also come from the preserved dynamic growth of construction activity, which will average 7.2% annually. Reaching European standards and increasing competitiveness in agriculture, by fulfilling the requirements for opening Chapter 11, and through the use of the EU IPARD II programme, will reduce the variability of production in this sector caused by weather conditions.

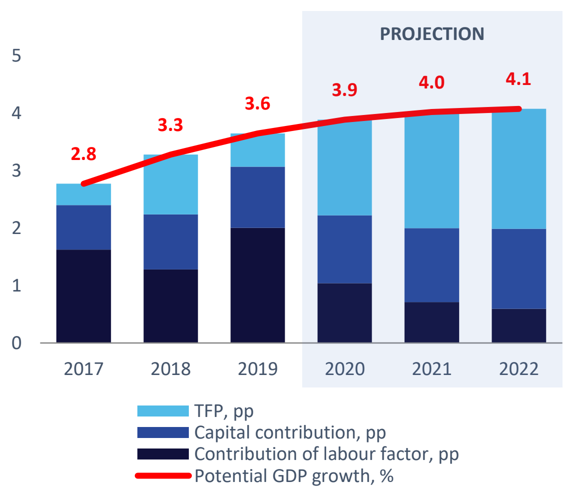
Graph 1. Contributions to real GDP growth rate, production and expenditure approach, p.p.



With this three-year scenario, the Government remains committed to the economic growth model based on investment and exports and driven by private consumption growth based on real and sound sources. At the end of 2022, the share of gross fixed capital formation in GDP will be about 4.5 p.p. higher than in 2017. In the same year, the share of exports of goods and services in GDP was 50.5%, while at the end of the period covered by this scenario it will reach 56.0%. Government consumption will retain the share of about 16% of GDP, which is significantly below the European average, which is over 20%. The reduction of share of the goods and services deficit in GDP will be accompanied by a reduction of share of the current account deficit in GDP. This will ensure foreign debt sustainability, external liquidity and solvency. Through its activities and measures, the government is trying to strengthen the investment and export component of GDP, viewed from the expenditure side, and, through these sources, to ensure a higher-than-projected growth, in a sound and sustainable manner. Accelerating all the administrative procedures accompanying these activities, reducing the burden on the economy with the aim of boosting its competitiveness, signing agreements to ensure the retention of existing and opening of new foreign markets, more intensive and more efficient implementation of infrastructure works, are just some of the measures that should provide sound foundations for potential GDP growth. Consistency in maintaining fiscal stability prevents imbalances and uncertainty, and reform processes should ensure a stronger positive development of basic macroeconomic variables. Digital transformation and the building of the digital ecosystem remain a strategic orientation of the Government of the Republic of Serbia. More efficient work of the government administration, shortening of procedures for individuals and economic operators with a focus on digitalisation of education system, will accelerate the convergence of our economy towards the advanced countries. As these goals are difficult to achieve without scientific research and innovation, the Government has created a system of incentives through “innovation vouchers”, aimed primarily at the sector of small and medium-sized enterprises. The new system of fiscalisation, as part of the Action Plan for Combating the Informal Economy 2019/20, with the adopted amendments to the Customs Law, will reduce the share of the informal economy in total economic flows, ensure affirmative competitive bidding and improve the economy and efficiency of procedures.

The greatest impact on economic growth is expected from structural reforms of ERP 2020-2022 relating to: 1. group of reforms leading to the advancement of the digitalisation process, and in particular reform 13 Support for innovative start-ups and digital transformation of businesses, 9 Improvement of geospatial sector through development of digital platform in support of decision-making for investments; 14 Increased availability of e-government to public; and 19 Digitalisation of education; 2. Then reforms that affect a large number of businesses, especially reform 16 Improving conditions for and removing obstacles to trade; 6 Improvement to management of register of agricultural estates and approval of national agricultural subsidies through development of e-agrar web portal, 7 CutAP initiative and 17 "Product info” as well as 3. reforms that provide better services to the economy while having fiscal implications such as 8 Transformation of the TA.

Graph 2. Contributions of production factors to potential growth rate



According to the central scenario, the growth of potential GDP is expected to accelerate in the medium term. After a 3.6% increase in 2019, potential GDP will increase by 4.0% annually on average. The growth of potential GDP in this period was determined by the increased inflow of FDIs. Their impact on productivity and efficiency is twofold, both through technology transfer and knowledge transfer. Also, this trend is expected to be strengthened by domestic innovative activities. In addition, the growth of potential GDP will be influenced by the favourable developments in the labour market, while at the end of the medium-term period, the positive impact of the education reforms undertaken to date will be visible through the reduction of structural unemployment. Digitalisation will significantly accelerate these processes and additionally increase the efficiency of utilisation of available capacities.

Employment and wages. Extremely favourable developments so far, as well as the Government's commitment to increase the number of employed persons, as one of the priority goals of economic policy, have determined the medium-term projection, according to which the positive developments in the labour market are expected to continue, which will be reflected in the improvement of all labour market indicators, especially in a further reduction of the unemployment rate to a level well below the previous projections. Such expectations are, in particular, a result of continuous improvement of labour market conditions, development of labour market institutions, promotion of employment and inclusion of hard-to-employ persons in the labour market, as well as the support for regional and local employment policy. Likewise, efforts are constantly invested in improving the workforce in terms of quality, accompanied by investment in human capital, all with the aim of facilitating general employment, especially in the part of the economy that has greater value added. Also, owing to intensified work of inspection services, and after the improvement of labour legislation and measures taken in the direction of labour tax wedge reduction, informal employment will continue to decline, accompanied with labour formalisation. These measures will improve working conditions, in terms of workers' rights and insurance, and will have a positive effect on budget revenues. At the end of the medium-term period, the complex reforms of the education system and an adequate response to the needs of the economy are expected to be implemented, while active measures of training, retraining and support to social entrepreneurship, will facilitate the availability of jobs to socially vulnerable categories of society, ensuring greater inclusiveness of economic growth. In the medium term, favourable trends in the labour market are expected to continue, which will be reflected in the further growth of average wages. In order to ensure economic sustainability, wage growth in the medium term and especially longer term should be based on productivity growth. This will require continued creation of favourable conditions for economic growth, primarily through consumption increase and attraction of private investments.

Monetary and exchange rate policy. Since 2009 the National Bank of Serbia has been implementing the inflation targeting regime as its monetary strategy. Owing to the attained price stability, anchored inflationary expectations and considerable improvement of macroeconomic fundamentals and outlook for Serbia in the following period, and, above all, the sustainable reduction of external and internal imbalances, since 2017 the target inflation rate has been reduced **to 3%±1.5 p.p. and set at that level until the end of 2022**. This has further demonstrated the commitment of the National Bank of Serbia and the Government of the Republic of Serbia to take measures in order to keep the inflation low, stable, and predictable over the medium term. The main instrument for achieving the inflation target is the one-week reverse repo rate, while other monetary policy instruments (open market operations, credit and deposit facilities, required reserve, and interventions in the foreign exchange market) have a supporting role. The required reserve policy is designed so as to encourage longer term and dinar sources of bank funding through the differentiation of required reserve rates depending on the term and currency of liabilities. For dinar funding with contractual maturities of up to two years, it is currently 5%, and for the funding with maturities of over 2 years, it is 0%. The required reserve rate for foreign exchange funding with contractual maturities of up to two years is 20%, and for maturities over two years, it is 13%.

Low inflationary pressures based on most factors from the domestic and international environment were the basis for the decision to further ease monetary policy in 2019 by lowering the policy interest rate in July, August and November by 25 b.p. each, to 2.25 %. Domestic monetary policy conditions were characterised by tight inflation control for the consecutive sixth year, sustainability of reduction of fiscal and external imbalances, investment growth and continued implementation of infrastructure projects, high FDI inflow, a decline in the country risk premium to the lowest level on record and an increase in credit rating. In addition to favourable domestic macroeconomic monetary policy conditions, the Executive Board's decision to further reduce its policy interest rate was also influenced by developments in the international environment, notably the slowdown in global trade and economic growth and increasingly expansionary monetary policies of the leading central banks, which should positively affect capital flows to emerging countries.

By easing its monetary policy, the National Bank of Serbia provides additional support to credit growth and, in turn, to economic growth, and full effects of the previous easing are expected in the following period. The National Bank of Serbia will continue implementing a carefully balanced monetary policy measure mix in the following period, aimed at maintaining low and stable inflation, while preserving the stability of the financial system and supporting the growth of economic activity on sustainable grounds.

In line with the chosen monetary strategy, the National Bank of Serbia will continue pursuing the managed floating exchange rate regime. That implies interventions in the foreign exchange market in three cases: to reduce excessive short-term fluctuations of the foreign exchange rate, preserve the stability of the financial system, and maintain an adequate level of foreign reserves. In the short term, some pressures on the dinar exchange rate may come from volatile capital flows due to different paces of leading central banks' monetary policy normalisation. However, the reduction of internal and external imbalances contributes to a greater resilience of the domestic economy to external shocks, and the relative stability of the dinar exchange rate over the medium term.

Medium-term inflation projection. According to the National Bank of Serbia's November central projection, y-o-y inflation will remain low and stable until the end of the forecast period - until mid-2020 it will fluctuate around the lower bound of the target band, after which it will gradually approach its central midpoint, which, in the short term, will be influenced by a low base effect from vegetable prices and regulated prices, and in the medium term by an increase in aggregate demand. The uncertainty regarding the inflation projection relates primarily to the developments in the international commodity and financial markets and, to some extent, the growth of regulated prices, with the risks to the inflation projection collectively assessed as symmetric.

External sector. Due to FDI inflow into export-oriented sectors, supported by attained economic stability, as well as a more stimulating business environment, the diversification of exports has increased further - both in terms of products and geography. This is indicated by the decrease in the Herfindahl – Hirschman Index (HHI) by product from 0.22 in 2013 to 0.19 in 2018, and by partner country from 0.26 to 0.24. The level of concentration observed by product in the first nine months of this year remained unchanged, while at the country level it was further reduced to 0.23. However, it should be borne in mind that cereals are exported mainly through Romania and motor vehicles through Italy, from where they are sold to other countries, so the actual concentration of exports, observed by country, is actually lower than suggested by this index.

Despite international challenges in the form of globally weaker demand, exports data so far indicate their good performance. In the first nine months of this year, Serbia's total (goods and services) exports continued to record double-digit growth rates (10.9% y-o-y). Exports of goods increased by 8.5% y-o-y and services exports by 17.4% y-o-y. This means that Serbia's exports continue to outpace global (imports) demand, thus continuing to increase their market share. Despite slowing demand from the European Union, 10.6% more goods and services were exported to this market year-on-year.

Broken down by product, a prominent position is occupied by the exports of motor vehicle parts, accessories and equipment, which reached EUR 1.8 billion in 2018, about 3 times more than in 2012. The share of these products in total exports rose from 7.0% in 2012 to 11.1% in 2018. The positive trends continued in the January-September 2019 period, when their exports increased by 12.1% y-o-y to EUR 1.5 billion (accounting for 11.7% of total goods exports), despite the decline in global automotive manufacturing, especially in Germany, which is Serbia's most important export market. Compared to the same period of the previous year, exports increased in the first nine months of this year for all important export products of Serbia, except for cars and steel due to the quotas imposed by the EU on steel imports and its falling prices on the world market. At the same time, the increase in the export of car components almost completely offset the decline in car exports.

Broken down by processing stage, intermediate goods dominated (32.1%) the exports of goods in the first nine months of 2019. Resource-based products had the second-largest share of 23.3%, followed by upstream products (iron and steel, clothing, footwear, furniture) with a share of 22.4%, while primary products accounted for 13.3% of total exports. The share of high-tech products (mostly electric machines) in total exports was 6.3%, and other products (electricity, non-classified) accounted for 2.6%.

In terms of geography, the goods from Serbia are exported mostly to the EU market (67.0% of total exports), where goods worth EUR 8.7 billion were sold in the January-September 2019 period, which is EUR 557 million or 6.8% more than in the same period last year. The most important destinations are Germany and Italy[5], accounting for about 34.7% of exports to the EU in the first nine months of 2019, or 23.2% of total Serbian exports. The share of exports to the CEFTA Parties was 17.1%, while exports to Russia accounted for 5.0% of Serbia's total exports. Compared to last year, in the first nine months of this year, exports to Germany increased the most (by EUR 184 million), reaching EUR 1.7 billion. Exports increased in 26 EU countries, with only

[5] Most car exports are registered as exports to Italy, although it is often not their final destination.

exports to Italy and Bulgaria declining. Exports to Italy are almost unchanged from the previous year, except for cars. When it comes to non-EU markets, after Germany, our exports to China posted the largest increase, by EUR 134 million, reaching EUR 191 million.

When it comes to ***price and cost competitiveness indicators***, it is important to emphasize that the real effective dinar exchange rate has remained relatively unchanged in the long run. After a real depreciation of 8.5% in 2014-2016 (calculated on the basis of consumer prices against a basket of currencies consisting of the euro and dollar[6]), the dinar appreciated in real terms by 7.1% in the 2017-2018 period, mostly on the back of favourable balance of payments developments. Since the beginning of 2019, the dinar again recorded a real depreciation (of 0.3% as of October), indicating that the real exchange rate does not decrease Serbia's external competitiveness. In addition, according to the latest external sustainability assessment by the IMF (Article IV consultations in July 2019), the dinar exchange rate was assessed to be in line with the economic fundamentals, i.e. that it is neither overvalued nor undervalued. Calculated on the basis of unit labour costs, the dinar depreciated in real terms by 8.0% against the euro in 2014-2016. In the 2017-2018 period, due to the growth of private sector wages resulting from the growth of economic activity, as well as the nominal strengthening of the dinar against the euro, a real appreciation of 10.8% was recorded. Against the backdrop of faster growth of wages than of productivity, unit labour costs in Serbia increased more than in the euro area in the first three quarters of 2019, while the dinar appreciated against the euro by 0.2% y-o-y in nominal terms, resulting in a real appreciation of around 6% year-on-year.

Serbia's structural competitiveness, which has a crucial impact on improving the competitiveness of the economy over the long term, has continued to improve. This is supported by Serbia's progress in the last Doing Business list by four places, ranking 44th among 190 countries, as well as narrowing the gap relative to the global regulatory best practice by 1.8 points (to 75.7 points). In six areas regulatory reforms that improved business conditions were identified: issuing building permit, getting electricity, protecting minority investor rights, paying taxes and enforcing contracts.

International investment position. From the standpoint of international investment position (hereinafter: IIP), Serbia is a net debtor, in the amount of EUR 38.6 billion (87.8% of GDP) at the end of June 2019, which is by 0.7 p.p. higher than at the end of 2018. The reason for that is the growth of the most desirable foreign investments – FDIs. In the observed period, the public sector decreased its negative international investment position by EUR 0.3 billion (mostly owing to the growth of the National Bank of Serbia's foreign reserves). The net debtor position of other sectors rose by EUR 1.4 billion due to higher FDI inflow (FDI growth by EUR 1.1 billion), while banks' position as net debtors increased by EUR 0.2 billion (due to an increase in deposits and loans). **Broken down by instruments, at the end of the second quarter of 2019 FDIs accounted for around 86% of the net IIP, which indicates a good IIP structure and less vulnerability to external shocks and contributes to external sustainability.**

[6] 80:20 ratio

On the liability side of the IIP, the share of debt instruments was 53.1%, of which intercompany loans accounted for 18.4%. Almost a half of ***external debt*** relates to the public sector (46.2%), and all of it is long-term. Public external debt is dominated by three currencies – the euro (45.4%), the dollar (31.3%), and the dinar (12.5%). At the same time, the share of the euro and the dollar in foreign reserves is 59.0% and 29.8%, respectively, so the currency structure of foreign reserves is in line with the currency structure of external public debt. About two thirds of public debt is contracted at a fixed interest rate (64.2%). External private sector debt is dominated by corporate debt (79.9%). Over 95% of corporate debt is euro-denominated, but the fact that over 90% of exports is collected in euros contributes to lower foreign exchange risk related to external corporate debt. In terms of residual maturity, over 81.1% of corporate debt is long-term. Over 76% of external bank debt is contracted at a variable interest rate, while over 97.2% is euro-denominated. In terms of residual maturity, over 53% of the external debt of the banking sector (excluding deposits) is long-term.

Medium-term external sustainability. The current account deficit is expected to fluctuate around 4-5% of GDP in the coming years and be fully covered by net FDI inflows. Continued growth of services surplus, a stable inflow from secondary income, as well as a stable outflow from primary income, should mitigate the expected slight growth of the goods deficit against the backdrop of the current investment cycle. Real growth of exports of goods and services is estimated to average around 8% annually and of imports around 7% annually in the next three years, resulting in a gradual reduction of the share of goods and services deficit in GDP to around 8% in 2022.

The expected trajectory of the net FDI inflow will cause the return on their ownership to remain a solid outflow item in the primary income account. On the other hand, there will be a smaller outflow based on interest on loans and securities, primarily due to financing at much more favourable terms (as well as early repayment of debt previously incurrent at high interest rates). In the following period, the secondary income account is expected to receive a stable inflow of remittances of about 8-9% of GDP.

The structure of capital inflows will be dominated by FDIs (around 5-6% of GDP on average per year), which are expected to continue to fully cover the current account deficit. Also, in the coming period, net deleveraging is expected on the basis of public sector financial loans and net borrowing by the private sector to finance investments and further economic development.

In the following years foreign reserves are expected to remain at an adequate level. It is estimated that foreign reserves will cover approximately 6 months' worth of average monthly imports, with a growth of short-term debt coverage (based on residual maturity) by foreign reserves to about 300% in 2019.

According to estimates of the medium-term sustainability of Serbia's external position, the current account deficit stabilising the external debt at the current level ranges between 7% and 8% of GDP, while the current account deficit of about 6% of GDP leads to a decrease in external debt. In all scenarios, except the historical one (based on 10-year averages of key macroeconomic indicators, which is a period marked by a large variation in trends and cannot serve as a benchmark), Serbia's external debt will decline in the medium term. Under the baseline scenario, Serbia's external debt would be below 50% of GDP at the end of 2024. One of the main factors contributing to this decrease is the continued increase in the openness of the Serbian economy (measured as a share of exports and imports of goods and services in GDP) to over 120% of GDP in 2021. This is a realistic scenario, given that in the first nine months of 2019, the Serbian economy's openness rate was about 115% of GDP, an increase by nearly 30 p.p. compared to 2013. The increase in the openness of the Serbian economy and its greater integration into global trade flows was certainly influenced by the high FDI inflow, which amounted to around EUR 16 billion in the period from 2013 to September 2019. Given that the bulk of these investments were directed to the tradable sectors, Serbia's largest exporters are mainly foreign-owned companies. Continued EU integration and the opening of new chapters in the field of economic policy, together with bilateral trade agreements concluded by the Government of Serbia, while maintaining the achieved macroeconomic stability, will further improve the business climate, which will enable more intensive foreign trade and the continued growth of FDI.

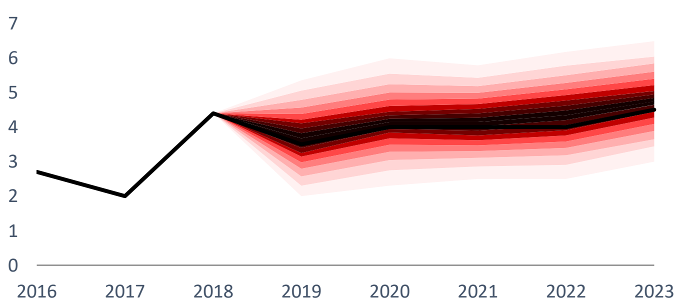
3.4. ALTERNATIVE SCENARIOS AND RISKS

The medium-term scenario of economic activity in the Republic of Serbia is accompanied by a number of risks, one part of which comes from the international environment, while the other is related to internal factors.

Taken together, the exogenous risks were identified as more pronounced on the downside. Trade tensions, and the protectionist measures taken in that context, generate uncertainty in the international commodity and financial markets. Price fluctuations, as well as frequent changes in consumer expectations and investors' confidence, confirm the lower predictability of global circumstances for economic growth. With regard to the commodity market, prices of primary products may have a dual impact on Serbia's economic growth. A movement in oil prices above the projected level would have a negative impact on production costs, but would also change the structure of household consumption by increasing the share of imported goods, which would jointly slow the economic growth. Serbia has remained a net exporter of base metals despite the decline in exports, so a faster increase in their prices would benefit economic activity and partly neutralise the effects of the EU measures. An increase in the prices of agricultural products on the international market would have an identical impact on economic growth. Developments in the international financial market are largely determined by the divergent policies of the FED and the ECB. Uncertainties about future measures and the slower pace of policy normalisation affect the behaviour of foreign investors and the availability of funding sources. The increasingly likely slowdown in global economic growth is included in the medium-term scenario, with particular reference to uncertainties in Italy and a sharp drop in expectations regarding the future path of the German economy, as well as the impact of uncertainty surrounding Brexit on the EU economy. The perceived spillovers of these slowdowns into the Serbian economy are reflected in the lowered expectations regarding foreign trade developments and the downward revision of exports and imports growth rates for 2020, as well as the deteriorated expectations regarding the impact of net exports on economic growth. In the accounting sense, the impact of Pristina's prohibitive charges is decreasing, and it remains to be seen to what extent the signing of a free trade agreement with the Eurasian Economic Union will affect the balance sheet of the Serbian economy in international trade. Risks related to developments in the commodity and financial markets are estimated as symmetrical, while the risk associated with the growth of the global economy and Republic of Serbia's most important foreign trade partners is asymmetric downside. Although the resistance to external shocks has increased with the neutralisation of internal and external imbalances, we should not lose sight of the fact that we are a small and open economy that is still significantly exposed to them.

Endogenous risks are related to the volatility of agricultural production, efficiency in the implementation of public projects and the pace of implementation of the initiated reforms. Despite the improvement and modernisation of the agricultural sector, the production of the main crops is still largely dependent on weather conditions, which can lead to significant deviations from the long-term average agricultural production, on the basis of which the path of this sector is projected. The scenario contains expectations based on this approach, and any discrepancies will be seen at the end of summer next year. The growth of construction in the coming period is based on the trends of this activity, predictive indicators and announced investments of the government. Dynamics and efficiency in implementing public projects, as well as activities in the construction of buildings and production plants, carry symmetric risks. Industrial production trends are largely driven by external factors. However, the energy sector could contribute to growth overperformance, if the reform processes were intensified and investments from the previous period implemented in the coming period. Also, the automotive industry carries an asymmetric upside risk, which would materialise if a new model is introduced in Accumulator factory in Sombor (FAS). The public enterprise reform is the basis for raising the level of productivity and efficiency, which would reduce the cost of production processes, increase competitiveness and expand investment resources. The pace of implementation of these reforms is clearly reflected in the pace of overall economic growth, pulling in the same direction - faster implementation of reforms brings faster economic growth and vice versa. Identified internal risks are assumed to be mildly symmetric upside.

Graph 3. GDP trend projection, year-on-year growth rates, %



An alternative scenario was created based on identified endogenous and exogenous risks to the projection. It incorporates the potential materialisation of risks associated with faster growth in private consumption, a slowdown in investment activity and a stronger slowdown in external demand. A higher private consumption contribution of about 0.2 p.p. annually on average could not offset a significantly lower contribution of investments and exports, whose positive contribution would be reduced by an average of 1.7 p.p. annually. Such developments would result in a lower overall economic growth rate in the medium-term scenario, 2.4% in 2020, and 2.5% in 2021 and 2022.

Table 3. Alternative macroeconomic scenario

	Estimate	Outlook		
	2019	**2020**	**2021**	**2022**
GDP, billion dinars (current prices)	**5,417**	**5,737**	**6,078**	**6,448**
Real GDP growth, %	3.5	2.4	2.5	2.5
GDP deflator, %	3.3	3.4	3.4	3.5
Real growth of each GDP component, %				
Private consumption	3.5	4.1	4.0	4.0
Government consumption	4.1	1.5	1.3	0.4
Gross fixed capital formation	8.8	2.0	2.0	3.0
Exports of goods and services	8.6	5.1	5.5	5.5
Imports of goods and services	9.6	5.9	6.0	6.1

IV. FISCAL FRAMEWORK

4.1. PUBLIC POLICY STRATEGY AND MEDIUM-TERM OBJECTIVES

The objective of fiscal policy in the medium term is to continue and strengthen fiscal discipline, which provides a continuation of a downward debt trend, thereby providing an impetus for economic growth. Following the successful completion of the Precautionary Arrangement, centred around the fiscal consolidation programme, a new arrangement has been concluded with the IMF, placing structural reforms and their impact on growth at the forefront. The arrangement is to last 30 months, until the end of 2020. The Policy Coordination Instrument entails further implementation of structural reforms programme aimed at maintaining macroeconomic and financial stability, creating jobs and accelerating economic growth. The programme of restructuring and privatisation of large state-owned enterprises, such as RTB Bor, has further contributed to the improvement of the country's fiscal position, which in turn contributes to the reduction of fiscal risks arising from this segment of public finances.

Unlike the period of fiscal consolidation, when fiscal policy was restrictive but pro-cyclical, during 2018 fiscal policy had a mild pro-cyclical expansionary character. In 2017 and 2018, at the general government level, a fiscal surplus was recorded, although a deficit was planned in the budget. The fiscal surplus of 0.6% of GDP in 2018, with lower interest repayment costs, resulted in a primary fiscal surplus of 2.8% of GDP. Fiscal overperformance by 1.2% of GDP directly affected the debt stock, so the downward trend in the general government debt initiated at the end of 2016, continued into 2018. Compared to the end of 2017, the public debt to GDP ratio was down more than 4 p.p. at the end of last year. Responsible fiscal policy management resulted in the creation of fiscal space in 2019 that enabled the relaxation of expenditure policy in the area of wages, pensions and capital expenditure, on the one hand, and tax policy, by reducing the overall tax wedge and abolishing or reducing certain parafiscal charges, on the other.

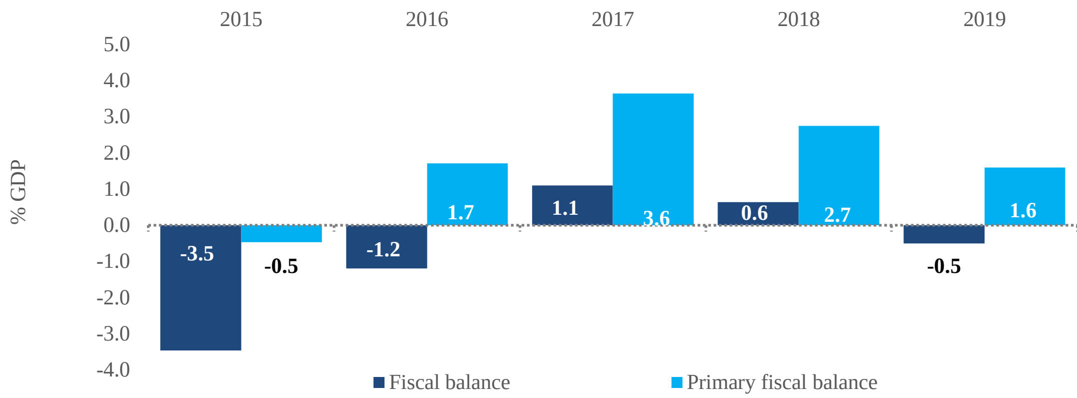
Good fiscal performance was also recorded during 2019. In the first half of the year, at the general government level, a fiscal surplus of 0.9% of GDP and a primary fiscal surplus of 3.4% of GDP were recorded. The improved collection of revenue created space for increasing the expenditure side, leading to the central budget revision, without changing the main objectives. The fiscal deficit of 0.5% of GDP was maintained, as well as the level of the general government debt of 52.9% of GDP, at the end of the year. The consistency of fiscal policy in implementing the measures adopted during 2019, combined with a favourable macroeconomic environment, will provide fiscal space for the coming period as well. The fiscal deficit is projected at up to 0.5% of GDP annually over the next three years, with the debt remaining on a stable and sustainable path, reaching 48.3% of GDP at the end of 2022. As in 2019, fiscal space will be allocated in the coming year to measures that contribute to the growth of economic activity. Fiscal policy will focus on further reduction of the overall labour tax wedge, which will further reduce the burden on businesses and increase the competitiveness of the private sector. On the expenditure side, the priority use of fiscal space will be given to infrastructure and capital projects, as well as the increase in pensions and wages. The stability of public finance and sustainability of the fiscal framework will be additionally supported by the planned amendments to the Budget System Law, which will, among other things, redesign the set of fiscal rules, general and specific, and define specific measures and consequences in case of non-compliance. Particular emphasis will be placed on amending the general rules relating to the public debt and general government deficit, as well as specific rules regarding the sustainable level of expenditure on wages and pensions.

4.2. BUDGET EXECUTION IN 2019

The general government fiscal deficit in 2019, according to the most recent estimates, will amount to 0.5% of GDP. When drafting the new estimate of general government revenue, expenditure and result, the latest macroeconomic developments and estimates, fiscal developments during 2019, and the expected collection of certain one-off revenue and expenditure categories not covered by the plan, were taken into account.

The estimated primary fiscal surplus of almost 1.6% of GDP in 2019 still remains one of the main factors of the decline in the public debt-to-GDP ratio. This result shows that the previous fiscal consolidation measures have achieved the desired effects and that public spending has been sufficiently reduced. On the other hand, favourable fiscal developments enabled a stabilisation of interest expenditure levels in the previous period, viewed as a share in GDP. This created space for certain fiscal relaxation that did not jeopardise the main medium-term fiscal policy objectives.

Graph 4. Fiscal performance of general government in the period from 2015 to 2018, % GDP

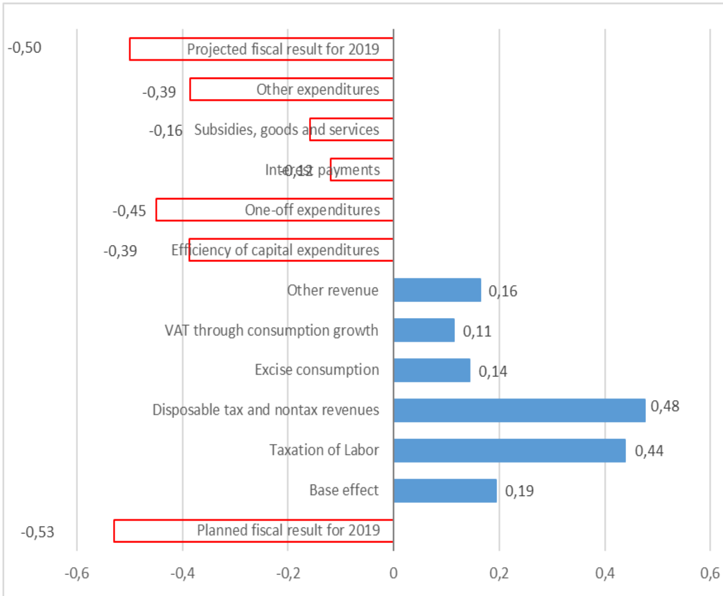


Source: Ministry of Finance

After the growth of the public debt-to-GDP ratio was interrupted in 2015 and its initial decline in the following year, in 2017 and 2018 there was a significant reduction in the share of public debt in GDP. The share of public debt is planned to decline from 68.8% of GDP in 2016 to 52.9% of GDP at the end of 2019. The total and primary surplus in this period represent the most significant factor that influenced the reduction of the public debt-to-GDP ratio. Although there are risks that in the coming period the developments in the international foreign exchange market may act in the opposite direction, the planned fiscal result trajectory provides for a further reduction of the public debt-to-GDP ratio.

The fiscal result in 2019 was not significantly revised in relation to the budget plan, but there was a significant change in the structure of revenue and expenditure. The revenue projection was revised upwards by RSD 83 billion (May revision of RSD 46.3 billion), due to the significant overperformance of most tax revenues and some non-tax revenues. Expenditure projections were also revised upwards, in the amount of RSD 81.4 billion (May revision of 43.8 billion), but with significant changes in the structure. A prominent positive change is an increase in capital expenditure compared to the plan, due to significantly better execution. The revised estimate of capital expenditure is RSD 21 billion higher in comparison to the budget plan and amounts to RSD 236.9 billion for the general government level. This change is the single largest one and affects the productivity of public expenditure in creating conditions for faster economic growth. Except for pension expenditure, other categories of public expenditure underwent changes in projected amounts for 2019, with certain changes resulting from methodological changes in the coverage of public sector expenditure. The adopted Law Amending the RS Budget Law for 2019 provided for an alignment with current public revenue and expenditure trends.

Graph 5. Contribution of various factors to the revision of fiscal performance relative to the 2019 plan, % GDP



At the end of August 2019, the general government surplus amounted to RSD 47.4 billion, which is RSD 43.8 billion above the initial plan. According to the budget plan, a RSD 3.9 billion surplus was foreseen in this period. Fiscal developments in this period of 2019 reflect favourable macroeconomic trends, primarily in the labour market, which contributed to better collection of public revenue (social contributions, personal income tax and value added tax).

Table 4. Government revenue, expenditure and result in 2019, RSD billion

	2019 plan	New estimate 2019	Difference	Change in %	2019 new estimate, % GDP
PUBLIC REVENUE	2,161.7	2,244.7	83.0	3.8	41.4
Current revenue	2,146.3	2,228.4	82.1	3.8	41.1
Tax revenue	1,915.6	1,978.6	62.9	3.3	36.5
Personal income tax	188.2	201.6	13.4	7.1	3.7
Corporate income tax	119.5	125.3	5.8	4.8	2.3
Value added tax	539.1	543.9	4.8	0.9	10.0
Excise duties	291.4	304.2	12.8	4.4	5.6
Customs duties	47.1	46.9	-0.2	-0.4	0.9
Other tax revenue	77.3	83.5	6.2	8.0	1.5
Contributions	653.0	673.1	20.1	3.1	12.4
Non-tax revenue	230.6	249.8	19.2	8.3	4.6
Grants	15.4	16.3	0.9	5.8	0.3

PUBLIC EXPENDITURE	2,190.4	2,271.8	81.4	3.7	41.9
Current expenditure	1,954.6	2,014.6	60.0	3.1	37.2
Personnel expenditure	501.6	514.4	12.8	2.5	9.5
Purchases of goods and services	365.4	382.0	16.6	4.5	7.1
Interest payment	106.4	112.9	6.5	6.1	2.1
Subsidies	124.8	128.0	3.2	2.6	2.4
Social benefits and transfers	783.8	794.9	11.1	1.4	14.7
of which pensions	563.2	563.2	0.0	0.0	10.4
Other current expenditure	72.7	82.5	9.9	13.6	1.5
Capital expenditure	215.9	236.9	21.0	9.7	4.4
Net lending	6.9	8.8	1.9	27.5	0.2
Guarantee repayment	13.0	11.5	-1.5	-11.8	0.2
Result	-28.7	-27.1	1.6		-0.5
Result in % GDP	-0.53	-0.50	0.0		

Source: Ministry of Finance

Trends in the labour market during 2019, the growth of average wages, employment, and consequently the growth of consumption, had a positive impact on the revenue from the personal income tax and mandatory social security contributions. The growth of total wage bill over the period from January to September 2019 of around 12.7% is in line with the actual growth of labour tax revenue in the period of their payment. By the end of 2019, it is estimated that the total labour tax revenue collected (including the social contributions) will overperform by over RSD 27 billion, with a certain upside risk. Estimated revenue from other forms of personal income tax was also increased by over RSD 6 billion relative to the plan, primarily because of individual payments estimated to be of one-off nature, and partly because of better execution at the end of the previous year.

In the area of VAT audit and collection efficiency improvement, excellent results were achieved in 2015 and 2016, while 2017 and 2018 were the years of collection efficiency stabilisation at the attained level. The main determinants of VAT collection are total consumption (C), effective tax rate and collection efficiency (C-efficiency). The VAT is the second largest tax type in total public revenue, and its trend is also driven by factors such as credit activity, trends in other revenue sources, collection efficiency and the size of informal economy, consumption structure and foreign trade.

The VAT estimate was adjusted upwards by RSD 4.8 billion as a consequence of positive trend of these factors. According to the current projection, the gross VAT collection will increase by about 9% in 2019, which is aligned with the growth rate of disposable income. The development of gross VAT collection is useful for the purpose of monitoring the collection during the year and for making short-term projections, as it is not affected by changes in the dynamics of payment of VAT refunds. At the end of 2018, there was a significant acceleration in the payment of VAT refunds to economic operators. The government went into 2019 with lower liabilities on that basis. The dynamics of VAT refund payment during 2019 accelerated further, compared to the previous period, due to the shortened deadlines for VAT payment (in relation to the maximum prescribed legal deadlines). Faster payment is a result of increased efficiency and better audit organisation in this domain.

Excise duty revenue collection increased significantly compared to the amount planned in the 2019 budget. Excise duty revenue encompasses four major categories, namely: excise duties on oil products, tobacco products, electricity for final consumption and other (alcohol and coffee). Generally speaking, the budget projection of revenues for 2019 did not assume any change in the consumption of excise goods and was based on regular adjustment of the excise duty burden. In the case of tobacco products, as every year, a certain decline in consumption is assumed, which has been a trend for years.

Estimated revenue from excise duties on oil products was increased due to slightly better collection at the end of 2018, but also because of the actual increase in final consumption during 2019. Excise duty revenue on tobacco products was adjusted slightly upwards, in line with the collection so far in 2019. Tobacco consumption data indicate that in 2018 there was a slightly larger decline in the legal market relative to the long-term trend. During 2019, the collection of excise duties on tobacco products suggests that there was a stabilisation or a slight recovery in this area.

Customs revenue trend is in line with the plan. However, its dynamics does not fully follow the import VAT trend. Customs revenue, provided there are no changes in customs rates, follows the imports trend and changes in the exchange rate. During 2017, 2018 and in the previous part of 2019, the rate of increase in customs revenue was lower than the rate of import VAT growth. Different trade agreements, duty-free regimes for the import of certain categories of goods, changes in the customs tariff, etc. as well as changes in the structure of imports, all affect the collection of customs revenue. In the previous period, there was an increase in imports of goods which are not subject to customs duties, which is the reason the deviation from the total import growth rate and the import VAT growth rate is greater.

Estimated corporate income tax revenue was increased by RSD 5.8 billion compared to the amount planned in the 2019 budget. The revision of corporate income tax revenue is largely caused by one-off factors. In the course of budget preparation, the assumption of moderate growth of profitability of the economy in the Republic of Serbia was used, because at the time the final operating results were yet not known. During 2019, the Business Registers Agency released data on the growth of total corporate profitability in 2018 of about 12%. Different treatment of individual balance sheet items for accounting purposes compared to taxation purposes, the dynamics of advance payments, tax credits, tax benefits, tax refunds, etc. can lead to discrepancies in the tax collection trends relative to profitability trends. However, a one-off event (the Nikola Tesla a.d. Airport concession) has a more significant impact on the increase in corporate income tax revenue in 2019 in comparison to the budget projection. The airport made an extraordinarily high profit due to the payment of concession fee by the concessionaire who took over the management of the airport in 2018. On the basis of the calculated profit, the corresponding corporate income tax in the amount of RSD 8.8 billion was paid.

Other tax revenue increased relative to the original projection by RSD 6.2 billion. The reasons for the increase are the following: better performance at the end of the previous year, various one-off payments and, to a large extent, better collection of property taxes at the local level.

Non-tax revenue was revised upwards in the amount of RSD 17.4 billion. The original annual projection of non-tax revenue for 2019 contained the structural, i.e. permanent portion of non-tax revenue related to budget dividends and profits of public enterprises in the amount of RSD 19.2 billion.

The revised estimate of non-tax revenue is a result of payment of unplanned one-off revenue, and partly of the effects of methodological nature. The estimate of regular non-tax revenue (taxes, penalties and fees) increased slightly compared to the budget plan. Unplanned revenues whose collection is included in the new estimate of non-tax revenue are the following: payment of National Bank of Serbia (NBS) profit in the amount of RSD 9.3 billion, payment of RSD 1.8 billion by the Deposit Insurance Agency, premiums for reopening the issue of securities, etc. Airport dividend payment was planned under non-tax revenue but in a much smaller amount (without prejudging the concession fee treatment). The reason for the increase in the estimated non-tax revenue, due to methodological changes, is the inclusion of revenue and expenditure of social care institutions in the budget execution system.

At the beginning of 2019, the scope of reporting on revenue and expenditure of indirect beneficiaries of the budget of the Republic of Serbia, was expanded. For the first time, social care institutions were included in the budget execution system[7]. It is estimated that the level of revenue and expenditure of social care institutions on this basis will reach about RSD 11 billion.

The estimate of collection of regular non-tax revenue of local government units remained at approximately the same level.

[7] Indirect beneficiaries were covered by the plan in the course of preparation of the annual budget and the annual accounts, but they were not covered by multiannual reporting because they were not included in the budget execution system. Since 2015, various indirect beneficiary categories have gradually been included in the consolidated budget execution system (judicial bodies, cultural institutions, prisons and social protection institutions).

ANT Payment – Super Dividend Treatment

Concession revenue was paid in full amount in 2018 to Nikola Tesla Airport a.d. as the concession grantor. According to ANT's annual accounts, this company's pre-tax profit amounted to RSD 62.6 billion in 2018 and the net profit was RSD 53.2 billion.

ANT paid a corporate income tax of RSD 8.8 billion to the budget of the Republic of Serbia. According to the decision of the General Shareholder Meeting, the amount of RSD 52.9 billion was allocated for the gross dividend.

To the Republic of Serbia, which has a share of 83.5% in the total number of shares issued, the amount of RSD 44.8 billion was allocated as a dividend.

International standards in fiscal reporting distinguish between the payment of ordinary dividend and super-dividend, which is treated as a financial transaction, recorded as a receipt (below the line), and has a character of withdrawal of equity. When the dividend payment in one year exceeds common (average) dividend payments by the same enterprise in the previous few years, such payment is classified as a super-dividend and the super-dividend test is applied to its recording. The total payment is divided into the ordinary dividend (up to the average operating profit in previous years) and the super-dividend.

Of the total amount of dividend paid into the budget of the Republic of Serbia in the amount of RSD 44.8 billion, RSD 2.5 billion was recorded as a regular dividend, under non-tax revenue, while the remaining, larger portion in the amount of RSD 42.2 billion was recorded as a financial transaction, that is, payment treated as a super-dividend.

With such recording, the international fiscal reporting standards have been fully applied.

In accordance with the new estimate of the 2019 fiscal framework, total expenditure is higher by RSD 81.4 billion or 3.7% compared to the budget plan. In addition to the amount, the structure of expenditure relative to the 2019 budget plan was also changed. Key changes in the 2019 expenditure relate to much better execution of capital expenditure than planned, recording of budget expenditure related to resolving the problems of citizens who had taken loans in Swiss francs, changes in interest expenditure due to optimisation of the public debt structure, including the integration of a large group of indirect beneficiaries (social care institutions) into the budget execution system.

In the January-August period, public expenditure increased at a rate of 9.3% compared to the same period in 2018, and total growth is expected to accelerate by the end of the year, after the adoption of the Law Amending the 2019 Budget Law.

The execution of personnel expenditure until the end of 2019 will be RSD 12.8 billion higher than the amount planned by the budget. This change is a result of multiple factors. With the inclusion of social care institutions, the wages of employees with these indirect beneficiaries are now also fully covered. The effect of this methodological change is RSD 4.5 billion. Another factor contributing to the increase in personnel expenditure in comparison to the original amount was the approved increase in public sector wages, ranging from 8% to 15%. The aforementioned increase refers to November wages paid in December 2019. Personnel expenditure, in line with these changes, reaches 9.5% of GDP at the end of 2019. In the upcoming period, as a part of the fiscal rule reform, new sustainable limits for the share of this expenditure in GDP will be set.

Expenditure for the purchase of goods and services, in accordance with the revised central budget and projections for other levels of government, will be RSD 16.6 billion higher than the 2019 budget plan. Of this amount, around RSD 2 billion relates to social care institutions. The rest of the increase is a result of higher consumption at the local level, with a more significant increase also recorded for JP Putevi Srbije (PE Roads of Serbia). The maintenance of the existing road network of which this public enterprise is in charge is treated as an expenditure for the purchase of goods and services.

Interest expenditure increased by RSD 6.5 billion compared to the budget plan. During 2019, a decision was made on early redemption of Eurobonds in the amount of USD 1.1 billion, maturing in February 2020 and September 2021. This will result in the growth of interest expenditure in the amount of RSD 6.5 billion compared to the 2019 plan, but it will also reduce future interest liabilities related to these loans. At the same time, a new issue of Eurobonds was sold at much more favourable interest rates, improving the debt interest structure.

Pension expenditure was not revised within this fiscal framework, as its implementation is in line with the planned dynamics. The share of pension expenditure in GDP is currently at 10.4%, and from next year pensions will be indexed according to the so-called Swiss formula – a percentage which represents the sum of half the consumer price increase and half the change in average wage net of taxes and contributions. Other social protection expenditure will be RSD 11.1 billion higher than planned. This difference is largely a consequence of a one-off payment to pensioners in the amount of RSD 8.7 billion, with a combination of movements of various forms of social benefits, including higher expenditure for parental allowance than planned and lower execution of several other forms of social benefits.

Expenditure for subsidies will be RSD 3.2 billion higher than planned, primarily because of the method of recording the amount allocated to resolving the issue of Swiss franc-denominated loans to households. The adopted Law on the Conversion of Housing Loans Indexed in Swiss Francs regulated this issue, with a fiscal effect amounting to RSD 8.9 billion. In this case, a five-year government bond is to be issued for the benefit of commercial banks. In accordance with the international accounting and statistical standards, this transaction is presented in its entirety as an expenditure for the period in which the bonds were issued. On the other hand, the smaller increase in subsidy expenditure compared to the amount allocated to resolving the Swiss franc loans, was largely influenced by the decrease in the amount of subsidies at the local level. This revision is of a methodological nature and was caused by changes in the manner of presenting public transport financing in Belgrade.

In 2019 the expenditure related to guarantees and budget loans as a total did not change significantly in the new fiscal framework.

Other current expenditure increased compared to the budget plan by RSD 9.9 billion partially due to increased execution by JP Putevi Srbije and partly due to the payment based on the court judgment in relation to the Energo-zelena company.

Table 5. Government revenue, expenditure and result, January-October, RSD billion

	I–X 2018	I–X 2019	I–X rate in %
PUBLIC REVENUE	1,717.2	1,853.3	7.9
Current revenue	1.710.5	1.844.8	7.8
Tax revenue	1.496.2	1.629.4	8.9
Personal income tax	144.2	164.5	14.0
Corporate income tax	97.4	111.1	14.1
Value added tax	421.5	451.9	7.2
Excise duties	235.3	251.2	6.8
Customs duties	35.7	38.9	8.8
Other tax revenue	60.1	65.6	9.3
Contributions	502.1	546.2	8.8
Non-tax revenue	214.3	215.3	0.5
Grants	6.6	8.5	28.3
PUBLIC EXPENDITURE	1,652.4	1,805.6	9.3
Current expenditure	1,489.7	1,617.3	8.6
Personnel expenditure	387.9	421.4	8.6
Purchases of goods and services	262.6	293.3	11.7
Interest payment	99.7	102.8	3.1
Subsidies	77.9	88.8	13.9
Social assistance and transfers	607.5	642.8	5.8
of which pensions	432.1	466.6	8.0
Other current expenditure	54.0	68.2	26.3
Capital expenditure	141.9	173.1	22.0
Net lending	4.2	6.2	49.0
Guarantee repayment	16.7	9.0	-46.4
Fiscal result	64.8	47.7	

Source: Ministry of Finance

Public investment execution is expected to exceed the plan. This is the expenditure category that recorded the single largest upward adjustment. Capital expenditure execution in the period January–October 2019 increased by 22% compared to the same period of the previous year. Capital expenditure reached a level of 4.4% of GDP in 2019, which indicates a much more efficient execution of this form of expenditure.

The stock of arrears (over 60 days past due)* of budget beneficiaries and mandatory social insurance organisations as of the last day of September 2019 amounted to RSD 2.9 billion (around 0.05% of GDP), which is a decrease in comparison to the end of 2018. Budget beneficiaries and JP Putevi Srbije generated arrears in the amount of RSD 1.5 billion, while the arrears of the mandatory social insurance organisations were RSD 1.4 billion.

Table 6. Stock of arrears of budget beneficiaries and mandatory social insurance organisations, over 60 days past due, RSD billion

	31.12.2018	30.9.2019
Budget beneficiaries and JP Putevi Srbije (PE Roads of Serbia)	2.1	1.5
Mandatory social insurance organisations	1.3	1.4
TOTAL	3.4	2.9

Source: Ministry of Finance

* In line with the definition used for the purposes of monitoring the IMF arrangement.

S0 Short-term Fiscal Sustainability Indicator

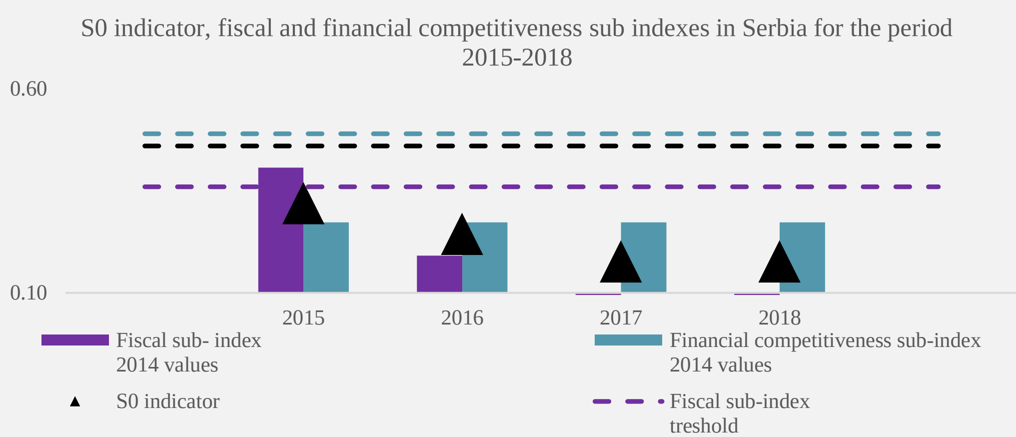
The European Commission designed the S0 composite indicator for assessing short-term fiscal sustainability the aim of which, through the identification of potential short-term risks in the current year, is early detection of fiscal stress in the coming year. If the value of the S0 indicator exceeds the predefined threshold, the country is considered to be at short-term risk of fiscal stress. Apart from the value of the overall indicator, in order to locate the source of risk, subindex values and their components are also considered. The S0 composite indicator is composed of two subindices, which contain a series of fiscal and macrofinancial sustainability variables. The value of these subindices which is below the defined threshold points to the absence of short-term fiscal risk.

The values of the S0 indicator and both subindices for the Republic of Serbia in 2018 are below the predefined thresholds, pointing to the general absence of short-term risk of any macroeconomic instability, as well as of any pronounced risks stemming from the areas covered by the subindices.

The fiscal stability achieved through fiscal consolidation was maintained throughout 2018, resulting in the complete elimination of risks from the fiscal subindex sphere, since none of the components of this subindex exceed the defined threshold. The value of the macrofinancial subindex is also unchanged in the observed year, so we say that in this sphere, in principle, there are no challenges that would lead to the activation of fiscal risks.

The successfully maintained macroeconomic and fiscal stability, established in the previous period, provides space for further relaxation of fiscal policy in the next period as well.

S0 indicator with fiscal and financial competitiveness subindices for Serbia for the 2015-2018 period



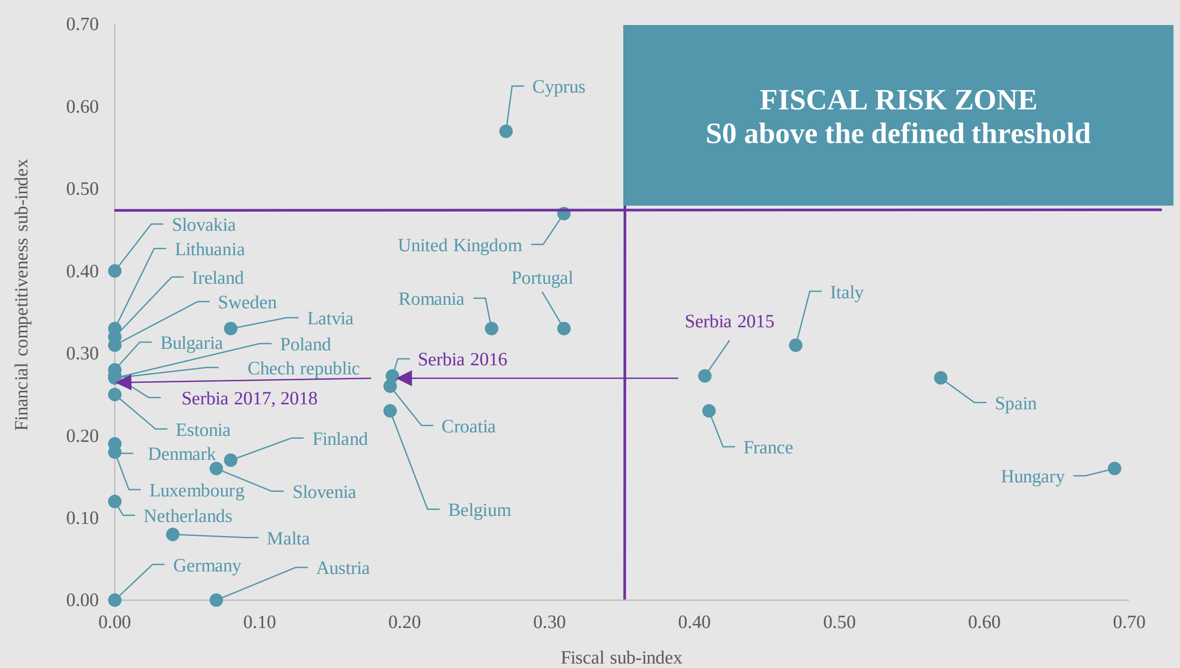
Variable name	Criterion	Threshold	Signalling power	Values for the Republic of Serbia, %			
				2015	2016	2017	2018
Fiscal subindex	**<**	**0.36**	**0.28**	**0.41**	**0.19**	**0.00**	**0.00**
1. Fiscal balance, % GDP	>	-9.61	0.07	-3.46	-1.19	1.10	0.64
2. Primary balance, % GDP	>	0.23	0.13	-0.47	1.71	3.64	2.78
3. Cyclically adjusted balance, % GDP	>	-2.5	0.23	-3.05	-1.21	1.35	0.52
4. Stabilising primary balance, % GDP	<	2.34	0.08	0.42	-0.37	-0.48	-1.42
5. Gross general government debt, % GDP	<	68.44	0.12	71.25	68.80	58.69	54.40
6. Change in gross general government debt, y-o-y, % GDP	<	8.06	0.12	3.75	-2.45	-10.11	-4.29
7. Short-term general government debt, % GDP	<	13.2	0.20	12.87	13.00	9.42	7.55
8. Net general government debt, % GDP	<	59.51	0.20	71.25	68.80	58.69	54.40
9. Gross financing need, % GDP	<	15.95	0.26	14.93	13.17	10.65	8.93
10. Interest rate-GDP growth rate differential	<	4.8	0.08	1.17	-0.57	-1.26	-2.67
11. Change in gen. government expenditure, y-o-y, % GDP	<	1.9	0.11	-2.44	-0.81	-1.54	0.49
12. Change in final consumption of gen. gov't, y-o-y, % GDP	<	0.61	0.07	-1.70	-0.40	0.20	0.40
Fiscal competitiveness subindex	**<**	**0.49**	**0.55**	**0.27**	**0.27**	**0.27**	**0.27**
1. Net international investment position, % GDP	>	-19.8	0.29	-91.62	-94.94	-94.49	-91.00
2. Net savings of households, % GDP	>	2.61	0.33	23.46	24.57	24.80	23.64
3. Private sector debt, % GDP	<	164.7	0.18	42.19	44.52	43.45	42.20
4. Private sector credit flow, % GDP	<	10.7	0.37	1.80	1.31	1.00	0.88
5. Short-term debt, non-financial corporations, % GDP	<	15.4	0.2	6.97	5.99	6.29	5.81
6. Short-term debt, households, % GDP	<	2.9	0.21	1.50	1.10	1.27	1.13
7. Construction, % GVA	<	7.46	0.22	4.50	4.70	5.00	5.50
8. Current account (3-year backward MA), % GDP	>	-2.5	0.34	-4.90	-4.00	-3.90	-4.40
9. Change (3 years) of real eff. exchange rate, %	<	9.67	0.11	-2.73	-0.90	-8.50	-3.40
10. Change (3 years) in nominal unit labour costs	<	7	0.18	0.30	-4.80	-1.90	0.50
11. Yield curve on government securities	>	0.59	0.37	4.55	5.00	2.01	2.01
12. Real GDP growth	>	-0.67	0.1	1.80	3.30	2.00	4.40
13. GDP per capita in PPP, % GDP of US level	>	72.7	0.22	26.70	27.08	27.65	27.97
S0 indicator	**<**	**0.46**	**0.55**	**0.32**	**0.24**	**0.18**	**0.18**

Source: Calculation of the Ministry of Finance

Based on the EC's data for the EU countries for 2018 and the calculations of the Ministry of Finance for the Republic of Serbia, for 2016, 2017 and 2018 it can be concluded that none of the countries considered were exposed to short-term risk of fiscal stress materialisation, given that the S0 value did not exceed the defined threshold anywhere. Certain countries faced fiscal or macrofinancial challenges, while the Republic of Serbia, together with the majority of EU countries, was still within the defined thresholds of the S0 indicator.

The calculation of the S0 indicators for the Republic of Serbia, made by the Ministry of Finance, is based on the EC methodology[8].

Fiscal subindex and the macrofinancial competitiveness subindex for EU countries and for the Republic of Serbia for 2015-2018



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[8] A more detailed definition of the S0 indicators as well as the description of the methodology used and results, may be found in the Fiscal Strategy for 2018 with projections for 2019 and 2020 via the link http://www.mfin.gov.rs/pages/issue.php? id = 8382 and the EC "Fiscal Sustainability report 2015", January 25, 2016, 157–158.

4.3. BUDGET PLANS FOR 2020 AND MEDIUM-TERM BUDGET FRAMEWORK

In the following medium-term period, the fiscal policy objectives are aimed at the maintenance of fiscal stability, which leads to further decrease in the public debt-to-GDP ratio. The medium-term fiscal framework provides for the general government deficit at the level of 0.5% of GDP by 2022 and decline of the public debt to below 50% of GDP. The projections of fiscal aggregates in the period from 2020 to 2022 are based on projections of macroeconomic indicators for the stated period, planned tax policy which includes further alignment with the EU laws and directives, fiscal and structural measures, as well as further reform of large public enterprises.

Owing to the fiscal consolidation measures, fiscal space was created for new policies in the previous period. Fiscal space represents the positive difference between the targeted and the expected deficit, that is, the available funds that result from the difference between expected and allocated expenditure. Fiscal space will be used in 2020 for increasing capital investments, increasing pensions and public sector wages and reducing tax burden of the economy. These measures and their fiscal implications are designed so as not to jeopardise the stability of public finance and pace of public debt reduction and, on the other hand, to raise the living standard of the population and accelerate economic growth. In the event of revenue collection overperformance, additional fiscal space will be created. Any additional space in the forthcoming period will be development-oriented, that is, it will be used to reduce the tax wedge on wages or for new capital investments.

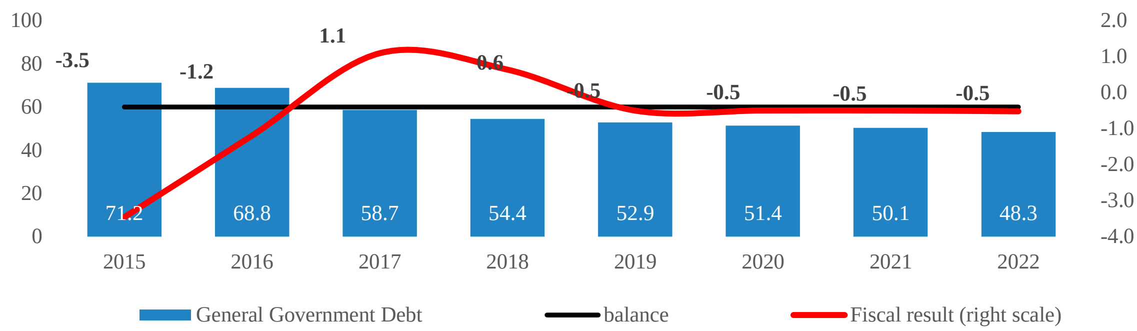
Table 7. Fiscal aggregates in the 2018–2022 period, % GDP

Description	Execution	Estimate	Outlook		
	2018	2019	2020	2021	2022
Public revenue	41,5	41,4	40,2	39,4	38,7
Public expenditure	40,9	41,9	40,7	39,8	39,2
Consolidated fiscal result	0,6	-0,5	-0,5	-0,5	-0,5
Primary consolidated result	2,7	1,6	1,5	1,3	1,2
General government debt	54,4	52,9	51,4	50,1	48,3
Real GDP growth rate	4,4%	3,5%	4,0%	4,0%	4,0%

Source: Ministry of Finance

The main objectives of fiscal consolidation and the IMF programme were precisely the stabilisation of public finance and the reduction of the public debt-to-GDP ratio. The debt reduction was closely related to the decrease of deficit as the main factor of indebtedness, so the pace of lowering the deficit also determines the change in the debt path. Financial transactions, such as the replacement of expensive debt with cheaper one, as well as the better position of the country in the international financial market will contribute to further debt decrease.

Graph 6. Fiscal result and public debt, % GDP



In the following period the general government deficit will stabilise at about 0.5% of GDP, which is a sustainable level conducive to further public debt reduction. With the expected macroeconomic performance, in the following medium-term period the public debt level will come down to below 50% of GDP. Good fiscal consolidation results allowed for moderate fiscal policy easing, primarily on the expenditure side, in the form of public investment increase, elimination of crisis measures and wage and pension increases, without increasing their share in GDP. The key measure on the revenue side is a further reduction of the tax wedge. The process of restructuring public and former socially-owned enterprises continues in order to reduce the burden on public finance and the whole economy. In the event of favourable macroeconomic and fiscal trends and overperformance, the created fiscal space could be used for a further reduction of tax burden on the economy.

The projection of revenue in the period from 2020 to 2022 was prepared on the basis of following:

- Projection of paths of the most important macroeconomic indicators: GDP and its components, inflation, foreign exchange rate, foreign trade, employment and wages;
- Current and planned changes in tax policy;
- Estimated effects of fiscal and structural measures in the following period.

Table 8. Total revenue and grants in the 2018–2022 period, % GDP

Description	Execution	Estimate	Outlook		
	2018	2019	2020	2021	2022
PUBLIC REVENUE	41.5	41.4	40.2	39.4	38.7
Current revenue	41.2	41.1	39.9	39.1	38.5
Tax revenue	36.0	36.5	35.8	35.4	34.9
Personal income tax	3.5	3.7	3.7	3.7	3.7
Corporate income tax	2.2	2.3	2.0	1.9	1.8
Value added tax	9.9	10.0	10.0	9.9	9.7
Excise duties	5.7	5.6	5.3	5.1	4.9
Customs duties	0.9	0.9	0.9	0.9	0.9
Other tax revenue	1.5	1.5	1.4	1.4	1.3
Contributions	12.2	12.4	12.4	12.5	12.5
Non-tax revenue	5.3	4.6	4.1	3.7	3.5
Grants	0.3	0.3	0.3	0.3	0.2

Source: Ministry of Finance

The most significant tax policy measures in 2020 will be the reduction of the pension and disability insurance contributions payable by the employer by 0.5% and the personal allowance increase from RSD 15,300 to RSD 16,300. In addition, fiscal consolidation measures are foreseen to be completely abandoned, which, with the one-off nature of certain revenues in 2019, will be reflected in a larger decline of non-taxable revenue in 2020. The tax revenue projection assumes maintenance of the existing level of collection.

The most dominant form of personal income tax is the wage tax, so the wage bill and employment developments are the main factors influencing the development of this tax form. Reduction of the tax wedge will have a negative effect of around RSD 3 billion on wage tax revenue, but it is expected that the wage and employment increase will fully compensate for this loss. In the following period, the wage bill is expected to grow faster than nominal GDP, as a consequence of favourable labour market developments, above all, employment growth, so wage tax revenue will also increase as a share in GDP. The increase in the minimum wage will affect the growth of the total wage bill in the economy. The effect of increase in the minimum wage on revenue is estimated at RSD 8.5 billion.

Other forms of personal income tax (dividend tax, interest income tax, annual personal income surtax, etc.) will grow more slowly, that is, in line with the general economic activity trend, so a stable level of personal income tax revenue is expected, as a share in GDP. The fight against the informal economy is crucial with regard to the wage tax, given the large number of unregistered workers and payment of envelope wages. In recent years, audits have been intensified and sanctions have been strengthened, which has yielded results in combating the informal economy in the area of labour and employment, but it is important to carry on with continuous efforts in this field in the following period.

Reduction of the tax wedge will have a negative effect of around RSD 10 billion on contribution revenue. The wage bill increase is expected to outpace the nominal GDP increase, so this loss will be fully compensated. The share of this public revenue in GDP has a similar trajectory as the share of the wage tax, considering that the same assumptions about the trend of wages and employment were used for their projection. Contributions are a tax category where tax non-compliance is most pronounced and where the largest taxpayer debt is recorded, so the consequences of any fiscal non-compliance are most visible in this tax type.

Corporate income tax revenue in the 2020–2022 period will depend on the path of economic growth, relative stability of the dinar exchange rate and general profitability of the economy. The estimation of revenue on this basis may be uncertain due to both economic factors and the possibility of using tax credits or refunds, as well as the difference in accounting and tax statements. The spike in 2019 is a result of one-off factors that led to the increase of taxable profit in 2018. Corporate income tax projection also includes the effects of the implementation of the Law on Conversion of Loans Indexed in Swiss francs on the basis of the anticipated tax credit to commercial banks in the amount of 2% of the remaining debt. This effect is estimated to be EUR 2 billion.

The path of value added tax revenue is characterised by a relatively stable share in GDP. The main determinant of VAT trend is domestic demand driven by households' disposable income. Disposable income, as the largest determinant of consumption, depends on the movement of wages, pensions, social assistance and other forms of income, including remittances, as well as on the dynamics of bank lending to households. In the forthcoming period, the revenue based on foreign tourists' consumption will also play a greater role. The relaxation of fiscal policy in the area of public sector wages and pensions will also contribute to the growth of households' disposable income. As with the personal income tax, the risks to the VAT projection in the forthcoming period refer to the development of private sector wages, economic growth, as well as the degree of the informal economy and the efficiency of its reduction.

The results of more efficient collection and taxpayer audit are evident and this trend is expected to continue in the following period, while the effects of combating the informal economy are not explicitly included in the medium-term public revenue projection. The increase in the VAT collection due to the implementation of independent anti-evasion measures related to the value added tax, gave certain results in the previous period. In this area, there is room for further improvement, through strengthening and modernising the tax administration.

The projection of excise duty revenue was based on the current excise policy and projected consumption of excise products. Excise policy related to tobacco products is expected to be further aligned with the EU directives in compliance with medium-term plan to gradually increase the excise burden. In case of cigarettes, this will be reflected in a gradual increase of excise duties, reaching the EU minimum of EUR 1.8 per pack within an acceptable timeframe. In the following period, a further decline of the tobacco product market is projected, by around 3 percent annually on average. Unlike tobacco products, the situation in the oil product market is significantly less volatile. Better audit and effects of oil product marking reduced the possibility and profitability of illegal activities. The projection of revenue from the excise duty on oil products assumes the unchanged consumption of oil products, although the acceleration of economic activity is expected to contribute to consumption growth. Excise revenue on alcoholic beverages, coffee and electricity is projected in line with the existing consumption structure. The current nominal excise duties on alcoholic beverages and coffee are in line with the expected inflation rates in the medium term. During 2015, an ad valorem excise duty of 7.5% was introduced on electricity for final consumption. For the period from 2020 to 2022 the annual revenue from this excise duty is planned to reach RSD 17–18 billion, taking into account the current annual consumption and current prices.

Customs revenue will stabilise at 0.9% of GDP in the following period. The customs revenue projection was based on the projected path of imports, exchange rate and consumption.

The share of other tax revenues in GDP is projected to decrease slightly. The most significant tax revenue in this category is the property tax, with a share of about 70%. The nominal increase in this revenue might be expected due to base expansion. The increase in the collection rate, based on an increase in the coverage of taxable property (i.e. on the grounds of tax base expansion), is not included in medium-term projections and represents an upside risk. In addition to the property taxes, other tax revenues include taxes on using, holding and carrying goods, and other types of local taxes. They are projected in line with inflation trends, since the inflation component is included in a significant portion of these tax types. The foreseen amendments to the Law on Taxes on Using, Holding and Carrying Goods, which are related to the payment of taxes on carrying weapons, exemption from the payment of the tax on using vessels for which the Ministry of the Interior is liable, as well as the introduction of a tax exemption for hybrid vehicles, have no significant effect on total revenues on this basis.

The share of non-tax revenue in GDP is projected to decline from 5.3% in 2018 to 3.5% expected in 2022. In 2019, the liability was reduced on the basis of the reduction of wages for one part of the public sector, while next year this measure, which was a significant source of revenue during the fiscal consolidation process, is planned to be completely abolished. The effect of its abolishment is estimated at RSD 13.4 billion in 2020. Another reason for the decrease in the projected share of non-tax revenue in GDP, is the exclusion from the base year of 2019 of all those revenues that are not considered structural, i.e. permanent, which primarily refers to the extraordinary categories of non-tax revenue. Most of those are extraordinary payments of profit of public companies and agencies, budget dividends, revenues from collected claims of the Deposit Insurance Agency, issue premiums, etc. Regular non-tax revenue includes various fees, charges, penalties, revenues of authorities and organisations and all other revenues generated regularly during the year. These non-tax revenues are indexed by the actual inflation rate from the previous year, or follow the change in the value of the base on which they are applied and are therefore adjusted by the projected inflation.

The EU approximation process increases the availability of IPA and IPARD funds, which account for most of grant revenue. The projected grant revenue also includes the funds from the EU sectoral budget support. Grant revenue is result-neutral, as it is equal to expenditure on those grounds.

Responsible fiscal policy, combined with good macroeconomic performance, has led to the creation of fiscal space that will be used on the expenditure side, above all, to relax the wage and pension policies and increase capital investment as an essential component of economic development. Special attention is and will be paid to the improvement of efficiency in government capital investment implementation. The social component of the budget will be enhanced by better targeting of social assistance programmes and larger allocation to health and education. From 2019, the share of wages in GDP will be stabilised, and the pension indexation method has been defined. Wages and pensions together account for over 50% of general government expenditure and their stabilisation is of crucial importance for public finance sustainability.

Table 9. Total expenditure in the 2018–2022 period, % GDP

Description	Execution	Estimate		Outlook	
	2018	2019	2020	2021	2022
PUBLIC EXPENDITURE	40,9	41,9	40,7	39,9	39,2
Current expenditure	36,4	37,2	35,9	35,0	34,3
Personnel expenditure	9,3	9,5	9,5	9,5	9,5
Purchases of goods and services	6,8	7,1	6,8	6,7	6,6
Interest payment	2,1	2,1	1,9	1,7	1,6
Subsidies	2,2	2,4	2,0	1,8	1,8
Social assistance and transfers	14,7	14,7	14,2	13,9	13,5
of which pensions	10,4	10,4	10,2	10,0	9,8
Other current expenditure	1,4	1,5	1,5	1,3	1,3
Capital expenditure	3,9	4,4	4,5	4,6	4,7
Net lending	0,1	0,2	0,2	0,2	0,2
Guarantee repayment	0,4	0,2	0,1	0,1	0,1

Source: Ministry of Finance

One part of fiscal space will be used for increasing wages in the general government sector in the amount of RSD 44 billion. Since these are total labour costs, i.e. the wage bill which includes taxes and contributions, the net effect on fiscal result will amount to RSD 26 billion, i.e. 0.4% of GDP. The reduction of wages, employment ban and rightsizing in the public sector were the measures that contributed most to the reduction of expenditure and success of fiscal consolidation. The application of these measures resulted in a decline of the share of wages in GDP to 9 percent in 2017. The Budget System Law provides for the reduction of the level of wages excluding contributions payable by the employer to up to 7% of GDP; however, it seems that this wage target was set rather low. Currently, the share of wages defined in this manner in GDP is 8 percent. The average level of general government wages in the EU is around 10% of GDP, so with the share of total wage bill of around 9.5% of GDP in the period from 2019 to 2022, the Republic of Serbia is significantly below the EU average. In the previous period, a comprehensive reform of the public sector wage system was initiated, aiming to ensure equity and reduction of differences among public sector wages. The application of the new reformed public sector wage system will start at the beginning of 2021.

During the consolidation process, the control of employment in the public sector was in force. On the one hand, this allowed the control of the level of the wages, but on the other hand, it increased the number of fixed-term employment contracts and the lack of staff in certain parts of the public administration system. In the following period, a new, more flexible method of controlling the employment, will come into force, and will be based on medium-term planning of the number of employees in all areas of the public sector, in accordance with the budgetary constraints.

Expenditure on goods and services will gradually decline over the medium term, in terms of share in GDP to 6.6 percent, considering that it was foreseen to grow nominally at a slower pace than the nominal GDP.

Reduction of interest expenditure is one of the best indicators of fiscal consolidation success. Good results in the previous period reduced the need for borrowing, which led to a reversal in the interest rate trend. In 2022, interest expenditure will fall to 1.6% of GDP.

Social assistance and transfers to the population present the largest expenditure category of the general government budget. The single largest item in this expenditure group, and also the largest item among all expenditures, are pensions, which in 2019 will reach the level of 10.4% of GDP. As of 2020, pensions will be indexed by the so-called Swiss formula, simultaneously ensuring the increase in the pensioners' standard of living and the sustainability of the pension and public finance systems. The Swiss formula implies indexation, that is, the increase of pensions equal to the sum of half the average wage growth rate and half the consumer price growth rate. It is estimated that in the following period the indexation will be between 5 and 6%. Other forms of social benefits and transfers to households in the forthcoming period will be adjusted by applying the prescribed indexation, current and planned policy changes in this area and the projected number of beneficiaries. The share of social benefit expenditure in GDP decreases from 14.7% in 2018 to 13.5% in 2022, with the nominal increase in this expenditure in 2019 being a result of the Law on Financial Support to Families with Children.

The reduction of subsidies assisting inefficient segments of the public sector allows for an increase in the part of subsidies that represent proper incentives to the economy, above all to the agriculture and small and medium-sized enterprises, and accelerating of economic activity. The aim is to divert subsidies towards development programmes in the real sector and agriculture. The increase in subsidies in 2019 is a result of the beginning of implementation of the IPARD programme subsidising agriculture, as well as of resolving the issue of Swiss franc loans.

Other current expenditure categories consist of various expenditures, such as grants to associations, political parties, religious and sports organisations, penalties, damages etc. In the previous period, this category ranged between 1.3% and 1.5% of GDP, and by 2022, its share in GDP will decline to 1.3%.

The efficiency of public investment execution was significantly improved in 2018 and 2019. Capital expenditure increased to 3.9% of GDP in 2018, owing to the start of a new phase of infrastructure projects, and is expected to reach 4.4% of GDP in 2019. In the next medium-term period, all efforts will be directed towards achieving an acceptable and desirable level of public infrastructure investment, which represents 5% of GDP. By reducing the current consumption of the government sector, fiscal space has been secured, which will partially be used to increase investment. The most significant infrastructure works are on Corridors 10 and 11, which are mainly financed by international loans. In addition to the construction of these two major transport routes in the country, loans have been secured to finance the construction and renovation of other roads, road and rail infrastructure. In addition to transport infrastructure, funds have been provided for additional capital investment in health, education, culture, defence and other areas that represent the most important functions of the state. This is all part of the new national investment cycle that has been made feasible by the creation of fiscal space and favourable conditions for borrowing in the international financial market.

The general commitment of fiscal policy in the medium term is to increase investment in the infrastructure at all levels of the government. According to the Fiscal Council estimates, local government investment should be increased in the medium term by at least 75 percent in comparison to its current level, i.e. by around EUR 250 million. This primarily relates to investments in water and sewerage infrastructure, waste management, local road infrastructure and other.

In the medium-term fiscal framework, by the end of 2022, a balanced overall fiscal position of the local government is projected. This means that in the total, all towns and municipalities have a roughly balanced budget. The projection was made on the basis of trends in the previous period, in which the LGUs usually posted a surplus in aggregate terms. This situation at the level of all local governments is a consequence of deleveraging in the previous period. This does not mean that individual LGUs cannot post a deficit. This depends, first of all, on the fiscal position of each individual municipality and town.

The level of budget lending and payments under guarantees is a good indicator of the success of fiscal consolidation. The total share of these two categories in GDP was reduced to 0.5% of GDP in 2018. By the end of 2022, this expenditure will be minimal, with a share of up to 0.3% of GDP.

Repayment on the basis of issued guarantees and payment under guarantees on commercial transactions represent liabilities related to public enterprises' debts, which the central budget assumed, since these companies could not repay them on their own. This expenditure was a major burden on the budget, given the long-standing inefficient operation of many state-owned enterprises and companies. In the previous period, this expenditure was significantly reduced, and the repayment plan foresees that from 2020 it will amount to only around 0.1% of GDP.

Reforms Aimed at Decreasing Various Forms of Budget Support and Improving the Stability and Sustainability of Public Finance

Following the successful implementation of fiscal consolidation measures, supported by a three-year Precautionary Arrangement with the International Monetary Fund (IMF), in July 2018 the Republic of Serbia concluded a new arrangement – Policy Co-ordination Instrument – PCI, for a period of 30 months, which provides for continued implementation of institutional and structural reforms.

The programme foresees the maintenance of macroeconomic and fiscal stability, while continuing to reduce the share of public debt and implement measures that will spur economic growth, above all the growth of public investments. Tax measures will be used to incentivise further employment and investments, innovation, research and development, while simplifying tax procedures and reducing the number of parafiscal charges. Monetary policy will continue to support economic activity, without jeopardising the maintenance of the achieved price stability as the primary objective of the National Bank of Serbia (NBS), while further strengthening the dinarisation process and preserving the relative stability of the exchange rate. In the financial sector, where remarkable results have been achieved in reducing the NPL level, activities will continue on their further reduction, while resolving certain problems of financial institutions (state-owned banks, state development agencies, etc.). Structural and institutional reforms in the stated medium term will aim to improve the business environment, contributing to a more successful EU accession process. These reforms will focus on restructuring state-owned enterprises, financial institutions and public administration, as well as further reducing the informal economy.

The reforms are expected to continue in the area of employment, HR management and government sector wage system in the coming period. The objective of fiscal policy in the medium term is to keep personnel expenditure at a sustainable level, with an adequate staff structure, so as to ensure higher quality of the services provided. In the following medium-term period, the emphasis is on structural measures, which would, through rightsizing, on the one hand, and the establishment of a new government sector wage system, on the other, contribute to increasing the efficiency and quality of public services provided.

In recent years, numerous laws and by-laws have been adopted in order to determine accurately the coverage and the number of public sector employees. The Law on the Method of Determining the Maximum Number of Public Sector Employees is an umbrella law that defines the method of determining the maximum number of public sector employees, as well as the coverage and deadlines for reducing the number of employees, until reaching the defined ceiling. The Government Decree on the procedure for obtaining consent to new employment and additional engagement with public fund beneficiaries, is in force as well. This system has contributed to the reduction of the number of employees, but there have also been certain problems with regard to ensuring the adequate structure of employees and smooth functioning of certain parts of the public sector. In the forthcoming period, taking into account the fiscal constraints, a more flexible system will be designed, which will optimise the structure of public administration employees, replace the existing measures and procedures for new employment with public fund users.

In order to reduce various forms of budget support to public and state-owned enterprises, the reforms of the largest public and state-owned enterprises will continue. The reduction of budget support to these companies involves: a) limiting direct and indirect subsidies, b) strictly restricting the issuance of guarantees for new loans, and c) enhancing the accountability and transparency in the operation of these companies, including arrears control and reduction, especially towards JP EPS and JP Srbijagas. In the following period, a strategy is planned to developed, which will include an integrated approach to supervising and monitoring the operations of state-owned and public enterprises, the process of their financial consolidation, restructuring, disinvestment and measures for improving management and institutional framework.

The status of companies from the portfolio of the former Agency for Privatisation is being resolved through bankruptcy or privatisation proceedings. By October 2019, 316 companies were declared bankrupt, while 64 were privatised since the end of 2014. About 35,000 employees from 345 companies opted for the social programme. We are working intensively on finding solutions for another 84 companies with almost 31,000 employees.

For strategic companies from the portfolio of the former Agency for Privatisation, the solution is found either through privatisation tenders or through bankruptcy. The privatisation of the Port of Novi Sad was completed in May. A privatisation advisor was selected for the transport company Lasta AD Beograd, in order to complete the entire privatisation process next year. Solution for PE PEU Resavica is sought through finding a model for modernization of mines with the prospect of further operation in terms of quantity and quality of mineral raw materials, resolving issue of unprofitable mines, as well as reducing the number of employees through voluntary departure programs with the provided funds for social program and funds for operational support, all with the aim of rationalisation of operational expenses. Also, the World Bank is supporting the Government of the Republic of Serbia in its efforts to find a lasting solution, and therefore that institution has drafted an Action Plan for the PE PEU Resavica. Tender procedure for privatisation is about to be announced for HIP Petrohemija, after discussions with potential partners. After unsuccessful attempts to find a strategic partner, HIP Azotara was declared bankrupt, while for MSK Kikinda, after an unsuccessful privatisation tender, the solution is sought in finding strategic partners or investors.

For a number of state-owned enterprises, strategic partners, other models of privatisation or the implementation of prepacks, are sought.

4.4. CYCLICALLY-ADJUSTED FISCAL BALANCE

The cyclically adjusted fiscal balance is the fiscal balance from which the isolated impact of the business cycle has been removed, and the baseline identity is the following[9]:

$$FB = CB + CAB$$

A part of the fiscal balance (FB) that is unaffected by cyclical fluctuations is called cyclically-adjusted fiscal balance (CAB), and the purpose of this procedure is to isolate the cyclical component of the fiscal balance (CB) which is a result of the output gap. The actual fiscal balance will be equal to the cyclically-adjusted one if the output gap equals zero, i.e. if the real GDP growth rate equals the potential one.

The cyclically-adjusted primary deficit had been falling at an accelerated pace in parallel with the general fiscal result development and in 2017 it turned into a surplus. The structural primary balance net of one-off factors also recorded a positive value in 2017. Structural changes in the tax system during 2012 and 2013 started to produce results, effectively kickstarting the fiscal consolidation process. The next phase of fiscal consolidation, implemented during the arrangement with the IMF, now focusing on the structural adjustment on the expenditure side, significantly improved the country’s fiscal position. Analysis and quantification of the structural primary balance can isolate, first of all, one-off effects on the expenditure side, even though in certain years one-off effects on the revenue side were not insignificant either. The thus assessed structural primary balance is an efficient tool for a final assessment of the fiscal position, especially for the 2014-2018 period when the fiscal position was significantly improved. The analysis of the structural primary balance enables a review of the consolidation programme’s performance, as well as a quantification of possible fiscal space for further fiscal policy easing.

[9] A more detailed description of the used methodology and the results can be found in the Fiscal Strategy for 2013 with Projections for 2014 and 2015 or at http://www.mfin.gov.rs/pages/article.php?id=8626

Table 10. Fiscal balance and components for calculation of the cyclically-adjusted balance in the 2015–2022 period, % GDP*

	Output gap	Fiscal balance	Primary fiscal balance	Cyclical fiscal balance component	Cyclically-adjusted fiscal balance	Cyclically-adjusted primary fiscal balance	Structural primary fiscal balance **	Fiscal policy stance – fiscal impulse
2015	-1,1	-3,5	-0,4	-0,4	-3,0	-0,1	0,6	-3,0
2016	0,0	-1,2	1,7	0,0	-1,2	1,7	1,8	-1,8
2017	-0,7	1,1	3,6	-0,2	1,3	3,9	3,7	-2,2
2018	0,3	0,6	2,7	0,1	0,5	2,6	2,5	1,3
2019	0,2	-0,5	1,6	0,1	-0,6	1,5	1,4	1,1
2020	0,3	-0,5	1,4	0,1	-0,6	1,3	1,3	0,2
2021	0,3	-0,5	1,3	0,1	-0,6	1,2	1,2	0,1
2022	0,2	-0,5	1,2	0,1	-0,6	1,1	1,1	0,1

* For the 2019- 2021 period, the table presents projected values.

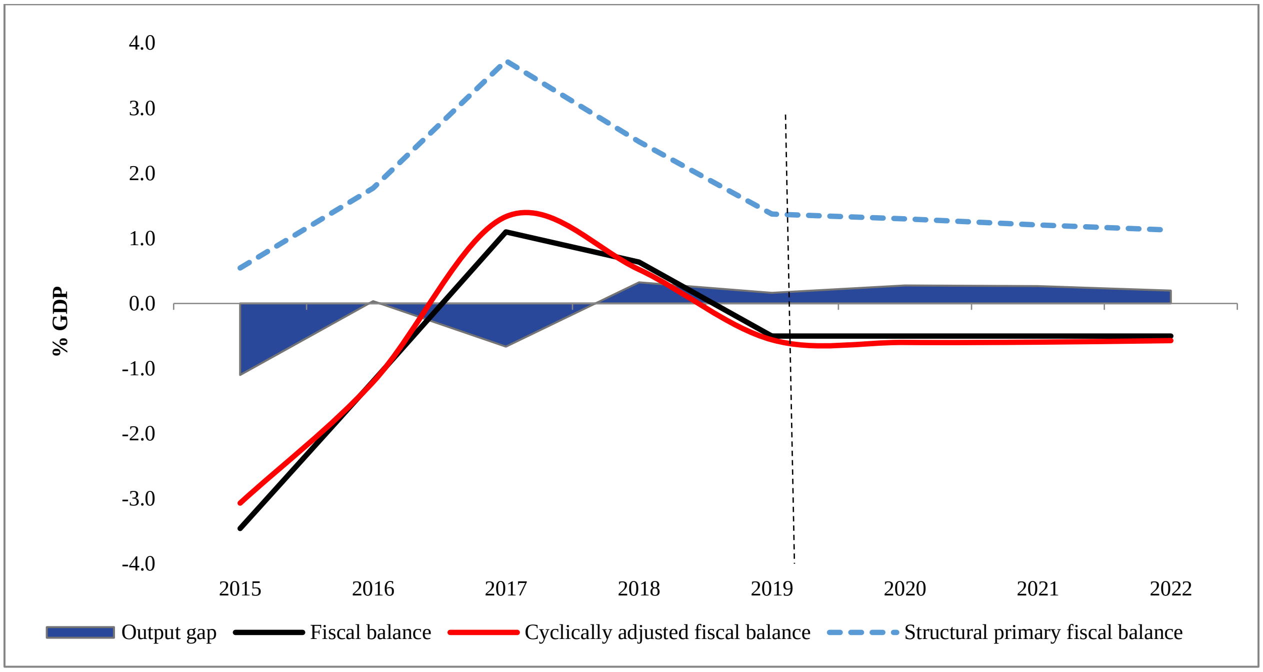
** The structural primary balance was obtained by excluding the estimated one-off revenue and expenditure. The results showing the change in the structural primary deficit do not exclude explicitly the effects of increase in the efficiency of revenue collection, and therefore the estimate of structural adjustment in 2015 and 2016 differs partially from the previously shown effects.

Source: Ministry of Finance

The measures adopted in the previous period, as well as the fiscal consolidation measures implemented in the 2015-2017 period, caused a significant structural improvement in the country's fiscal position. The effects of measures implemented in this period, as well as the effects expected by 2022, which refer to public sector reforms, the completion of the restructuring process and the elimination of some subsidies will result in permanent savings on the expenditure side.

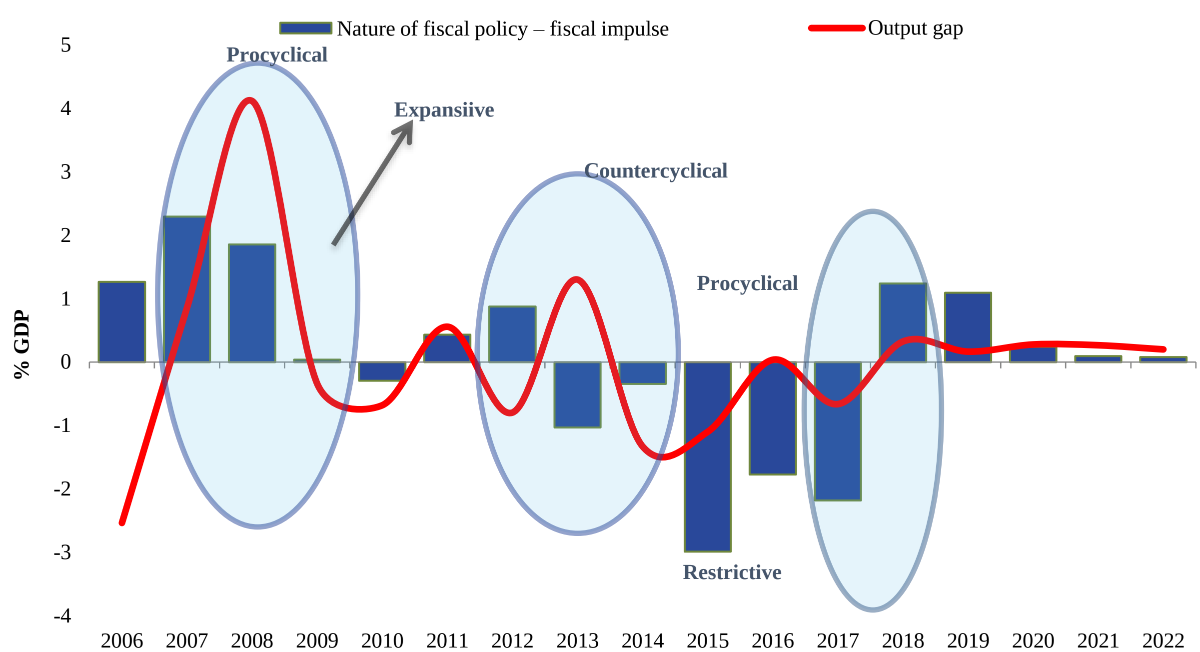
At the same time, space is opening for a further relaxation of fiscal policy, first on the expenditure side and then on the revenue side as well. The result achieved in 2019 and the significant primary surplus provide room for easing fiscal policy in a way that will not jeopardise debt sustainability and downward path. The anticipated fiscal deficit of 0.5% of GDP in the coming period continues to enable the achievement of high primary surpluses. That factor, apart from accelerating economic growth, will primarily result in a further reduction of the share of public debt in GDP.

Graph 7. Output gap, actual, cyclically-adjusted and structural fiscal balance in the 2015-2022 period, % GDP



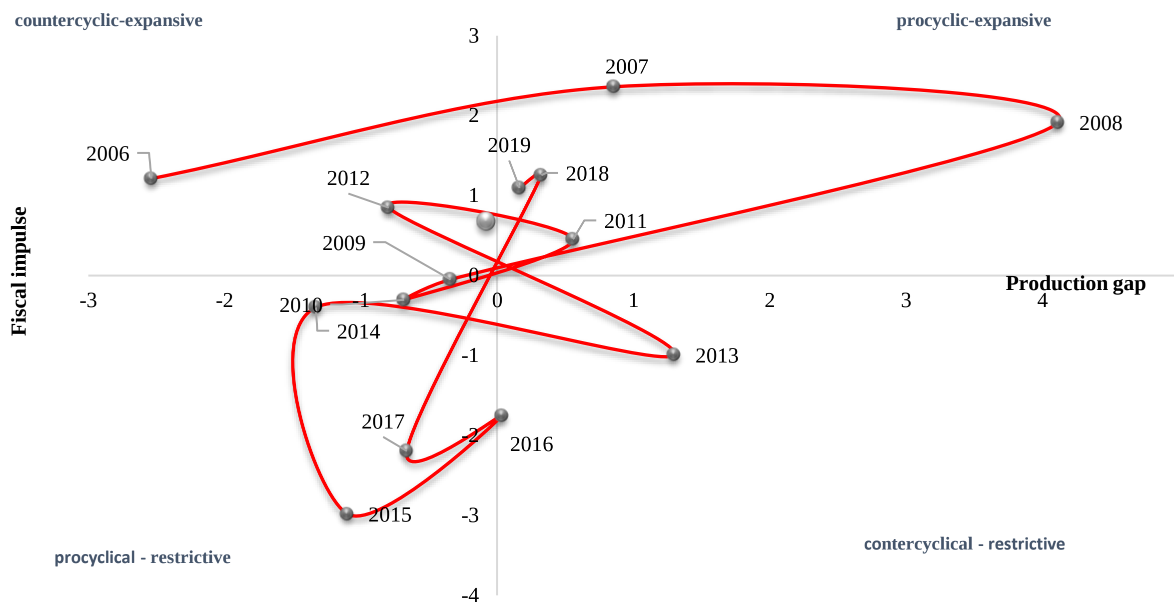
Source: Ministry of Finance

Graph 8. Character and effects of fiscal policy in the 2006-2022 period*



*For the 2019–2022 period, projected values are presented.
Source: Ministry of Finance

Graph 9. Character and effects of fiscal policy in the 2006-2019 period



Source: Ministry of Finance

In 2018 and 2019, the fiscal impulse is positive because the consolidation in the previous period created significant fiscal space. Certain minimum level of restrictiveness may emerge from further improvement of public revenue collection efficiency. Apart from relatively low values of the fiscal multiplier, a certain effect of positive fiscal impulse on economic developments is certainly present. In the following period, the convergence of the achieved growth rates to the potential level, in conjunction with the achieved fiscal results, enables the fiscal impulse to be mainly neutral, which is an additional confirmation of the achieved stability of the macro-fiscal environment. With a careful design of the revenue and expenditure policies in the forthcoming period, this stability can be further strengthened.

4.5. DEBT LEVEL AND DEVELOPMENTS

In line with international practice and under the Law on Public Debt ("Official Gazette RS", Nos. 61/05, 107/09, 78/11, 68/15 and 95/18), the Ministry of Finance of the Republic of Serbia - Public Debt Administration prepares a Public Debt Management Strategy for the upcoming medium term. The Public Debt Management Strategy should be supported by and consistent with the overall medium-term macroeconomic framework of the Government of the Republic of Serbia, and it constitutes an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on the principles defining the need for a transparent and predictable borrowing process, while constantly developing the government securities market and an acceptable level of exposure to financial risks.

At end-October 2019, the total stock of general government public debt was RSD 2,864.9 billion, or 52.9% of GDP. Of this amount, central government debt amounted to RSD 2,818.1 billion, while RSD 39.4 billion was related to non-guaranteed debt of local government units, and RSD 7.4 billion to non-guaranteed debt of JP Putevi Srbije (PE Roads of Serbia) and Koridori Srbije (Corridors of Serbia). Direct liabilities of the central government amounted to RSD 2,642.2 billion, while the contingent liabilities of the central government amounted to RSD 175.9 billion. The domestic public debt of the central government amounted to RSD 1,180.5 billion, while the foreign public debt was RSD 1,637.6 billion. According to the data as of 31 October 2019, the bulk of the Republic of Serbia's general government public debt is still euro-denominated, with a 42.9% share. The next most prevalent currency is the dinar with a share of 27.8%, followed by the dollar with a 21.5% share. The rest of the debt is denominated in Special Drawing Rights at 2.9% and other currencies at 4.9%. As of 31 October 2019, most of the general government public debt of the Republic of Serbia was contracted at a fixed interest rate – 81.0%, while the public debt with a variable interest rate accounted for 19.0% of total public debt. The most common variable interest rates included EURIBOR and LIBOR on the euro, which accounted for 80.7%, followed by the interest rate on Special Drawing Rights 10.4% and LIBOR on USD 3.9%, while the share of liabilities at other interest rates was about 5.0%.

The fiscal framework for the 2020-2022 period, which provides for the stabilisation of the consolidated fiscal deficit at 0.5% of GDP, presents the baseline scenario and is an integral part of the debt reduction programme. Having in mind the projected result of the Republic of Serbia's budget for 2019-2022, including the amount of loan proceeds to be disbursed for project financing, the effects of changes in the exchange rate of the dinar against the euro and the US dollar, in the baseline macroeconomic scenario, the stock of central government debt should stand at 47.2% of GDP at end-2022.

Table 11. Baseline projection of the general government public debt stock by 2022

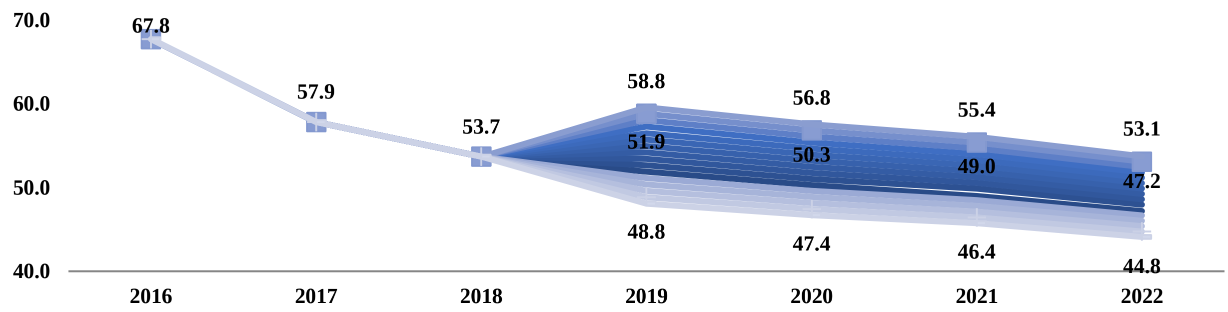
	2019 e	2020 p	2021 p	2022 p
Public debt (central government),	2.814,0	2.933,7	3.072,2	3.183,7
Central government debt, % GDP	51,9%	50,3%	49,0%	47,2%
Non-guaranteed debt of local government, % GDP	1,0%	1,1%	1,1%	1,1%
General government debt, % GDP	52,9%	51,4%	50,1%	48,3%

Non-guaranteed local government debt is projected in the coming period at around 1.1% of GDP in relative terms by end-2022. At the end of 2022, the stock of general government public debt should be at 48.3% of GDP or at 45.7% of GDP, when presented according to the Maastricht criterion.

Financial and fiscal risks may cause public debt to grow more than anticipated in the baseline scenario. The underlying risks that can bring about a rise in the debt and the cost of public debt servicing include: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks and risks associated with the distribution of servicing costs (debt structure, liability concentration).

Because of the high share of foreign currency-denominated debt (72.2%), it is evident that the foreign exchange risk will determine the development of the public debt/GDP ratio in the following period and will have a major impact on the success of fiscal policy measures aimed at public finance consolidation and reduction of the share of public debt in GDP.

Graph 10. Effect of changes in the dinar exchange rate against a basket of currencies from the public debt portfolio on the change in the public debt-to-GDP ratio - central government



The graph above presents the evolution of the public debt-to-GDP ratio for central government, depending on changes in the exchange rate of the dinar against a defined basket of currencies. It shows the baseline projection with alternative scenarios, depending on the appreciation or depreciation of the dinar exchange rate ranging from a 10% appreciation to a 20% depreciation of the dinar against the basket of currencies. By applying these scenarios, it is possible to see that the ratio for 2022 would range from 44.8% of GDP to 53.1% of GDP, while for the baseline scenario it would be at a level of 47.2% of GDP.

With a view to reducing the exposure to variable interest rates, amidst the expectations that the variable interest rate with the highest share in the public debt – Euribor - will go up, new liabilities are contracted at fixed interest rates, where possible, especially for loans intended for financing investment projects.

For the purpose of portfolio optimisation and more efficient public debt management, the costs and risks of alternative borrowing strategies were analysed by applying the World Bank model (Medium-term Debt Strategy Model – MTDS), for the baseline scenario, as well as for shocks that could result in a change of the baseline scenario: the foreign exchange rate, changing interest rates in the international and domestic market, combined shock.

In the following medium-term period, the public debt management strategy proceeds from the assumption that most financing will be secured in the domestic financial market, with a possibility that a portion of financing will be secured in the international financial market, should a need arise. The government securities market is still under development and one of the principles of public debt management is the requirement of flexibility, so that the financing of RS budget expenditure would be ensured. Flexibility will be reflected in the choice of the market in which borrowing will be conducted, the currency of borrowing, and financing instrument. The annual borrowing decision is adopted based on the budget law for a certain fiscal year. Depending on the change of the basic fiscal aggregates, the borrowing plan can be revised during the fiscal year.

In the period to which this Strategy pertains, an improvement in the efficiency of the primary market is expected through the concept of primary dealers, as a mechanism of sale of government securities which directly, in the longer run, contributes to the reduction of borrowing costs, as well as the reduction of the refinancing risk. Introducing a system of sale of government securities in the domestic financial market through primary dealers, provides a good foundation for improving the efficiency of the secondary market of government securities. With the development of the secondary market, in time a concept of market efficiency in the process of valuation of government securities will be established. Through the introduction of benchmark bond issues, a positive effect on the volume and continuity of secondary trading is achieved, as well as the improvement of market efficiency in the process of sale of government securities in the primary market.

4.6. SENSITIVITY ANALYSIS AND A COMPARISON WITH THE PREVIOUS PROGRAMME

In the previous decade, the Republic of Serbia faced the materialisation of a number of risks which seriously threatened its fiscal position. The financial crisis and recession aggravated the state of public finance, causing high deficits and fast public debt growth. The global financial crisis, as an external factor, also activated domestic risks, which is why payments under guaranteed loans, court decision enforcement, resolution of state-owned financial institutions, and conversion of debts of public enterprises into public debt, additionally aggravated the fiscal position. In 2014, the Republic of Serbia also faced the disastrous consequences of flooding. The total damage (with losses) was estimated at over EUR 1.7 billion[10].

The Government defined, as a medium-term fiscal policy objective, a low and sustainable deficit of 0.5% of GDP, which ensures a further reduction of public debt. Since the previous three-year period saw a successful implementation of the fiscal consolidation programme, the stabilisation of public finance and the reduction of share of public debt, the maintenance of fiscal stability has been defined as the fiscal policy objective in the following period, in parallel with the implementation of measures supporting economic growth. Special attention must be given to the management of fiscal risks, whose materialisation could jeopardise the achievement of the medium-term fiscal policy objective.

Fiscal risks imply exposure of public finance to certain circumstances that can cause short-term and long-term deviations from the projected fiscal framework. These deviations may occur in revenue, expenditure, fiscal result, as well as in government assets and liabilities, against what has been planned and expected. The Government cannot have an impact on external risks, such as natural disasters or global financial crises, but it is possible to define exit strategies mitigating their effects (the preservation of stability in good times so that the fiscal policy would have room for adequate response in the event of recession or crisis, insurance against natural disasters, etc.). Internal risks and their materialisation are a consequence of activities in the public sector, which

[10] http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljenih-podrucja-infograf-15-04-2016-srb.pdf

is why the Government's decisions and policies can have an impact on the probability of their materialisation.

Identification of major fiscal risks that can affect government finance over the medium term is a starting point for better fiscal risk management. Detailed information is available on some fiscal risks, and it is easy to identify whether and how likely it is that these will affect fiscal aggregates over the medium term. However, sufficiently detailed information is lacking for some other ones, but even identifying those raises the awareness of the possibility of deviations from the projected fiscal framework in the upcoming period.

The Ministry of Finance plays the key role in fiscal risk management. As the key institution for medium-term macroeconomic and fiscal planning, budget preparation and management, the Ministry of Finance must also play the key role in putting in place the institutional and legal structure, as well as building fiscal risk management capacities. An organisational unit for fiscal risk management has been established at the Ministry of Finance, which will work on strengthening the legislation and methodological framework, capacity building, and the development of technical tools and models for fiscal risk monitoring and assessment. Finally, these activities will result in identifying and assessing risks and proposing exit strategies, in order to assist the Government in preserving public finance stability, which is the key fiscal policy goal and one of the main preconditions for faster economic growth.

Macroeconomic Assumptions and Sensitivity of Fiscal Aggregates

Deviations of macroeconomic assumptions from the baseline scenario may lead to the deviations of fiscal aggregates from the projected level.

A downside scenario that implies economic contraction or lower growth in the coming period would lead to substantially lower capital inflows, and a drop in foreign trade. In that case, revenue would underperform and, consequently, the deficit would widen, if no further adjustments were made on the expenditure side. According to the assessments of fiscal balance sensitivity, any change in real growth of 1 p.p. of GDP leads to a change in the fiscal result of around 0.38% of GDP. If in the following three-year period, real GDP growth underperforms (by 1 p.p. on average a year), the cumulative fiscal deficit increase will amount to around RSD 50 billion.

Inflation is the main determinant of overall macroeconomic stability. Due to the modification of fiscal rules on indexation of wages and pensions, in the coming period inflation will have less of an impact on the path of the overall expenditure level than in the past. As for the revenue side, the impact of inflation on indirect taxes can be beneficial in the short run, but due to the inevitable adjustment of the real level of spending, this effect is lost if the income level is limited. The exchange rate has a similar short-term effect. Some revenue items are indexed annually to inflation (mainly non-tax revenue and the levels of certain excise rates), so certain risk comes from that side; nevertheless, due to the low projected inflation rates, it is not high. Inflation, on the other hand, can indirectly affect the size of the deficit and public debt. In case it is significantly above the targeted levels, in the process of relevant interest rate adjustments, interest rates on public debt may go up. On the other hand, the consumer price index strongly affects the path of the overall

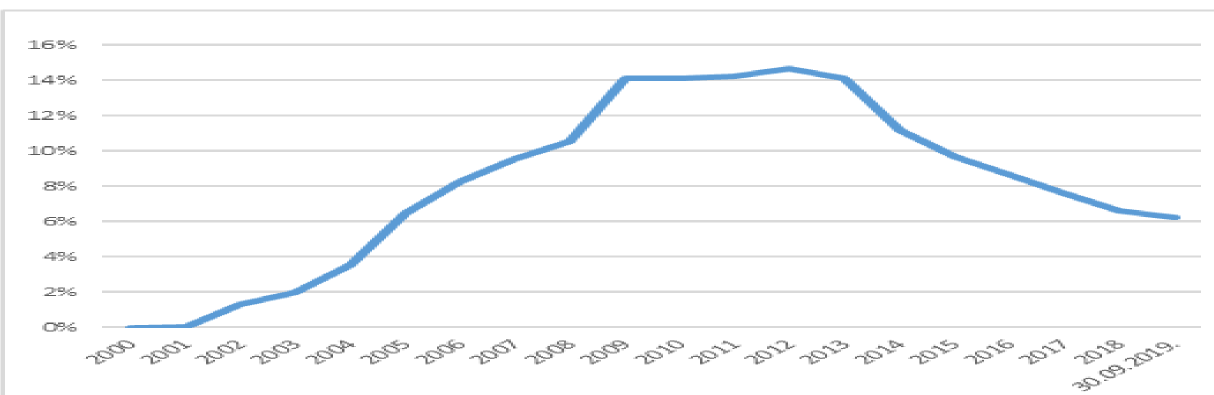
GDP deflator, and consequently the nominal GDP level, as the denominator for the deficit- and public debt-to-GDP ratios.

Interest expenditure is affected, beside the amount and composition of public debt, by factors such as the exchange rate and interest rates in the international and domestic markets. Given the unpredictable trends of certain variables, more funds may be needed for interest payments in the coming period. Interest rate policy pursued by certain international institutions (FED, European Central Bank, etc.) can influence the general level of interest rates in the international market, and for the Republic of Serbia, as a small, open economy, this poses an additional fiscal risk.

Government Guarantees

Guarantees issued by the government affect the level of public debt, but also the level of deficit, if the government assumes the repayment of such debt from the original debtor. Issued guarantees, according to the definition stipulated in the Law on Public Debt[11], are a part of contingent liabilities and are included in public debt[12] in the full amount. Constraints on new guarantee issuance have yielded results, so the share of contingent liabilities in total public debt is coming down. In late 2018, the share of contingent liabilities (guarantees issued by the Republic of Serbia) in total public debt amounted to 6.6%, according to the national methodology. The share of these liabilities in public debt has been decreasing in the current year as well, so in late September 2019 it was at 6% of total public debt. The share of these liabilities in public debt, just above 14% on average, peaked in the period between 2009 and 2013.

Graph 11. Share of indirect debt in public debt of the Republic of Serbia, %



At end-2018, the stock of public debt arising from issued guarantees amounted to EUR 1.5 billion, i.e. 3.5% of GDP. The guarantee-related debt stock was reduced by close to EUR 240 million relative to the end of 2017. By the end of September of the current year, the stock of guarantee-related debt was reduced by EUR 25.5 million relative to the end of 2018.

[11] Law on Public Debt, “Official Gazette RS”|, Nos. 61/2005, 107/2009, 78/2011 and 68/2015.

[12] The debt definition under the Maastricht criteria differs from public debt definition in the local legislation in its treatment of issued guarantees. According to the Maastricht criteria, public debt (general government debt) includes only called guarantees. The local legislation takes a more conservative approach in this matter, including all issued guarantees in public debt.

Table 12. Stock of debt arising from issued guarantees, EUR million

Beneficiary	30.9.2019.
PE Elektroprivreda Srbije	391,3
PE Putevi Srbije	313,8
AD Železnice Srbije	201,9
AD Infrastruktura Srbija	51,5
Srbijavoz a.d.	38,0
Srbija Kargo a.d.	13,6
Local government units (towns and municipalities)	214,4
PE Srbijagas	189,9
–RTB Bor	0,0
FIAT doo	17,9
AD Elektromreža Srbije	34,6
PE Jugoimport - SDPRG	12,3
PE Emisiona tehnika i veze	11,2
Serbia and Montenegro Air Traffic Services	4,0
Galenika a.d.	0,6
Air Serbia a.d. Beograd	0,6
Nikola Tesla Airport	0,0
JAT Tehnika d.o.o.	3,1
TOTAL	1.498,6

Source: Ministry of Finance, Public Debt Administration

The total planned repayment under guaranteed loans in 2018 amounted to RSD 23.6 billion. Before 2014, the accounting methodology did not include repayments under guarantees[13] in expenditure. From 2014 onwards, a part of this expenditure has been included in the budget expenditure[14]. Regardless of the budget and accounting presentation, the debt repaid by the government instead of the original debtor increases the overall need for borrowing.

[13] Repayments under guarantees from the central budget are included on the cash basis. Accrual-based international standards include the whole amount of outstanding debt in the expenditure at the moment of guarantee calling, while the debt repayment on this basis is treated as a financial transaction.

[14] A portion of expenditure arising from the repayment under guarantees issued for JP Putevi Srbije (PE Roads of Serbia) is not included in budget expenditure, since this enterprise is a part of the general government, so the expenditure financed by guaranteed loans was included in the general government expenditure at the moment funds were spent, while the repayment is treated as a financial transaction (below the line).

Graph 12. Repayment of debt under called guarantees, RSD billion

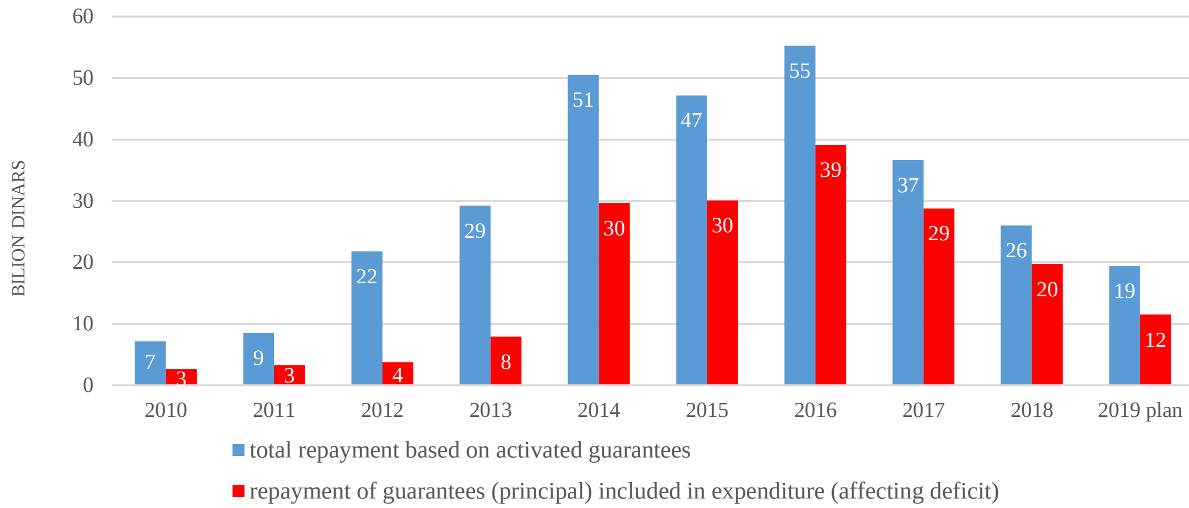


Table 13. Total paid liabilities under guarantees by beneficiary, RSD billion

Beneficiary	2018			2019 (until 30 September)		
	Principal	Interest	Total	Principal	Interest	Total
PE Srbijagas	13,6	0,3	13,9	3,6	0,1	3,7
PE Putevi Srbije (PE Roads of Serbia)	3,9	1,4	5,3	4,1	1,4	5,5
Železnice Srbije (Serbian Railways)	3,7	0,6	4,2	3,8	0,5	4,3
JAT	1,2	0,0	1,2	0,2	0,0	0,2
Galenika a.d.	1,0	0,0	1,0	0,4	0,0	0,4
Nikola Tesla Airport	0,0	0,0	0,0	0,5	0,0	0,5
Other beneficiaries	0,3	0,0	0,3	0,1	0,0	0,1
TOTAL	23,6	2,4	26,0	12,8	1,9	14,7

Source: Ministry of Finance

The guarantee repayment schedule (total principal and interest) in the 2019 budget amounts to RSD 19 billion, of which expenditure affecting the result includes RSD 12 billion for the repayment of the guarantee principal. As of 30 September 2019, total repayment on the basis of guaranteed loans amounted to RSD 14.7 billion.

The growing indirect debt and inclusion of a portion of payments under guarantees into the budget expenditure, and the consequent deficit increase have raised awareness of the growing fiscal risks resulting from issued guarantees. Therefore, measures have been taken to limit the issuance of new guarantees. Amendments to the Law on Public Debt prohibit any issuance of new guarantees for liquidity loans. Amendments to the Law on the Development Fund of the Republic of Serbia suspended any further issuance of counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to restrictions on the issuance of government guarantees, the key step in the reduction and prevention of fiscal risks on this basis lies in the reform of state-owned and public enterprises, guarantee beneficiaries, to make them capable of repaying their own loans. Quite a number of these enterprises, the main beneficiaries of these guarantees, are in the restructuring process, or in the process of implementing restructuring plans prepared in cooperation with international financial institutions.

The annual budget for 2019 plans for the issuance of guarantees of up to RSD 61.6 billion, specifically for loans intended for the implementation of infrastructural projects.

In the years to come, payments under guarantees are planned, but with a declining trend, from 0.2% of GDP in 2019 to 0.1% of GDP in 2022.

Structural reforms of public and state-owned enterprises, making them capable of competing in the market and financially sustainable, on the one hand, and limited and targeted issuance of new guarantees, on the other, will contribute to the reduction of the corresponding fiscal risks and maintenance of expenditure at the planned, i.e. projected level in the coming medium-term period.

Public Enterprises

Operations of public enterprises are a significant source of fiscal risks both on the budget revenue and expenditure side. In their operations public enterprises are faced with numerous problems ranging from the collection of receivables to regular servicing of liabilities to creditors, government, employees, etc. The government as the founder and the only owner is responsible for operations, and is their protector of last resort in the case of illiquidity. Fiscal risks related to operations of public enterprises can materialise through several channels. Government guarantees issued for public enterprise loans are the greatest, but not the only risk. Sustainability, efficiency, and profitability of public enterprises affect budget revenue, i.e. the amount of profit they pay into the budget. The quality of products and services provided by public enterprises affects the efficiency and profitability of the private sector in general and, ultimately, the level of taxes they pay into the budget.

Public enterprises represent an important segment of the Serbian economy, employing close to 71 thousand people. Public enterprises are set up as companies that perform activities of general interest. Their operations are regulated under the Law on Public Enterprises adopted in February 2016, as well as subsectoral laws regulating some specific areas that remained beyond the scope of the Law on Public Enterprises (Energy Law, Company Law, etc.).

Key Financial Performance Indicators of Public Enterprises

Public Enterprise Performance in 2019

In Q3 2019, central-level public enterprises aggregately exhibited a negative operating trend. Total net result in Q3 is a loss in the amount of RSD 6.3 billion. The current year's result is overstated by the depreciation costs of JP Putevi Srbije (PE Roads of Serbia), because this company records these costs only at year-end in the full amount for the given year.

Table 14. Key financial performance indicators for public enterprises, in RSD billion

Operating indicators	2017	2018	1.1–30.9.2019
Operating income	455.6	469.1	359.7
Operating expenses	423.8	454.1	348.7
Operating profit	31.8	15	11.1
Net profit	23.7	-1.9	-6.3
Wage costs*	115.7	113.3	82
Number of profit-making PE	28	28	24

*Costs of wages, wage benefits and other personnel expenses

Source: Financial reports for 2017 and 2018, quarterly reports received from companies for 2019

Public Enterprise Performance in 2018

In 2018, on aggregate, the positive trend of performance of central-level public enterprises continued. The total net result in the first half of the year is a profit amounting to RSD 15.1 billion. The current year's result is overstated by the depreciation costs of PE Putevi Srbije, because the company records these costs only at the end of the year in the total amount for the given year.

Table 15. Estimated operating indicators of public enterprises on the day 30 June 2018, in RSD billion

Operating indicators	2016	2017	01.01–30.06.2018
Operating income	450.1	455.6	232.5
Operating expenses	396.6	423.8	206.1
Operating profit	53.4	31.8	26.4
Net profit	4.4	23.7	15.1
Wage costs*	113.7	115.7	52.5
Operating cash flow (net)	53.8	38.3	20.6
Number of profit-making public enterprises	27	28	25

*Costs of wages, wage benefits and other personnel expenses

Source: Financial reports for 2017 and quarterly reports of the Ministry of Economy for 2018

In the third quarter of 2019, 24 companies posted a profit in the total amount of RSD 7.9 billion. This result is above the plan for this period (RSD 6.5 billion). The biggest impact on the positive net result in the period under consideration belongs to PE Srbijagas, which generated net profit amounting to RSD 3 billion. The second ranked was Elektromreža Srbije a.d. (Power Grid of Serbia), with a RSD 2.3 billion profit.

In the third quarter of the current year, twelve companies posted a net loss in the total amount of RSD 14 billion, which is a worse result that the planned for this period (RSD 4 billion).

In order to reduce the fiscal risks related to operations of public enterprises, restructuring processes are underway in the largest public enterprises (group of railway companies - Železnice Srbije a.d, Infrastruktura Železnice Srbije a.d, Srbija Voz a.d, Srbija Kargo a.d, PE EPS and PE Srbijagas). The entire process is implemented in cooperation with the leading global financial institutions – the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD), so that these companies can be placed on solid foundations and start operating in line with market principles, thus reducing any potential fiscal costs that can result from their operation.

JP Elektroprivreda Srbije (PE Electric Power Industry of Serbia). The rightsizing plan for the 2016–2019 period, prepared with the assistance of the World Bank, is being successfully implemented. With the help of the World Bank and EBRD, the possibilities of further improvement to company governance with regard to management, planning and procurement system are being considered. The Action Plan for the Improvement of Corporate Governance, drawn up based on the recommendations of the EBRD and adopted by the Government in February 2019, is being successfully implemented.

The Government has issued a number of conclusions (14) regarding the property of PE EPS, based on which the ownership of PE EPS property will be established (these are properties over which ownership can be legally established), as well as the conclusions which terminate the PE EPS's right to use property which is transferred to the Republic of Serbia (for those properties over which no ownership can be established). Based on these conclusions, ownership rights in favour of PE EPS and ownership rights in favour of the Republic of Serbia will be registered. PE EPS will also make the necessary changes to business records in accordance with the law, based on the above conclusions. Thereafter, the process of estimating the value of capital will commence and after the evaluation, the legal form will be changed from a public company into a joint stock company.

PE Srbijagas. Collection has improved and the World Bank's investment evaluation methodology has been successfully implemented. In the following period it will be possible for this company to service its debt independently, without the support from the central budget.

Payment of Profit into the Central Budget

Payment of profit by public enterprises and dividends by the companies in which the government has an equity interest, accounts for a significant portion of non-tax revenues. Operating performance of these companies determines the amount of budget revenue from this source. Payments of recurring profits and dividends are recurring budgetary non-tax revenue, while payments from retained earnings are treated as one-off revenue, and do not represent a permanent source of revenue. Public enterprises' profit that was paid into the budget up to September 2019 amounted to RSD 0.2 billion, while the total payments of profit and dividends amounted to RSD 16.2 billion. The 2019 RS Budget Law specified that public enterprises were obliged to pay at least 50% of the profit generated in the previous year into the central budget.

Mitigation of potential risks stemming from public enterprise operations includes a series of measures related to accountability, profitability and transparency in operations of these enterprises. In early 2016, a new Law on Public Enterprises was adopted, aimed at strengthening the governance structure and accountability of public enterprises. Restructuring processes have been initiated in PE EPS, PE Srbijagas, and Železnice Srbije a.d. Success of the restructuring process and speed of implementation of adopted measures will determine the future efficiency of operations.

State-owned Financial Institutions, Banking System and Deposit Insurance

Before the fiscal consolidation period, the Republic of Serbia faced significant fiscal costs of state-owned bank bailout. In the 2012-2015 period, the total costs of government interventions in the banking sector reached around EUR 900 million. This is the amount allocated for bank capital increase, different financial transactions when failed banks were merged with more successful banks, including the payment of insured and uninsured deposits (using the funds of the Deposit Insurance Fund).

Today, the Republic of Serbia has a direct equity interest in the following banking institutions:

- Banka Poštanska štedionica a. d. Beograd (79.01%),
- Komercijalna banka a. d. Beograd (83.23%),
- Srpska banka a. d. Beograd (76.68%).

For the purpose of consistent implementation of the exit strategy and reduction of fiscal risks on this basis, reform activities initiated in 2012 and 2015 are ongoing in the area of state-owned financial institutions.

Banka Poštanska štedionica - With the support of the World Bank, the implementation of the strategy for Banka Poštanska štedionica will continue, with the focus on reorientation to business with individuals, sole traders, micro and small enterprises; improvement of the bank’s internal organisation, corporate governance and risk management; improvement of IT infrastructure, as well as the business plan for the 2018-2020 period.

Komercijalna banka - The privatisation process of Komercijalna banka is ongoing and is expected to be completed by the mid February 2020. The public call, issued by the Republic of Serbia, to advertise the sale of shares of this bank owned by the Republic of Serbia, invited qualified investors to submit a Statement of Interest in participating in the tender procedure, and was published on 31 May 2019. The deadline for submission of the Statement of Interest in participating in the tender was 21 June 2019 and six Statements of Interest were received. The deadline for submission of non-binding offers was 6 September 2019. The public opening of non-binding offers was held on 10 September 2019 and the Ministry of Finance received four valid non-binding offers. All four bidders were invited to participate in the second phase of the tender process. On 16 December 2019, three binding offers arrived. The offers were opened, ranked and the first-ranked bidder was invited on 23 December 2019 to negotiations related to the conclusion of a sales agreement. The sales agreement is expected to be signed by the first half of February 2020.

Srpska banka - In accordance with the Government’s strategy for state-owned banks, the Expert Working Group for the transformation of Srpska banka into a financial institution specialised for the provision of all types of financial services and support to the defence industry of the Republic of Serbia was formed on 21 January 2019 and began its work in March 2019, when its first constituent session was held.

In February 2015, the regulations governing the Serbian financial system[15] were reformed. One of the features of this reform includes the transfer of competences for monitoring of operating results and the performance of management bodies in banks, insurance companies, and other financial institutions in which the Republic of Serbia is a shareholder, and organising and conducting the sale of their shares, from the Deposit Insurance Agency to the Ministry of Finance as of 1 April 2015. The regulatory reform included the transposition of the Bank Recovery and Resolution Directive (BRRD) entrusting the bank recovery and restructuring function to the NBS into domestic regulations. In December 2016 a set of regulations was adopted implementing Basel III standards in the domestic regulatory framework, thereby achieving a significant level of alignment of domestic regulations with the corresponding EU regulations in this area, while during 2017 activities on improving domestic regulations governing the operations of banks resumed, with the aim of ensuring further alignment with EU regulations. The basic aims of adopting these regulations include increasing the resilience of the banking sector by increasing the quality of capital and introducing capital buffers, improving the monitoring and supervision of banks' exposure to liquidity risk, further strengthening market discipline and transparency of banks' operations in the Republic of Serbia by publishing all relevant information regarding bank operations, as well as adapting the reporting system to new regulatory provisions.

One of the limiting factors for credit activity growth is a relatively high level of non-performing loans (NPLs). In August 2015, the NPL Resolution Strategy was adopted, and is implemented through two action plans: one prepared by the Government, and the other by the NBS. Both are aimed at reducing the level of NPLs. The key areas of implementation include building bank capacity to resolve NPLs, improvement of regulations for collateral valuation, development of NPL market, etc.

Since the adoption of the said strategy, a number of laws and by-laws have been adopted or amended, institutional capacity has been improved, and numerous measures implemented in order to facilitate the write-off and transfer of bad debt through the adoption of the Law on Real Estate Appraisers (implementation start in June 2017), which, inter alia, introduced a new profession – licensed real estate appraisers and prescribed the mandatory appraisal conducted in the cases related to the Mortgage Law and the Bankruptcy Law, as well as when conducting appraisals as part of credit transactions secured by a mortgage; the formation of an expert committee (a technical body that should contribute to the regulation and improvement of the real estate appraiser profession) and the adoption of the National Standards, code of ethics, and rules of professional conduct for licensed appraisers (in July 2017), which, inter alia, define the bases for real estate appraisal, appraisal procedure, assumptions and significant facts that must be taken into account when preparing the appraisal report, the minimum content of an appraisal report and the rules of professional conduct of licensed appraisers; adoption of amendments to the Corporate Income Tax Law and the Personal Income Tax Law, which enabled the introduction of a more relaxed tax policy for granting and writing off bank assets (end-2017); adoption of amendments to the

[15] The National Assembly adopted amendments to the Law on National Bank of Serbia and the Law on Banks, as well as the new Law on the Deposit Insurance Agency, Deposit Insurance Law, Law on Bankruptcy and Liquidation of Banks and Insurance Companies. The amendments to the set of financial laws required the adoption of amendments to the Law on Ministries.

Bankruptcy Law, expediting bankruptcy proceedings, and improving the position of secured creditors (in December 2017); preparation of a feasibility study for the introduction of bankruptcy of individuals and sole traders in the Republic of Serbia, the Law on Amendments to the Civil Procedure Code was adopted, etc. At the end of 2018, the NBS adopted a set of by-laws, responding proactively to the ever-increasing frequency of non-earmarked lending to households for unjustifiably long periods. These regulations are intended to contribute to the prevention of new NPLs in the banking sector and to encourage prudent risk-taking by the banks, steering them towards sustainable lending and avoiding excessive exposure to certain types of credit products, without undermining the trend of credit activity growth and taking into account the rights and interests of users of services provided by the banks, all in order to preserve and strengthen financial stability in the Republic of Serbia.

On 27 December 2018, the Government adopted the NPL Resolution Programme for the 2018–2020 Period ("Official Gazette RS", Nos. 105/18 and 46/19 - hereinafter: Programme) together with the Action Plan for the implementation of that programme, successfully completing the reform target within the programme with the International Monetary Fund and setting the path for further successful work on NPL resolution.

The main focus of the aforementioned public policy document is the resolution of the issue of NPLs of banks in bankruptcy and placements in the name and on behalf of the Republic of Serbia, managed by the Deposit Insurance Agency. Accordingly, strategic and annual operational plans were adopted for the Deposit Insurance Agency, the NPL Portfolio Resolution, and internal capacities have been developed to address them. In June 2019, the Deposit Insurance Agency successfully completed the sale of the first, so-called 'pilot portfolio', with a nominal value of around EUR 242 million, while on 30 September 2019 it published an public invitation for the sale of the second, so-called 'Large portfolio', with a nominal value of EUR 1.82 billion. Completion of the 'Large Portfolio' sales of receivables is expected at the end of the second quarter of 2020. In accordance with the Government Decision on modification of the Program for solving troubled loans for the period 2018-2020, the closing date for this transaction is 30 June 2020.

Implementation of NPL resolution measures, both from the NPL Resolution Strategy and from the above-mentioned Programme, continues to produce results. At the end of October 2019, total gross NPLs in the banking sector amounted to EUR 945 million, EUR 160 million less than at the end of 2018.

Including October 2019, the NPL indicator at the banking sector level was 4.56%, which is the lowest level since 2008, when the National Bank of Serbia first started to keep track of this indicator. Compared to the beginning of the year, the NPL indicator at the banking sector level is down by 1.1 p.p. Relative to the start of the implementation of the NPL Resolution Strategy (August 2015), the Republic of Serbia reduced their share by 17.7 p.p. and their level by 74%. This is a concrete confirmation that the measures are well defined and that they have had excellent results. The National Bank of Serbia also acted outside the scope of the Strategy, adopting the Decision on Accounting Write-offs of Bank Balance Sheet Assets, which complemented the regulatory activities. The coverage of NPLs with corresponding provisions in accordance with the international accounting standards, at 60.3 percent, unambiguously, along with all other indicators of the financial system soundness, confirms the stability of banking sector of the Republic of Serbia.

With the creation of stable business conditions, economy of the Republic of Serbia entered an investment cycle in 2015, and since then, much of economic growth has been investment-driven. Profitability of the economy increases in the conditions of low and stable inflation and relatively stable exchange rate. These were all key factors for sustainable NPL resolution. This is also evident from the fact that the industries that are the engines of our growth also witnessed the largest decline in NPLs – which is evident in the manufacturing and construction industries.

Deposit insurance is a mechanism contributing to the preservation of financial stability and protecting depositors. The deposit insurance system ensures that each protected depositor[16] receives his/her entire deposit in each bank up to the insured amount of EUR 50,000 in the event of the bank's bankruptcy or liquidation. Deposit insurance is regulated under the Deposit Insurance Law.

In October 2019, the Law Amending the Deposit Insurance Law was adopted, which sought to bring the deposit insurance system further in line with the best international practices and standards, as well as the EU acquis communautaire, as regards: method of premium calculation (introduction of possibility of calculating premium based on the level of risk in bank operations), base for the calculation of premium, amount of extraordinary premium, protection of depositors of merged or acquired banks, target level of the deposit insurance fund, etc., all with the aim of contributing to financial stability by supporting the reduction of risk in bank operations, strengthening public confidence in the financial system and increasing the efficiency of the deposit insurance system.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor of the payment of insured deposits. For the purpose of securing the funds for deposit insurance, the Agency collects the deposit insurance premium from banks on behalf of the Deposit Insurance Fund, manages the assets of the fund and pays the deposits up to the insured amount in the event of bankruptcy or liquidation of the bank. In addition, the funds of the Fund may also be used to finance the bank resolution procedure to the extent and under the conditions laid down by the law regulating banks. If the funds in the Deposit Insurance Fund are insufficient, the Republic of Serbia provides for the payment either from the budget or by issuing a guarantee for borrowing by the Deposit Insurance Agency.

The guarantee of payment of insured deposits by the government, either directly from the budget, or indirectly by issuing guarantees for borrowing by the Deposit Insurance Agency, is a source of fiscal risks and possible fiscal costs. However, owing to the achieved stability of the banking sector, since 2015 there has been no need for payments of insured deposits either from the deposit insurance fund or by the government.

[16] The protected depositors are individuals, sole traders, micro, small and medium-sized enterprises, subject to exclusions provided for by the Deposit Insurance Law.

Mitigation of fiscal risks on this basis depends on the stability and sustainability of the banking system. Supervision of the banking system, prudent placement of funds, and improved quality of bank assets are the main pillars of a stable banking system.

The results of the banking sector in Serbia at the end of 2017 and during 2018 point to stable bank profitability. The banking sector of the Republic of Serbia operated at a profit in 2018, with the net financial result before tax amounting to EUR 640.6 million, while as of October 2019 the net financial result before tax was EUR 510.1 million.

The high capitalisation of the banking sector, both from the standpoint of the capital adequacy ratio and of regulatory capital structure, increased additionally, guaranteeing the resilience of the banking sector. At the end of September 2019, the average capital adequacy ratio at the level of the banking sector of the Republic of Serbia was 23.6%, (22.3% in December 2018), which is significantly above the legal regulatory minimum of 8% and more than enough to cover all the risks to which the sector is exposed, which is also confirmed by the macroprudential stress tests regularly conducted by the NBS.

Other Fiscal Risks

In addition to the aforementioned fiscal risks, there are some other circumstances that, if they materialise, can also result in fiscal costs. Some risks are not substantiated with systematised data, but considering that some did materialise in recent past, their impact on public finances can be assessed. Their identification helps understand possible impact on fiscal standing of the country in the upcoming period.

Local government operations may have fiscal implications for the general government budget. Special fiscal rules for local governments set the so-called “golden rule” i.e. a deficit can be generated only for the purpose of implementing capital investments. There are also rules on the level of indebtedness of local government units, which, if consistently implemented, would preserve the stability of public finance at the local level. In practice, unrealistic planning of both revenue and expenditure has led to the accumulation of arrears that jeopardise the functioning of certain towns and municipalities.

In order to avoid the materialisation of fiscal risks on these grounds, in the following period the Ministry of Finance will significantly improve the system for supervising local governments’ public finances for the purpose of ensuring compliance with the existing rules from budget planning to execution at the local level.

Significant fiscal risks are associated with decisions by domestic and foreign courts, fines, and damages payable by government bodies. In the 2009–2018 period, the Republic of Serbia paid the amount of RSD 80.5 billion from the budget on the basis of court decisions[17], while in the first half of 2019, RSD 15.0 billion was paid on this same basis. The outstanding debt to military pensioners totalling RSD 10 billion that was assumed in 2015, although according to the court decision the debt was not recorded in these accounts, was treated in accounting terms as debt

[17] Expenditure recorded in the accounts for fines and penalties ruled by courts and judiciary bodies, and damages for injuries or loss inflicted by government bodies.

repayment, while in the report on fiscal aggregates of the general government, it was recorded as social protection expenditure (pensions). Regardless of the manner in which this expenditure was accounted for, it represents a materialised fiscal risk arising from court decisions. A decision of the European Court of Human Rights placed the Republic of Serbia under an obligation to pay the public debt stemming from unpaid foreign currency savings deposits that citizens of former Yugoslav republics and citizens of the Republic of Serbia placed with banks seated in the territory of the Republic of Serbia and their branches in the territories of the former Yugoslav republics. Materialised fiscal risks stemming from court decisions also include the decision of the International Court of Arbitration, according to which the Republic of Serbia was obliged to pay USD 40 million in damages to the Greek company Mytilineos. This liability was fully paid in 2018. The Republic of Serbia also lost a dispute with Belgian investors who built a plant for environmentally-friendly processing of animal waste, Energo Zelena, in Indjija. The payment of damages on this basis began in 2019. Contingent liabilities may also arise from the decisions of the Constitutional Court on the basis of submitted constitutional complaints and the decisions of the European Court of Human Rights upon the applications submitted by employees of former socially-owned companies (back wages, mandatory social insurance contributions, default interest, costs of proceedings, and claims on the basis of commercial transactions).

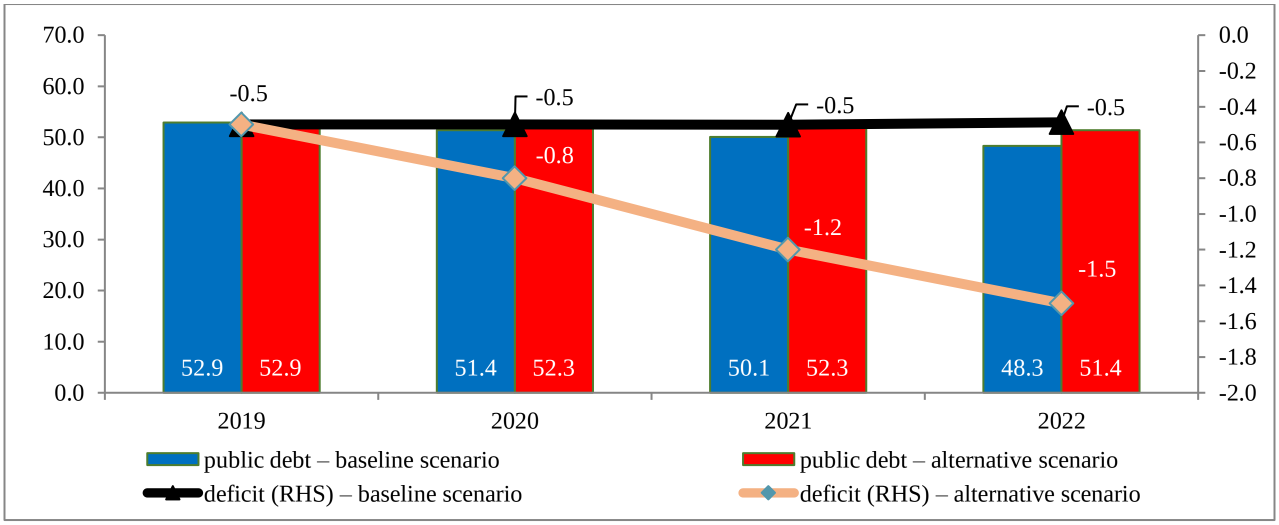
The ever-present risk of natural disasters necessitates investment in prevention programmes in order to mitigate potential fiscal costs related to recovery. In 2014 the Republic of Serbia was faced with catastrophic consequences of flooding. Total damage (including losses) was estimated at over EUR 1.7 billion[18]. According to the Law on Flood Recovery in the Republic of Serbia and the Law on Recovery Following Natural and Other Disasters, the funds for recovery were provided from the budgets at all levels of government, from donations, contributions and gifts, loans, EU financial aid, etc. A grant in the amount of around EUR 220.7 million together with a World Bank loan in the amount of around USD 300 million were provided for the recovery. Having in mind the ever-present risks of natural disasters, mitigation of the related fiscal risks implies investment in prevention programmes. In December 2014 the Government adopted the National Natural Disaster Risk Management Programme, which will be implemented in cooperation with the World Bank, United Nations and the EU. As a part of the National Programme, in November 2018 another umbrella law was enacted to address the problems of natural disasters, namely the Law on Disaster Risk Reduction and Emergency Management. In the first half of the year, the Republic of Serbia paid RSD 1.2 billion from the budget as damages for injuries or damage caused by natural disasters.

An Alternative Scenario of Fiscal Developments in the 2019-2022 Period

The following graph shows the development of the shares of deficit and public debt in GDP under an alternative macroeconomic scenario, which implies growth rates of 2.4%, 2.5% and 2.5% in the next three-year period.

[18] http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljenih-podrucja-infograf-15-04-2016-srb.pdf

Graph 13. Baseline and alternative scenario of fiscal developments in the 2019-2022 period



A slower GDP growth would also affect, through its components, the actual fiscal aggregates, primarily the revenue side, and in particular labour-related revenue and consumption taxes. Such GDP development would lead to a higher level of deficit and public debt. The deficit increase would not be of such magnitude that it would result in higher public debt, but the pace of its reduction would be significantly slower, due to which the public debt level would not drop below 50% of GDP even at the end of 2022. The assumption in this scenario is the continuation of the measure of wages and pensions following GDP growth, meaning that in all three years the share of wages and pensions would remain at the same level, with the nominal amounts for capital investment remaining the same as in the baseline scenario.

Comparison with the Previous Programme

The medium-term fiscal framework has not been changed significantly in comparison to the previous programme. The annual deficit at the level of 0.5% of GDP still presents the medium-term fiscal policy objective, given that it is assessed as a sustainable level which allows for a further reduction of the share of debt in GDP.

Economic growth in the 2019–2022 period has not been changed in comparison to the previous programme, so all macroeconomic assumptions related to the fiscal framework are largely unchanged or changed to a lesser extent. The level of revenue and expenditure in terms of share in GDP has increased.

The level of revenue in 2019 has increased due to higher revenue collection in the base year 2018 and the inflow of one-off tax and non-tax revenue in 2019. In the following years, the level of revenue has been increased by the structural portion of the 2019 revenue increase.

In 2019, on the expenditure side, the execution of expenditure will be slightly above the planned level, mostly as a consequence of strong growth of capital investment and one-off subsidy increase. In the following period, the established pace of public project implementation is expected to continue, because of which the fiscal space created through better revenue collection will, for the most part, be used for additional increase in capital investment.

Table 16. A comparison of fiscal indicators of the two programmes, % of GDP

	2018	2019	2020	2021	2022
ERP 2019 - 2021[19]					
Revenue	41.1	39.9	39.2	38.7	–
Expenditure	40.6	40.4	39.7	39.2	–
Result	0.6	-0.5	-0.5	-0.5	–
ERP 2020 - 2022					
Revenue	41.5	41.4	40.2	39.4	38.7
Expenditure	40.9	41.9	40.7	39.9	39.2
Result	0.6	-0.5	-0.5	-0.5	-0.5
Difference					
Revenue	0.4	1.5	1.0	0.7	–
Expenditure	0.4	1.5	1.0	0.7	–
Result	0.0	0.0	0.0	0.0	–

4.7. FISCAL MANAGEMENT AND BUDGETARY FRAMEWORK

Fiscal consolidation and structural measures implemented in the previous period enabled the stabilisation of public finance and created fiscal space for new policies. Stability and sustainability of public finance in the longer term require a functional system of fiscal rules. The current fiscal rules were introduced back in 2010, but failed to contribute to interrupting the growth of the deficit and public debt. For that reason, the system needs to be redesigned in order to help protect the predictability and sustainability of fiscal aggregates and fiscal and budget policy control. The new IMF arrangement presents an opportunity to design and introduce a sound set of fiscal rules in the following two years, in cooperation with this international financial institution and the Fiscal Council. The Ministry of Finance established a working group tasked with amending the Budget System Law, which defines these rules. In this regard, pension indexation has been reintroduced from next year, where pensions will be indexed by using the Swiss formula, still respecting the 11% of GDP ceiling for total pension expenditure. From 2021, a fiscal rule that defines the level of deficit should also be introduced.

Improved public finance management is necessary not only as a support to fiscal consolidation measures and structural reforms, but also as a process that raises the quality of public administration and ensures an attractive and desirable environment for investors. Reform efforts within different subsystems of public finance management (PFM) are included in the Public Finance Management Reform Programme 2016-2020 (PFM Reform Programme). During 2019,

[19] The amounts have been recalculated based on the revision of the GDP series data by the SORS.

the Revised Public Financial Management Reform Program and Action Plan for the period 2019-2020 were adopted, while new strategic document for the period after 2020 is under preparation.

The Budget Execution Information System, ISIB, is part of the public finance management system which encompasses processes and procedures conducted in electronic communication with the Treasury Administration under the Ministry of Finance. The development of this system will enable the monitoring of all indirect beneficiaries of the central government. The system covers direct public fund beneficiaries, judicial bodies, and, as of last year, indirect beneficiaries of the Ministry of Culture and Information and the Penal Administration, which were not included in the previous system (FMIS). As of this year, social care institutions have been included, so only the indirect beneficiaries of the Ministry of Education, Science and Technological Development are left out of the system. The system is able to integrate new users in the future. The financial plans of the social insurance funds will continue to contain information on their indirect beneficiaries.

Public investment management is the area of public finance management that has been a special focus of attention and efforts aimed at its improvement. By strengthening the public investment management framework, the implementation of new infrastructural projects is stepped up and the quality of existing infrastructure raised. Capital projects and project loans have been integrated in the budget. In April 2018 the Law on the Planning System of the Republic of Serbia was adopted, putting in place the national planning framework and providing for the Development Plan and the Investment Plan. In order to improve the public investment management framework, in line with the technical assistance recommendations from the IMF and World Bank, and on the basis of the Decree on Capital Project Management, a rulebook will soon be adopted, outlining briefly the feasibility study for large and strategic infrastructure projects. The development of a public investment management system is underway, which includes an integrated investment project database that will enable the establishment of the Single Project Pipeline during next year, after which the above-mentioned system will become operational.

Public-private partnerships (PPPs), as a specific form of cooperation between the government and the private sector, require special attention and caution, which is why, in the future, the Ministry of Finance will assess all proposals by using a cost-benefit analysis and risk sharing analysis. The Law Amending the PPP and Concession Law introduces a requirement that for PPPs worth over EUR 50 million, before they are considered by the Government, an approval of the Ministry of Finance must be obtained. In January this year, additional amendments to the law were adopted for the purpose of limiting the overall fiscal exposure and ensuring competitiveness of tender procedures.

The Action Plan for the Transformation of the Tax Administration for 2018–2023, adopted in December 2017, defines strategic guidelines and timeframe for the implementation of activities required for the creation of a modern tax administration, which will, by using modern electronic processes, provide better and more comprehensive services to taxpayers, and better public revenue audit and collection, and support combating the informal economy, together with the reform and modernisation of inspection oversight. In June 2019 the organisational separation of core and non-core activities was implemented, as well as the consolidation of core activities in a smaller number of organisational units, that is, the first phase of consolidation of core activities has been completed. The analysis of business processes and required resources will enable the development of adequate organisational structure and management, the improvement of project management and design of adequate staff structure. In the second phase of implementation, the reforms will be focused on information systems and their redesign and modernisation. Measures aimed at reducing the average time for VAT refunds and compliance with the prescribed timeframes, are implemented, together with the application of the principle of caution, in order to minimise opportunities for fraud. The Large Taxpayers' Office (LTO) will expand its scope, increasing the number of entities meeting their tax obligations through this system, while at the same time, efforts are invested in building the capacity of this very important organisational unit within the Tax Administration. The adoption of a special law on determining the origin of property and special tax will create conditions for the establishment of a special unit that will crosscheck a person's property and income, in order to investigate cases of unexplained wealth. In April 2019, the World Bank initiated the Tax Administration Modernisation Project, which covers the tax legislation review, business process reengineering, and information systems reform and project management.

The quality and transparency of national statistics is being improved through the promotion of comprehensive, timely and automated exchange of data between the competent institutions. In April 2018, a list of institutions that constitute the general government sector, as well as other sectors, was published, in accordance with the European System of Accounts (ESA) 2010 and GFSM 2014, on the basis of which the Statistical Office of the Republic of Serbia (SORS) (in cooperation with the Ministry of Finance and the NBS) will regularly submit data to the Extended General Data Dissemination System (e-GDDS). There is also a plan to resume the GFS yearbook reporting as of next year. Likewise, in order to further improve the cooperation between the competent institutions (Ministry of Finance, Statistical Office of the Republic of Serbia and NBS), a Memorandum of Cooperation was amended in September this year, adopting the best practice and specifying the role and responsibilities of each of these institutions in terms of reporting within both national and international context. In cooperation with Eurostat and the IMF, the system of national accounts is being further improved.

V. STRUCTURAL REFORMS IN THE PERIOD FROM 2020 TO 2022

5.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

Serbia's economic growth of 4.8% in the third quarter of 2019 was driven by the growth of the service sector, which is still the dominant driver of growth (2.1 p.p.), while construction activity made a significant contribution to GDP growth (1.7 p.p.) due to the intensification of the implementation of important infrastructure projects. In the third quarter, the agricultural sector recorded a year-on-year result, and the physical volume of the total industry in this period decreased by 0.7% y-o-y. Improvements in the labor market continued, reflecting a 3.1% increase in household consumption. Also, the dynamic growth of commodity exports continues, despite the fall in demand from our main foreign trade partners (euro area countries and CEFTAs). The net inflow from FDI in the first nine months of 2019 was EUR 2.7 billion (35.1% y-o-y growth).

Fiscal consolidation and structural measures implemented in the previous period have made it possible to stabilize public finances and provide fiscal space for new policies. Implementation of structural reforms within individual areas will be intensified in the coming period, in order to remove key obstacles / challenges in specific areas, which have been identified through reliance on all available analyzes and data.

The scope and dynamics of energy reform activities are a factor in further economic growth and improved competitiveness. For this reason, reforms in the energy market will focus on building the missing interconnectors, in order to achieve reliability and facilitate trade in energy products in the national and cross-border markets. Also, conditions for increasing energy efficiency are being improved by implementing the energy management system. In terms of road and railway infrastructure, reconstruction of existing sections and construction of new sections is ongoing. The aim is to achieve a general acceleration of transit traffic, improve the level of services, and facilitate international trade flows and transport of passengers through the implementation of important infrastructure projects.

Agriculture is one of the key branches in the economic structure of our country, and the conditions for its development in Serbia are extremely favorable (geographical position, natural resources, climatic factor). However, the unfavorable structure of agricultural holdings (fragmentation of land without sufficient incentives for association), technical and technological backwardness of primarily medium and small farms, as well as increased pressures on farmers due to rising standards and regulations in the process of alignment with the common agricultural policy of the EU, further complicate the development of agriculture. The participation of industry in the creation of total GVA in recent years has been increasing, which has been contributed by FDI in the manufacturing industry. However, limited knowledge transfer between academia and the industry sector impedes potential technological development, resulting in low product specialization and a weak export structure. As the industrial policy measures in the previous period were not sufficiently focused on the key comparative advantages and needs of the economy, a new industrial policy of Serbia is being prepared, which will aim to create the conditions for transforming the existing economy into a knowledge and innovation economy. In the services sector, the focus should be on raising the level of knowledge and skills necessary to develop more complex services, i.e. higher value-added services, further development of tourist offer, and promotion of e-commerce.

By implementing regulatory reforms that reduce the complexity and cost of doing business while increasing the predictability of the business environment, Serbia continues to make significant progress and improve its rankings according to international competitiveness indices. In this regard, it is expected to continue the process of simplification and guillotine of procedures for business operations of business entities, creation of strategic digital platform of geosectors to support investment decision-making, as well as establishment of a sustainable financial, legal and institutional framework that will ensure predictability, stability and continuity in investing in environmental protection. The process of tax administration has been significantly improved through the introduction of new technologies and the development of electronic systems for filing tax returns and paying taxes (e-Porezi portal), which contributes to the growth of tax revenues and the reduction of the gray economy. It is also planned to introduce the concept of circular economy by defining a strategic framework as a tool for achieving sustainable development, in line with the United Nations Agenda 2030.

Serbia has significant scientific and research potential, which should be further developed and used more appropriately if we are to become a "knowledge-based economy". The reform of the organization and financing of science and research in Serbia as the most important novelty defines the introduction of institutional and competitive project financing, as well as establishing the work of the Science Fund. In the coming period, more support will be provided for innovative start-up companies, as well as for the digital transformation of companies. In the field of digital economy, it is planned to increase the accessibility of e-government to citizens and the economy through the improvement of customer services, as well as the further development of the national information and communication infrastructure.

For Serbia's full integration into the international economic system, membership in the World Trade Organization (WTO) is a necessity, for which in the past period the main obstacle was the unalignment of domestic legislation governing the marketing of GMO products. Further strengthening of regional co-operation, identification and removal of barriers to trade, in particular technical and phytosanitary measures and facilitating customs procedures, as well as the establishment of a single digital service for technical regulations, are still needed.

Investing in education is a necessary prerequisite for the development of human capital, because a well-educated and competent workforce is very important for the competitiveness of the economy. However, the mismatch of educational profiles and supply with labor market needs is a long-term and systemic problem in the Republic of Serbia, which is solved by establishing cooperation between key institutions in the field of identification and planning of qualifications for the needs of the labor market. Also, the digitalization of the education system and the introduction of the Uniform Information System of Education continue intensively.

In recent years, the labor market in Serbia has been in a phase of expansion with employment growth, increased activation and a decrease in population unemployment. In the coming period, a new six-year strategic employment policy framework (2021-2026) will be prepared, as well as a three-year national employment action plan, aligned with EU principles and instruments and reflecting the coherence of public policies of importance and impact on employment policy. A key challenge in the Serbian labor market is stopping the departure of the highly educated population abroad (the so-called "brain drain") and attracting talents from the country and abroad, which will be addressed by creating conditions for monitoring, encouraging and supporting circular migration.

In recent years, income and living conditions indicators in Serbia have been improving, which is correlated with growth of living standards a result of economic recovery and developments in macroeconomic indicators. However, poverty in Serbia is still widespread and affects different categories of population. In the next period, in order to consider the social and material status of beneficiaries for the fair distribution of social protection funds, the Social Card Information System will be established for collecting and using data from all available sources of state administration. This system will connect social welfare institutions, and above all social work centers, into a single network (SOZIS).

Based on the obstacles and challenges identified in the field of competitiveness, structural reforms have been defined, summarized in Section 5.2, and detailed in Section 5.3. As ERP is a rolling program that establishes a system of monitoring and reporting on the implementation of structural reforms that requires a long period of time, the reforms presented under ERP 2020-2022. were supplemented by the reforms of ERP 2019-2021, and eight new reforms were added: *the first* aiming at improving the keeping of the farm register and approving national incentives in agriculture through the development of the e-Agrar portal, *the second* aiming to introduce the concept of a circular economy by defining a strategic framework, the *third* in order to support the sustainable financing of scientific research, the *fourth* in order to increase the accessibility of e-government to citizens and economy through the improvement of customer services, the *fifth* in order to establish a single digital service in relation to technical regulations, the *sixth* with the aim of digitizing the education system and introducing a Single Education Information System, the *seventh* with the aim of improving national employment policy in line with EU good practice and standards, and the *eighth* with the aim of creating conditions for monitoring, encouraging and supporting circular migration.

A total of six structural reforms have not been carried over from the previous cycle to ERP 2020-2022. These are reforms whose activities have been largely met (81% on average) and have become regular activities of the institutions responsible for their implementation, such as: *SR8. Improved capital investment management, SR9. Improved access to finance for SMEs and sole traders, SR11. Improvement of corporate governance in public enterprises, SR13 Improvement of the effectiveness of inspection oversight* and *SR19. Increased labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, and strengthened formal employment* or reforms, for which it is estimated that, although very significant, new developments are anticipated that will be included in the next cycle, as in the case of *SR6 Raising the competitiveness of industry.*

The selected structural reforms, which have been through a broad public consultation process, have been defined in accordance with the three-year plan of total budget expenditures set out in the Law on Budget and the priorities set out in national documents.

5.2. STRUCTURAL REFORMS SUMMARY

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
AREA: ENERGY AND TRANSPORT MARKET REFORM				
1.	**Energy market development coupled with energy infrastructure construction**	Harmonisation of the technical rules and codes governing the operation of the electric power and gas networks and construction of missing interconnectors to achieve reliability and facilitate trade in energy products in the national and cross-border markets (includes Niš-Dimitrovgrad transmission gas pipeline construction and power transmission systems Trans-Balkan Corridor).	Energy Sector Development Strategy of the Republic of Serbia until 2025 with Projections until 2030 Programme for implementation of the Energy Sector Development Strategy of the Republic of Serbia until 2025 with Projections until 2030 for the period from 2017 until 2023 Berlin Process (Connectivity Agenda) Energy Law Law Establishing Public Interest and Special Procedures for Expropriation and Obtaining of Documentation for the Purpose of Construction of the Trans-Balkan Corridor 400 kV Power Transmission System – First phase	ERP Assessment EC 2019 – One of Serbia's three major structural challenges is harnessing the potential for energy savings and fully opening up the energy market ECOFIN 2019 R5 - Gradually adjust electricity tariffs to reflect actual costs, including the costs of necessary maintenance and investment to improve the energy grid and meet environmental standards and climate goals. ECOFIN 2019 R5 - Allow third parties access to gas infrastructure. PR 2019. p. 78. – To fully separate and certify Srbijagas and Jugorosgaz and develop competitiveness in the gas market, as well as fulfill the conditions set by the Energy Community Secretariat regarding the Gastrans exemption, and in particular to implement measures that increase liquidity in the gas market and provide third party access to portions of new capacity. fully implement the reform measures of integration that it has committed itself to in the framework of the Connectivity Agenda
2.	**Improvement of conditions for enhancing energy efficiency through harmonization of the**	Harmonization of regulations with EU regulation in the field of EE through the implementation of energy	Programme for implementation of the Energy Sector Development Strategy of the Republic of	ECOFIN 2018 R4 – It is necessary to increase investments in energy efficiency. PR 2019 p. 79. – To strengthen human resources capacity and encourage investment in energy efficiency, inter alia through the establishment of a

[20] ECOFIN – Recommendations by the EU Economic and Financial Affairs Council for the Western Balkans and Turkey (R1 – Recommendation) of 2018 and 2019
ERP Assessment EC – Economic Reform Programme – Assessment of the European Commission
PR –EC 2018 Progress Report on the Republic of Serbia and Republic of Serbia Report 2019

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
	legislative framework and establishing a sustainable mechanism for financing energy efficiency projects	management systems, eco-design and providing incentives for improving energy efficiency.	Serbia until 2025 with Projections until 2030 for the period from 2017 until 2023	sustainable financing system, and to initiate reforms to introduce electricity prices that clearly reflect costs, fully taking into account investment needs, climate change commitments and social security implications, and reform of electricity price regulation.
3.	**Improving the capacity and quality of road transport through the reform of the road sector with regard to the formation of a contractual relationship between the RS and the State Roads Managers and further implementation of a new way of contracting maintenance based on performance**	Transformation of State Roads Managers into an up to date and modern road company, with clearly defined goals and tasks, with continuous funding and efficient management. Transfer to a new way of maintaining a network of state roads towards performance leads to more efficient and effective business operations, measurable results and quality, responsibility for non-compliance with contracts, reduction of costs.	Plan for the Development of Railway, Road, Waterway, Air and Intermodal Transport in the Republic of Serbia from 2015 to 2020 Berlin Process (Connectivity Agenda)	PR 2019. P. 77. - to improve road safety by taking measures to reduce fatalities and serious injuries. To implement connectivity reform measures, and in particular to make progress in the field of intelligent transport systems (to define a strategic framework, adopt legislation and improve implementation and enforcement capacities); to improve the maintenance of road and rail infrastructure in line with realistic plans and their financial aspects; and facilitates procedures at border crossings for rail and road traffic.
4.	**Railway reform through improving rail safety and improving the regulatory framework**	Improvement of the regulatory framework through the adoption of a new methodology for calculating the cost of access to railway infrastructure and harmonization of railway legislation with the IV package of EU rail regulations. In addition to the reconstruction, and modernization of railway lines, it is envisaged to modernize the level crossing points.	Law on Railways Railway Safety Law Railway Interoperability Law National Public Railway Infrastructure Program 2017-2021.	PR 2019. p. 77. – To focus on implementing rail reform, including market opening, network statement, infrastructure management and market monitoring, as well as strengthen the capacity of the rail regulatory authority.
AREA: AGRICULTURE, INDUSTRY AND SERVICES				
5.	**Improving the competitiveness of agriculture through the development of rural infrastructure, landscaping and market regulation and quality of agricultural products**	Improvement of rural infrastructure in the form of construction of: local roads; electrical networks; water supply; as well as investments in environmental protection facilities, it should contribute to a greater degree of rural development and an increase in production and processing capacity. The implementation of the land consolidation process will create the preconditions for the development of agriculture and the modernization of agricultural production. Organizing the market for agricultural products in	Agriculture and Rural Development Strategy of the Republic of Serbia 2014-2024 (“Official Gazette RS”, No. 85/14) Law on Incentives in Agriculture and Rural Development (“Official Gazette RS”, No. 10/13, 142/14, 103/15 and 101/16) Law on Agricultural Land (“Official Gazette RS”, No. 62/06, 65/08 - law, 41/09, 112/15, 80/17 and 95/18 – law)	PR 2019. p. 74. – To implement the measures entrusted under the IPARD II program and request the delegation of tasks related to the execution of the budget for other measures under the program. PR 2019. p. 74. – Continue implementation of the action plan for alignment with the acquis in the field of agriculture and rural development.

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
		accordance with EU regulations will uniquely regulate markets by sector (with emphasis on introducing standards in production) and the formation of producer organizations. The development and improvement of the system of protection of geographical indications for agricultural and food products, in line with the European system, will contribute to the increase of value added agri - food products.		
6.	**Improving the keeping of the register of agricultural holdings and approval of national incentives in agriculture through the development of eAgrar**	Optimization and digitalisation of the procedures for submitting and processing applications for entry in the Register of agricultural holdings (RAH) and national approvals of incentives in agriculture. RAH as an integral part of the eAgrar IT system is one of the three pillars of the Integrated Administration and Control System (IACS) which Serbia will develop in the process of integration with the EU and through which all incentives from EU funds will be approved.	Law on Agriculture and Rural Development ("Official Gazette RS", бр. 41/2009, 10/2013 – law and 101/2016)	PR 2019. p. 74. – To implement the measures entrusted under the IPARD II program and request the delegation of tasks related to the execution of the budget for other measures under the program.
AREA: BUSINESS ENVIRONMENT AND COMBATING THE INFORMAL ECONOMY				
7.	**Simplification and guillotine procedures for business entities – CutAP initiative**	Establishment of a single public register of administrative procedures, simplification and abolition of redundant procedures (guillotine of regulations) and digitalisation of the most frequent administrative procedures.	Strategy for Regulatory Reform and Improvement of the Public Policy Management System 2016-2020 Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for 2015-2020 National Programme for Combating the Informal Economy Program for the simplification of administrative procedures and regulation "e-Paper" for the period 2019-2021. Action plan for the implementation of the Government Program	ERP Assessment EC 2019 – One of Serbia's three main structural challenges is improving the transparency and predictability of the regulatory environment and facilitating competition ECOFIN 2018 R5 – implement the Law on Fees so that parafiscal charges are predictable and based on principle "Fee-for-service principle".

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
			Action Plan for the implementation of the Partnership for Open Governance Initiative in the Republic of Serbia from 2018-2020.	
8.	**Tax Administration transformation**	Tax Administration Transformation in the next phase includes an analysis of the legal framework and the removal of restrictions to enable the Tax Administration to operate effectively in accordance with best international practices, as well as the creation of technical preconditions for further phase of business network consolidation and modernization of tax administration business processes. This involves modernizing the information system and reengineering business processes.	Tax Administration Transformation Programme 2015-2020. Action Plan of the Tax Administration Transformation Programme 2018-2023. Revised Public Financial Management Reform Program 2016-2020 for the period July 2019 to December 2020.	PR 2019. p. 82. – To accelerate the implementation of the Reform Program of the Tax Administration in order to further simplify the activities of the Tax Administration, provide sufficient human and technological resources for this purpose, improve tax collection and fight the informal economy
9.	**Improving the geospatial sector by creating a strategic digital platform to support investment decision making**	Creating a strategic digital platform for geosectors enables the availability of combined data sets through web services, their efficient, fast and high-quality exchange, which enables citizens and businesses to easily identify and comfortable access to the desired data, crucial for quality investment decision making. Updating the address register, developing the regulatory and strategic framework of the National Geospatial Data Infrastructure and improving the National Geospatial Platform, as well as aligning and combining data to develop prototypes of the mass assessment system.	Strategy for Measures and Activities to Enhance Service Quality in the Area of Geospatial Data and Registration of Title to Real Property in Official State Records – The Republic Geodetic Authority Reform Pathway until 2020 Law on National Geospatial Data Infrastructure	EC Assessment 2019 – The process has rightly been identified as a major potential challenge and should contribute to the property tax system and increase local property tax revenue. Greater involvement of the ministry and the judiciary is needed in the process, which for the time being is the sole responsibility of the Geodetic Authority
10.	**Establishing a sustainable environmental financing system**	Establishing a sustainable financial, legal and institutional framework that will ensure predictability, stability and continuity in environmental investment.	National Environmental Protection Program	ECOFIN 2019 R5 - Gradually adjust electricity tariffs to reflect actual costs, including the costs of necessary maintenance and investment to improve the energy grid and meet environmental standards and climate goals. PR 2019. p. 94 – To increase the administrative and financial capacity of central and local public administration bodies by operationalizing the Green Fund and adequately securing adequate funding for it, as well as further improving inter-

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
				institutional coordination. To intensify work on enforcement, such as closing unauthorized landfills, investing in reducing waste, sorting and recycling waste, improving air quality monitoring, improving river basin management and preparing for the Natura 2000 network. To implement the Paris Climate Agreement, inter alia by adopting a comprehensive climate change strategy and climate change law, aligned with the EU's climate and energy policy framework by 2030 and well integrated into all relevant sectors, and developing a National Energy and the climate plan, in accordance with the obligations it has as a member of the Energy Community.
11.	**Introducing the concept of circular economy by defining a strategic framework**	For the full implementation of the circular economy principles, it is necessary to introduce the concept of circular economy as a tool for achieving sustainable development into public policies, strategic documents, action plans programs and legislation in various fields, in accordance with the United Nations Agenda 2030 and to develop a public policy document for this area.	National Environmental Protection Program Voluntary report of the Republic of Serbia on the achievement of the goals of the UN 2030 Agenda for Sustainable Development Stabilization and Association Agreement	
AREA: RESEARCH, DEVELOPMENT, INNOVATION AND DIGITAL ECONOMY				
12.	**Support for sustainable financing of research activities**	Reform of the system of organization and financing of science through a new model of financing research activities, which includes institutional and competitive project financing, in order to improve the link between research, technological development and the economy.	Scientific and Technological Development Strategy of the Republic of Serbia for the Period 2016 - 2020 - Research for Innovation.	ECOFIN 2019 R4 - Use the results of smart specialization activities carried out to finalize a new industrial strategy. PR 2019. p. 92. – Increase national funding for research. Encourage more intensive cooperation between industry and academia, in line with the national research strategy.
13.	**Support for innovative start-up companies and digital transformation of companies**	Upgrading the existing support system by establishing a new accelerator instrument through the Innovation Fund and improving the quality of incubator services. Establishment of SME support programs for digital transformation in traditional sectors of the economy with the support of Chamber of Commerce of Serbia and the network of digital consultants.	Scientific and Technological Development Strategy of the Republic of Serbia for the Period 2016 - 2020 - Research for Innovation Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the period 2015-2020	PR 2019 p.8 – New financial instruments need to be developed to better respond to the needs of businesses, especially the most innovative ones.
14.	**Increasing the accessibility of e-Government to citizens and businesses by improving customer**	Digital transformation of the public sector, through the strengthening of infrastructure, as a basis for the implementation of ICT and e-government in	Strategy for the development of electronic communications in the Republic of Serbia from 2010 to 2020	PR 2019. p. 7 – Serbia's digital economic growth is stable; however, a comprehensive and coherent approach to digitalisation and effective stakeholder coordination is recommended. PR 2019. P. 72. - To harmonise its legislative framework in the field of electronic

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
	service	the process of providing services to the economy, citizens and the public sector: - Establishment of the National Data Management and Storage Center in Kragujevac, - Improving the functionality of e-Payments on the e-Government Portal to collect all charges and / or fees, - Central information system in the field of hospitality and tourism (CIS), that is, an up-to-date database of all tourists and catering facilities.	Strategy for Information Society Development in the Republic of Serbia until 2020 Next Generation Networks Strategy until 2023 The Draft e-Government Development Program for the period 2019 to 2022 and its Action Plan - the document is in the final stage of developmentЗакон о е-управи	communications with the EU regulatory framework of 2009. Take measures to ensure the enforcement of competition measures and facilitate the access of operators to telecommunications infrastructure (channels, antennas, optical infrastructure and fixed telephony infrastructure).
15.	**Improvement of e-government services and education through the development of national information and communication infrastructure**	The reform is based on improving regulation, building broadband networks, and building communication infrastructure in education to provide modern e-Government and education services to all users.	Strategy for the development of electronic communications in the Republic of Serbia from 2010 to 2020 Strategy for Information Society Development in the Republic of Serbia until 2020 Next Generation Networks Strategy until 2023	PR 2019. p. 72. - To harmonise its legislative framework in the field of electronic communications with the EU regulatory framework of 2009. (The same recommendation is in the PR 2018. p. 68.) PR 2019. p. 72. - Take measures to ensure the enforcement of competition measures and facilitate the access of operators to telecommunications infrastructure (channels, antennas, optical infrastructure and fixed telephony infrastructure). (The same recommendation is in the PR 2018. p. 68.)
AREA: TRADE-RELATED REFORMS				
16.	**Improve conditions and remove barriers to trade**	Continuation of the process of accession to the WTO, implementation of the Multiannual Action Plan for Regional Economic Area (MAP REA), implementation of obligations under CEFTA Additional Protocol 5, adoption of CEFTA Additional Protocol 6 and opening of negotiations on CEFTA Additional Protocol 7, as well as activities of the National Trade Facilitation Body (NTFB), on the development and implementation of the Action Plan for 2020-2021 in order to identify and remove barriers to trade.	Law on the Ratification of Additional Protocol 5 to the Agreement on Amendment and Accession to the Central European Free Trade Agreement (CEFTA 2006) Law on the Ratification of the Decision of the EFTA-Serbia Joint Committee no. 2/2018 Amending Annex IV to the Free Trade Agreement between the EFTA States and the Republic of Serbia Concerning Trade Facilitation Decision of the Government of the Republic of Serbia on	PR 2019. p. 101. – Complete accession to the World Trade Organization (WTO) by adopting the Law on Amendments to the Law on Genetically Modified Organisms and to complete the remaining bilateral market access negotiations. Strengthens the administrative capacity of the Ministry of Trade, Tourism and Telecommunications which deal with the EU and CEFTA and WTO accession. Implement measures under the multiannual Action Plan for the development of the Regional Economic Area, in particular to implement Protocol 5 on trade facilitation under the CEFTA agreement, adopt and implement Protocol 6 on trade in services within the CEFTA agreement, which has not yet been adopted, and ensure rapid adoption of Protocol 7 on dispute settlement under the CEFTA agreement.

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
			the Establishment of the National Trade Facilitation Body	
17.	**"Product info" - Establishment of single digital service for technical regulations**	Establishment of a single digital service through networking and improvement of databases of all quality infrastructure institutions and ministries responsible for adopting technical regulations related to: technical requirements for all groups of industrial products and standards, conformity assessment activities, accreditation and activities in the field of metrology, in order to bring the data together in one place, accurate, up-to-date and accessible to interested parties (business entities, inspection and other bodies, institutes ...).	Strategy for improvement of quality infrastructure in the Republic of Serbia for the period 2015-2020. years	PR 2019. p.60. – In the non-harmonized area, as a horizontal measure, it is recommended to establish detailed procedures for the operation of the Product Contact Point (PCP).
AREA: EDUCATION AND SKILLS				
18.	**Qualifications oriented towards the needs of the labor market**	Reform of secondary vocational education by implementing dual education, introduction of industry 4.0 into the dual education system, implementation of a dual model of higher education studies, further development of a national qualifications framework, and the establishment of regional training centers will ensure a more efficient education system response to the needs of the economy and labor market, technological innovation and the need for modern competencies.	Strategy for Education Development until 2020 Law on Dual Education Law on Dual Model of Studies in higher education Law on the National Qualifications Framework of the Republic of Serbia Law on Education of Adults	PR 2019. p. 93. – To increase participation of children in preschool education, especially children from disadvantaged backgrounds. To link the NQF with the European Qualifications Framework and make the institutional structure fully functional. Take advantage of the opportunities offered by Erazmus + as it now has the status of a program country.
19.	**Digitalisation of the education system and introduction of the Uniform information system of education**	The introduction of the Uniform Information System for Education, as an information base for the modernization of management and decision-making, will contribute to the modernization and digitization of the education and training system and rationalization of funding.	Strategy for Education Development until 2020 The Law on the fundamentals of the education system Rulebook on the Uniform Education Information System Rulebook on the Uniform Educational Number	

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations[20]
AREA: EMPLOYMENT AND LABOUR MARKET				
20.	**Improve national employment policy in line with good practice and EU standards**	Preparation of a new six-year strategic framework for employment policy (period 2021-2026), as well as a three-year national employment action plan, which are in line with EU principles and instruments and reflect the coherence of public policies of importance and impact on the area of employment policy.	National Employment Strategy 2011-2020	ECOFIN 2019 R6 – Significantly increase funding and provision of active labor market measures tailored to the needs of the unemployed, especially women and young people, including those who are highly qualified. ECOFIN 2019 R6 – Adopt measures to encourage formalization of work in non-agricultural sectors. ECOFIN 2018 R6 – Significantly increase the involvement of the unemployed in active labor market measures, especially for women and Roma. More attention needs to be paid to reducing undeclared work PR 2019. p. 86. – Provide adequate financial and institutional resources for employment and social policy to more systematically target young people, women and the long-term unemployed.
21.	**Creating conditions for monitoring, encouraging and supporting circular migration**	Creating a mechanism for monitoring the movement of the highly qualified Serbian diaspora while facilitating the procedure for returning the diaspora to the country and creating a supportive environment for attracting highly qualified Serbian and foreign nationals for scarce occupations.	Program of the Government of the Republic of Serbia (Prime Minister's Exposures) The National Platform Serbia Creates Work Plan of the Council for Innovative entrepreneurship and information technology Program for Circular Migration	Assessment of EC 2019 - Emigration of workers, primarily in the EU, poses long-term risks to expanding the labor market. In addition to lack of job opportunities, higher wages abroad are a key factor in brain drain. Structural reforms must pay more attention to their retention. Significant differences in labor market participation, education and transition from school to work have not yet been addressed in a strategic manner. The constant brain drain, including people with certain skills, risks exacerbating the shortage of labor in the future, given demographic trends.
AREA: SOCIAL PROTECTION AND INCLUSION				
22.	**Improvement of the adequacy, quality and targeting of social protection measures**	Establishment of the Information System Social card for collecting and using data from all available sources of state administration, which will enable the social and material status of beneficiaries to be considered for the equitable distribution of social protection funds and which will link social welfare institutions, and above all social work centers, into a single network (SOZIS).	Employment and Social Reform Programme in the process of EU accession (ESRP) Action plan for the implementation of the Government program	PR 2019. p. 86. – Provide adequate financial and institutional resources for employment and social policy to more systematically target young people, women and the long-term unemployed, and improve the adequacy of social benefits for people below the poverty line. Ensure consistent implementation of labor and social legislation throughout the country.

5.3. ANALYSIS BY AREA AND STRUCTURAL REFORMS

5.3.1. Area ENERGY AND TRANSPORT MARKET REFORM

Analysis of main obstacles

Serbia's energy sector accounts for some 4% of the country's GDP. The extent and pace of reforms in the energy sector constrain continuing economic growth and inhibit greater competitiveness.[21] More investment is needed in constructing new energy capacity, strengthening the internal market, promoting regional co-operation, adjusting energy tariffs, and enhancing energy efficiency. Within the scope of the Berlin Process, it is also important to continue pursuing activities and implementing measures to strengthen the market in this area and regional co-operation (Connectivity Agenda).

Even though the Serbian internal energy market is aligned with the Energy Law, functional unbundling ought to be speeded up significantly in the gas and electricity sectors. Legal unbundling of energy companies in the field of electric power has been completed. Functional unbundling of the electricity distribution system operator (Elektromreža Srbije, EMS) has been completed. The EMS, incorporated as a joint-stock company, received certification as distribution system operator from the Energy Agency of the Republic of Serbia (AERS) as early as 2017, pursuant to the Energy Law. Legal unbundling of EPS and ODS EPS Distribucija has been completed, and as regards to functional unbundling, JP EPS has already adopted its articles of association and the articles of incorporation of ODS EPS have been aligned and adopted. Once the Government of the Republic of Serbia gives its consent to this document, and when it enters into force, conditions will be created for the complete legal and functional separation of the distribution system operator. Srbijagas is yet to be fully unbundled; the operation of Jugorosgaz-Transport, based in Niš, should also be aligned with the Energy Law. The AERS, an independent legal entity, ought to additionally enhance its regulatory activity pursuant to national law and the latest Union *acquis*, as well as improve its capacities.

The establishment and opening of the electricity and natural gas market has enhanced competition between network utilities. The entry of new players in the market has meant customers now enjoy a wider choice of suppliers. Restructuring of SOEs in the energy sector should continue, and the environment in which they operate should be additionally enhanced through alignment with the Union *acquis*. The restructuring of EPS is ongoing, with the Elektroprivreda Srbije Corporate Governance Action Plan, enacted in February 2019, envisaging activities that should be completed within the following 24-month period.

The Serbian energy distribution network must be enhanced by fitting state-of-the-art equipment and introducing a modern management and oversight system. These measures would increase service levels and quality, raise energy efficiency, and enhance the reliability of energy supply.

The gas market must be made more open and security of supply must be increased. The backbone of the existing gas infrastructure is a gas distribution line with only one entry point (from

[21] EC Assessment, 2019, p. 13.

Hungary), which limits security of supply and poses a constraint to market development. The projected gas interconnector between Bulgaria and Serbia will ensure a new source of gas supply. Preparations have continued for the construction this interconnector pipeline, and these activities ought to be speeded up so as to meet the envisaged commissioning date of late May 2022. In March 2019, at the application of the company Gastrans, the AERS delivered a final decision exempting the future gas pipeline through Serbia, which will be connected to the Bulgarian and Hungarian national transport systems, from third party access rules, regulated tariff rules, and ownership unbundling requirements. In doing so, the AERS took note to the greatest extent possible of the relevant Opinion of the Energy Community Secretariat.

The electricity system is constrained by outdated and inefficient production facilities (on average more than 30 years old), a consequence of the protracted absence of investment in new power generation plants and insufficient investment in developing the electricity system, which has been **constraining options for growth in the energy sector and regional integration.** Demand for electricity and gas has been growing, particularly by industry. There is a need for constructing new production and transmission capacity that would comply with all environmental standards and contribute to meeting the increased need for electricity and gas, whilst investment to develop the electricity system must also continue. Construction of the port of Kostolac has been completed, but modernisation must continue of facilities at the Kostolac B coal-fired power plant, in parallel with the construction of a new 350 MW coal-fired unit. Construction is under way of wind farms with a capacity of 500 MW, whilst a new 201.7 MW gas-fired unit is planned to be built in Pančevo. The 'Trans-Balkan Corridor', a 400 kV electric power transmission system, is at the first stage of construction, but additional investment will be required for its completion.

The Republic of Serbia has a high level of alignment with the Union *acquis* on security of supply, including the requirement to maintain stocks of crude oil and petroleum products. The Energy Reserves Administration has contributed to ensuring the security of supply. Continuing development of the gas market would significantly aid in preserving the security of supply. December 2018 saw the adoption of the Decree establishing the Preventive Action Plan to Ensure Security of Natural Gas Supply and the Decree establishing the Emergency Action Plan to Ensure Security of Natural Gas Supply.

Serbia's legislation on nuclear energy, nuclear security, and radiation protection is partially in line with the Union *acquis*. A new Law on Radiation Protection and Nuclear Safety ("Official Gazette of the RS", Nos. 95/18 and 10/19) was adopted in early 2019; it governs all aspects of regulation, including inspection oversight for radiation protection and nuclear security and safety, and establishes the Radiation and Nuclear Safety and Security Directorate, a regulatory authority with a broadened remit for radiation and nuclear safety and security. Additional funding has been secured for the Directorate and more staff have been approved, although not all positions are currently filled (31 staff have been hired of a total planned complement of 48). Activities for improving the radiological and security situation at the Vinča site have started. It would be desirable to draft an action plan for decommissioning the research reactors.[22]

[22] Serbia 2019 Report, European Commission, p. 74.

According to the Republic of Serbia 2019 Energy Balance (“Official Gazette of the RS”, No. 105/18), performance in 2017 was as follows:

- Serbia’s net import dependence was 34.4%.
- Total domestic primary energy production amounted to 10.525 millions of tonnes of oil equivalent (Mtoe). Coal was most heavily used source (accounting for 7.216 Mtoe) for primary energy production.
- Total primary energy consumption amounted to 15.931 Mtoe, most of it coal (7.875 Mtoe) and crude oil (3.751 Mtoe).
- Final energy consumption (not including non-energy consumption) was 8.679 Mtoe.
- Gross electricity production amounted to 3.185 Mtoe, most (2.271 Mtoe) generated by coal-fired power plants.
- Domestic electricity production meets the country’s needs, excepting in the winter months, when electricity has had to be imported. The greatest proportion of crude oil and natural gas are imported from abroad. Domestic crude oil production meets 36% of Serbia’s needs (production 924,000 tonnes / net imports 2,557,000 tonnes), whilst domestic natural gas production is sufficient to cover 22% of needs (production 489mn m^3 / net imports 2,183mn m^3). Greater dependence on imports was registered relative to 2016 (in 2016, domestic production was sufficient to meet 42% of crude oil and 30% of natural gas needs).

The electricity price needs to be set gradually, in line with the rise of the social standard and the development of a mechanism for the protection of energy-vulnerable customers, so as to reflect the costs of regulated activities (network fee), as well as the market prices of electricity. Households and small-scale consumers continue to be entitled to supply at regulated prices, pursuant to the 2019 Report on the Requirement to Regulate Electricity Prices for Guaranteed Supply. The unregulated market accounted for 49.96% of all electricity consumption and 85% of all gas consumption by end-users in 2018. The electricity price for households is 20-30% lower in Serbia than in any other SEE country. Energy tariffs of the network activities reflect the required extent of investment and maintenance in the electricity sector. The latest increase in the price of electricity for access to the transmission system of 3.9%, for access to the distribution system of 2% and for the guaranteed supply of 3.9%, all with effect from December 1, 2019.

The implementation of energy efficiency measures should be given priority, in view of the very high energy intensity (high consumption of electricity, primarily for electric heating). Serbia’s energy intensity is four times the OECD average. Some progress has been made in promoting energy efficiency with the adoption of bylaws concerning labelling energy- consuming products. Amendments to the Energy Efficiency Law have been drafted that envisage improvements to energy audits and energy management, the implementation of eco-design requirements, the introduction of energy supply contracts as a specific type of energy services. Further secondary legislation is necessary to achieve full alignment with Directive 2012/27 / EU on energy efficiency as well as further enactment of bylaws. In order to achieve alinement with the Directive on Energy Performance of Buildings,[23] the existing rules on energy efficiency need to be improved so that the methodology of EU regulations is fully implemented.

[23] Serbia 2019 Report, European Commission, p. 73.

An institutional approach is needed to developing and strengthening energy efficiency financing mechanisms. Prerequisites for achieving energy efficiency are establishment of a sustainable financing mechanism for energy efficiency, introducing an energy management system that would cover approximately 70% of all primary energy consumption, and increasing human capacity at the Energy Efficiency Department of the Ministry of Mining and Energy which inter alia implements the activities of the Budget Fund for the improvement of energy efficiency. A key step forward was the December 2018 adoption of the Law on Fees for Use of Public Resources that introduced the energy efficiency fees. The Budget Fund for Energy Efficiency was strengthened in the beginning of 2019 with the adoption of the Rulebook on Conditions for Disbursement and Use of Financing from the Budget Fund and also an analysis of options for establishing a sustainable energy efficiency financing mechanism was made.

Infrastructure ought to be constructed that would allow transition to renewable energy sources. The 2020 objective is for renewables to account for 27% of gross final energy consumption. The 2013 National Renewable Energy Action Plan planned a 23.1% share of renewables in gross final consumption in 2017; the latest available data indicate the actual figure achieved in 2017 was 20.6%.

Existing energy plants are high greenhouse gas emitters and so have a detrimental impact on the environment. The primary fuel used to generate electricity is lignite, which has an adverse effect on air quality. By burning coal, the EPS thermal power plants release large quantities of harmful gases. However, in recent years, JP EPS has invested heavily in coal quality management systems, sulfur and nitrogen oxide reduction systems from flue gases and electrostatic precipitators, significantly reducing pollutant emissions, and also plans to replace low efficiency TPPs with new, modern ones high efficiency blocks. In addition, biological reclamation of degraded areas by afforestation is performed. The Law on Charges for Use of Public Resources has introduced environmental protection and improvement charges, which first took effect in March 2019. Polluters are required to pay amounts in proportion to the type and quantity of pollution released, and the revenues accrue to city and municipal budgets.

On transport, Serbia has a high level of alignment with the Union *acquis*. The greatest progress has been made in aligning legislation, constructing transport infrastructure, and diversifying rail transport. The upcoming period should see continued reforms to the railways, enhancement of road safety, and improvements to road and rail infrastructure. Administrative capacity for all modes of transport also needs to be strengthened.

Serbia's road network is not complete owing to insufficient funding. Reconstruction of existing roads ought to be finalised, and new sections constructed. A number of large-scale infrastructure projects were completed in 2019, as envisaged by national and regional priorities. These are Corridor X (southern section leading to North Macedonia, of 74.2 km, and eastern section, towards Bulgaria, of 86.9 km); and Route 4, Belgrade – South Adriatic (where the sections Obrenovac to Ljig, of 50.2 km, and Surčin to Obrenovac, of 17.6 km, were completed and brought into use). Construction works have commenced on the Belgrade to Sarajevo motorway (Sremska Rača to Kuzin), the Morava Corridor (Pojate to Preljina), and the combined Ruma-Šabac-Loznica motorway/dual carriageway. The Fruška Gora Corridor (Novi Sad to Ruma) is planned, as are Sector C on the Belgrade Bypass, the Požega-Užice-Kotroman road, the Šumadija Corridor, the

Požega to Boljare road, and other road building projects. The construction and rehabilitation of some 5,000 km of national roads is also under way, together with measures to improve safety. Sector B of the Belgrade Bypass, with a total length of 31km, is under construction (14% of works completed). The goal is for these key projects to allow transit traffic to travel faster, improve service quality, and facilitate cross-border trade and passenger transport.

Road tolls ought to be adjusted to ensure funds are available for road construction and maintenance. Amendments to the Law on Charges for Use of Public Resources, enacted in July 2019, envisage a 12% increase in tolls. The greater revenues will help cover the actual costs incurred in maintaining, developing, and constructing road infrastructure. A reform to regular road maintenance arrangements was launched as early as 2003 (with the pilot performance-based maintenance contract (PBMC) project for the Mačva and Kolubara regions, covering roads with a combined length of 1,200 km); in 2018, PBMCs were entered into for another 3,000 km of state roads. Preparations for the transition to new maintenance contracting are in progress for the remainder of the state road network.

Border crossing procedures ought to be relaxed and existing non-physical barriers removed, and the road maintenance system improved, to reduce transport costs and facilitate doing business with regional partners. The regulatory framework should be strengthened through the adoption of a multiannual maintenance plan for the core network.[24] Improvements to the customs service ought to continue with the implementation of computerised customs systems (NCTSs), systematic electronic exchange of data (SEED), and simplification of a number of border crossing procedures. The April 2019 adoption of the amendments to the Passenger Transport Law represented a major step ahead in regulating the activities of national and foreign road transport operators.

The obsolete railway network constrains passenger and freight traffic and many sections are in need of modernisation. Serbia's railway network has a total length of 3,725 km, of which 1,273 km is electrified. Trains are able to reach speeds of between 100 and 120 km/h on about 720 km of the track. The volume recorded in 2018 was 348,6 million passenger kilometres and 3.06 billion net tonne kilometres. Corridor X railway infrastructure projects are especially important for modernising the railway network. A total of 308.5 km of regional rail lines has been reconstructed to date, with work in progress on another 362.5 km (sections Beograd Centar – Stara Pazova – Novi Sad, Jajinci to Mala Krsna, Niš to Zaječar, Subotica to Senta, Markovac to Resavica, and Kumane to Banatsko Miloševo). Train speeds were restricted to between 10 and 30 km/h on most sections undergoing reconstruction. The low axle load of the rail network is another constraint to the growth of rail transport. Rail infrastructure maintenance plans should be further developed and costed.

Reforms to build the capacity of the rail market should continue. Major progress was made by transforming Železnice Srbije, the SOE responsible for the state railways, into separate companies tasked with infrastructure management and passenger and freight transport. These firms must be made financially and operationally sustainable in the upcoming period, and their mainly obsolete rolling stock ought to be improved. Two state-owned and five private rail transport

[24] Serbia 2019 Report, European Commission, p. 70.

companies operate on the public rail infrastructure network. Some capacity-building for railway companies is envisaged in connection with strategic asset management and human resource development. To ensure full opening of the rail market, a system ought to be established for the issuance of train driver licenses and safety certificates for railway undertakings and mutual recognition of rolling stock,[25] which is possible either under ratified international agreements or pursuant to the Treaty establishing the Transport Community. As the Serbian rail market is open to domestic transport undertakings, the next stage will entail opening the market to regional players, and, finally, to operators based in EU Member States, as envisaged in the Treaty establishing the Railway Community. As part of a broader cost-cutting effort, Infrastruktura Železnice Srbije, the infrastructure management company, is set to formally remove public resource status from 1,064.1 km of track that has not been used for rail operations for over 20 years (excepting sections required by businesses).

Further strengthening of combined/intermodal transport is necessary. The Ministry of Construction, Transportation and Infrastructure has advertised an open call for subsidies for enhancing combined transport to be disbursed in 2018 and 2019. The annual Budget Laws for 2018 and 2019 have earmarked RSD 120 million in each of the two years for this purpose, of which RSD 20 million is intended for the public sector and RSD 100 million for the private sector. Seven combined transport subsidies contracts were signed in 2018 (six with private firms and one with an SOE). The subsidy award process for 2019 is ongoing. Enhancement of combined transport is significant as it will move businesses and logistics operators away from city centers, reduce traffic jams, reduce environmental impact, and decrease wear on transport infrastructure. These positive effects will also improve road traffic safety. This mode of transport is expected to develop further in the upcoming period, especially with the construction of an intermodal terminal at Batajnica, for which the tendering procedure is currently in progress and which is funded jointly by the European Union and Serbia.

Traffic safety must be improved, as must the capacity of inspections services. The total number of traffic accidents and fatal traffic accidents has decreased in 2018, even though road fatalities remain above the EU average. Traffic safety must be enhanced by aligning legislation related to the safety of vehicles and the behavior of road users, by proper road design and maintenance, including the removal of blackspots, as well as by education and awareness raising.[26]

Amendments to the Law on Road Traffic Safety were adopted in March 2019 that additionally improve road safety. Amendments to the Law on Accident Investigations for Air, Rail and Waterborne Transport from October 2018 have provided further safety enhancements. Improvements to rail safety, especially with regard to level crossings and railway infrastructure in general, require capacity-building for the Railway Directorate, the rail safety regulator. A unified road safety database is in use that tracks data on traffic accidents, traffic accident indicators, etc. Data from the unified database are publicly available on the Road Traffic Safety Agency's web site. Inspections services ought to be improved and more roadside checks performed.

[25] Serbia 2019 Report, European Commission, p. 71.
[26] Serbia 2019 Report, European Commission, p. 70.

The implementation of intelligent transport systems (ITSs) in Serbia continues to face delays. The development and implementation of ITSs is a priority, and so a strategic framework for this purpose is required, together with adjustments to legislation and the provision of capacity for the use of these systems. The 2021-2030 Transport Strategy, envisages the creation of a framework to introduce ITSs for road and rail transport. The 2018 Law on Roads provides the overall basis for establishing and introducing ITSs. Preparatory activities are under way to develop the National Plan for Implementing the European Rail Traffic Management System (ERTMS) on the Republic of Serbia Rail Network. One ITS in operation in the country is the River Information System (RIS), implemented on the Sava and the Danube.

Serbia has high alignment with the Union *acquis* on maritime and inland waterway transport. Amendments to the Maritime Navigation Law and the Law on Inland Waterway Navigation and Ports, adopted in October and December 2018, respectively, regulate waterways and navigation and set out requirements for safe waterborne transport. The share of cargo transported via Serbia's inland waterways has increased by 19% relative to 2018. The RIS is operational and was upgraded in 2019 by the introduction of AIS AtoN technology, a major advance over traditional methods used on inland waterways. The country has signed international agreements on inland waterways and bilateral agreements with neighboring countries, additionally improving navigation safety. Active participation has continued in the EU Strategy for the Danube Region. Two additional IT-related projects will be launched in the near future, one concerning the establishment of a system of hydro-meteorological stations and bridge clearance information, and the other involving the creation of a VTS and a VHF radio-telephony system for Serbian inland waterways.

Existing infrastructure capacities for inland waterway transport must be modernised, and new ones constructed. Underdeveloped port infrastructure and obsolete port superstructure have a negative effect on reloading efficiency and speed at Serbian ports, with a concomitant adverse impact on the competitiveness of Serbian goods in foreign markets. Amendments to the Law on Inland Waterway Navigation and Ports, enacted in December 2018, facilitate riverbed leasing. A EUR 200 million inland waterway transport project is planned to be implemented from 2018 to 2022, and will be funded partly from the Framework Loan for the Development of River Transport Infrastructure, awarded in 2018 by the EIB, and partly by grants from available funds (IPA, WBIF, CEF, etc.). Work has commenced on the salvage of sunken World War II-era warships near the town of Prahovo, as have operations to regulate a second critical sector on the Sava River and reconstruct the Iron Gate 1 navigation locks. The construction of regulation structures on the first critical Danube sector is 90% complete, and work has started on the second critical sector. Design documentation is under development for the regulation of Belgrade Port and the tender file is being prepared for the Port of Smederevo, whereas the Port of Novi Sad was privatised in May 2019. Plans for 2020 envisage the development of technical documentation for the expansion of the ports of Bogojevo and Prahovo on the Danube, Sremska Mitrovica on the Sava, and Senta on the Tisa River. Also planned is the drafting of technical documents for the upgrade of navigation lock facilities on the Tisa Dam near the town of Novi Bečej and the development of tender documents for the upgrade of the Iron Gate 1 navigation lock.

A good level of alignment has been achieved with the Union *acquis* on aviation. Amendments to the Air Transport Law were adopted in October 2018 that have improved regulation of the aviation industry in Serbia. Considerable progress has been made with implementing the first and part of the second transitional phase of the European Common Aviation Agreement. Transposition and local implementation of SES I and SES II on air traffic have been completed. A build and operate concession for Belgrade's Nikola Tesla Airport was awarded in December 2018 to the French company Vinci Airports Serbia.

STRUCTURAL REFORM MEASURE 1: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION

1. Description of measure

Technical rules and codes governing the electricity and gas networks will be harmonised and missing interconnectors built so as to achieve reliability and facilitate trade in energy in the national and cross-border markets (this includes construction of the Niš to Dimitrovgrad trunk gas pipeline and the Trans-Balkan Corridor electricity transmission system).

The Niš to Dimitrovgrad transmission gas pipeline, with a length of 108 km, will diversify supply routes and sources and improve security of supply for Serbia, Bulgaria, and the entire region, whilst significantly reducing load on the northern portion of the gas pipeline system. Apart from improving security of supply and promoting development of the distribution network throughout Serbia, the project enables the integration of existing and future natural gas storage capacities into a single energy system, as envisaged by the Energy Community Treaty. The introduction of new gas pipelines in Serbia is planned under the Energy Sector Development Strategy to 2025 with projections to 2030 and the Law on the Spatial Plan from 2010 to 2020.

The works contract for the Kragujevac to Kraljevo overhead power line is expected to be signed in Q1 2020, with construction commencing in Q2 2020. The delays have been caused by time-consuming award procedures of the international financial institution, which entail review and approval of tender documentation. The contractor for the construction of the transmission line (LOT 1) was selected, the evaluation of bids for the technical part for TS Kraljevo 3 and TS Kragujevac 2 was completed and the consent of KfW Bank was obtained. In December 2019, the financial part of the offer was opened and the evaluation began.

Drafting of technical documentation for the Obrenovac to Bajina Bašta overhead power line began on schedule in Q2 2019 (Programme WB14-SRB-ENE-01). The spatial plan for this power line is completed and approved by the commission of the Ministry of Construction, Transport and Infrastructure in December 2019. An inter-ministerial harmonization of the Plan is underway, followed by the adoption of a decree by the Government of the Republic of Serbia on establishing the Plan, which is expected in the first quarter of 2020. Also, the project for the construction permit for the transmission line and for the extension of the Bajina Bašta TS is underway. Through the approved grant funds (Programme WB13-REG-ENE-01), complete technical documentation (Construction Permits and Execution Projects) for construction of the facility is being made. The initial meeting was held on September 27, 2019, and the initial inception report was agreed, commencing activities to develop the technical documentation for Bajina Bašta - Visegrad – Pljevlja overhead power line.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Construction of Niš to Dimitrovgrad trunk gas pipeline													
1	Tender procedure	■	■	■									
2	Construction				■	■	■	■	■	■	■		
3	Commissioning										■		
Trans-Balkan Corridor													
1	Reconstruction of Kraljevo 3 and Kragujevac 2 power substations, as required for new Kragujevac to Kraljevo overhead power line	■	■	■	■	■	■						
2	Construction of Kragujevac to Kraljevo overhead power line	■	■	■	■	■	■	■	■				
3	Development of technical documentation for Obrenovac to Bajina Bašta overhead power line	■	■	■	■	■	■						
4	Development of technical documentation for Bajina Bašta – Višegrad – Pljevlja overhead power line	■	■	■	■	■	■	■	■				
5	Construction of Obrenovac to Bajina Bašta overhead power line										■	■	■

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
No. of kilometers of overhead power lines constructed	0 (2019)	30 (2020)	60 (2021)
Construction contract signed	0 (2020)	-	1 (2020)
Construction	10% (2020)	85% (2021)	100% (2022)
Commissioning	0 (2020)	0 (2021)	1 (2022)

4. Expected impact on competitiveness

This reform may reduce differences in the wholesale price of electricity between the region and Italy. Any such reduction will also be greatly affected by the pace of construction of the undersea power cable linking Italy with Montenegro. The first stage of this cable, with a capacity of 600 MW, will enter trial operation by the end of 2019.

The development of energy infrastructure is a prerequisite for the development of the energy market, which will lead to greater competition in the energy sector and more choice of energy and suppliers available to consumers. The Niš to Dimitrovgrad transmission gas pipeline will increase the number of interconnections with neighbouring countries from 2 to 3; another incoming interconnection will be added, for a total of 2; and the technical capacity of incoming interconnections will increase from 5,238 bcm to 7,038 bcm.

5. Estimated costs of implementing structural reform and estimated sources of financing

As part of the structural reform, the development of the energy market coupled with the construction of energy infrastructure envisages financing activities of the construction of the Niš-Dimitrovgrad transmission gas pipeline and the Trans-Balkan corridor.

Niš-Dimitrovgrad transmission gas pipeline

In 2020, it is planned to continue resolving property affairs (EUR 7,155,600 from the central government budget) and to start construction (EUR 10,000,000 from the central budget, EUR 17,500,000 from IPA and EUR 300,000 from other domestic sources of funding - JP Srbijagas) and making connection to the electricity system (EUR 200,000 other domestic sources of financing - JP Srbijagas).

The construction is planned in 2021, (EUR15,000,000 from the central budget, EUR 30,000,000 from IPA and EUR 300,000 from other domestic sources of financing - JP Srbijagas) and completion of connection to the electricity system (EUR 200,000 from other domestic sources of financing - JP Srbijagas).

Construction is scheduled to be completed in 2022 (EUR 2,600,000 from the central budget, EUR 1,750,000 from IPA and EUR 100,000 from other domestic sources of financing - JP Srbijagas)

Trans-Balkan Corridor

Regarding the construction of the Trans-Balkan Corridor electricity transmission system, for the Kragujevac 2 to Kraljevo 3 overhead power line, the costs and activities by years are as follows:

2020 - purchase of equipment and commencement of construction works (planned EMS AD own funds EUR 52,382, loans EUR 5,462,185, donation EUR 2,323,529);

2021 - construction of transmission lines and activities in TS Kraljevo 3 and TS Kragujevac 2 (planned own funds of EMS AD EUR 60,630, credit funds EUR 8,807,815, donation EUR 3,757,561);

2022 - technical review of completed works (planned EMS AD own funds EUR 5,882).

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Employment will be directly impacted by the need for workers to manage and maintain the transmission gas pipeline, once it has been constructed. Indirectly, the use of natural gas as a more affordable source of energy will provide greater opportunities for economic development. The new energy infrastructure may lead to the emergence of new transmission system users in the areas that it crosses, which is expected to result in greater employment. This reform is gender-neutral.

7. Expected impact on the environment

Minimal environmental impacts are expected, as preparations and construction follow the rules set out in the Environmental Impact Assessment Law and the relevant Rulebooks. An Environmental Impact Assessment Study is mandatory for overhead power lines with a nominal voltage of 220 kV or more and exceeding 15 km in length.

The use of natural gas as a replacement for other fossil fuels will reduce carbon emissions and pollution.

8. Potential risks

Risk	Probability	Planned mitigating action
Failure to secure financing	High	Own-source financing to be supplemented by loan
Failure to secure loan	Low	Diversified applications with international financial institutions
Misalignment between construction deadlines for Serbian and Bulgarian sections of gas pipeline	Moderate	Active co-ordination between Serbian and Bulgarian authorities

<u>STRUCTURAL REFORM MEASURE 2</u>: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH HARMONIZATION OF THE LEGISLATIVE FRAMEWORK AND ESTABLISHING A SUSTAINABLE MECHANISM FOR FINANCING ENERGY EFFICIENCY PROJECTS

1. Description of measure

Energy efficiency legislation will be harmonised with EU regulations through the introduction of an energy management system, ecodesign, and subsidies for improving energy efficiency. This reform will also ensure sustainable funding for energy efficiency projects.

The reform is implemented in accordance with the Program for the Implementation of the Energy Development Strategy of the Republic of Serbia until 2025, with projections until 2030 for the period from 2017 to 2023, Section 3.7. Energy Efficiency Area in the Energy Sector and the National Program for the Acquis Commitment (NPAA).

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Amendment of Energy Efficiency Law and adoption of secondary legislation to ensure complete alignment with EU energy efficiency regulations												
2	Provision of sustainable funding for energy efficiency												
3	Collection of energy efficiency charge pursuant to Law on Charges												
4	Financing of energy efficiency projects												
5	Creation of capacity to implement energy efficiency policies through enhancement of capacities of MME, local authorities, and Market Inspection and establishment of multiple product conformity assessment bodies (pursuant to Directives 2009/125/EC and 2010/30/EU), as well as through raising awareness of energy efficiency												

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Energy Efficiency Law amended	Draft	Yes	Yes
Sustainable funding for energy efficiency projects ensured	No	Yes	Yes
Energy savings made through energy efficiency projects relative to energy consumption prior to project implementation	0	20%	20%

4. Expected impact on competitiveness

Alignment with eco-design rules will ensure only energy-efficient products are marketed in Serbia. This measure is expected to result in savings of some 100 ktoe by 2022. Sustainable funding should promote energy efficiency, both in the public sector (by about 40% per project) and amongst small and medium-sized enterprises and households. Large-scale energy consumers and public-sector entities are expected to save about 1% of primary energy annually, which will increase competitiveness in the economy and reduce outlays by beneficiaries of public funds.

5. Estimated costs of implementing structural reform and estimated sources of financing

A sustainable financing energy efficiency projects is expected by the beginning of 2020. In this regard, funds are provided for the employment of 30 new employees, the procurement of IT equipment (one-off), the purchase / development of specialized software, office supplies and cars (one-off), as well as operating costs (around EUR 850,000 including one-off costs). In 2020, these funds will be provided from funds under the KfW Program for the Rehabilitation of District Heating - Phase III. In addition, in order to monitor the implementation of the energy efficiency policy, it is necessary to hire an energy inspector in the Ministry of Mines and Energy in 2020 (around EUR 9,366). Amendments to the Energy Efficiency Law with technical assistance from the IPA project, are expected to be completed in 2020, as well as other activities for which IPA 2014 funds were provided in 2020 (EUR 388,500 and a budget contribution of around EUR 43,000). There are also activities envisaged to set up a body for conformity assessment of products under Directives 2009/125 and 2010/30 from IPA 2016 (EUR 524,650 without budgetary contribution). Energy efficiency projects will be financed from the RS budget through the Budget Fund for the Improvement of Energy Efficiency (EUR 4.25 million) and LGU funds (around EUR 1.8 million - 30% of contribution). Since 2019, energy efficiency financing funds have been collected on a fee basis. Revenue in 2020 is expected to reach EUR 9 million. In 2020, energy efficiency funding is also provided through grants (approximately EUR 3.9 million in SECO grants) and loans (CEB 2.5 million).

In 2021, the operating costs of a sustainable financing mechanism will be covered from the RS Budget (approximately EUR 740,000) and the funds for the work of an already hired inspector, as well as another new inspector and lawyer in the Energy Efficiency Section of the Ministry of Mining and Energy. Financing of energy efficiency projects from the Budget (on the basis of fees) is expected to be EUR 9 million, as is the contribution of LSGs of about EUR 1.93 million and citizen participation of about EUR 6.75 million. In addition, IPA 2020 funding of EUR 4 million is foreseen to support the operation of a sustainable financing method. In 2021, Energy efficiency by-laws are expected to be drafted, as well as awareness-raising and setting-up bodies to check compliance and increase market surveillance capacity from IPA 2014 (approximately EUR 0.324 million and budget contribution of EUR 0.038 million) and IPA 2016 (around EUR 0.524 million). In addition, an SECO grant of EUR 1,426 million and loans (EUR 8.5 million - CEB, EUR 16 million KfW DHS Phase V) is expected for the realization of investment activities.

In 2022, expenditure at the same level is foreseen for the operation of a sustainable financing mechanism and previously hired 3 officials in the Ministry of Mines and Energy. Expenditures for financing energy efficiency projects from the RS Budget and LSGs, as well as citizen participation, are projected at the level of the previous year. IPA funds are expected to provide another EUR 10 million in support. Another EUR 0.15 million is earmarked from IPA 2016 for the completion of project activities. It is planned use EUR 29 million from the investment loan (EUR 16 million from KfW DHS Phase V, EUR 15 million - CEB, KfW MMA EUR 7.5 million).

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

This reform may have a significant positive impact on the demand for workers due to the need to implement numerous energy efficiency products, especially in building construction. Energy efficiency projects will cut the cost of energy, which will also aid in reducing poverty.

7. Expected impact on the environment

The reform will reduce energy consumption, which will have a favorable impact on the environment and reduce smoke emission, including the emission of greenhouse gases.

8. Potential risks

Risk	Probability	Planned mitigating action
Failure to initially amend legislation in due time	Moderate	Draft amendments have been prepared
Delay in introducing sustainable funding arrangements	Moderate	Until sustainable funding has been ensured, projects will be financed from the budgetary Energy Efficiency Fund
Poor administrative capacity	Moderate	Technical assistance has been secured

STRUCTURAL REFORM MEASURE 3: IMPROVEMENT OF CAPACITY AND QUALITY OF ROAD TRANSPORT THROUGH REFORM OF ROAD SECTOR TO ALLOW GOVERNMENT TO CONTRACT WITH STATE ROAD OPERATOR AND CONTINUED IMPLEMENTATION OF NEW PERFORMANCE-BASED MAINTENANCE CONTRACTING

1. Description of measure

Reforms of the road sector initiated to date entail activities that will allow the state road operator to transform into a modern road company with a clear set of objectives and tasks, uninterrupted funding, and efficient management. A multi-year contract between the Government of Serbia and the state road operator, and the transition to a new performance-based arrangement for maintaining the state road network, will permit more efficient and effective operations, allow results and quality measurement, and ensure accountability for breaches of contract, thus ultimately reducing cost. Performance-based maintenance contracts for 3,000 kilometers of state roads were entered into in the course of 2018, whilst preparations are under way to sign PBMCs for the remaining 12,000 km. The Serbia Road Sector Reform, was also completed: this effort has led to the development of an action plan that will guide reforms of the road operator.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Continued transition to new contracting arrangements with road maintenance firms for remainder of state road network (PBMCs signed for 12,000 km of roads) (SRO)												
2	Entry into first three-year SLA between SRO and MCTI (SRO, MCTI)												
3	Amendments to legislation and continuing harmonisation with EU regulations (SRO)												

*SRO: State Road Operator; PBMC: Performance-Based Maintenance Contract; SLA: Service Level Agreement

3. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2020)	Target (2021)
Number of kilometers of state roads subject to performance-based maintenance contracts	3,000 km	12,000 km	15,000 km
First SLA entered into		Yes/No	
Increase in share of PBMCs at Corridor X (%)	8%	7%	8%

4. Expected impact on competitiveness

These activities will have a direct bearing on the provision of efficient and safe road infrastructure that will permit increased productivity, facilitate and promote the movement of people and cargo, and create conditions for balanced regional development and economic competitiveness. The development of road infrastructure will directly reduce travel times and ensure greater traffic safety, attract international transit traffic, promote the development of tourism and construction, and encourage cross-border trade.

5. Estimated costs of implementing structural reform and estimated sources of financing

Financial plan for the implementation of projects related to the introduction and development of a new performance-based road maintenance system for the remaining 12,000 km of state roads in the Republic of Serbia has been provided. These are funds that are otherwise aimed at maintaining that particular part of the state road network. The necessary activities for the conclusion of performance contracts for the rest of the national road network are the procurement and installation of road metro stations (EUR 1,250,000) and the recording of the state of the road network (EUR 2,230,000). These activities have provided funding from project loans. Necessary steps for the introduction of the SLA contract are the engagement of consultants who have been provided with credit lines (EUR 300,000) as well as an increase in the number of employees of the competent ministry (2 + 1) to monitor the contract implementation (EUR 23,904) and further alignment with EU regulations.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The reform will not directly impact employment, poverty reduction, equality, or gender. That being said, the new road maintenance arrangements will enhance services offered by the state road network due to the increased quality of the roads themselves, which will in turn attract foreign traffic and so have a knock-on effect on economic development and living standards.

7. Expected impact on the environment

The activities will have indirect environmental impact as the new road maintenance arrangements and monitoring and evaluation requirements under SLAs will ensure more efficient use of state roads, which will reduce the impact of road transport on the environment.

8. Potential risks

Risk	Probability	Planned mitigating action
Inadequate financial planning	Low	Timely budgeting
Delays in implementing preliminary steps required for activities	Moderate	Monitoring and regular reporting

<u>STRUCTURAL REFORM MEASURE 4</u>: REFORM OF RAILWAYS THROUGH ENHANCEMENT OF RAIL TRANSPORT SAFETY AND IMPROVEMENT OF REGULATORY FRAMEWORK

1. Description of measure

The Law on Railways ("Official Gazette of the RS," No. 41/2018) envisages the adoption of a new Methodology for Calculating Railway Infrastructure Access Charges, to be aligned with the Regulation on the method and modalities of calculating the costs incurred as a directly incurred as a result of operating the train service ("Official Gazette of the RS", No. 48/2019) i.e. the Commission Implementing Regulation (EU) 2015/909 on the modalities for the calculation of the cost that is directly incurred as a result of operating the train service. The Methodology will allow greater accuracy in assessing costs directly incurred as a result of operating train services, which will mean that rail carriers will be required to pay only the costs incurred to the infrastructure manager, thus ensuring greater transparency and predictability in the rail market. Railway laws are also planned to be harmonised with regulations that are part of the EU's Fourth Railway Package.

Also planned are activities to continue enhancing the safety of rail transport, especially with regard to level crossings and the condition of rail infrastructure. Apart from the renewal, reconstruction, and modernisation of railway lines and improvement of the legislative framework, the plans also call for the modernisation of level crossings. The activities are also envisaged in the National Programme for Public Railway Infrastructure, 2017 to 2021 ("Official Gazette of the RS", No. 53/2017). The delayed signing (August 2019) of the addendum to the contract for the

Comprehensive Railway Reform project has also postponed the development of the new Methodology for Calculating Railway Infrastructure Access Charges, originally envisaged under the previous ERP.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Development of new Methodology for Calculating Railway Infrastructure Access Charges												
2	Application of new Methodology for Calculating Railway Infrastructure Access Charges												
3	Harmonisation of railways legislation with EU Fourth Railway Package												
4	Enhancement of rail transport safety												

3. Performance indicators

Indicator	Baseline (2015)	Intermediate target (2018)	Target (2022)
Volume of freight carried (tonnes)	11,882,000	11,902,400	13,070,200
No. of railway undertakings on the railway network	2	7	13
No. of rail accidents	253*	247	150
Kilometres of railway lines reconstructed	36.3	276	718

* Data as of 2017 due to changes in accident classification rules

4. Expected impact on competitiveness

The ultimate objective of railway sector reform is, on the one hand, to improve competitiveness in the railway sector by ensuring that prices of transport service are dictated solely by supply and demand, and, on the other, to make railways competitive in relation to other modes of transport. Reforms completed to date has created an open market in which two state-owned railway undertakings have been joined by five more private companies, as well as three industrial railway operators. This number is expected to increase, in particular for freight transport. In addition, capital investment in rail infrastructure has the effect of increasing industrial production, creating employment of domestic businesses, reducing unemployment, and, finally, raising GDP.

5. Estimated costs of implementing structural reform and estimated sources of financing

The project from IPA 2014 - "Technical Assistance to the Ministry of Construction and Infrastructure (MCTI) and state-owned railway companies in Serbia - Comprehensive Railway Reform", which began in February 2017, has been extended. As part of the extension of the project, the development of a methodology for calculating the cost of access to the railway infrastructure and a new model of access charges to the railway infrastructure were included, the value of which is estimated at EUR 300,000. Other costs relate to the estimated value of the work of additional employees, for the activities of developing and implementing the Methodology for calculating the access charges and compliance with the 4th package and amendments to the regulations related to railway safety, in the total amount of additional costs of EUR 149,960. The Railway Directorate estimated EUR 1,250 as the amount needed to hire a consultant for the implementation of the Methodology in 2021. To increase railway safety, funds have been secured from a World Bank loan for the modernization of level crossings of about EUR 11.45 million (realization planned for 2020) and activities are underway to secure World Bank funds for the modernization of level crossings in the amount of EUR 39,7 million (expected to be realized in 2021 and 2022). Also, a request was made for the transfer of the remaining funds from the existing EBRD loan (around EUR 6.6 million), while around EUR 480,000 under existing projects relates to raising the level of security at level crossings.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Increased economic activity leads to greater employment at both rail transport companies and the users of their services, which directly results in poverty reduction. Gender equality is especially taken into consideration where increased employment is concerned.

7. Expected impact on the environment

Improvements to the railways have a beneficial effect on the environment, as rail transport is considered a particularly clean and environmentally-friendly mode of transport due to its use of electricity as motive power. Rail can transport greater volumes of freight and passengers than other modes of transport for the same energy expenditure.

8. Potential risks

Risk	Probability	Planned mitigating action
Loss of freight and passenger traffic due to large-scale infrastructure works	Moderate	Better planning and communication of works by Infrastruktura Železnica Srbije, quicker completion of works, provision of alternative routes, and removal of all obstacles to eliminate delays
Delayed enactment of regulations	Low	Daily communication with consultants drafting the Methodology and concerted effort by Working Parties tasked with developing legislation

5.3.2. Area AGRICULTURE, INDUSTRY AND SERVICES

Analysis of main obstacles

The relatively high share of agricultural and food industry GVA in Serbia's total GDP (at 6.0% and 2.8%, respectively, in 2017) is partly the result of favorable natural conditions for agriculture (geographical position, natural resources, and climate), as agricultural land actually used for farming accounts for some 40% of the national territory, but is also to a great extent the consequence of low technological sophistication of other sectors of the economy.

Agriculture and the food industry accounted for some 20% of all employment in Q2 2019 (207,000 people in formal employment and 375,000 undeclared workers)[27], indicating substantial untapped potential for increased formal employment under new legislation governing seasonal

[27] Q2 2019 Labour Force Survey, SORS.

work in agriculture, forestry, and fisheries.

The value of exported processed agricultural products, meaning products with added value, rose by 1.7% y-o-y in 2018, whilst the value of **primary (non-processed) agricultural products exported** fell by 28% y-o-y, owing to the low level of the Danube River. As the Danube returned to normal water levels, the first nine months of 2019 recorded a 27.2% y-o-y increase in the value of primary agricultural products exported, whereas the value of processed products rose by 5.5% y-o-y. Although **diversification** is envisaged under Serbia's strategic framework for rural development, **infrastructure is yet to reach levels at which it is able to support a broader supply of agricultural products to the market.**

Findings of the World Bank's latest Enabling the Business of Agriculture 2017 report,[28] which ranks agriculture-friendly business environments and firms operating in the sector, reveal that Serbian agriculture holds great potential. This is the first time that Serbia has made the rankings, placing 19th (of 62 countries) for seed, 4th for fertiliser, 2nd for machinery, 40th for finance, 8th for the market, 13th for transport, 14th for water, and 12th for information and communication technology.

The low economic power of the majority of agricultural operators poses the main challenge to the development of Serbia's agriculture. Most farms and other entities in this sector are small or medium-sized and engage in extensive agriculture, without specialised production in any particular sector. Farms of up to 5 hectares in area account for 77.7% of the total number and use 25.2% of the land. Such farms are too small to be competitive either in marketing products directly in European markets or in selling raw materials for further processing. The fragmentation of estates means a significant portion of arable land goes uncultivated or is used for urban purposes, which discourages investment in agriculture, holds back productivity growth, and makes hiring more difficult. Inflows of FDIs into agriculture amounted to just 4.4% of Serbia's total FDIs in 2018, indicating that foreign investors find this sector minimally attractive.

The technical and technological sophistication of the agriculture sector is unsatisfactory, which necessitates further investment in new tractors, specialised agricultural machinery, irrigation systems, and the construction and equipping of facilities. Agricultural extension institutions mainly focus on research and development, transfer of knowledge and education of young farmers who are not engaged in a large degree of specialization of production and processing.

The poor economic position of the rural population and lack of infrastructure in rural areas have been driving out-migrations of younger people and depopulation of these regions (from 2002 to 2011, the rural population declined by more than 300,000, or 10.9%),[29] where the average age is 43.6. Support for young inhabitants of rural regions is a rural development policy that is in great demand. This measure was first introduced in 2017, when 666 projects received grants in the total amount of 453mn dinars. Another 486 projects were implemented in 2018, when 494 million dinars was disbursed in grants. The applications of young farmers for the said measure in the

[28] In the report, the World Bank examined and identified legal obstacles for businesses operating in this area in 62 countries for more than 12 areas, of which eight were assessed using both legal and efficiency indicators.
[29] Nikitović, V. *Populacija Srbije početkom 21. veka*. SORS.

previous year were open until 31 December 2019. In the implementation of national rural development support measures, as well as the accredited IPARD measures that are currently implemented, young farmers have the advantage of scoring and ranking projects / beneficiaries.

The share of irrigated areas is low (at about 3% of the total area of agricultural land in use), but irrigation systems are under construction that will bring water to an additional 47,954 hectares of agricultural land. An additional 18 projects are scheduled for implementation in the regions of Bačka, Banat, and Srem, which will allow a further 57,248 hectares of agricultural land to be irrigated; projects are also under way to construct land improvement systems that will provide irrigation in the areas of Čačak, Topola, Paraćin, and Pančevački Rit. Support for investment in physical assets held by farms, aimed at enhancing competitiveness in the agriculture sector, is also intended to increase surface areas under irrigation. The procurement of irrigation systems is supported through national rural development policies and the IPARD (Instrument for Pre-accession Assistance in Rural Development) programme.

Drought and other unfavorable weather conditions create problems for producers due to the poor efficiency of the mechanisms intended to address them, which results in sub-optimal yields. To reduce damage caused by natural disasters, the Government has been subsidising insurance premiums, and the amounts earmarked for this purpose have been increasing. The number of insured farms rose from 2,594 applications in 2006 to 22,413 in 2018 (21,467 for crop insurance and 946 for insurance), when over 680 million dinars was disbursed.

The Agrarian Budget for 2019 rose by 17% relative to 2018, with the aim of maximising potentials and enhancing infrastructure capacities. Agricultural **subsidies** (which account for 80% of the total budget) increased by 21% in 2019 on the previous year. Priorities here have included the development of irrigation systems and establishment of a food safety control laboratory and a national reference dairy control laboratory (which opened in early 2019).

Farmers face high costs for applying for subsidies[30] and must be registered with the Register of Agricultural Estates (RAE) to be eligible. Some 450,000 farms are registered, of which about 390,000 are active and as such eligible for agricultural subsidies.

The lack of applications for IPARD support, which has now been available for three years, requires a two-pronged approach to address: **encouraging agricultural operators to engage in long-term planning and investment** (to allow entities currently borderline eligible for this funding access to IPARD funds as quickly as possible), and **incentivising the private services sector** (to build the capacity of staff able to assist with the preparation of applications). A third modification of the IPARD programme was made in 2019 and was accepted by the European Commission; this streamlined procedures and introduced two new sectors (eggs and vines/wine). **A total of seven open calls for IPARD support have been advertised,** resulting in **736 applications** worth **EUR 132 million,** with the financial support requested amounting to **EUR 76 million.** Farmers were given assistance for **purchasing new machinery and equipment,**

[30] An analysis of RPG-related procedures showed that farmers spend about 4.5 hours and around RSD 1,300 for taxis to submit one application. On an annual basis, the procedures cost all farmers about EUR 2 million.

purchasing new tractors, building and equipping facilities, creating storage capacity, equipping processing facilities, and investing in renewable energy.

Most agricultural operators work independently without attempting to join forces with others, mostly due to the lack of quality management and arrangements for efficient and equal representation of shared business interests. The Law on Cooperatives ("Official Gazette of the RS", No. 112/2015) allows agricultural producers to work together and allows co-operatives to achieve greater efficiency and profits by regulating title-related issues for entities that establish co-operatives, ownership of co-operative assets, and management issues. **Concentration substantially increases options for growth of the processing industry,** which contributes to closing the production loop and increasing the volume of higher value added products.

Most trade in agricultural and food products involves primary produce, which accounted for 39% of all agricultural and food exports between January and September 2019 (processed products accounted for 61%, whilst the share of fish and fishery products was minimal, at below 1%). Over these nine months, exports rose by 12.5% y-o-y. Support is required for investments in the development of agricultural sectors in which Serbia enjoys a comparative advantage, such as fruit and vegetable growing and animal husbandry, and especially for systems that add value to these products, such as organic farming, traditional production, and protected geographical indications. **The domestic market chain is highly fragmented and insufficiently organized**, both in production and processing, with a clear shortage of organs and organizations providing adequate logistical support and needs to be improved in order to further increase the competitiveness of the agricultural and food sectors.

After recovering and assuming an upward trajectory in 2015, **industrial production began to decelerate in H2 2018 (total y-o-y industrial growth in 2018 stood at 1.3%, with manufacturing at 1.9%), and declined in the first nine months of 2019 by -0.7% y-o-y (whilst manufacturing saw a drop of -1.0%).** These poorer results are primary caused by the base effect in agriculture (which provides raw materials for the food industry), slower eurozone growth, the EU's introduction of import quotas for steel, and tariffs on products sold in the Autonomous Province of Kosovo and Metohija.

The share of industry in total GVA has been growing in recent years (mainly due to the recovery of manufacturing), however 2018 saw a slight decline to 23.8%. **Foreign direct investment in manufacturing also contributed to industrial recovery** (this sector attracted 26.5% of all FDIs in 2018, and 25.7% in the first three quarters of 2019). Employment in manufacturing rose by 3.4% y-o-y (15,117 people) from January to September 2019, which constituted 36.5% of the total increase in registered employment.

Total industry exports rose by 6.2% y-o-y between January and September 2019 (manufacturing exports increased by 6.4%, accounting for 91.7% of all exports of goods), whilst imports by industry grew by 9.0% over the same period (with manufacturing recording an increase of 9.6%). Driven by a diversified range of products, manufacturing exports saw fast-paced growth in recent years (11.6% in 2016, 13.6% in 2017, and 9.1% in 2018); 21 of the 23 segments of manufacturing recorded export growth in 2018. The slowdown in manufacturing exports in 2019 was primarily caused by lower external demand.

Limited knowledge transfer between academia and industry has been constraining technological development, resulting in low product specialisation and a sub-optimal structure of exports. Serbia is ranked 83rd of 141 countries for production process sophistication in to the World Economic Forum 2019 Global Competitiveness Report. To enhance this sector's competitiveness, Serbia must digitalise production processes and ensure industry is better able to use innovative digital and disruptive technologies, which is why this area contains higher number of structural reforms.

Considering the importance of the MSME sector and their timely awareness of the support programs available, the Entrepreneurship Portal will be activated again in February 2020, providing up-to-date information on start-up and business development programs. Government, ministries and special agencies are obliged by the decree to provide information while the LGU, the Province of Vojvodina and international partners are invited to join this important initiative and provide information on their programs.

As past **industrial policies** were **insufficiently focused on key comparative advantages and the needs of the economy,** a new industrial policy for Serbia is being prepared that will aim at laying the groundwork for transforming the economy into one based on knowledge and innovation by enhancing the business environment, supporting entrepreneurship and innovation, and fostering the development of environmentally-friendly industries with high growth potential. An Industrial Development Strategy is being drafted for Serbia, covering the period from 2021 to 2030[31]; this is based on the European Commission's Communication issued in September 2017 and relies on a set of cross-cutting policies in four areas: strengthening human capacity; digitalisation and innovation; investment and internationalisation; and the circular economy. The Strategy is being developed through public-private dialogue and continuing exchange of information between all relevant stakeholders at all stages of the drafting process, and this approach will be retained during its implementation and evaluation. The findings of the entrepreneurial discovery process undertaken for Serbia's Smart Specialisation Strategy will inform the support to be offered by future industrial policy.

Creative industries are a significant sector in the Serbian economy with a share of between 3.4% and 7.1% of GDP (depending on whether it is viewed in the narrower or broader sense), and are growing faster than the rest of the economy. This sector comprises 30,000 registered companies, employing more than 115,000 workers, almost 70% of whom are between 25 and 44 years old, half are college educated and a large number are women. The creative industries are a Government priority, and in 2018, the Creative Industries Council was established, acting through the Serbia Creates-Serbia Creats platform.

The greatest contribution to GDP growth came from increased activity in services sectors, which grew by about 4% over the past three years in aggregate. The wholesale and retail trade sectors recorded significant y-o-y growth in Q1 2019, as did motor vehicle maintenance and repair, transportation and warehousing, and accommodation and catering, at 5.8%, together with the information and communication sector, at 4.9%. Favourable trends remained in evidence in H1

[31] For more information, see Table 11, Structural Reform 6 ERP 2019-2021.

2019 in the trade sector (with an 8.5% y-o-y increase in the volume of trade) and accommodation and catering (y-o-y growth of 5.5% in the number of arrivals and overnight stays). The increased activity in services sectors is also evidenced by the employment trends in these industries, which saw growth of 15,000 in 2018 relative to the previous year.

Notwithstanding the **doubling of the services surplus (net exports**) in 2018 (EUR 1,092 million) relative to 2014 (EUR 465 million), the **services surplus as percentage of GDP remained relatively modest,** at 2.6% in 2018 (an increase of 1.4 p.p. relative to 2014). **The structure of services exports has remained unchanged over the past three years** and is dominated by four groups: tourism, transport, ICT (telecommunications, computing, and information technology), and business services, which together account for some 85% of all service exports on average. High annual growth rates of ICT services exports (30% on average between 2015 and 2018) and their increased contribution to total exports (rising from 12.8% in 2014 to 18.9% in 2018) reveal the sector's potential and its status as one of the healthiest industries. Services continued to record rapid export growth in 2019, with the first three quarters of the year seeing an increase of 17.4% relative to the same period of 2018.

Most cross-cutting policies and reforms implemented in other areas will promote the development of the services sector, given that services make up such as large part of the economy.

E-commerce is still under-represented, due to a limited increase in the number of domestic ICT users, but also owing to relatively high fees for online payment services that are the consequence of insufficient competition in this area. No more than 45.5% of all Serbian internet users shopped online in 2018 (in contrast to 60% in EU-28 countries). One explanation for this lack of confidence in shopping online is that users are unable to physically inspect the products sold. The Law on Electronic Document, Electronic Identification and Trust Services in E-business, ("Official Gazette of the RS", No. 94/2017), adopted in late 2017, laid down the groundwork for faster development of e-commerce. The new Law on Trade and amendments to the Electronic Commerce Law, enacted in July 2019 ("Official Gazette of the RS", No. 52/2019) will permit major improvements in e-commerce and in particular promote online shopping. Purchases made on Serbian and foreign web sites using payment cards and e-money are on the increase:[32] more than 7.7 million such transactions were made in 2018, an increase of 55% on 2017, when nearly 5 million transactions of this type were recorded. This positive trend continued into nine months of 2019 (with 8.6 million transactions, a y-o-y increase of 69%). **Interchange fees, a major component of card payment costs, have been reduced.** The Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions ("Official Gazette of the RS", No. 44/2018), in effect since December 2018, has allowed card processing costs to be reduced, which will also enable an increase in the number of points of sale – including online ones – that accept cards. This law has already led to a six-fold reduction in interchange fees, which are now equal to those applicable in the EU (0.2% of transaction amount for debit cards and 0.3% for credit cards). **The number of virtual points of sale has also increased,** with 741 registered in 2018 (as opposed to 652 in 2017), rising to as many as 1,061 at the end of Q3 2019. Also, the **instant payments system started to operate in October 2018** and since its inception, the instant

[32] Source: NBS, for online purchases in RSD, EUR, USD, GBP, and CHF.

payment system has been recording a steady and continuous growth in the number and value of payment transactions and an increasing number of payment service users are recognizing the benefits of the new payment system and executing their payments using that system's infrastructure. The access to these cashless payments (available 24/7, 365 days a year) is planned to be offered at merchants' points of sale, including virtual ones, giving both citizens and merchants another modern and secure online payment option. The benefits of instant payments over card payments are reflected in the lower processing fees and immediate transfer and crediting of funds to merchants' accounts.

Serbia has for years been recording a steady increase in the number of tourists. In 2018, foreign tourist arrivals saw y-o-y growth of 14.2%, with overnight stays increasing by 15.2% y-o-y. Taken together, these have resulted in greater tourism-related foreign exchange inflows, which recorded a y-o-y increase of 11.6% to EUR 1.32 billion in 2018, rising to EUR 1billion (an increase of 7.5%) in the first three quarters of 2019 (most arrivals are individuals on package holidays; business tourism accounts for a mere 1.4% of all foreign exchange inflows in this sector). At 21.5%, in 2017 the utilisation rate of Serbia's accommodation capacity was below EU-28 figures (where it stood at 27.1%). To attract more foreign tourists, Serbia needs to increase accessibility by air and land. Another challenge is the fact that tourism infrastructure is not categorised in accordance with internationally recognised quality standards.

STRUCTURAL REFORM MEASURE 5: IMPROVEMENTS TO COMPETITIVENESS OF AGRICULTURE THROUGH ENHANCEMENT OF RURAL INFRASTRUCTURE, LAND MANAGEMENT, AND REGULATION OF MARKET IN AND QUALITY OF AGRICULTURAL PRODUCTS

1. Description of measure

Action 1. Enhancement of rural infrastructure

New rural infrastructure, such as local roads, power lines, water supply networks, and environmental services (such as wastewater treatment plants and landfills) ought to promote the development of rural areas and increase the number of production and processing facilities that meet environmental standards. This action will benefit local authorities (municipalities and cities) that create preconditions for greater competitiveness of domestic agricultural producers and processors. This action is aligned with the Law on Subsidies in Agriculture and Rural Development and the Strategy of Agriculture and Rural Development of the Republic of Serbia, 2014-2024.

Action 2. Land consolidation

Partible inheritance and restitution are the main causes of the fragmentation of land parcels and agricultural holdings. Efficient land consolidation is required to address this issue, which in turn necessitates the adoption of a law specifically intended to regulate the consolidation procedure so as to facilitate communication, exchange of data, and general co-operation between the various authorities and institutions responsible.

Action 3. Regulation of the market in agricultural products

The legislative framework on organisation agricultural products market ought to comprehensively regulate all segments of the market (with a particular emphasis on the introduction of production standards), permit the establishment of producer organisations, and allow and encourage contractual relationships between all participants in the supply chain. This would enhance the security, standardisation, and consolidation of agricultural production through the establishment of producer organisations.

Action 4. Regulation of agricultural product quality

Legislation on quality schemes for agricultural products and foodstuffs will establish a system of protected geographical indications (PGIs) and traditional specialty guaranteed (TSG) designations aligned with European standards, which will allow Serbian producers to protect their PGI products in the EU as well. It will also establish a more efficient quality control system for PGI products and permit the development of national quality schemes. This action is aligned with the Strategy of Agriculture and Rural Development of the Republic of Serbia, 2014-2024.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1.1	Drafting of rulebooks required for Enhancement of Rural Infrastructure activity												
1.2	Training for staff to implement activity												
1.3	Open call												
2.1	Adoption of Land Consolidation Law and amendments to Law on Agricultural Land												
2.2	Drafting and adoption of rulebooks to govern co-operation between authorities by delineating powers of various bodies and exchange and availability of information												
2.3	Pilot land consolidation projects, depending on funds available and stakeholder interest												
3.1	Adoption of Law on Organisation of Agricultural Products Market												
3.2	Adoption of secondary legislation												
4.1	Adoption of Law on Quality Schemes for Agricultural Products and Foodstuffs												
4.2	Adoption of secondary legislation												

3. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Agricultural GVA *(source of verification: SORS, Economic accounts for agriculture)* Chain-linked volume measure, reference year 2010, EUR billion	EUR 2.1 billion (2018)		EUR 2.7 billion (2022)

National Bank of Serbia middle exchange rate: RSD 118.3 to EUR 1			
No. of staff of Department for Rural Development and Administration for Agrarian Payments trained	0 (2019)	10 staff (2020)	
No. of approved projects for Enhancement of Rural Infrastructure activity	0 projects (2020)	20 applications approved (2021)	10 applications implemented (2022)
No. of pilot land consolidation projects			5 (2022)

4. Expected impact on competitiveness

The creation of preconditions for greater investment in rural areas will improve both the competitiveness of agricultural producers and processors and the quality of life in rural communities. Better rural infrastructure will ensure better connections between rural areas and large urban centres, which will in turn permit easier and quicker access to markets and enhance all aspects of the supply chain. Enhancements to the energy distribution network will lead to improvements in processing facilities and the creation of new storage and processing capacity. Enhancements to processing capacity will permit increased volumes of primary agricultural production, which ought to provide sustainable inputs for these processing facilities. All of the above will allow greater agricultural GVA. Land consolidation will not only ensure the creation of economically more viable parcels, but will also permit the development of roads, thoroughfares, irrigation and drainage systems, and other shared facilities. Improving all aspects of the supply chain will make the value chain more efficient and so guarantee and promote best production practices and allow efficient product management. The development of quality schemes for agricultural products and foodstuffs will allow Serbian producers to protect their PGI products in the EU as well. This will further incentivise new producers to join these quality schemes and establish associations, which will directly increase the extent of production competitive in both domestic and foreign markets.

5. Estimated costs of implementing structural reform and estimated sources of financing

For the implementation of this structural measure for 2020, funds from the EU Pre-Accession Funds (IPA) are planned in the amount of EUR 206,936.

In 2021, the total funding for this measure is EUR 5,890,260. The EUR 750,000 part will be financed from EU pre-accession funds (IPA), while the source of funding for the rest will be subsequently identified.

In 2022, the total funding for this measure is EUR 8,160,984. The EUR 750,000 part will be financed from EU pre-accession funds (IPA), while the source of funding for the rest will be subsequently identified.

The costs of this measure are foreseen for increasing administrative capacity, hiring experts to draft laws and regulations, procuring hardware and software equipment and developing network infrastructure, conducting training and information campaigns, etc.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Measures designed to promote competitiveness have an indirect impact on employment and poverty reduction by allowing development of production capacity, encouraging investment, and promoting growth and improvement of supply chains and standardisation of production and processing, encouraging the creation of associations, etc. These measures are gender-neutral.

7. Expected impact on the environment

Land consolidation will permit the development of stable electricity and water supply and construction and reconstruction of the road network (practice has shown that land quality decreases when natural functions of the land are disturbed where agricultural machinery is forced to use alternative roads). These facilities, together with the projected wastewater treatment plants and landfills, will have a positive effect on all aspects of the environment (air, water, and land quality; waste management; energy efficiency; and human health).

8. Potential risks

Risk	Probability	Planned mitigating action
Potentially small number of beneficiaries with appropriate projects for Enhancement of Rural Infrastructure activity	Moderate	Continuing education and expert support extended to beneficiaries in preparing appropriate projects
Time needed to enact Law	Low	Public consultations, roundtables, and other methods for communicating with stakeholders
Resolution of title issues and complexity of solutions required for land consolidation	High	Procurement of servers and development of network infrastructure to expedite exchange of data and permit inspection of landowners' title information by relevant authorities (National Geodetic Authority, Ministry of Agriculture, Forestry and Water Management, and other bodies and institutions)
Lack of funds from central budget for implementation of pilot land consolidation projects and purchase software and other equipment required for rapid exchange of data	Moderate	Funds earmarked in central budget for duration of reform measure
Lack of staff at Directorate for Agricultural Land	Moderate	Hiring of individuals with various professional backgrounds as required to address complex land consolidation process

<u>STRUCTURAL REFORM MEASURE 6</u>: IMPROVEMENT TO MANAGEMENT OF REGISTER OF AGRICULTURAL ESTATES AND APPROVAL OF NATIONAL AGRICULTURAL SUBSIDIES THROUGH DEVELOPMENT OF *E-AGRAR* WEB PORTAL

1. Description of measure

This measure entails streamlining and digitalising applications for registration with the Farm Register (FR) and arrangements for approval of national agricultural subsidies. The RAE is an integral part of the e-Agriculture information system, and as such one of the three pillars of the Integrated Administration and Control System (IACS), which Serbia is to develop in the course of its EU accession process, and which will be used to approve all subsidies coming from EU funds.

Each farmer will manage the profile of his or her farm on the *e-Agrar* [‘e-Agriculture’] web portal, which will allow them to file for registration with the RAE, request changes, and apply for subsidies, as well as to access the status of these applications at any time.

The e-Agrar Document Management System (DMS) will automate and so greatly accelerate application processing, which will result in faster disbursement of subsidies to farmers. The e-Agrar system will link some 20 public registers, so allowing daily exchange of information between institutions, cutting application costs, partially automating application processing, and permitting timely reporting to policymakers.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Amendment of Law on Agriculture and Rural Development and adoption of rulebooks regulating online registration with FR and approval of national subsidies												
2	Finalisation of IT specification for development of e-Agrar software, vendor selection, and software development, including testing												
3	Establishment of service centers/hiring of professionals to assist farmers in the field												
4	Training of case officers/civil servants at Ministry of Agriculture, Forestry and Water Management, Administration for Agrarian Payments, and service centers/professionals hired to assist farmers												
5	Training of farmers at all 145 local authorities and development of educational and promotional materials aimed at farmers												

6	Mentors' visits to service centers and farmers to provide assistance in using software and clarify legal framework												
7	Establishment of call center to assist users of e-Agrar information system												
8	Assistance to users of e-Agrar information system via call center												
9	Functional assessment of e-Agrar information system												
10	Upgrades to e-Agrar information system informed by findings of assessment												

3. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Cost of filing one application (85% reduction in application costs)	1,300 (2018)		195 (2022)
Law on Agriculture and Rural Development amended. Secondary legislation adopted.	0 (2020)	/	2 (2021)
Service centers established/professionals hired to assist farmers	0 (2020)	/	≥ 100 (2021)
No. of case officers trained	0 (2020)	200 (2020)	600 (2021)
No. of training sessions and farmers' information days organised	0 (2020)	/	150 (2021)
No. of farmers trained	0 (2020)	/	5,000 (2021)
No. of staff at service centers/professionals trained	0 (2020)	100 (2020)	200 (2021)
No. of queries answered orally and in writing via call center	0 (2020)	5,000 (2021)	8,000 (2022)

4. Expected impact on competitiveness

Considering the insufficient connection between the available public registers which slows down the processing of applications, leads to delays in disbursing of incentives to farmers and directly affects farmers' competitiveness, optimization and digitalisation of these procedures is envisaged, which will significantly accelerate the submission and processing of applications for incentives. The reform measure will have the following effects:

- Automation at the AAP will significantly accelerate application processing and disbursement of subsidies whilst also freeing up staff to control how the subsidies are used.
- The Ministry of Agriculture will be able to access up-to-date and timely reports required for agricultural policymaking.
- Inspectors will be able to assess risks and undertake official controls in the field more effectively using information from the e-Agriculture system.
- Farmers will see an 85% reduction in the time and money spent on filing applications whilst also being able to access all information about their estates and the status of subsidies applied for and approved.

As the FR is one of the three key pillars of the IACS, to be developed by Serbia in the course of its EU integration process and used to approve all subsidies coming from EU funds, it is imperative to create an appropriate framework for keeping records on the number and activities of agricultural estates to properly inform policymaking in this area.

5. Estimated costs of implementing structural reform and estimated sources of financing

It is estimated that the total cost of development of software, as well as preparing to amend the regulations to implement the reform, would be EUR 1,000,000 through a World Bank loan.
In addition to software development and its implementation, funding needs to be provided for both request processors and farmers, especially in the early years of reform. It is estimated that EUR 400,000 will be provided for the training, mentoring visits and call center organization, as well as other forms of support to key reform actors, which will be provided from donor funds. Also, one year after implementation, an analysis of the system's functioning and further improvements of the software solution is planned based on user comments. The funds for the estimated cost of the analysis and software upgrade is EUR 100,000 and will be provided from donor funds.

To assist farmers in using the e-Agrar portal, it is envisaged to set up on-site service centers. The final decision on the modality of service centers will be made in the future and may affect the cost of salaries.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Serbia's agriculture sector employs 450,000 people, 16% of the total workforce, so this measure has the potential to increase employment in this area, as well as reduce business costs, reduce poverty, the gray economy and increase social security. A direct impact on the gender aspect cannot be expected because the reform is gender neutral.

7. Expected impact on the environment

Changes to how farmers register with the FR will not directly contribute to environmental protection. That being said, the indirect impact will come from savings of paper, fewer printed forms, etc. By linking together more than 20 public registers/databases, the e- Agrar system should permit administrative control of compliance with environmental protection standards applicable to farming.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Failure to link all relevant registers and databases into e-Agrar system	Moderate	Functional specification to be informed by diagnostics of all inventoried registers and databases to be linked into e-Agrar system
Farmers' resistance to online procedures	High	Farmers to receive assistance through service centers in the field. Farmers to also receive support through training, mentoring visits, and a call center

5.3.3. Area BUSINESS ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY

Analysis of main obstacles

Serbia has advanced by four positions in the **World Bank's Doing Business 2020** rankings relative to last year, and is **now in 44th place** of 190 economies. Apart from Croatia, Serbia is the only country in the region[33] to have made progress, and has now been one of the world's top 50 economies by ease of doing business for three consecutive years. Serbia is ranked best for *dealing with construction permits* (9th globally, having risen by two places), primarily due to its introduction of an online construction permitting (e-permitting) system. *Protecting minority investors* saw the greatest progress in the past year, with Serbia leaping ahead by 46 positions (to 37th place) after introducing external audit requirements and mandating disclosure of transactions by related parties, as well as demanding greater corporate transparency. In *resolving insolvency*, where Serbia has advanced by 8 places (and is now ranked 41st), the country made improvements by requiring creditors to appoint a representative in the event of insolvency (who would have access to information about the debtor's financial situation). *Getting electricity* (where Serbia rose by 10 places and is now ranked 94th) was made easier given the greater reliability of supply owing to grid improvements and better maintenance.

Serbia is ranked **72nd** of 141 economies in the 2019 **Global Competitiveness Index,** having slid by 7 positions relative to the previous year. Although the value of the Global Competitiveness Index has remained the same, progress made by other economies has worsened Serbia's relative position in these rankings. Investing in human capital, improving institutions, enhancing innovation capacity, and creating environments in which businesses can thrive will best enable countries to overcome adverse global trends.

The Serbian business environment remains fraught with numerous unnecessary costs and complicated administrative procedures faced by businesses, all of which constrain investment and SME growth. **December 2018 saw the adoption of the Law on Charges for Use of Public Resources** ("Official Gazette of the RS", No. 95/2018), which consolidates all charges payable for the use of natural resources and public goods (hitherto governed by 19 separate pieces of legislation). Intending to streamline administrative procedures and other requirements for businesses,[34] in July 2019 the Government adopted the **CutAP initiative, formally the Programme to Simplify Administrative Procedures and Regulations,** 2019 to 2021 – **ePaper**, and the **Action Plan to implement the ePaper Programme** that envisages specific policies to achieve these goals. Streamlining administrative procedures and eliminating unnecessary requirements is projected to reduce administrative costs to 3% of GDP by 2020. **The administrative burden on businesses in Serbia stands at 3.26% of GDP** (according to research undertaken in 2016 by the National Public Policy Secretariat and the USAID Business Enabling

[33] In the region, North Macedonia (in 17th place) and Slovenia (37th) are ranked better than Serbia.
[34] To date, the CutAP initiative has resulted in 1,850 recommendations for optimisation of administrative procedures (through either streamlining and/or elimination and digitalisation), of which 4 were eliminated in 2019 and recommendations for simplification of 42 procedures were fully implemented. Total annual savings for businesses are estimated at over 4bn dinars.

Project), down 19.9% relative to 2010 (when it had been 4.07% of GDP).

Access to finance for SMEs and sole traders has been improving. This view is borne out by findings of a survey administered by the National Bank of Serbia, which indicate MSME borrowing grew by 12% in 2016; borrowing by SMEs and sole traders as a percentage of overall borrowing by businesses rose to 31.2% (from 28.5% in 2015); and, finally, interest rates have been falling and repayment periods increasing in length, coupled with greater loan ceilings and less strict collateral requirements. Falling interest rates were primarily caused by the relaxation of monetary policy, low interest rates globally, lower country risk premiums, and increased competition between banks. **The legal framework for financial services has been improved** with the enactment of the Law on Open-Ended Investment Funds with a Public Offering ("Official Gazette of the RS", No. 73/2019) and the Alternative Investment Funds Law ("Official Gazette of the RS", No. 73/2019), which permit access to alternative sources of finance.[35]

Serbia's shadow economy contracted between 2012 and 2017, according to the findings of the NALED study.[36] Informal trade in goods and illicit payments of wages by registered businesses fell to 15.4% of GDP in 2017 from 21.2% in 2012.

Effective and organised efforts undertaken by inspection bodies and the Tax Administration to address informal business resulted in an **increase in overall tax revenue by 4.8% in real terms** in 2018 across all revenue categories: national insurance contributions (9.2%), VAT (4.3%), excise duties (7.3%), and personal income tax (6.5%). Increased efficiency in the collection of mandatory social insurance contributions made a major contribution to the growth of public revenues in absolute terms (here, all social insurance funds collected more revenues than previously, with the Pension and Disability Insurance Fund performing the best).

Ongoing **reforms of the Tax Administration** are a key factor in increasing public revenues and enhancing public financial management. The shift to **digital operations** is a major component of this reform: here, taxpayers have been able to file returns online for all taxes administered by the Tax Administration via the ***e-Porezi*** ('E-Taxes') web portal since 1 January 2018. Taxpayers can also access their tax balances on the e-Porezi web site, and tax clearance certificates have also been available online since 1 March 2019.

The Government of Serbia had declared **2017 and 2018 'years of combating the informal economy'**, and April 2019 saw the adoption of the **National Programme for Countering the Shadow Economy, 2019/2020,** and the Action Plan for its implementation. This document, a revision of the previous National Programme dating from 2015, envisages continuing enhancement of inspections bodies, stricter penalties, and greater efficiency in collecting tax revenues. ***E-Inspektor*** ('E-Inspector'), a single information system that will integrate 43 inspections bodies, came online in July 2019; this network will vastly improve co-ordination between these services and so make official controls more effective. **A contact center for reporting informal economic activity** is planned to be established by the end of 2019. A three-year action plan for hiring additional inspectors has been drafted and adopted: it calls for 784 supplementary inspectors, with 280 new officers to be hired by late 2019.

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[35] Joint Conclusions of the Economic and Financial Dialogue, May 2019, recommendation 4: 'Adopt specific legislation on the alternative investment vehicles.

[36] Source: *Siva ekonomija u Srbiji 2017: Procena obima, karakteristike učesnika i determinante.* NALED.

A real estate cadastre updated in real time is required to improve the business environment and shorten title registration procedures. It is also necessary to establish an up-to-date address register on the territory of the Republic of Serbia. The efforts to digitalise the real estate cadastre were launched in late 2017. The **Law on the Procedure of Registration in the Cadastre of Real Estate and Utility Lines** *(*"Official Gazette of the RS", No. 41/2018*)* mandates that notaries public, enforcement officers, courts, government bodies, local authorities, and other entities whose statutory powers include making decisions or drafting or confirming instruments that constitute legal grounds for registration of title, submit those decisions or instruments to the real estate cadastre to allow it to update its own records. Time limits for submitting the documents have been shortened, as have periods within which the cadastre is required to act. Applications for registration with the cadastre are filed online via the ***E-Šalter*** ['E-Window'] function. Notaries and courts must deliver tax returns to the National Geodetic Authority (NGA), which is in turn required to forward them to the central Tax Administration and local authorities' tax administrations. These arrangements have reduced the number of procedures from 6 to 2. Greater efficiency of the real estate cadastre and its timelier updates, coupled with easier and quicker property registration procedures, will improve Serbia's position in the World Bank's Doing Business rankings. Improving this area will also improve taxation of real estate, which would significantly contribute to fiscal stability.

Serbia's economy is currently mainly linear, and its resource utilisation efficiency needs to be improved. The circular economy concept promotes efficient use of resources through innovative design, recovery of everything suitable for reuse, and greatest possible utilisation of renewable energy. The circular economy requires changes throughout the entire product value chain, from product design to business and market models, new ways of turning waste into resources, more use of renewables and greater energy efficiency, changes in the behavior of product users and consumers, and so on.

Serbia is required to greatly increase investment in environmental protection, with estimates calling for some 8.5bn euros to be spent for these purposes over the coming ten years. Here, expenditures must increase from the current level of between 0.3 and 0.4 percent of GDP to at least 1.2 to 1.4 percent of GDP if the country is to meet standards in this field.

<u>STRUCTURAL REFORM MEASURE 7</u>: SIMPLIFICATION AND ELIMINATION OF BUSINESS PROCEDURES: ePaper (CUTAP INITIATIVE)

1. Description of measure

The ePaper, designed to simplify administrative procedures and regulations, is a multi-year structural reform measure intended to enhance the business environment in Serbia by employing a regulatory guillotine approach to simplify and digitalise administrative processes and establish a single public register of these procedures. This programme will also meet the requirement to establish a Point of Single Contact (PSC) as defined in the EU Services in the Internal Market Directive (2006/123/EC), envisaged for transposition into national law by Article 59 of the SAA.

This measure has been operationalised through numerous policy documents, including the Strategy for Support to Development of Small and Medium-Sized Enterprises, Entrepreneurship and Competition, 2015 to 2020; Strategy of Regulatory Reform and Improvement of the System of

Managing Public Policies, 2016 to 2020; and Programme to Simplify Administrative Procedures and Regulations, 2019 to 2021 - ePaper.

These reforms commenced in 2016. To date, 2,500 procedures have been inventoried and fully described, and a methodology has been drafted to simplify procedures and calculate their costs to businesses. Four procedures have been eliminated and 42 administrative procedures were completely simplified, resulting in annual savings for businesses of more than EUR 30 million. Harmonised recommendations to simplify 592 procedures administered by 24 public authorities are being put into effect (an Action Plan for their implementation has been adopted), and preparations are under way to digitalise an initial group of 27 procedures.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Optimisation of administrative procedures												
2	Digitalisation of administrative procedures												
3	Adoption and implementation of action plans to simplify administrative procedures												
4	Adoption of legislation to establish Single Register of Administrative Procedures												
5	Establishment of Single Register												

3. Performance indicators

Indicator	Baseline (2016)	Intermediate target (year)	Target (2020)
Total administrative costs as percentage of GDP	3.26%	-	3%

4. Expected impact on competitiveness

Based on an assessment of at least 50% of the most common and costliest administrative procedures and proposals for their simplification, optimisation, and possible elimination, administrative costs to businesses are expected to decline by between 15 and 20 percent. Competitiveness will also be promoted by the establishment of a single register and web portal that will allow businesses to access all information necessary for procedures administered by public authorities, which will contribute to a more secure, transparent, and predictable business environment. The availability of all information in a single location will also save businesses time and money and will reduce scope for corruption.

5. Estimated costs of implementing structural reform and estimated sources of financing

The implementation of the reform is mostly funded by donor funds (European Union-IPA, UK Government Good Governance Fund - GGF and German Development Assistance - GIZ) totaling EUR 1.7 million. These funds will finance the drafting of a law prescribing the establishment and functionality of the Registry, drafting recommendations for optimizing administrative procedures and digitizing a minimum of 100 selected procedures. The mentioned activities, as well as the creation of a platform for digitization and establishment of the Register, will also be financed from the budget of the Republic of Serbia in the amount of EUR 1.1 million.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

An indirect impact is expected on employment through a reduction in the costs that businesses incur in meeting administrative requirements, and the savings made may result in job creation. No direct impact on gender is likely as the measure is gender-neutral.

7. Expected impact on the environment

The optimisation and digitalisation of administrative procedures will significantly reduce the use of paper documents, which will positively affect the environment.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Delays in designing software for Single Register and PSC	Moderate	Making Register available on e-Government web site

STRUCTURAL REFORM MEASURE 8: TRANSFORMATION OF TAX ADMINISTRATION

1. Description of measure

The Tax Administration has embarked on comprehensive reforms, as envisaged in its Transformation Programme, 2015 to 2020. The objective of this process is for the Tax Administration to transform itself into a modern and efficient tax administration authority, allow taxpayers to do business more easily and predictably, and permit better communication between taxpayers and the Tax Administration.

The Transformation Programme Action Plan, 2018 to 2023, and the Decision on Core and Non-Core Activities of the Tax Administration were both adopted in December 2017, enabling the Tax Administration to focus on a core set of tax-related activities and the first stage of consolidation of its field offices.

The Tax Administration Modernisation Project (TAMP) consists of four components:

I. Legal environment. This component aims to address a range of constraints in the overall legal environment to ensure effective management and improve tax compliance.

II. Organisation and operation of the Tax Administration. This component will primarily provide assistance for reforming the human resources management function, business process re-engineering, implementing an effective tax compliance management system, and modernising taxpayer services.

III. Modernisation of ICT system and records management. This envisages modernising the ICT system and infrastructure, enhancing data processing capacity, and clearing the backlog of paper records.

IV. Change and project management.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Business process re-engineering to introduce best global practices into Tax Administration operations												
2	Continuing development of IT platform												
3	Set of activities envisaged in TAMP Procurement Plan												
4	Introduction of modern records management system based on comprehensive information governance model												
5	Preparations for second phase of consolidation of field offices												
6	Procurement of systems for new ICT platform												

3. Performance indicators

Indicator	Baseline (2015)	Intermediate target (2018)	Target (2022)
No. of newly registered taxpayers in calendar year, %	112.93	104.67	111.99
Increase in newly discovered revenue by year, %	131.3	151.9	109.2
Collection ratio,[37] %	103.9	104.2	101

4. Expected impact on competitiveness

The Transformation Programme will indirectly promote the competitiveness of Serbian businesses. Automated/online, simpler, and free-of-charge tax procedures will result in savings for businesses, which will allow them to focus more on improving the quality of their products and services, so enhancing their competitiveness.

5. Estimated costs of implementing structural reform and estimated sources of financing

Realization of activities aimed at reforming the Tax Administration will be implemented in the coming period and will be financed from the credit line approved by the Law on Ratification of the Loan Agreement (Tax Administration Modernization Project) between the Republic of Serbia and the International Bank for Reconstruction and Development ("Official Gazette of the RS - International Treaties", No. 6/2019).

In 2020, reengineering of business processes (consulting services), further development of the information systems platform (procurement of equipment and software and capital expenditures) and a set of activities planned by the TAMP Procurement Plan will be implemented. The first and third reform activities will be financed from the World Bank credit line, while the second activity will be financed partly from the budget and the second part from the World Bank credit line.

[37] This indicator is the ratio of key public revenues collected in a given year to the amounts planned in the budget for that year.

In addition to the 2020 activities, which will continue to be implemented in 2021, financed partly from the budget and mostly from the credit line, the introduction of a modern records management system will be implemented through a comprehensive model of information management, financed from the World Bank Credit Line, as well as preparing for the second phase of business network consolidation.

In 2022, in addition to the aforementioned activities from previous years, which will continue to be implemented, the procurement of systems for the new ICT platform will be implemented.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Greater efficiency of the Tax Administration will make assessing and paying taxes simpler, more predictable, more consistent, and less costly, which will contribute to creating a level playing field for all stakeholders. Clear tax rules will encourage members of the public to start their own businesses, so promoting employment and overall development. Greater revenue collection will allow more spending on social security, education, and health. The reform measure will impact both genders equally positively.

7. Expected impact on the environment

As part of preparations for loan approval, in December 2018 the consultant submitted the final Environmental and Social Management Framework document for the TAMP project, which assessed environmental impacts.

8. Potential risks

Risk	Probability	Planned mitigating action
Delays to new legislation governing ICT issues and Tax Administration reforms or failure to enact amendments to current regulations	Moderate	Closer co-operation with Ministry of Finance (Fiscal System Department) and Office of IT and E-Government
Lack of co-ordination / communication between government authorities	Moderate	Improved co-ordination / communication between government authorities; establishment of Working Party for Transformation
Taxpayer mistrust due to fear of innovations	Moderate	Education and awareness-raising for taxpayers via Taxpayer Services and Education Department at Tax Administration
Lack of ICT resources and skills to implement reform	High	Hiring of new ICT specialists and closer co-operation with Strategic Project Implementation Unit
Lack of human resources and knowledge required by new and reformed Tax Administration	High	Hiring and training of new staff for under-staffed functions planned for 2020

STRUCTURAL REFORM MEASURE 9: IMPROVEMENT OF GEOSPATIAL SECTOR THROUGH DEVELOPMENT OF DIGITAL PLATFORM IN SUPPORT OF DECISION-MAKING FOR INVESTMENTS

1. Description of measure

The establishment of a strategic digital geospatial platform will allow combined data sets to be made available online and shared simply, quickly, and efficiently, which will in turn permit members of the public and businesses to easily and conveniently identify and access data needed for making sound investment decisions.

This measure entails updating the address register for the entire territory of Serbia; developing the regulatory and strategic framework for National Spatial Data Infrastructure (NSDI); enhancing the National Geospatial Platform (NGP) by making new data sets available and developing services; and aligning and merging data held by the real estate cadastre and local authorities to permit the development of a prototype mass valuation system. This measure is directly related to objectives set out in the Strategy of Measures and Activities for Increasing the Quality of Services in the Area of Geospatial Data and Registration of Property Rights in Official Government Records – Reform Path of the NGA to 2020 (“Official Gazette of the RS”, No. 8/2017).

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Adoption of byelaws to regulate NSDI												
2	Development and provision of geospatial data services												
3	Alignment, merging, and consolidation of data held by real estate cadastre and pilot local authorities to develop prototype mass valuation system												
4	Development of prototype mass valuation system and establishment of procedures at pilot local authorities												
5	Updating of Address Register for Serbia												
6	Establishment of data interoperability between Address Register and government bodies and organisations and local authorities												

3. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2019)	Target (2022)
Property tax revenue as percentage of GDP	0.80	/	0.95 (2021)
Degree of alignment between data held by real estate cadastre and local tax administrations at pilot local authorities, %	/	/	100% (2021)
No. of local authorities with updated Address Registers	19 (12%)	71 (45%) (Q3 2019)	161 (100%) (2020)
No. of NSDI services available	30	37	45
No. of data sets available	205	225	250

4. Expected impact on competitiveness

By enhancing the efficiency of decision-making for investment purposes, making information more accessible, and providing advanced solutions for R&D institutions and businesses, the NSDI will exert an indirect influence on GDP growth. Development of a mass valuation system will entail the identification of all real estate, development of a mass valuation model, and collection of basic information (i.e. registration) of all real estate in Serbia. This is expected to have a direct impact on an increase in the amount of property tax revenue as percentage of GDP from 0.8 to 0.95 percent (in 2021). An indirect impact on GDP growth is also expected as this effort will aid SMEs by reducing the cost of capital and facilitating borrowing for investment.

5. **Estimated costs of implementing structural reform and estimated sources of financing**[38]

The Land Administration Improvement Project foresees developing a prototype system for mass real estate appraisal of around EUR 2.5 million. All expenditures (excluding salaries of full-time RGZ employees) are financed from the World Bank loan related to the procurement of goods and services in 2020.

The estimated costs of activities on the Address Registry Update Project are approximately EUR 281,000 are financed from the RS budget and are related to the procurement of goods and services in 2020.

The estimated costs for the implementation of the NSDI activities are around EUR 1.1 million and are financed from the World Bank loan and the RS budget, and are related to additional employee engagement (six in 2020 and six in 2021) and the procurement of goods and services in the period 2020-2022[39].

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

No impact is expected on gender and equality. Benefits for SME development may create highly indirect effects on employment and poverty reduction, though these cannot be forecast with certainty.

7. Expected impact on the environment

National Spatial Data Infrastructure will facilitate access to environmental information by making these data publicly available, and will remove obstacles to the exchange of such information between public authorities. This data exchange will make it possible for the relevant bodies to respond more rapidly to natural disasters. Development of NSDI is subject to the National Environmental Approximation Strategy (adopted in September 2011).

[38] All estimated costs relate to the base year 2019.

[39] An amount of EUR 1 million (500,000 in 2021 and 500,000 in 2022) for the implementation of NIGP activities will be available only after the signing of an additional financing agreement with the World Bank for the Land Administration Improvement Project in Serbia, expected to be signed in 2020.

8. Potential risks

Risk	Probability	Planned mitigating action
Failure to fully staff NGP Unit	Moderate	Vacancy advertisements to be issued at later date to ensure all remaining positions are filled; staff to be hired on temporary contracts
Inadequate communication with local authorities and lack of data to implement pilot projects	Moderate	Cadastral property identification to be implemented by local tax administrations
Prototype mass valuation system threatened by complexity of service-based communication between multiple ICT systems; requirement to develop multiple ICT systems simultaneously; and insufficient capacity to fully develop methodology and systems	Moderate	Working Party to be established and progress to be constantly monitored; time limits to be set for related activities and appropriate training in various topics to be offered for staff
Failure by local authorities to assign street names in due time and notify NGA to allow house numbers to be allocated or re-allocated	High	All project stakeholders to be required to regularly notify NGA of status and progress, and to submit specific reports as required by Government's Address Register Enhancement Co-Ordinating Body. NGA to forward consolidated weekly report to Working Party tasked with monitoring progress on Address Register project for publication on MPALG web site

STRUCTURAL REFORM MEASURE 10: ESTABLISHMENT OF SUSTAINABLE SYSTEM FOR FUNDING ENVIRONMENTAL PROTECTION

1. Description of measure

Environmental protection is a pillar of the Union *acquis* and one of the costliest and most complex and intricate chapters in Serbia's EU accession negotiations. The development of an effective system to fund environmental protection is one of the seven goals set out in the National Environmental Protection Programme and is a precondition for achieving environmental standards in effect in developed European countries. This measure entails the establishment of a sustainable financial, legislative, and institutional framework that will ensure predictability, stability, and continuity of investment in environmental protection. Actions commenced in 2019 to identify, harmonise, and adopt measures and activities with the aim of establishing a sustainable system for funding environmental protection. Until such time as a sustainable funding system is put into place, environmental programmes and projects will be financed from the budgetary Green Fund.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Identification and adoption of measures and activities to establish sustainable system for funding environmental programmes and projects												
2	Implementation of measures and activities designed to establish institutional, legislative, and organisational framework for sustainable system for funding environmental protection												
3	Achievement of full functionality of sustainable system for funding environmental protection												

3. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Funds disbursed from budgetary Green Fund, RSD billion	2.9 (2018)		7.0 (2022)
Legislative and institutional framework for funding environmental protection established	0 (2019)		1 (2022)

4. Expected impact on competitiveness

This measure will have a short-term effect on GDP growth. According to estimates made in 2018 by the Fiscal Council, an increase in public investment in environmental protection to 1.3% of GDP (from the current 0.3 to 0.4 percent of GDP) would add 0.5% to GDP growth in the short term. Greater investment in environmental protection could also increase overall public investment which would raise the share of investment in total public expenditure. Increased public investment will ultimately enhance competitiveness by raising environmental standards and promoting the circular and green economy. Much of this investment will go into construction, water piping, and other works, which is likely to have a multiplier effect on the economy as a whole.

5. Estimated costs of implementing structural reform and estimated sources of financing

In 2020, activities under this structural reform are envisaged to be implemented through the support of the IPA project. Costs for 2021 and 2022 can be estimated once the necessary measures and activities have been identified to set up the system.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Greater employment is expected in consequence of the development of the circular and green economy and increased GDP growth, with the exact impact depending on the amount of public investment. Ultimately, there will be an increase in the quality of the environment and quality of life for all members of the public, both women and men.

7. Expected impact on the environment

An effective framework for funding environmental protection is one of the key elements of an integrated environmental management system and has a direct impact on the attainment of strategic environmental objectives and relevant standards.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Failure to align positions of relevant government authorities over optimal mechanisms and arrangements needed to develop efficient system for facilitating environmental programmes and projects	Moderate	Working Party has been established that brings together all relevant institutions and relies on data, analyses, and experiences of other comparable countries

STRUCTURAL REFORM MEASURE 11: INTRODUCTION OF CIRCULAR ECONOMY CONCEPTS THROUGH DEFINITION OF STRATEGIC FRAMEWORK

1. Description of the measure

As a candidate country for EU membership, Serbia is required to harmonise its national legislation with the Union *acquis* and transpose all outstanding EU environmental directives into national law. Transitional periods for implementation will be defined in the course of the negotiations. From 2015 to 2019, the EU drafted a number of documents to facilitate transition by Member States from a linear to a circular economy, including ‘A zero waste programme for Europe’, the Circular Economy Action Plan, and ‘A European strategy for plastics in the circular economy’. May 2018 saw the adoption of a package of new directives that amended targets for the recycling of municipal and packaging waste and waste disposal. The latest directive, enacted in June 2019, addresses single-use plastics and fishing gear, which have lately been identified as a serious issue for marine ecosystems. In December 2019 the European Commission presented the Green Deal, a new development strategy whereby the European Union undertakes to make Europe the first climate-neutral continent by 2050. The EU is committed to doing all it takes to build a society that will promote industrial development whilst ensuring both social welfare through job creation and environmental conservation. A new Circular Economy Action Plan will be drafted as part of the Green Deal that will call for greater sustainability of products and accompany a new industrial policy strategy.

Since the circular economy is a cross-cutting topic, the structural reform measure designed to allow its introduction is aimed at promoting economic development whilst safeguarding the environment and human health. The introduction of circular economy concepts in policy documents in the relevant fields (finance, business, energy, waste management, public procurement, etc.) may contribute to greater employment as a result of increased MSME creation, new technologies and innovation, reduced pollution and better human health, etc.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Drafting of enabling policy documents for circular economy												
2	Implementation of activities envisaged by Action Plan to introduce circular economy concepts*												

* Funds to implement the Action Plan in 2021 and 2022 will be determined in 2020.

3. Performance indicators

A policy document addressing the circular economy will be drafted in 2020 that will provide guidance for the introduction of circular economy concepts. An action plan will be enacted as part of this policy document to define activities that will be implemented over a three-year horizon (2021 to 2023), indicators to monitor and evaluate objectives, authorities responsible for implementation, and the amounts of funding and relevant financial arrangements.

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Public policy document addressing circular economy and accompanying action plan drafted	0 (2019)	-	1 (2020)
Activities implemented to introduce circular economy concepts pursuant to action plan	0 (2020)	1 (2021)	2 (2022)

4. Expected impact on competitiveness

This reform measure will promote GDP growth in the short, medium, and long term. The notion of circular economy envisages savings in terms of resources and energy and encourages business growth. The circular economy leads to new investment into systems that use waste as a resource and wastewater treatments that utilise sludge, increases the use of renewable energy, encourages energy efficiency, and fosters green procurement. Businesses that transition from a linear to a circular economy gain in competitiveness as new production methods encourage efficiency in the use of raw materials and energy and reduce waste, which in turn leads to long-term savings.

5. Estimated costs of implementing structural reform and estimated sources of financing

In 2020, it is envisaged that the drafting of a public policy document for the circular economy will be financed from the budget of the Republic of Serbia. Costs for 2021 and 2022 will be estimated when the 2020 Action Plan is drawn up. It is envisaged that the funds for financing the activities from the Action Plan will be provided from the budget of RS, EU funds and international donations.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Employment is expected to increase due to the development of the circular economy and greater GDP growth, depending on the size of public investment required to introduce the relevant concepts. Job creation in the circular economy may promote the employment of vulnerable groups and women. The end results of this measure are enhanced quality of the environment and quality of life for all members of the public, both women and men.

7. Expected impact on the environment

The introduction of circular economy concepts will have a direct bearing on the attainment of strategic objectives and applicable environmental standards in the short, medium, and long term. The circular economy is a key tool to achieve the Sustainable Development Goals envisaged in the UN's 2030 Agenda.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Failure of other relevant sectors to acknowledge structural economy concepts and failure to include these issues in policy documents governing relevant areas (waste management, renewable energy, energy efficiency, procurement, chemicals management)	Moderate	A multi-departmental Circular Economy Group has been established that brings together all relevant ministries, institutions, and international organisations (UNDP, GIZ, and OSCE) and is tasked with assisting in development of structural framework for circular economy

5.3.4. Area RESEARCH, DEVELOPMENT AND INNOVATION AND THE DIGITAL ECONOMY

Analysis of main obstacles

Notwithstanding the increases made in recent years, investment in research and development (R&D) remains inadequate for Serbian researchers to join European and global networks. Serbia's total R&D expenditure amounted to 0.92% of GDP in 2018 (up 0.05 p.p. on the previous year), half the EU-28 average (at 2.06% of GDP in 2017). In 2018, 39.1% of R&D investment came from the private (non-financial) sector, an increase of 2.4 p.p. on 2017 (at 36.7%), but still well below the EU-28 average (66% in 2017). That being said, private investment is likely to increase, as businesses have since January 2019 been able to claim corporate income tax deductions for investment in R&D or innovative products made in Serbia. The Science Fund Law ("Official Gazette of the RS", No. 95/18) and the Science and Research Law ("Official Gazette of the RS", No. 49/19) are expected to further regulate R&D funding. The EC also sets out increased national funding for research as a priority for Serbia in this regard.[40]

Serbia has significant potential for R&D, which should be fostered and leveraged more appropriately. Nevertheless, **R&D is relatively poorly applied for business,** as reflected in Serbia's low ranking in the 2019 Global Competitiveness Report, where Serbia is placed 80th (of 141 economies) for university-industry collaboration. To enhance co-operation between academia and businesses, an entrepreneurial discovery process took place from March to May 2019 as part of the drafting of the Research and Innovation Strategy for Smart Specialisation, which was also

[40] Serbia 2019 Report, European Commission, p. 82.

useful for the preparation of the Industrial Strategy[41]. This effort involved 17 regional workshops with the public sector, R&D institutions businesses, and civil society organisations that defined priorities for future investment, namely ICT, food for the future, creative industries, and machines and production processes of the future. The Research and Innovation Strategy for Smart Specialisation,[42] informed by the latest findings, is in preparation for an expected adoption date of early 2020.

The key innovations envisaged as part of Serbia's **reforms to the organisation and financing of R&D activities** are **the introduction of institutional and competitive project financing** and the creation of the **Science Fund,** both of which will regulate and enhance support for R&D. The Science Fund will be responsible for advertising and managing competitive open calls for applications. In June 2019, the Fund advertised its first open call for applications for project finance as part of the Programme for Excellent Projects of Young Researchers (PROMIS). This programme aims at funding outstanding projects proposed by young researchers at early stages in their career development, and allows young PhD holders to structure their own research programmes, assemble their own teams, and work with laboratories and research facilities in Serbia and abroad. In November 2019, the Science Fund launched an initiative for Serbian scientists to collaborate with the Serbian community abroad and the Artificial Intelligence Development Programme, with an Ideas Programme in preparation. Apart from changes to how R&D is financed, a great deal has been done to make young people more involved in the scientific community, with over 1,100 young researchers taken on board to work on ongoing projects. Research and development institutions must be strengthened to enhance R&D activities ensure they are able to make a greater contribution to development.

With the adoption of the **Strategy for the Development of Artificial Intelligence in the Republic of Serbia for the period 2020 - 2025**, in December 2019, Serbia became the first country in Southeast Europe, and only the 26th country in the world, which has recognized the importance and potential of artificial intelligence and set goals and corresponding measures for its development. The focus of the Strategy is on economic growth, improvement of public services, and strengthening of scientific staff as well as development of skills for the jobs of the future. Bearing in mind that artificial intelligence has the potential to double global economic growth rates over the next fifteen years, the Republic of Serbia seeks to position itself as a leader in the region and provide a basis for continued progress. The process of detailed elaboration of the Action Plan, which is aimed at specifying the upcoming activities and indicators, includes experts from industry, academia, civil society and state institutions.

From March 1, 2020, newly established companies engaged in innovation have the possibility of exemption from payment of taxes and contributions based on the earnings of the founders, who are employed by the company, for a period of 36 months, for salaries of a maximum of RSD 150,000 gross.

[41] Recommendation (PG) 2019

[42] The strategy was developed with the support of the European Commission and in compliance with the smart specialization methodological framework developed by the Joint Research Centre for enlargement and neighborhood countries.

Bearing in mind that the payment of employees through ownership participation is increasingly present in young companies, as of January 1, 2020, there is a new mechanism for rewarding employees, management and third parties (investors, consultants, etc.) in a limited liability company (LLC). A new financial instrument has been introduced - the right to acquire shares issued by a LLC and reserved own share, as a new legal institute, for the purpose of issuing a new financial instrument. The Law on Public Procurement recognizes an innovation partnership, which aims at developing innovative goods, services or works and their subsequent procurement, which facilitates and stimulates cooperation between state institutions and innovative companies.

The government has been providing support through the Innovation Fund in co-operation with international donors aimed at securing greater investment. The Fund pursues a number of highly significant activities that have enshrined the government's long-term institutional support for innovative entrepreneurship, in collaboration with international financial institutions, and that have in recent years benefited from substantial financing from both the Serbian side and the EU's IPA funds. The Innovation Fund has continuously been advertising open calls for projects promoting co-operation between R&D institutions and businesses: to date, a total of 155 projects have received assistance amounting to EUR 23.7 million through 514 'innovation vouchers'.

Investment in innovation infrastructure will create an enabling environment for marketable research and innovative ideas. The Government has also been pursuing various activities with the objective of constructing innovation infrastructure at key university centers and regions throughout Serbia (such as support for new regional innovative start-up centers, greater innovation capacity of local authorities, and promotion and popularization of innovations and innovative entrepreneurship, including women's innovative entrepreneurship) and has in doing so created an environment that supports the proliferation of innovative start-ups and generation of highly productive jobs with the ultimate aim of keeping young people in Serbia. Another initiative in progress is European Union Support to the Development of Business Incubators (EUBID), aimed at ensuring these facilities can provide the highest level of services to those just starting out in business. Investments made include approximately EUR 34 million to construct two Science and Technology Parks (in Novi Sad and Niš), EUR 10 million for two faculties, EUR 14 million to build the BioSense Institute, and EUR 5 million for the Verrocchio Centre at Belgrade's Physics Institute. The first R&D Infrastructure Roadmap was adopted in December 2018 with the aim of enhancing the impact of infrastructure support, and activities are also in progress to create the Acceleration Programme, which will serve as yet another support instrument. Work is also being undertaken to enhance integrated support for start-ups and assist SMEs with their **digital transformation** efforts and increase their innovation capacity.

'Research for Innovation', the Action Plan to Implement the Scientific and Technological Development Strategy, 2016-2020, was adopted in July 2018; the year of its enactment was taken as the baseline year for measuring progress. Serbia has made some progress in the area of R&D, which the EC[43] believes makes it moderately prepared.

Serbia joined CERN, the European organization for nuclear research, in March 2019.

[43] Serbia 2019 Report, European Commission, p. 82.

Membership will allow Serbian students and teachers to undertake globally recognized research in Serbia, and permit greater involvement of Serbian businesses in CERN's projects. In addition to improving the quality of research done in Serbia, allowing access to state-of-the-art equipment and technology, and facilitating transfer of knowledge and experience, membership in CERN will also help motivate young experts to remain in Serbia. The country is also able to draw on numerous benefits of Horizon 2020 and other EU programmes. Serbia has 403 participations in 280 Horizon 2020 projects, with EUR 96.3 million contracted (as of September 2019). Serbia's success rate is 12.2%, close to the EU average (of 15.4%).

Serbia lacks human resources for R&D, which has proven a significant constraint to GDP growth and innovation. In 2018, the country employed 3,290 R&D staff per one million inhabitants, greatly below the EU-28 average of about 6,000 recorded in 2017. Of the total of 16,213 researchers (of which 10,840, or 67%, hold doctoral degrees), 7.8% work in the non-financial sector. The absence of rules for re-integrating researchers who return from abroad is one reason for Serbia's poor R&D competitiveness.

The Serbian communications infrastructure requires systematic improvement in terms of both regulation and investment. A preparatory study was undertaken to inform a National Broadband Implementation Plan, with support from the EBRD, and the findings have revealed that **private operator investment in infrastructure is not viable in rural regions that are home to up to one million households.** Government intervention is therefore required to construct infrastructure and allow balanced regional development, as high broadband penetration has been shown to have a major impact on GDP growth and employment in well-served areas.

The number of fixed-line broadband subscriptions remains stable at about 1.58 million (Source: RATEL, Overview of the Electronic Communications Market, Q2 2019), accounting for 63.5% of all households. Most broadband connections are based on xDSL and cable technologies, with xDSL subscriptions seeing a moderate downward trend and cable connections increasing slightly. A total of **46.7%** of fixed-line broadband subscriptions **permit speeds of between 10 and 30 Mbit/s;** speeds have been increasing, however, with **46.8% of all connections now capable of more than 30 Mbit/s. All businesses use computers and are connected to the internet.** The first 5G base station commenced trial operation in June 2019, marking the initial step in the construction of infrastructure for this latest generation of mobile technology. In August 2019, the Government adopted a set of starting points for developing the initial network to test technologies required for participation in the Digital Single Market; this document recommends that the Regulatory Agency for Electronic Communications and Postal Services (RATEL) ensure conditions are in place to establish an initial network for testing next generation technologies.

In April 2018, the Government adopted the **Next Generation Networks Strategy to 2023,** with the key goal of ensuring the country creates infrastructure for the development of the Digital Single Market in Serbia as envisaged by the EU's strategic framework in this area. The adoption of document has resulted in some progress in the area of the information society and the media, leading the EC to assess Serbia as moderately prepared.[44] Broadband development requires **broadband access maps,** which are based on information made available by internet service

[44] Serbia 2019 Report, European Commission, p. 66.

providers (ISPs). These maps are currently under preparation for each community and are expected to be complete by late 2019; more detailed access maps will then be compiled in 2020 and 2021.

Data collected for the GIS web application have been processed and the application has been developed. Negotiations are ongoing with ISPs to permit broadband access maps to be made available to members of the public and businesses online. Fixed-line data are difficult to obtain as ISPs treat them as proprietary information, but this issue will be addressed by the **new Electronic Communications Law,**[45] which will require ISPs to provide (anonymized) information required to compile broadband access maps to the ministry responsible for electronic communications. By adopting this law, Serbia will meet the EC's recommendation[46] to harmonize its legislation on electronic communications with the EU regulatory framework.

In the **Network Readiness Index,**[47] a measure of the development of a country's digital economy and **its propensity to exploit opportunities offered by ICT,** Serbia in 2016 placed 75th of 139 countries. Although Serbia's position has improved in recent years, it still ranks below most neighbours, such as North Macedonia (46th place), Hungary (50), Montenegro (51), Croatia (54), and Bulgaria (69).

Findings of the World Economic Forum (reflected in its Global Competitiveness Index and Network Readiness Index) highlight the need to develop broadband but do not explicitly identify the key reasons for the country's poor performance. A more useful measure is the Digital Economy and Society Index (DESI), which tracks the evolution of EU member states in digital competitiveness; progress by non-EU countries is measured using International DESI (I-DESI). Serbia's 2018 I-DESI value (based on 2016 data) was 49.6 (South Korea scored the highest, at 75.2), below the EU average (of 58.9) but above the average for the four bottom EU Member States (47.0). The low value for Serbia is mainly the consequence of the scarcity of fixed-line broadband access, and the I-DESI score could rise if performance in the index's connectivity dimension was increased by the provision of more high-speed fixed-line broadband connections.

High administrative costs and complicated planning permission procedures for optical networks had previously been identified as constraints to the growth of communications infrastructure, but have now been greatly reduced through an electronic construction permitting system based on centralised software and applying a consolidated permitting procedure ('one-stop-shop'). A national communications network can provide standardised communications infrastructure able to allow quick, reliable, and secure internet access for all institutional users. Significant progress has been made in providing online access for academic users, with 1,879 educational, R&D, and cultural institutions, including 1,557 elementary and secondary schools, connected to the Academic Network of the Republic of Serbia (AMRES) as of June 2018. Efforts are also being made to improve connection quality and speed for schools already on the network.

The development of Serbia's digital economy and e-Government also hinges on improvements to legislation governing this area. The e-Government Law ("Official Gazette of

[45] The Electronic Communications Bill, approved by the Government in October 2017, was withdrawn from parliamentary procedure due to conflict with the Law on Charges for Use of Public Resources, enacted in 2018. The new draft Electronic Communications Bill has cleared the institutional consultations stage.
[46] Serbia 2019 Report, European Commission, p. 66.
[47] Source: Global Information Technology Report, World Economic Forum.

the RS", No. 27/18), adopted in April 2018, has resulted in headway in this regard by regulating the use of ICT by public administration at both the central and the local level. The role of the Office for Information Technology and Electronic Governance of the Government of Serbia has been strengthened in supporting the further introduction and development of e-services, positioning the national e-Government Portal as a central place for e-services provision and single sign-on, construction and improvement of: infrastructure, interoperability and information security in e-Government, including the development of a strategic framework and platform for artificial intelligence, increasing the focus on machine-readable data and promoting their opening, commercial and use value, that is, implementation and launching and enhancement of the National Open Data Portal, etc.

STRUCTURAL REFORM MEASURE 12: SUPPORT TO SUSTAINABLE FUNDING OF RESEARCH AND DEVELOPMENT

1. Description of measure

The Science and Research Law ("Official Gazette of the RS", No. 49/19) and the Science Fund Law ("Official Gazette of the RS", No. 95/18) have introduced a new concept of R&D funding that entails both institutional and competitive project financing. The objective here is to secure stable funding, support excellence in R&D, ensure long-term quality of R&D efforts by strengthening R&D institutions, and build closer links between R&D and industry. This measure is envisaged under 'Research for Innovation', the Scientific and Technological Development Strategy, 2016-2020, with some activities also subject to the Smart Specialisation Strategy, scheduled for adoption in 2020.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Partial implementation of institutional funding programme												
2	Full implementation of institutional funding programme												
3	Start of implementation of Programme for Excellent Projects of Young Researchers (PROMIS) by R&D organisations												
4	Signing of contract for Artificial Intelligence Development Programme												
5	Implementation of Artificial Intelligence Development Programme												
6	Implementation of initiative for Serbian scientists to collaborate with Serbian community abroad												
7	Advertisement of open call for Ideas Programme												

3. Performance indicators

Indicator	Baseline (2016)	Intermediate target (2019)	Target (2022)
No. of projects financed by Science Fund	-	130*	500*
No. of papers published on Web of Science (*all documents*)	7,221	7,200	7,400
No. of researchers per 1 million inhabitants	2,350	2,322**	2,400

* Total number of all Science Fund projects, rough estimate
** Data for 2018

4. Expected impact on competitiveness

The new systemic arrangements and activities of the Science Fund will enhance Serbia's potential and capacity in line with the experiences of other countries that have been able to secure long-term growth. As research and development are important for sustainable GDP growth, scientific research ought to receive support, and the results of R&D must be applied by industry to a greater extent. Comprehensive regulation of the collaboration between R&D and businesses and creation of an environment conducive to the development of a knowledge-based society will promote the creation of innovative businesses, and as such encourage employment.

5. Estimated costs of implementing structural reform and estimated sources of financing

Adoption of the Action Plan for the Implementation of the Scientific and Technological Development Strategy of the RS 2016-2020 - "Research for Innovation" in July 2018 started the implementation of measures that contribute to the successful implementation of the reform of the system of organization and financing of science and technological development, that year was taken as the base year of the reform. Structural reform in the period 2020-2022 will be funded from the RS budget earmarked for the establishment and implementation of the Ministry of Education, Science and Technological Development activities through partial implementation and later full implementation of the institutional support of the R&D organisations in the projected amount of approximately EUR 110 million annually and the work and support to competitive projects of the Science Fund of the Republic of Serbia in the projected amount of approximately EUR 30 million for the period 2020-2022. In order to increase overall spending on science in Serbia, this reform is accompanied by increased investments. Structural reform is supported by the World Bank's Competitiveness and Jobs loan and the continued provision of support from IPA 2019/2020, as well as the World Bank's SAIGE project and other sources.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

A positive impact is expected on employment through the creation of long-term sustainable and well-paid, highly-skilled jobs. The Science Fund will deploy its instruments in support of job creation. Particular attention will be paid to participation by young researchers and women in project management.

7. Expected impact on the environment

The Science Fund does not support projects that adversely affect the environment, in line with both global practice and national regulations, whilst also monitoring the environmental impact of supported initiatives.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Failure to secure timely funding and cash flow issues	Low	Provision of timely and continuous funding required for implementation of planned activities
Failure to implement timely reforms envisaged in higher education, science, and innovation	High	Provision of timely institutional funding as precondition for enhancing R&D together with building capacity at R&D institutions to absorb institutional project financing
Lack of potentially marketable technologies developed by R&D organisations	Moderate	Continuous provision of support (both financial and non-financial) for arrangements that promote links and co-operation between R&D organisations and businesses
Failure to implement project activities in due time owing to delays in procurement by R&D organisations benefiting from funding	High	Alignment of procurement needs across activities supported through institutional funding and project financing

STRUCTURAL REFORM MEASURE 13: SUPPORT FOR INNOVATIVE START-UPS AND DIGITAL TRANSFORMATION OF BUSINESSES

1. Description of the measure

The government has been providing support for innovative entrepreneurship through the Innovation Fund, in co-operation with international financial institutions, organisations, donors, and the private sector. Through the funds provided from the European Union's pre-accession funds - IPA, the Fund has developed various support instruments, such as the Early Development Program and the Innovation Co-financing Program for businesses, as well as the Science and Business Cooperation Program. A Technology Transfer Facility is open to researchers working with public R&D organisations. An 'innovation voucher' scheme has also been introduced to aid in the collaboration between research institutions and businesses. Finally, the Fund operates a Proof of Concept programme that supports researchers at early stages of marketing their innovations.

A new support instrument, the Acceleration Programme, is in development, with efforts also being invested in integrated support for start-ups. A network of digital consultants has been established, and an activity to support the digital transformation of SMEs and increasing their capacity for innovation has been piloted by the Digital Transformation Centre of the Serbian Chamber of Commerce as well as the Serbia Development Agency programs. This support will help the SMEs and sole traders sector to increase their competitiveness by improving their business processes, while enabling better communication with potential and current clients, as well as better financial planning, increased profitability, higher quality promotional and marketing activities, etc. In addition, the implementation of the EU Support to Business Incubator Development (EUBID) Programme aims at building capacity of business incubators, so ensuring these facilities can provide the highest level of services to those just starting out in business. Assistance is also being provided for the development of innovation infrastructure in key university centres and regions throughout Serbia (such as support for new regional innovative start-up centres, greater innovation capacity of local authorities, and promotion and popularisation of innovations and innovative entrepreneurship, including women's innovative entrepreneurship). 'Research for Innovation', the Scientific and Technological Development Strategy, 2016-2020, and the Strategy for Support to Development of Small and Medium-Sized Enterprises, Entrepreneurship and Competition, 2015 to 2020, both envisage a raft of measures to promote innovative entrepreneurship, including enhanced access to finance and knowledge necessary for starting and growing a business.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
	IPA 2014												
1	Implementation of projects by approved beneficiaries of funding; monitoring by Innovation Fund												
	Competitiveness and Jobs												
2	a) Implementation of projects under 1st open call (Early Development Program and Innovation Co-financing Program) by beneficiaries; monitoring by Innovation Fund												
3	b) Implementation of projects under 2nd open call (Early Development Program and Innovation Co-financing Program) by beneficiaries; monitoring by Innovation Fund												
4	c) Implementation of projects under 3rd open call (Collaborative Grants Scheme) by beneficiaries; monitoring by Innovation Fund												
5	d) Assessment and implementation of projects under 4th open call (Early Development Program and Innovation Co-financing Program) by beneficiaries; monitoring by Innovation Fund												
6	e) Publication and assessment of projects submitted; implementation of projects under 5th open call (Early Development Program and Innovation Co-financing Program); consultations; workshops; open days												
7	f) 1) implementation of Technology Transfer Facility; 2) implementation of 'innovation vouchers' programme; 3) implementation of Proof of Concept Programme and potential development of new service lines												
	European Union Support to the Development of Business Incubators												
8	Implementation of 2nd project component, Upgrading Business Incubator Services												

9	Implementation of 3rd project component, Upgrading of Capacities of Relevant Stakeholders to Further Develop Business Incubators												
	IPA 2018												
10	a) Publication, assessment, and implementation of programmes under 1st open call (Mini Grants Programme and Matching Grants Programme); consultations; workshops; open days												
11	b) Publication, assessment, and implementation of programmes under 2nd open call (Early Development Program and Innovation Co-financing Program); consultations; workshops; open days												
12	Implementation of Support to Digital Transformation of SMEs and sole traders programme												

3. Performance indicators

Indicator	**Baseline (2016)**	**Intermediate target (2019)**	**Target (2022)**
No. of new project partnerships between businesses and academia	22	36	66
No. of new innovative businesses	156	340	460
No. of highly-skilled individuals employed in jobs generated by supported projects	459	750*	900
No. of SMEs digitalised	-	100**	360

* Forecast: no official data available for 2019 at time of writing
****** Denotes number of SMEs that have completed consulting stage; their actual digital transformation is expected to take place at programme implementation stage

4. Expected impact on competitivnes

Extension of support programmes offered by the Innovation Fund will increase its potentials and capacity, in line with the examples of countries that have been able to achieve sustainable long-term economic growth. The economy will become more competitive and public revenues will increase as businesses will earn greater profits. An assessment of business performance undertaken by the Innovation Serbia Project (IPA 2011) between 2012 and 2017 revealed a tangible increase in operating revenues by businesses receiving financial support in this area, from EUR 7.7 million in 2012 to EUR 20.2 million in 2017.

The survival rate of new innovative businesses stands at a very high 89.5%, with 34 of the 38 supported companies still operating. From early 2016 to late 2017 (following the completion of the programme), the supported companies increased their operating revenues by nearly 60% relative to 2015 (from EUR 4.3 million to EUR 7.4 million).

5. Estimated costs of implementing structural reform and estimated sources of financing

The adoption of the Action Plan for the Implementation of the Strategy of Scientific and Technological Development of the RS 2016-2020 - "Research for Innovation" in July 2018 was taken as the base year of the reform. This reform is accompanied by increased investment. Structural reform is funded from several sources in the period 2020-2022: from the budget of the RS in the projected amount of approximately EUR 31.5 million through the financing of the activities of the Innovation Fund, and in addition to budgetary funds, it was supported by three direct grant contracts from IPA 2013, IPA 2014 and IPA 2018, jointly funded by IPA funds and co-financed by the RS budget. Structural reform is also supported through the implementation of activities from the World Bank's "Competitiveness and Jobs" loans and the ENIF funds - Enterprise Innovation Fund C.V under the Western Balkans Enterprise and Innovation Development Program. The implementation of the Digital Transformation Support Program for SMEs and sole traders was supported through IPA 2014 Services Agreement IPA and co-financed by the RS budget. Continued provision of support from IPA 2019/2020, the World Bank's SAIGE project and other sources will continue.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

There will be a positive effect on employment through support for the creation of sustainable, well-paid, and highly-skilled jobs. An assessment of businesses receiving financial support from the Innovation Fund has revealed highly favorable impacts on job creation after the funding stage was complete.

7. Expected impact on the environment

The Science Fund does not support projects that adversely affect the environment, in line with both global practice and national regulations, whilst also monitoring the environmental impact of supported initiatives.

8. Potential risks

Risk	Likelihood	Planned mitigating action
Failure to secure timely funding and cash flow issues	Low	Provision of timely and continuous funding required for implementation of planned activities
Relatively low interest by businesses and R&D institutions in joint activities	Low	Promotion of support instruments
Lack of potentially marketable technologies developed by R&D organisations	Moderate	Continuous provision of support (both financial and non-financial) for arrangements that promote links and co-operation between R&D organisations and businesses
Failure to implement project activities in due time owing to delays in procurement by R&D organisations benefiting from funding	High	Alignment of procurement needs across activities supported through institutional funding and project financing

<u>STRUCTURAL REFORM MEASURE 14</u>: INCREASED AVAILABILITY OF E-GOVERNMENT TO PUBLIC THROUGH ENHANCEMENT OF USER-ORIENTED SERVICES

1. Description of measure

Since its formation, the digitalization programme of the Government of Serbia, has mostly been implemented through the **'Serbia at Your Fingertips' – Digital Transformation for Development project.** This project consists of five segments. The first three refer to the development of the e-Government system, the fourth includes support to the implementation of activities on the Ministerial Councils' agenda, while the fifth includes support to the implementation of large infrastructural projects.

An example of a large infrastructural project is the project of construction of a secondary State Centre for Data Management and Storage – Data Centre in Kragujevac, which will house the RS ICT infrastructure, that will facilitate e-government services, allow secure storage of register data, promote the development of future services, and significantly contribute to the digital transformation of the public sector's provision of services to businesses, members of the public, and the public sector.

The Central Information System in the area of hospitality and tourism (CIS) should provide daily access to information on the performance of the tourism sector, including a continuously updated database of all tourists and operators, capacities, and users of accommodation facilities; it is also designed to permit real-time reporting for statistical and marketing-related purposes and better control over the collection of local tourist fees and taxes to ensure greater public revenues from tourism. The system will contain accurate and up-to-date data through: register of caterers, records and categorization of catering establishments, records of tourists, records of sojourn tax and records of tax paid, which will be used by: caterers, Ministry of Trade, Tourism and Telecommunications, Local Self-Government Units, Ministry of Internal Affairs, Tax Administration, Statistical Office of the Republic of Serbia, Tourism Inspection Department, National Tourism Organization of Serbia, Autonomous Provincial Tourism Organization, Local Self-Government Tourism Organization.

Functionality enhancements of the e-Government web portal will include improvements to the 'e-Payments+' function to allow users to pay all fees and charges for a particular service online, thereby incurring transaction costs only once and not being required to submit proof of payment.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Establishment of the State Centre for Data Management and Storage – Data Centre (Kragujevac Data Centre)												
2	Development of the Central Information System in the area of hospitality and tourism (CIS)												

3	Enhancement of e-Payments+ functionality of e-Government web portal												

3. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
No. of government bodies and local authorities using Kragujevac Data Centre and businesses using Data Centre's commercial services	0 (2019)	20 (2020)	80 (2021)
Percentage of government bodies and local authorities with information systems migrated to Data Centres	0% (2019)		75% (2022)
Percentage of applications of government bodies and local authorities migrated to Data Centres	0% (2019)		75% (2022)
Percentage of data on accommodation facility operators available via CIS	0% (2019)	60% (2020)	90% (2021)
Percentage of procedures using e-Payments+ functionality	10% (2019)	60% (2020)	90% (2022)

4. Expected impact on competitiveness

The project of construction of the secondary State Centre for Data Management and Storage - Data Centre in Kragujevac, which will house the RS ICT infrastructure, will improve the operation of public administration by accelerating procedures, introducing new services, increasing accuracy and efficiency, which will then result in a simplification of administrative procedures and provision of services to citizens and businesses, and contribute to Serbia's digital transformation.

The Central Information System in the field of hospitality and tourism is intended to support a broader set of objectives established by the Law on Tourism and Law on Hospitality, which include systemically regulating the catering and tourism industry; promoting a favourable business environment for all firms; integrating all data on accommodation facilities' operators; streamlining and cutting costs of administrative procedures; ensuring all other information relevant for the tourism and hospitality industry is accessible in one location; promoting collaboration, co-operation, and exchange of information between the relevant government institutions and bodies; enhancing the efficiency of assessment, collection, and audit of local tourism fees and consequently increasing local authorities' revenues; enhancing the efficiency of assessment, collection, and audit of local tourism taxes; better tourism statistics; support for a pro-active marketing policy; and greater competitiveness of Serbia's tourism offering.

The e-Government web portal is the central point of contact for e-services. Its e-payments module ought to receive improvements so as to allow all payments for a particular service to be made at once and cleared automatically. Doing so would enable significant savings of time and resources and cut costs for both businesses and members of the public using e-services.

5. Estimated costs of implementing structural reform and estimated sources of financing

For the construction of the Secondary State Centre for Data Management and Storage - Data Centre in Kragujevac, the RS budget for 2019 allocated funds for the following sub-activities: data collection, needs assessment and obtaining necessary permits for construction, clearing the terrain, demining of land and commencement of construction of facility A in the amount of EUR 10 million. The RS budget for 2020 allocates the funds for the completion of the construction works on object A, which is planned for the third quarter of 2020 in the amount of EUR 20 million. Funds for the second phase of construction of the facility B were allocated by the RS budget for 2021 in the amount of EUR 8.3 million, while for the completion of construction of facility B the RS budget for 2022 envisages the amount of EUR 8.3 million.

For the development of the " Central Information System in the field of hospitality and tourism", the budget of RS for 2019 allocated funds in the amount of EUR 396,378. After the development of the software of the Central Information system in the field of hospitality and tourism, in 2020, implementation will start on the e-Government Portal, which will be implemented as a regular activity for which funds are not needed.

In order to improve e-Payment+ functionality on the e-Government Portal with the aim of enabling unified payment for one service and cleared automatically, during 2019 needs assessment for improving e-Payment+ functionality on the e-Government Portal was done within the regular activities for which funds were not needed. For the realization and implementation of the enhanced e-Payment+ functionality on the e-Government Portal, the RS budget for 2020 has allocated EUR 75,000.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The creation and consolidation of data storage and storage centres and the integration of data held by various institutions and agencies into a single storage and storage facility that provides virtual services such as cloud storage will promote employment and facilitate remote work, whilst encouraging job creation in nearly all industries, including ICT industry. Enhancing ICT knowledge, competencies, and skills will foster employment in this industry and other sectors that have been seeing the introduction of next-generation technologies.

The “Central Information System in the area of Hospitality and Tourism” will reduce the informal economy, promote the rights of consumers in the catering and tourism sectors, decrease the incidence of undeclared work (in particular by private individuals providing accommodation services), and so on.

The e-Government web portal is the central point of contact for e-services. Its e-payments module ought to receive improvements so as to permit all payments for a particular service to be made at once and cleared automatically. Doing so would allow users to pay all fees and charges for a particular service online, thereby incurring transaction costs only once and not being required to submit proof of payment. Facilitating payments would enable significant savings of time and resources and cut costs for both businesses and members of the public using e-services, especially vulnerable individuals, disabled persons, the elderly, those living in remote areas, and so on.

7. Expected impact on the environment

The contractor selected to construct the Data Centre was found to have complied with all applicable safeguards in developing the design and technical documentation, including requirements for barrier-free access for children, the elderly, and disabled persons; waste evacuation requirements; requirements relating to disaster protection, fire protection, civil protection, and environmental protection and improvement. The intended use of the structures envisaged to be built does not pose a threat to the environment or the intended use of the land in question.

In accordance with the Environmental Impact Assessment Law ("Official Gazette of the RS", No. 135/04 and 36/09), the Kragujevac Data Centre is not listed in projects requiring mandatory environmental impact assessment, or projects that may require environmental impact assessment. in accordance.

8. Potential risks

Risk	**Likelihood**	**Planned mitigating action**
Difficulties in procuring required equipment from vendors	Low	Compliance with procurement-related contracts and procedures
Protracted installation works and dependence on readiness for other steps in process	Low	Compliance with timeframes envisaged
Inclement weather for construction works in winter	Low	Ensuring works can take place in all weather
Failure to ensure technical integration with external systems by time limits planned	Low	Clearly-worded and harmonised technical specifications
Resistance to new e-payment solutions	Low	Development of user instructions

STRUCTURAL REFORM MEASURE 15: IMPROVEMENT OF E-GOVERNMENT AND EDUCATION SERVICES THROUGH DEVELOPMENT OF NATIONAL INFORMATION AND COMMUNICATION INFRASTRUCTURE

1. Description of measure

Up-to-date electronic communications networks ought to ensure high-bandwidth data transmission across all transport network backbones, as well as broadband internet access for all users. Broadband access has become a major factor in promoting the development of remote and rural areas and industrial parks, as well as in linking a country's industrialised regions.

This measure entails a set of projects and legislative efforts that should take place concurrently:

- Development of broadband access maps for Serbia;
- Connection of schools to the AMRES network and creation of wireless local area networks (LANs) in schools to provide internet access to all classrooms and administration premises;
- Development of broadband infrastructure in rural areas and regions where private investment is not viable;
- Adoption of legislation to enable the construction of infrastructure, implementation of investment incentive programmes, and improvement of infrastructure-sharing by operators

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Connection of educational and cultural institutions to AMRES												
2	'Connected Schools' initiative: improvement of ICT infrastructure at all elementary and secondary schools in Serbia												
3	Preparatory work for construction of optical broadband network in Serbia's rural areas												
4	Construction of optical broadband network in Serbia's rural areas												

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2022)
No. of rural communities with optical network connections constructed using 'middle mile' subsidies	0	0	600

Indicator	Baseline (2018)	Baseline (year-end 2019)	Intermediate target (2020)	Target (2022)
No. of schools with wireless LANs	0	377	837	1,800

4. Expected impact on competitiveness

Broadband internet and ICT access enables firms to do business more quickly, safely, and efficiently, so increasing productivity and reducing costs. This measure will have a particularly favourable impact on rural development, linking of industrial regions, development of industrial parks, and greater adoption of new technologies and business innovations.

5. Estimated costs of implementing structural reform and estimated sources of financing

In 2020, EUR 1.7 million will be provided for grants for the preparation of the construction of optical broadband network in rural areas of Serbia, as well as EUR 1.28 million from budgetary funds for connecting cultural and educational institutions to the Academic Network of the Republic of Serbia (AMRES). Activities for the improvement of information and communication infrastructure in primary and secondary schools in the Republic of Serbia within the project "Connected Schools" have been provided with a budget of EUR 17.4 million.

In 2021, EUR 18 million from project loans will be provided for the construction of optical broadband network in rural areas. For the activities on the improvement of information and communication infrastructure in primary and secondary schools in the Republic of Serbia EUR 45.4 million will be allocated (EUR 17.4 million of budgetary funds and EUR 28 million from project loans), as well as EUR 1.9 million of budgetary funds for linking educational and cultural institutions.

A budget of EUR 1.9 million is planned in 2022 to connect education and cultural institutions to the AMRES network.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Broadband communications networks will promote employment and facilitate remote work, whilst encouraging job creation in nearly all industries, including ICT. Greater ICT knowledge, competencies, and skills will foster employment in the ICT industry and other sectors that have been seeing the introduction of next-generation technologies.

7. Expected impact on the environment

The planned communications infrastructure poses no threat to human health or biodiversity, as it results in no changes to either power output or frequencies relative to existing levels (large numbers of communications devices have for many years been operating at frequencies envisaged for use by 5G networks).

Crop control and remote-controlled automated irrigation, spraying, and artificial fertilisation facilitated by 5G technologies will prevent over- or under-fertilisation and safeguard the environment from the overuse of harmful substances.

8. Potential risks

Risk	**Likelihood**	**Planned mitigating action**
Failure to secure stable funding in time to meet deadlines	Moderate	Timely planning and application with international financial institutions
Poor ISP co-operation when providing broadband availability information	Moderate	Engagement of contractor to collect data for rural areas online and in field / Adoption of regulations mandating ISPs to provide information to line ministry

5.3.5. Area TRADE-RELATED REFORMS

Analysis of main obstacles

The growth of Serbia's foreign trade is followed by the increase of the foreign trade deficit**.** Exports from January to September 2019 amounted to EUR 12.3 billion, a y-o-y increase of 8.5%, whilst imports rose at a rate of 9.7% (to EUR 16.3 billion). The foreign trade deficit rose by 13.4% y-o-y, and coverage of imports by exports was 75.4% of imports (as opposed to 76.3% in the same period in 2018). The broad dispersion of exports was ensured by FDI inflows into widely diversified sectors producing tradeable goods.

Serbia's key foreign trade partners are countries with which Serbia has signed free trade agreements (FTAs). These agreements have greatly contributed to the liberalisation of Serbia's foreign trade, as reflected in the fact that, in the first three quarters of 2019, approximately 85.5% of the country's foreign trade was with the FTA partners, with as much as 93.5% of all exports going to these markets, primarily the EU (67.0%) and (CEFTA) (17.2%).[48]

In 2018, EU Member States accounted for 63.2% of Serbia's total foreign trade.[49] Exports to the EU increased by about EUR 1 billion in 2018 (y-o-y growth of 9.7%), whereas the foreign trade deficit rose by 7% y-o-y.

The CEFTA Parties provide the second most important foreign market for Serbia: here a trade surplus of EUR 2.3 billion was recorded in 2018,[50] mainly due to exports of agricultural products (cereals and cereal products, and beverages), oil and petroleum products, iron and steel, and metal products.

The current account deficit grew by 39.3% over the first nine months of 2019 as consequence of an increased foreign trade deficit, whilst services recorded a surplus higher by 5.9%, mainly as a result of a surplus in ICT services amounting to EUR 565.7 million, a y-o-y increase of 31.9%.

In the 2019 Doing Business rankings, **Serbia placed 23rd out** of 190 countries **for the trading across borders indicator;** this is the best score in the composite doing business indicator. The key contribution to the high score in this area was the **effective use of the New Computerised Transit System (NCTS) by the Customs Administration.**

Speaking of key developments for Serbia's foreign economic relations, it is important to mention the Amendments to Free Trade Agreement (FTA) with Turkey, that entered into force on 1st of June 2019, and increased trading potential by additionally liberalising trade in agricultural products and services with this trading partner. The FTA with the Eurasian Economic Union, signed in Moscow on 25th of October 2019, replaces tariffs arrangements previously in effect under bilateral FTAs with Russia Federation, Belarus, and Kazakhstan, and additionally covers Armenia and Kyrgyzstan (as these five nations form a customs union).

Challenges faced by Serbia in promoting trade in goods with the EU include **definitive safeguard measures (imports quotas)** introduced by the EU in January 2019 for certain categories of iron and steel products. These measures have resulted in a 12.2% decline in Serbia's iron and steel exports over the first nine months of 2019 compared to the same period of the preceding year. The quotas are up for review in three years, and Serbia has already indicated they will adversely affect the country's economy. Regional trade is greatly threatened by measures introduced by the Provisional Institutions of Self-Government in Pristina. Since November 2018, the fees **applied to products originating in Central Serbia** cause a loss of more than EUR 1 million daily; according to some estimates, the total loss will amount to some EUR 400 million by the end of 2019, if the measures remain in force. Between January and September 2019, sales of goods from Central Serbia in the Autonomous Province of Kosovo and Metohija plummeted by over 70% compared to the same period of the previous year.

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[48] Figures include sales to and purchases from the Autonomous Province of Kosovo and Metohija.
[49] Ibid.
[50] Ibid.

A major challenge is Serbia's lack of full integration into the global economic system since it is not yet a member of the World Trade Organisation (WTO). In Europe, only Bosnia-Herzegovina and Belarus remain outside this organization. Membership in the WTO is a precondition for the EU accession. It is becoming increasingly difficult to join the WTO (the average time for completion of the accession process has increased from six to ten years), with delays resulting in new and ever more stringent conditions. The only issue that remains outstanding in the multilateral track of the WTO accession process are the ban on foreign trade in products containing genetically modified organisms (GMOs) and the adoption of amendments to Serbia's GMO legislation. This is also the greatest obstacle to completing the WTO accession process.

Further enhancement of regional co-operation, as envisaged in the Multi-annual Action Plan on Regional Economic Area in the Western Balkans (MAP REA), requires Serbia to ensure **implementation of CEFTA Additional Protocol 5 (Trade Facilitation)** and **adopt Additional Protocol 6 (Trade in Services)** and **Additional Protocol 7 (Dispute Settlement).**

Alignment of national regulations with the EU's technical rules and their effective implementation through a well-developed system of quality infrastructure are preconditions for ensuring product safety in the national market, integration into European and global markets, and providing conditions for free movement of goods and services. **The harmonisation of national phytosanitary and sanitary regulations with EU rules** and their effective application of these requirements is necessary for removing any outstanding non-tariff barriers in the agriculture and agribusiness sectors.

E-commerce remains underdeveloped, but the new Law on Trade and Amendments to the Electronic Commerce Law (both enacted in July 2019) will permit major improvements in e-commerce in line with cutting-edge global models (for more information, please refer to the section on Agriculture, industry and services, p. 105).

STRUCTURAL REFORM MEASURE 16: IMPROVING CONDITIONS FOR AND REMOVING OBSTACLES TO TRADE

1. Description of measure

Serbia complied with most of its requirements in the WTO accession process as early as 2010. The remaining outstanding issue in the multilateral track of accession concern the ban on trade in GMO products under Serbian regulations, whilst bilateral negotiations also need to be completed with Brazil, Ukraine, Russian Federation and the United States of America.

Regional trade integration will be promoted, as envisaged in the Multi-annual Action Plan on Regional Economic Area (MAP REA), through activities to implement commitments undertaken in CEFTA Additional Protocol 5, adopt and implement CEFTA Additional Protocol 6, and open negotiations on CEFTA Additional Protocol 7 on Dispute Settlement.

The National Trade Facilitation Body (NTFB) will work closely with the private sector to develop and implement an Action Plan for 2020 and 2021 to identify and remove barriers to trade, in particular technical and phytosanitary obstacles, and streamline customs procedures.

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	WTO accession negotiations: Bilateral negotiations and adoption of regulations aligned with WTO rules and principles												
2	MAP REA/CEFTA: Implementation of Additional Protocol 5 (Trade Facilitation) through preparation of programmes for mutual recognition of imports and exports documents and other CEFTA trade facilitation initiatives												
3	MAP REA/CEFTA: Adoption and implementation of law to ratify Additional Protocol 6 (Trade in Services)												
4	MAP REA/CEFTA: Negotiation and adoption of Additional Protocol 7 (Dispute Settlement)												
5	Adoption of new NTFB Action Plan, 2020-2021, and implementation of its activities												

3. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2019)	Intermediate target (2020)	Target (2021)
Foreign trade growth rate: World	10%	10.1%	11.5%	12.0%
Foreign trade growth rate: CEFTA Parties	8.6%	9.0%	10.4%	11.2%
Foreign trade growth rate: EU	9.6%	10.5%	11.9%	12.7%

4. Expected impact on competitiveness

The WTO accession, trade facilitation under the stated Additional Protocols to the CEFTA, as well as the NTFB activities related to trade facilitation, will have a significant impact on the removing of trade barriers, and, consequently, increase in the competitiveness of Serbian companies in the regional market, as well as the growth and progress of Serbia's economy.

5. Estimated costs of implementing structural reform and estimated sources of financing

Implementation of the stated activities will not have an impact on the budget, except in the part related to the increase in the number of staff working on these tasks. With this regard, it is planned to recruit three new officials in 2020 and another in 2021. In view of the regional character of the activities stemming from the previously CEFTA Additional Protocols and MAP, support is expected from international sources. When it comes to project activates related to the implementation of this reform, for now, no increase in costs is expected in the coming years compared to 2019, which is taken as the base year.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The described activities will have a positive impact on employment growth and realisation of the gender equality principle.

7. Expected impact on the environment

This structural reform measure is neutral in its impact on the environment.

8. Potential risks

Risk	Probability	Planned mitigating action
Dependence on other WTO members for completing multilateral WTO accession negotiations	Moderate	Closing bilateral negotiations with WTO members and adopting GMO legislation
Failure to complete some MAP REA activities due to involvement of multiple parties	Moderate	Strengthening regional co-operation within CEFTA/MAP REA
EU import quotas (on certain steel products)	Moderate	Efforts to exempt Serbia from EU protective measures
Lack of administrative capacity at dedicated MoTTT units for implementing CEFTA and MAP REA	Moderate	Hiring of staff on temporary basis

STRUCTURAL REFORM MEASURE 17: 'PRODUCT-INFO' ESTABLISHMENT OF SINGLE DIGITAL SERVICE FOR TECHNICAL REGULATIONS

1. Description of measure

This measure implies linking together and enhancing databases operated by Quality Infrastructure (QI) institutions and ministries responsible for adopting regulations in connection with technical requirements for all groups of industrial products and measuring instruments, standards, conformity assessment, accreditation and activities in the area of metrology, to ensure the data are accurate, up-to-date, and available to all stakeholders (businesses, inspections and other authorities, institutes, etc.). This measure will enhance the information basis for planning development in this area and improve efficiency in harmonization of national technical regulations in the Negotiating Chapter 1 - Free movement of goods and standards, rules of international agreements ratified by Serbia (CEFTA and WTO Technical Barriers to Trade Agreement), as well as facilitate full implementation of these rules. The reform measure will raise providing information and reduce costs involved in producing, importing, exporting, and marketing goods. The reform measure is aligned with General Goal I of the Strategy for the Improvement of Quality Infrastructure, 2015-2020, 'To ensure preconditions for free movement of goods without creating unnecessary barriers to trade, fully in line with the principles and regulations of the common European market and the WTO/TBT agreement'. This measure implements the EC's recommendation for establishing a Product Contact Point (EC Serbia Report, 2019) and lays the precondition for effective operation of this facility. The measure is also a preparatory activity for ensuring co-operation between Product Contact Points as mandated by Regulation 2019/515 of the

European Parliament and of the Council on the mutual recognition of goods lawfully marketed in another Member State (such as the development of the EU's Internal Market Problem Solving Network, SOLVIT, with regard to the free movement of goods).

2. Activities planned by year

No.	Activity planned	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Assessment of stakeholders' needs, identification of the structure and content of web portal "Product-Info" and development of methodology to track progress in the area of quality infrastructure												
2	Assessment of current IT capacity (hardware and software) and identification of needs for its improvement at QI institutions (Ministry of Economy, Institute for Standardization of Serbia, Accreditation Body of Serbia, and Directorate of Measures and Precious Metals)												
3	Enhancement of databases and digital services at Ministry of Economy (Sector for Quality and Product Safety) with regard to technical requirements for product and the WTO TBT National Enquiry Point												
4	Enhancement of databases and digital services at Institute for Standardization of Serbia - "Standards at Your Fingertips"												
5	Enhancement of databases and digital services at Accreditation Body of Serbia" - Accreditation as Measure of Competence"												
6	Enhancement of databases and digital services at Directorate of Measures and Precious Metals)- "Metrology and Precious Metals Articles"												
7	Networking of digital services and awareness-raising for stakeholders and broader public												

3. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Product-Info single digital service established	0 (2019)	0 (2020 and 2021)	1 (2022)
No. of technical regulations notified	66 (2019)	80 (2021)	100 (2022)
No. of Product-Info users	0 (2019)	0 (2020-2021)	5,000 (2022)

4. Expected impact on competitiveness

Based on data released by the CEFTA Secretariat, available online at: statistics.cefta.int/goods, products covered by Chapter 1 (Free movement of goods)[51] account for some 75% of Serbia's exports. In this regard, Product-Info will serve as a comprehensive online resource that will directly reduce technical barriers to trade and enhance the competitiveness of Serbian products, so promoting the growth in exports of Chapter 1 products.

This measure will increase both exports in absolute terms and the share of exports of industrial products (Negotiation Chapter 1 – Free movement of goods) in total Serbian exports.

5. Estimated costs of implementing structural reform and estimated sources of financing

This structural reform is new and the base year is 2019.

Estimated cost of this reform for the period 2020-2022 is about EUR 500,000.

Structure of funding sources: EUR 150,000 from the budget (central level budget and own funds of partner institutions) and EUR 350,000 from other grants.

The costs of implementing this reform are:

- The cost of conducting an analysis of the state of the existing IT and available software solutions in the institutions covered by the reform (MoE, ISS, ATS and DMDM), with the aim of identifying the missing capacities and identifying technical specifications, as well as developing a networking model for relevant institutions. Total value: EUR 40,000;

- Cost of procurement of missing IT equipment and missing software for the needs of MoE, ISS, ATS and DMDM (according to the technical specifications resulting from the conducted analysis). Total value: EUR 410,000;

- The cost of staff training for the purposes of continuous updating of the portal content and costs of promotional activities (organization of portal presentations through the system of regional chambers of commerce, prints instructions for use of portals, prints advertising material, media promotion of portals, etc.). Total value: EUR 50,000.

[51] In 2018, the structure of Serbia's Chapter 1 products exports (sections 5, 6, 7, 8, and, partly, 3, according to the UN's Standard International Trade Classification (SITC), Rev. 3) was as follows: total value of exports is approximately EUR 16 billion; value of Chapter 1 products: approximately EUR 12 billion and Chapter 1 products exports as percentage of total exports: approximately 75%.

6. **Expected impact on social outcomes, such as employment, poverty reduction, equality and gender**

The measure has an indirect impact on employment, poverty reduction, or equality, and is gender-neutral.

7. **Expected impact on the environment**

This measure will have a positive impact on the environment as its outcomes contribute to the enhancement of technical regulations and application of standards, including environmental protection requirements..

8. **Potential risks**

Risk	**Probability**	**Planned mitigating action**
Lack of co-operation between QI institutions and other stakeholders	Low	Extensive inter-institutional and inter-departmental consultations and co-operation; creation of Interim Working Body to facilitate reform; assignment of specific competences and responsibilities to partner institutions implementing reform and reporting on realization;
Lack of funding	Moderate	Greater allocation of resources by partner institutions implementing reform; Extensive communication with donors to secure support;

5.3.6. Area EDUCATION AND SKILLS

Analysis of main obstacles

A steady increase in the coverage of children by preschool education has been observed in Serbia in recent years. The number of children aged 6 months to 6.5 years participating in this level of education stood at 218,567 in school year 2018/19, which constituted an increase by about 12,000 or 6 % relative to 2016. The preschool education coverage rate of children aged 3-6.5 stood at 51.1 % in 2018, a 2.5 p.p. increase[52] relative to 2016. This is consistent with the EC recommendation[53] to increase the overall participation of children, in particular children from disadvantaged backgrounds, in preschool education. However, the **coverage of children** by preschool education remains **low** (only half of children are covered), by reason of **insufficient spatial capacities and uneven geographic distribution**.

A downward trend in the number of students owing to negative demographic trends is present in primary education, with the **student population steadily decreasing**. In school year 2018/2019, the number of primary school students 156rganiz 527,843, a decrease by 17,400 or 3 % relative to 2016. Despite the fact that primary education is compulsory, **full coverage of children still has not been attained**; thus, the primary education coverage rate stood at 97 % in

[52] The increase in the number of children participating in preschool education resulted from the increase in the capacities of state-owned preschool institutions and, in particular, increase in the number of privately-owned ones.

[53] Serbia 2019 Report, p. 83.

2018. The primary completion rate stood at 97 % in 2018; those who drop out[54] of mainstream primary education are most often children from 157rganization groups (the Roma), who either do not continue schooling at all, or continue in adult education schools. With a view to advancing Roma education, the Ministry of Education, Science and Technological Development implements continuous support measures, such as additional education support, affirmative action for enrolment in secondary schools and higher education institutions founded by the Republic of Serbia, scholarships, mentoring support.

Primary education quality in Serbia is measured by two largest and most influential international student achievement surveys. A total of 8300 Serbian students participated in the 2018 PISA survey. Their reading, mathematical, scientific and financial literacy and global competences were assessed. According to the results of the 2018 PISA test, students from Serbia achieved score below the OECD average on all three tests: 439 points in reading (OECD average-493 points), 448 points in mathematics (489) and 440 points in science (487). However, the lag behind the OECD average has been steadily decreasing compared to previous tests, as performance results from Serbia have steadily improved. According to the results of the 2015 TIMSS[55] study, students from Serbia **scored above average** – the average score for Serbia was 518 points, 18 points above the international average. An analysis of Serbia's results in this survey show that 85 % of the differences in student achievements can be attributed to students' individual characteristics, while only 15 % of the differences are due to differences among the schools attended by them.

The number of students attending secondary schools is stable. The number of enrolled secondary-school students stood at 252,108 in school year 2018/19, constituting an increase by about 2,100 or 0.84 % relative to 2016. The number of students has recorded a slight increase in gymnasiums, and a decrease in art schools. With regard to vocational secondary education, the highest number of students attend four-year profiles in vocational secondary schools. Although secondary education is still not compulsory in Serbia, **the coverage of children by this education level was 89.3 %** in school year 2018/19, and the **secondary completion rate was 85.5 %** (estimate for year 2017).

The mismatch between educational profiles and labour market supply, on the one hand, and labour market needs, on the other, constitutes a long-term and system-wide problem in the Republic of Serbia. The unemployment rate among young people aged 15-24 of 30.7 % in Q1 2019 (according to the LFS), although declining, is still high and is partly due to the inadequate education system. Over 50 % of youth in the labour market with secondary education attainment[56] perform jobs inconsistent with their formal education background. The vocational secondary education system should be sufficiently flexible to keep pace with the intensive changes in the

[54] The dropout rate represents the difference between the number of students at the beginning and at the end of the school year, as a proportion of the number of students at the beginning of the school year. This method of dropout rate calculation does not register those who dropped out between the end of one school year and the beginning of the next. Source: Education Statistics, SORS.

[55] Trends in International Mathematics and Science Study, http://www.ipisr.org.rs/timss/o_istrazivanju_timss – a project of the International Association for the Evaluation of Educational Achievement is carried out once every 4 years, with fourth-grade and eighth-grade students. It is an achievement test in mathematics and science.

[56] Source: Analysis of labour market supply and demand for young people with secondary education attainment in the period of 2011-2015 Lazar Živković.

labour market, which points to the need to establish a **system for monitoring continuous labour market changes**.

An analysis of the future needs of the business sector entails **establishing cooperation between the key institutions in identifying and planning qualifications to meet labour market needs**, as specified by the **Law on the National Qualifications Framework of Serbia (NQFS), passed in early April 2018**. The NQFS goals include, *inter alia*, the development of qualification standards based on the needs of the labour market and society as a whole, and ensuring orientation towards learning outcomes across the education system. The **NQFS Council** has been established as an advisory body to provide recommendations on the planning and development of human capital in accordance with public policies in the areas of lifelong learning, employment, career guidance and counselling. Further, the **Qualifications Agency** has been established to perform professional and development tasks in ensuring qualifications system quality, to provide professional support to the NQFS Council and other competent institutions in all aspects of development, and to implement the NQFS. By decisions of the Government of the Republic of Serbia, **12 Sector skills councils** have been formed as bodies founded on social partnership. In addition, Serbia will reference the NQFS to the European Qualifications Framework (EQF), which is consistent with the EC recommendation[57].

Further conditions for acquiring, improving and developing competences in line with labour market needs were provided by adopting the bylaws foreseen by the **Law on Dual Education** during 2018. The Master Plan for the implementation of the Law on Dual Education was developed in May 2019, and the full implementation of the Law is envisaged in school year 2019/20.

At the higher education level, a negative trend has been observed in student numbers in recent years; however, the number of students has been increasing in academic courses of study, and decreasing in applied ones. The number of young people participating in the higher education system stood at 249,604 in school year 2018/19, a decrease by about 12,500 or 4.8 % relative to 2016. **The higher education coverage rate** has been on the increase for years and is very high; in school year 2018/19, it stood at 54.4 % of the population aged 19-24. Although higher education coverage is substantial, it is concerning that the higher education completion rate is extremely low.

The quality of higher education institutions in Serbia is witnessed by the fact that in 2019 the University of Belgrade was ranked between 401st and 500th out of 1000 universities on the worldwide **Shanghai list**. In 2019, the most prominent positions were held in the following areas: food science and technology (ranked 50th in the world), mining and mineral engineering (92nd), instrumental science and technology (134th), metallurgical engineering (179th), public health (180th) and stomatological science (187th). In addition to these six areas, the University of Belgrade is ranked in the top 500 worldwide in another 19 areas. The Shanghai list also includes the University of Novi Sad (ranked in the top 500 worldwide in three areas: Food science and technology, veterinarian science and chemical engineering) and the University of Kragujevac (ranked in the top 500 worldwide in two areas: clinical medicine and mathematics). Higher education quality improvement is also achieved through the operation of the National Higher Education Council and National Entity for Accreditation.

[57] Serbia 2019 Report, p. 83.

With a view to **159rganizatio instruction in primary education**, as of school year 2017/18, fifth-grade students follow an amended curriculum, which, *inter alia*, foresees **improving digital literacy through the introduction of IT and computer science as a compulsory subject.** Digital literacy is a fundamental part of literacy nowadays and it is essential that every student have an opportunity to learn about information technology.

With a view to **159rganizatio instruction in secondary education,** elements aimed at developing students' entrepreneurship and entrepreneurial spirit as a key competence have been introduced in the curricula. For students in vocational secondary schools (training young people to launch and realise their own business undertakings and implement business activities after finishing school), entrepreneurship is taught as a separate subject. In general secondary education, new 159rganizatio classes have been introduced for students gifted in computer science and **IT (IT classes),** with the aim of developing the most complex, state-of-the-art IT competencies. In the area of biomedical science development, an important novelty is the introduction of a new curriculum for students gifted in biology and chemistry in five gymnasiums. By the end of the year, these gymnasiums will be provided with state-of-the-art equipment for laboratory exercises and research projects to support instruction in these classes. A curriculum for students gifted in history and geography is under preparation, as is the 159rganizationa of the Sports Gymnasium curriculum in line with modern competencies required in sports journalism, sports medicine and sports coaching. **New developments in secondary education** include **introducing the national secondary-school-leaving examination (the matura examination),** which should enhance secondary education quality and allow permeability to subsequent education levels (the final examination will take place in 2021 for the first time, and the matura examination – in 2022); redefining the time spent in school by students and **defining cross-curricular competencies** at the end of secondary education, based on key competencies.

With a view to **159rganizatio instruction in higher education**, short-cycle courses, which can significantly improve graduates' employability in the future, have been introduced, and courses of study that 159rganizat IT as a priority development area have been developed or revised in 15 faculties.

The advantages of digital technologies will be used to improve the instruction process through the **introduction of digital contents in teaching** and/or different services and wider use of ICT in schools. The **electronic class register** is a digital service that offers multiple advantages – it has enabled parents to access their children's results, attendance records and performance online at any time. It is necessary to **continue the intensive work to improve the IT infrastructure in schools, provide digital textbooks for all primary school students and develop the Education Management Information System** with the aim of putting in place a high-quality and efficient education system, while streamlining funding and reducing the administrative burden on staff.

Public expenditure on education[58] **stood at 3.51 % of the GDP** in the 2019 national budget; thus, the level of these expenditures was stable in the past decade, but fell short of the EU-28 average public spending for this purpose (around 5% of the GDP). Expenditure on education accounted for 15.1 % of the total budget expenditures.

[58] Funds for primary, secondary and higher education, as well as funds for infrastructure modernisation.

<u>STRUCTURAL REFORM MEASURE 18:</u> QUALIFICATIONS ORIENTED TOWARDS LABOUR MARKET REQUIREMENTS

1. Description of measure

The implementation of the dual education system will ensure a more efficient education system response to the needs of the business sector and the labour market, technological changes and needs for new competencies (knowledge, skills, abilities and attitudes). The quality of dual education students' competencies will be enhanced, thus ensuring their easier transition from education to work. Education system relevance will also be supported by the establishment of regional training centres within vocational secondary schools to support both formal dual education and non-formal education through training, vocational training, additional qualification and retraining in response to labour market needs. Some training centres will rely on the existing capacities of vocational secondary schools, with equipment 160rganizationa, while the necessary infrastructure will be built for others. The centres will cover the following business/industry sectors: 1) mechanical engineering, electrical engineering and computer science (mechatronics), 2) industrial manufacturing (textile, chemical and graphic industries, food processing), 3) transport, logistics, wood processing and construction, 4) health care and social protection, and 5) tourism, hospitality industry and related services. Industry 4.0 is being introduced in the dual education system; it entails the provision of programmes, equipment and training for youth in line with the contemporary technological development and needs of the business sector and society at large.

The purpose of implementation the National Qualifications Framework of Serbia (NQFS) is to regulate and improve the qualifications system in accordance with the requirements of socio-economic development, support the implementation of the lifelong learning concept, ensure compatibility with the European education area, and facilitate labour mobility.

2. Planned activities by years

No	Planned activities	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Adoption of bylaws for the implementation of the dual studies model in higher education, under the Law on the Dual Studies Model in Higher Education												
2	Promotion of the dual education model (round tables, workshops etc.)												
3	Introduction, monitoring and evaluation of industry 4.0 in the dual education system												
4	Accreditation of companies and study programmes/modules for the implementation of the dual education model												
5	Establishment of training centres, infrastructure development and equipment provision for them												
6	Development and implementation of market-relevant education and training programmes for the training centres												
7	Training, vocational training, retraining and additional qualification												
8	Referencing the NQFS to the European Qualifications Framework (EQF)												

9	Piloting the process of recognition of prior learning												
10	Conducting the procedures of self-evaluation and external evaluation of publicly recognized organizers of adult education activities												

3. Performance indicators

Indicator	**Baseline (2019)**	**Intermediate target (2021)**	**Target (2022)**
Students enrolled in the first year in the dual education system as a proportion of total number of students enrolled in the first year of vocational secondary education (%)	5.3 %	7.2 %	8 %
Number of regional training centres established	0	6	10
Number of people trained, vocationally trained, retrained and additional qualified in regional training centres	0	500	>1,000

4. Expected impact on competitiveness

The implementation of dual education at the secondary and higher education levels will contribute to the improvement of human capital, which will, in turn, ensure students' easier and faster integration in the labour market, as well as improve the competitiveness of economic operators. Education system relevance will also be supported by the establishment of regional training centres.

NQFS establishment will contribute to the development of a modern, relevant and flexible education system aligned with the requirements of socio-economic development, support the implementation of the lifelong learning concept and facilitate labour mobility. By referencing it to the EQF, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily the EU countries.

5. Estimated costs of implementing structural reform and estimated sources of financing

Funds from the budget of the Ministry of Education, Science and Technological Development, which do not represent an additional cost compared to 2018, will be used for the implementation of the activities of referencing the NQFS to the EQF. Funds for piloting the recognition of Prior Learning procedure were provided from IPA 2014, which began in February 2019 and where the Ministry is a beneficiary of consultancy services. The implementation of the self-evaluation procedure and the external evaluation of a publicly recognized organizers of adult education activities will be funded by the Qualifications Agency. For the functioning of the Qualifications Agency (as part of the implementation of the NQFS), EUR 966,666.67 is foreseen in 2020, funds in the amount of EUR 291,666.67 are projected for 2021, and EUR 291,666.67 for 2022. Within the resources of the Qualifications Agency, the funds for the work of the sector skills councils, which will participate in the implementation of most of the activities described in the document, have been included.

Funds from the budget of the Ministry of Education, Science and Technological Development, which do not represent an additional cost compared to 2018, will be used for the realization of promotional activities of the dual model of education. The Chamber of Commerce and Industry of Serbia, which is entrusted with the tasks of accreditation of companies, also participates in the realization of the dual education system, while the professional and technical support is provided by the social partners ADA, GIZ and the Swiss Agency for Development and Cooperation (SDC).

For the introduction of Industry 4.0 in the dual education system (procurement of programs), funds from the budget of the Republic of Serbia in the amount of EUR 123,600 for 2020 are envisaged. Funds for the construction and reconstruction of regional training centres will be provided through the Public Investment Management Office in the following projected amounts – EUR 8,945,000 for 2020, EUR 8,000,000 for 2021, while the funds needed to equip the centres will be provided from donations.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Education and training programmes in regional training centres and dual education programmes will advance students' competency and employability levels and facilitate their faster integration into the labour market, thus contributing to unemployment rate reduction, faster youth employment, increase in youth participation in the labour market and activity of the unemployed over 15 years of age.

The implementation of reforms in the qualifications system will ensure social partners' participation in the development of qualifications aligned with market requirements, and therefore also confidence in the (market) relevance and flexibility of the education system as a whole. The establishment of regional training centres will contribute to the competitiveness of the economy, GDP growth and foreign investment attraction.

7. Expected impact on the environment

The structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Probability of occurrence	Planned mitigating action
Low level of participation of economic operators and other social partners in the establishment of the NQFS system	Medium	Inform social partners about the benefits of NQFS system establishment, both for individuals and for society at large
Lack of motivation on the part of employers to participate in the dual education system	Medium	Information dissemination on the dual instruction delivery model as a potential solution to the problem of ensuring adequate workforce

STRUCTURAL REFORM MEASURE 19: EDUCATION SYSTEM DIGITALISATION AND EDUCATION MANAGEMENT INFORMATION SYSTEM IMPLEMENTATION

1. Description of measure

The key goal of this reform is to 162rganizat the education system through the introduction of modern digital technologies, which should improve the achievement of learning outcomes and enhance the quality of youth digital competencies, thus facilitating their competitiveness in the labour market. The advantages offered by digital technologies will be used to improve the instruction process through the introduction of digital contents in teaching, as well as to implement an Education Management Information System (EMIS), which provides the basis for management 163rganizationa and evidence-based decision-making with the aim of putting in place a high-quality and efficient education system while streamlining funding and reducing the administrative burden on all education system staff. The Education Management Information System includes integration with the Central Registry of Statutory Social Insurance, thus enabling monitoring graduates in the labour market. Analyses based on the data from this system will contribute to designing education policies in line with labour market needs.

2. Planned activities by years

No	Planned activities	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Increasing the use of ICT in teaching, learning and assessment to ensure that students master the skills necessary to respond to challenges of a fast-changing environment												
2	Provision of digital textbooks for all primary school students who follow the reformed curriculum												
3	Development of the Education Management Information System and producing first reports												
4	Increasing the scale of courses of study and qualification profiles in the area of computer science and programming in higher and secondary education in line with market needs												
5	Development of a system for monitoring and evaluation of digital textbook use												
6	Provision of computer equipment for classrooms and laboratories												
7	Impact analysis of Education Management Information System use												
8	Improving the system for quality assurance of digital textbook use												

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2022)
Number of accredited courses of study and curricula in the area of ICT and programming	635	692	735
Number of reports generated from the EMIS	0	6	10
National framework for comprehensive policies on effective use of digital technologies in education institutions developed, with clearly defined standards	0	1	3

4. Expected impact on competitiveness

Education 163rganizational at the secondary and higher education levels will contribute to improving the digital competencies of all stakeholders in the process, which will ensure students' and teachers' easier and faster integration in the labour market, as well as improve the competitiveness of economic operators doing business in Serbia. Education system relevance will also be supported by the establishment of the Education Management Information System, which will enable improving education quality, efficiency, effectiveness and cost-efficiency, precise monitoring of work progress, higher transparency and streamlined planning of resources and future investments through the application of modern information technologies.

5. Estimated costs of implementing structural reform and estimated sources of financing

For the purposes of digitalization of education and the unified information system, funds in the amount of EUR 19.9 million are planned for 2020, of which EUR 5.6 million for digital textbooks and EUR 9.5 million for digital classrooms (computer equipment and teacher training) and EUR 4.7 million for IT cabinets. The Ministry of Trade, Tourism and Telecommunications, the Office for Information Technology and Electronic Governance is also involved in the realization of the digitalization of education. Funds for 2020 are planned in the Budget of the Republic of Serbia, while additional funds from loan arrangements are expected in 2021 and 2022.

Funds in the amount of EUR 27.3 million are envisaged for 2021, of which EUR 6.9 million for teacher equipment (18,500 additional laptops for teachers), EUR 12,676,271.19 for “smart boards” in 18,000 classrooms and EUR 7,688,333 for 13,180 computers for computer cabinets.

For 2022, equipment for 9,500 large digital classrooms (laptop, projector and projector carrier and laptop table) and 2,000 small digital classrooms (laptop only is needed) is planned, in the amount of EUR 9.7 million.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Gaining contemporary knowledge in a high-quality and efficient manner that will accelerate learning and enhance understanding; mastery of the necessary ICT knowledge and skills; and continued monitoring and maintenance of education quality through the EMIS will better prepare secondary and higher education graduates for the labour market and accelerate their employment in better and higher-paying jobs.

7. Expected impact on the environment

The structural reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Probability of occurrence	Planned mitigating action
Unclear roles and responsibilities of stakeholders involved in process implementation	Medium	Full involvement in the process on the part of all stakeholders Mutual communication in the process defined and monitored; ongoing risk reviews; escalations
Inadequate coordination with other parties that provide services and directly affect or are necessary for the process	Medium	Full involvement in the process on the part of all stakeholders Mutual communication in the process defined and monitored; ongoing risk reviews; escalations
Lack of motivation on the part of process stakeholders to achieve the stated goals	Medium	Design different financial incentive models Design efficient procedures for process implementation

5.3.7. Area EMPLOYMENT AND LABOUR MARKET

Analysis of main obstacles

The labour market in Serbia has seen exceptionally favourable developments over the last few years. Employment of the working-age population (15+) is increasing steadily; exceeding 2.9 million in the third quarter of 2019, which constituted an increase by 9,5 thousand y-o-y. **The employment rate grew to 49,6 %**, but remained 5.1 percentage points below the EU-28 level (54.7 %, Q3 2019, Eurostat).

The low supply of jobs in the formal sector results In work in the informal sector, as witnessed by the data on the **relatively high informal employment in Serbia**[59]. About 552 thousand working-age people were informally employed in the third quarter of 2019, and the informal employment rate is 18,8% (less for 1,7 p.p. y-o-y). Informal employment is especially pronounced in agriculture, which accounts for over 64 % of all informally employed people.

This was one of the reasons for the passage of the **Law on Simplified Arrangements for Seasonal Work in Certain Activities** in 2018, which became applicable in January 2019. The new provisions allow **seasonal work in agriculture** under simplified arrangements, with simplified registration for insurance and payment of income tax and contributions. According to the data for the period of January 2019 to January 2020, a total of 26,630 seasonal workers were hired by 311 employers in 183 municipalities. Labour legislation reform continues: **Law on Temporary Agency Work was endorsed** in December 2019 ("Official Gazette of the RS", No 86/19); **the framework for social entrepreneurship** and labour integration in social enterprises is **under preparation**; options to 165rganizat work in non-agriculture sectors are under consideration.

Unemployment is steadily decreasing in Serbia. The unemployment rate (15+) was 9.5%[60] in the third quarter of 2019, while the number of unemployed persons was estimated at around 308 thousand, which represents a decrease of 63 thousand y-o-y. Thanks to a decrease in the number of unemployed and an increase of the number of employed people, the unemployment rate **decreased by 1.8 p.p. y-o-y.**

Structural unemployment challenges persist, as a large number of unemployed people have been seeking a job for more than a year. The long-term unemployment rate, which stood at 5.2 % in 2018, had decreased by 1.6 p.p. y-o-y. **Long-term unemployment** leads to knowledge becoming outdated and, since the probability of finding a job decreases proportionately to the length of unemployment, it can also lead to **permanent exclusion from the labour market**. This phenomenon is a direct consequence of the mismatch between supply and demand in the labour market.

Serbia's youth (15-24) unemployment rate was 26% in the third quarter of 2019, 11.5 p.p. higher than the EU-28 average – 14.5 %, Q3 2019, Eurostat). The decrease of the youth

[59] Informal employment rate refers to people working without a formal employment contract as a proportion of total employed people. It includes employees in unregistered businesses, employees in registered businesses but without a formal employment contract or social insurance, and unpaid family workers.
[60] Unemployment rate in Serbia up 3.4 p.p. from EU-28 (6.1%, Q3 2019, Eurostat)

unemployment rate is a result not only of the reduced number of the unemployed, but also of the **negative demographic trend**, i.e. the shrinking population aged 15-24, as well as **emigration**, as most potential migrants are in the younger population, up to 40 years of age.

Serbia faces a range of gaps in the available data on **external migration**, and the exact number of those leaving is not known. According to OECD estimates[61], between 2012 and 2016 about 245 thousand people emigrated from Serbia. The economy and society at large face the negative effects of emigration[62], which points to the **need to attract highly qualified Serbian diaspora** by creating an environment conducive to employment and business, **attract foreign professionals with background in occupations in short supply**, as well as develop new technologies.

From January 1, 2020, tax incentives were introduced for companies employing persons who were not employed during 2019, including first-time youth employees, with the possibility of being exempted from the obligation to pay taxes and contributions, up to 70% in 2020, 65% in 2021 and 60% in 2022. One of the conditions for the realization of the incentive is that the company increases the number of employees compared to the number on December 31, 2019, and newly established companies are also eligible for this kind of incentive.

From March 1, 2020, tax incentives will be in place for the employment of foreigners and returnees. If they have spent more than two years abroad and have three times the average salary in Serbia, i.e. if they are under 40 and have spent 12 months in training / education abroad and have double the average salary in Serbia, they are entitled to a 70% reduction of their basis for tax and contributions. The right to tax relief may be exercised for a period of 5 years from the day of conclusion of the employment contract.

Women's position in the labour market remains more unfavourable than men's, as shown by all indicators. The disparity was the most pronounced between **employment rates**, where the difference was 16 p.p. (57.9 % for men and 41.9 % for women, Q3 2019, LFS). Women's share in the overall employed population in Serbia was 44% (LFS, Q3 2019), although their share in the overall population was 51.3% (SORS estimate, 2018).[63]

The positive trend manifested in the decrease of survey-based unemployment was accompanied by **a decrease in registered unemployment**. The average number of the unemployed registered with the National Employment Service (NES) decreased by 54,9 thousand in the period January-October 2019 or 9.3 % y-o-y. The decrease in unemployment can partly be attributed to decreased inflow, and partly to **these individuals becoming employed or struck off the unemployment register on the grounds of non-compliance with their legally stipulated obligations**.

The funds allocated for the ALMP implementation totaled RSD 4 billion in 2019, an increase

[61] International Migration Outlook 2018, OECD

[62] The most direct cost borne by society is the loss of funds invested in education. Data show that, on average, about EUR 34 thousand are invested in the education of a young person from preschool age, through primary and four-year secondary school, to graduation from academic studies, which last five years on average. The average education cost for a PhD holder amounts to about EUR 55 thousand (a rough approximation owing to unavailability of the necessary data breakdowns). – From the survey "Youth Emigration Costs", conducted by the Institute for Development and Innovation.

[63] It is worth noting that in the Republic of Serbia the retirement age is lower for women (62 years and 6 months) than for men (65 years), which affects labour market indicators as well.

compared to 2018, when the available funds amounted to RSD 3.65 billion. In both years, equal amounts from the Budget Fund – RSD 550 million in each year – were allocated for measures and activities aimed at stimulating employment and vocational rehabilitation of persons with disabilities. **The ratio to the GDP** of the total funds allocated for ALMPs (both sources, statutory social insurance contributions and the Budget Fund) **stood 0.08 % in 2018 and 2019**[64].

However, at the annual level, the funds allocated for ALMP implementation are sufficient to **involve only a quarter of the registered unemployed (22.4 % in 2017 and 26.2 % in 2018) in these policies**, resulting in a limited coverage of the unemployed. Most of the ALMP beneficiaries, as many as 83 % of the total number of participants in 2018, use services aimed at active job seeking (such as job seeking training, job fairs), which have a low impact on employment. Measures such as employment subsidies and measures related to additional education and training have a much greater impact on employment, but also cost more. It is essential to **increase budget allocations for active employment policy and earmark more funds for training the registered unemployed** to enhance their employability, given that a third of them are with no or low qualifications. This is also a priority recommendation in the area of employment given by the EC[65] in its report.

The **targeted inclusion of the unemployed in the ALMPs that will contribute most to their more competitive participation in the labour market** is essential; to achieve this, it is necessary to continue **improving counselling methods and techniques in dealing with the unemployed and employability assessment on a case-by-case basis** in line with individual characteristics (education level, work experience, additional knowledge and skills, gender etc.) and labour market characteristics.

It is essential to continue the **in-depth monitoring of labour market status and trends, employers' needs and skills gap, and continuous monitoring and impact assessment of the measures implemented**, in order to design new or modify existing measures to maximise impact, while intensifying NES activities aimed at promoting these measures.

STRUCTURAL REFORM MEASURE 20: NATIONAL EMPLOYMENT POLICY IMPROVEMENT IN LINE WITH EU GOOD PRACTICES AND STANDARDS

1. Description of measure

In the previous period, a coherent system for employment policy design, monitoring, assessment and reporting was created. More specifically, the National Employment Strategy 2011-2020 was adopted and is being implemented; annual National Employment Action Plans (NEAP) are adopted, providing the basis for drafting and signing annual National Employment Service performance agreements and NES annual work programmes. Annual NEAP implementation reports are submitted to the Government of Republic of Serbia; performance assessment of the first five years (2011-2015) of Strategy implementation was carried out in 2017 with support from the International Labour Organization, World Bank and European Commission.

[64] The allocations were not in line with the foreseen increase in the ratio of ALMP funds to the GDP as specified in the Employment Strategy, which emphasises the need to increase the funding continuously, i.e. to increase the ratio of ALMP expenditure to the GDP to 0.5 % by 2020.
[65] Serbia 2019 Report, p. 77.

By the end of 2020, in cooperation with institutions and partners included in the working group for the preparation of the National Employment Strategy, an analytical foundation for the new strategic framework in the area of employment and, subsequently, the National Employment Strategy 2021-2026 with an Action Plan 2021-2023 will be prepared.

The analytical foundation for the new strategic document involves an *ex post* analysis of the National Employment Strategy 2011-2020 and an *ex ante* analysis of the new Employment Strategy with key pillars and projections. In addition, the following analyses will be undertaken: (i) implementation of Professional practice programmes in the private and public sectors, (ii) functional analysis of the National Employment Service and two 168rganizational units responsible for the area of employment in the Ministry of Labour, Employment, Veteran and Social Affairs, (iii) analysis of prerequisites with recommendations for launching the Youth Guarantee and (iv) future of jobs.

On the basis of a situation overview and analysis and expected process changes, a new six years' strategic framework for employment policy will be prepared; it will contain the vision, overall and specific objectives, measures and activities to achieve them, key performance indicators to measure the efficiency and effectiveness of policy implementation, institutional framework and plan for monitoring implementation, performance evaluation and reporting on the measures implemented and goals/objectives achieved, and a three years' national employment action plan, consistent with the EU principles and instruments and reflecting the coherence of policies relevant to employment policy.

2. Planned activities by years

No	Planned activities	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Preparing an analytical foundation for designing a new strategic framework in the area of employment												
2	Preparing a new National Employment Strategy 2021-2026 with an Employment Action Plan 2021-2023												
3	Implementation and monitoring of the new National Employment Strategy 2021-2026 with the three years' Action Plan												

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2022)
The new National Employment Strategy 2021-2026 with the three years' Action Plan adopted and under implementation	/	Strategy and NEAP adopted	Documents under implementation

4. Expected impact on competitiveness

The development and consistent implementation of the new strategic framework for employment policy aligned with EU good practices and standards and responsive to the national labour market status and needs will provide the basis for designing specific active employment policy services and measures aligned with the characteristics, capacities and interests of the unemployed and also with employers' stated needs in terms of labour force knowledge, skills and competencies. The improved and strengthened operation of labour market institutions, participation in "targeted" active employment policy services and measures, as well as measures and activities implemented in the areas of economy, education, youth policy, social inclusion that are relevant to employment, will contribute to improving the human capital and labour market situation, prevention of adverse migration flows and reduction of work in the informal sector. In addition, the implementation of these measures and activities will address the development disparities between local labour markets.

5. Estimated costs of implementing structural reform and estimated sources of financing

In 2020, it is planned to prepare an analytical basis for the creation of a new strategic framework in the field of employment, as well as the creation of a new National Employment Strategy for the period 2021-2026 with an accompanying three – year action plan. In addition to employee engagement, the implementation of these activities will require external expert support, which will be funded by donor funds (SDC and ILO). It is planned to provide financial support in the amount of EUR 100,000.

During 2021 and 2022, the implementation of the new strategy, implementation of measures and activities identified in the accompanying action plan and continuous monitoring of the efficiency and effectiveness of the policies implemented will be undertaken.

Financing of active employment policy is well established and is carried out from the funds for mandatory unemployment insurance[66], the budget of the Republic of Serbia[67], the budget of the Autonomous Province and the budget of local self-government units[68], and in that sense there is no additional cost for implementing structural reforms in relation to the base year 2019.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Designing the new strategic framework aligned with labour market needs and current sectoral policy reform processes, including the accompanying action plan, is geared towards improving the labour market situation. Hard-to-employ persons will remain a focus of employment policy in the forthcoming period in order to promote their equality.

7. Expected impact on the environment

The structural reform is neutral in environmental terms.

[66] To implement the measures of the Employment Action Plan, which will be implemented in accordance with the new strategy and the accompanying action plan, funds in the amount of EUR 31.67 million are planned for 2021 and 2022 from the funds of the contributions for compulsory unemployment insurance.
[67] It is planned that EUR 4.58 million will be allocated for Vocational Rehabilitation and Employment Promotion of persons with disabilities in 2021 and 2022 from the Budget Fund.
[68] In the NES financial plan, funds are projected in the amount of EUR 7.5 million for the implementation of the measures foreseen by the local employment action plans in 2021 and 2022.

8. Potential risks

Risk	Probability of occurrence	Planned mitigating action
Limitations in labour market institutions' capacity building.	Medium	Plan an additional number of contracted entities.
Insufficient financial allocations for the delivery of active employment policy services and measures.	Medium	Work on pointing out the importance of employment policy and the need to allocate a greater amount of funding for the implementation of active employment policy measures.
Insufficient interest in cooperation among relevant ministries, other authorities and organisations, social partners and the civil sector.	Medium	Plan measures for greater visibility of the process.

<u>STRUCTURAL REFORM MEASURE 21:</u> PROVIDING PREREQUISITES FOR MONITORING, PROMOTING AND SUPPORTING CIRCULAR MIGRATION

1. Description of measure

Designing a mechanism to monitor the movement of the highly qualified Serbian diaspora and simplifying the procedure for return to the country will create employment opportunities for a substantial number of scientists and engineers, which will encourage the establishment of many research and development centres by the most advanced international companies. Beside the diaspora, it is important to actively work on attracting foreign professionals with background in occupations in short supply and encourage new technology development. To facilitate employment, tax incentives for new recruits, including youth entering the labour market, will be introduced. The importance of attracting highly qualified workforce and creating an environment conducive to employment and business is underscored by the RS Government Agenda (the Prime Minister's Keynote Address), as the Government's overarching policy document.

2. Planned activities by years

No	Planned activities	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Administrative establishment of the organisation and mapping of the diaspora, with study visits to countries with similar initiatives												
2	Presentation and promotion of tax incentives and simplified procedures for employment and return to the country												
3	Open dialog with the diaspora through the organisation of the Talent MeetUp 3.0 and 4.0 conferences												
4	Implementation of the programme for foreigners and returnees to pursue master and doctoral studies in Serbia												
5	Implementation of the programme for seniors and late-career professionals												
6	Promotion of success stories of returnees, foreigners in Serbia and circular migrants												

3. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (year)
Number of returnees (beneficiaries of the organisation's programmes)	0	100	600 (2025)
Number of tax incentive beneficiaries	0	3,000	10,000 (2025)
Number of days saved in the degree recognition process	0	45.500	75,600 (2021)

4. Expected impact on competitiveness

The Republic of Serbia still faces a shortage of experienced professionals with contemporary knowledge, who are crucial for the global competitiveness of companies and the economy. The implementation of this reform measure is geared towards attracting Serbian citizens who, in addition to their knowledge and experience, can use their contacts to facilitate access to many markets. An attractive environment will be created for scientists and engineers from all over the world to come and develop new technologies. This will also enhance competitiveness of the economy through the availability of new technologies, as well as state-of-the-art methods for managing complex business operations and large-scale development projects. This reform measure is expected to have the highest impact on the ICT sector, which currently accounts for about 5 % of the GDP, and measure`s contribution may result in a 0.1-0.5 % increase in the GDP.

5. Estimated costs of implementing structural reform and estimated sources of financing

In order to meet and overcome the challenges of the so-called "Brain drain" and negative migratory flows, an organization will be established to deal with circular migration. It will be established as a form of a public-private partnership and will initially be financed through donations (domestic and foreign donors). Study visits will be organized and funded by international organizations. Conferences Talent MeetUp 3.0 and 4.0 will be funded by the Serbia Creating Platform. Activities such as streamlining the return procedure and the certification of diplomas will have no additional costs, while the estimated cost of tax incentives will depend on the degree of utilization.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Given that the structural reform is partly aimed at attracting professionals in short supply, it will primarily affect employment, since the provision of the necessary workforce offers opportunities to attract foreign companies, which will result in higher employment. This will also result in poverty reduction. It is estimated that this measure will have no impact on equality and gender.

7. Expected impact on the environment

The structural reform is not expected to have an impact on the environment.

8. Potential risks

Risk	Probability of occurrence	Planned mitigating action
Incomplete mapping of the diaspora	Low	Provision of continuous support to diaspora clubs and organisations in building internal capacities.
Poor assessment of the business sector's needs	Low	Close cooperation with the National Employment Service and ongoing consultations with business sector representatives

5.3.8. Area SOCIAL PROTECTION AND INCLUSION

Analysis of main obstacles

Despite the widespread poverty in Serbia, the Survey on Income and Living Conditions indicators[69] have recorded improvements in recent years, which correlates with living standards improvement as a result of economic recovery and development of macroeconomic indicators. In 2018, **34.3 % of the population (2.4 million people)** were **at risk of poverty** or social exclusion, i.e. unable to attain a standard of living appropriate from the aspect of the society in which they lived (a decrease by 2.4 p.p. or 176 thousand people relative to 2017), exceeding the EU level (EU-28: 21.9 %, SILC, 2018). The **at-risk-of-poverty threshold** (relative poverty line) amounted to an average **RSD 16,615 (EUR 140) per month for a single-person household**, and **RSD 34,892 (EUR 295) for a four-member household with two adults and two children under the age of 14**.

Income distribution inequality is high, as indicated by the income quintile share ratio (S80/S20) – the most affluent 20% of the population had 8.6 times higher equalised income compared to the poorest 20% (EU-28: 5.2 %, SILC, 2018), with the **Gini coefficient**[70] at 35.6, which is above its average value in the EU-28 countries – 30.9 (SILC, 2018).

Poverty dynamics varies by age group and employment status. Persons in the 18-24 age bracket (29.1%) are at highest risk of poverty, as well as those under age 18 (28.8%). By employment status, among those aged 18+, the unemployed are at the highest risk of poverty (49 %). The risk of poverty of children is largely affected by their parents' labour market status, especially in conjunction with limited access to social services. In Serbia, as in many other countries, **certain groups are particularly disadvantaged**, most notably the Roma, especially those in informal settlements, as well as internally displaced persons, persons with severe disability, the elderly without pensions, individuals with no/low education and the non-urban population. Many poor households are **affected by multiple deprivation factors**, which requires complex preventive interventions, as well as active inclusion measures that combine cash benefits, employment/activation of beneficiaries and high-quality integrated social services.

The demographic situation in Serbia is adverse and, as such, **generates long-term pressure on social expenditures**. Serbia faces a pronounced depopulation trend and population ageing, which lead to a decline in the working-age population. Population decline is a result of negative natural growth and negative migration balance. The average age of Serbia's population in 2018 was as high as 43.2 years, placing Serbia among the oldest countries in Europe, with an average age over 43[71].

The number and share of elderly households are on the increase as well, especially single-person households, which drives the demand for social care services. According to the 2017 data, 29.1 % of the elderly in Serbia lived in elderly single-person households. This challenge is especially pronounced in small and underdeveloped emigration municipalities, as social care

[69] Source: Survey on Income and Living Conditions – SILC, SORS.
[70] The *Gini index* – a measure of income inequality, wealth distribution inequality.
[71] European countries with the oldest populations in 2018: Italy (46.3), Germany (46), San Marino (45.6), Portugal (44.8), Greece (44.6), Bulgaria (44.1).

services are funded from local government budgets.

Comparisons of expenditure on social protection in Serbia and the EU[72] measured as a percentage of the GDP show that Serbia is below the EU average (EU-28: 27.9%, Eurostat, 2017), though it still allocates more than some new EU members[73]. In 2017, the **expenditure on social protection** in Serbia amounted to **19.5 % of the GDP** (Eurostat). However, expressed in purchasing power standards, the expenditure amounted to only 2,355 PPS per capita, i.e. 3.6 times lower than in the EU-28 (8,388, 2017, Eurostat).

Public expenditure on social assistance and national budget transfers have decreased gradually in recent years and stood at **14.7 % of the GDP in 2018** (1 percentage point decrease relative to 2016), as a result of real reduction of pensions and unemployment benefits. The structure of expenditure on social assistance and transfers is **dominated by expenditure on pensions**, whose GDP share decreased from 10.9 % in 2016 to 10.4 % in 2018. **Expenditure on social assistance stood at 3.2 % of the GDP in 2018,** which is in line with the current development level, but inadequate for more systematic targeting of the beneficiaries most in need of assistance. Hence, **ensuring adequate financial and institutional resources for social policy** is a priority for the coming period.

Improving the adequacy of social benefits for people below the poverty threshold[74] and the reallocation of funds among the existing schemes are challenges, since a large number of socially vulnerable persons do not receive social benefits although they should, whereas, on the other hand, social protection entitlements are also exercised by individuals who are not socially vulnerable. To address this problem, **an integrated system for the creation of social cards is being introduced** as a documented modality of measuring the socio-economic strength of social protection beneficiaries. This system comprises the full range of assistance schemes in the domains of social and other types of protection subject to income and assets test and other aspects reflecting the socio-economic status, and is implemented by linking many different institutions (Tax Administration, Ministry of Interior Affairs, Property Cadastre, NES etc.). By linking the stated databases, the procedures will be significantly simplified and accessibility of services improved for the clients.

The number of social protection system beneficiaries is on the rise, despite population decline. Despite the continued population decline in Serbia, the number of social protection beneficiaries registered by centres for social work is steadily increasing. In the past five years, the number of clients grew by 11.2 % (735,330 in 2017, 654,558 in 2013). **Social assistance** (provided by centres for social work) and employment support services and measures (provided by the NES) require **better integration and coordination** in order to resolve the problems of people in need. Another challenge in the field of social protection concerns the **continuous improvement of service quality, strengthening of control and regulatory mechanisms, monitoring and evaluation**.

Gender equality is still not at a satisfactory level. Even though women accounted for 51.3% of

[72] Source: Eurostat, according to the European System of Integrated Social Protection Statistics (ESSPROS) methodology.
[73] Romania 14.6 %; Bulgaria 17.5 %; Czech Republic 18.9 %; Hungary 19.1 %.
[74] Serbia 2019 Report, p. 77.

the overall population (SORS estimate for 2018), they are still a **minority in decision-making positions**: women hold 37.2 % of the seats in the parliament, and 22 % of offices in the Government. Since 2017, the office of the Prime Minister of Serbia has for the first time been filled by a woman.

Serbia is the first non-EU country to introduce the Gender Equality Index[75]**.** Serbia's Gender Equality Index stands at 55.8 %[76], an improvement in gender equality as the index grew by 3.4 points between 2014 and 2016. Nevertheless, compared to the EU-28 average of 66.2 %[77]. Serbia is ranked 22nd on the common ranking list with EU Member States[78].

STRUCTURAL REFORM MEASURE 22: IMPROVEMENT OF THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES

1. Description of measure

Equitable distribution of the funds earmarked for social protection will be ensured through the establishment of a single Social Card register, which will enable assessing beneficiaries' social status and means; an essential prerequisite for this is the collection and use of the data that determine such status from all available public administration sources. In addition, the software – information system for support to business processes in social protection delivery (IS SOZIS) will also link social protection institutions, in particular centres for social work, into a single network. This reform was set as a goal in the Employment and Social Policy Reform Program (ESRP) (goal 1 and goal 6 – Social inclusion). The Ministry of Labour, Employment, Veteran and Social Affairs, therefore, prepared the *Draft Law on the Social Card*. The basis for its development is defined by the Action Plan for the implementation of the Government Agenda, which sets the implementation of social cards as a priority for the Ministry. The first phase of Social Card register development and internal linking of the subsystems at the Ministry level were completed in 2019. The reform will enable regular analyses of tendencies concerning poverty on the basis of the available evidence in order to identify new forms of poverty and adequate social protection measures.

2. Planned activities by years

No	Planned activities	2020				2021				2022			
		Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
1	Link centres for social work into a single network by implementing software – the information system for support to business processes in social protection delivery (Social Protection IS)												
2	IT links to data sources relevant to individual and family socio-economic status (Social Card register)												
3	Adopt the relevant bylaws												

[75] The Gender Equality Index is a European Union instrument that measures gender equality on a scale of 1 (full inequality) to 100 (full equality) across six domains: knowledge, work, money, health, time and power, as well as two sub-domains: violence and intersecting inequalities.
[76] It was calculated for year 2016, and the results were published in 2018.
[77] With reference to year 2015.
[78] According to the second edition of the Gender Equality Index, Serbia is ranked higher than seven EU Member States: Cyprus, Czech Republic, Croatia, Romania, Slovakia, Hungary and Greece.

4	Relevant instructions prepared and necessary training organised for the users of the Social Card register and SOZIS (Social Protection Information System)												

3. Performance indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Number of public administration bodies (external data sources) for which the information connection of the register Social card was made	5	7	8
Percentage of Social Work Centres and other beneficiaries using the Social Protection IS – SOZIS	0	70	100
Percentage of by-laws adopted by Law on the Social card	80	100	100
Percentage of relevant manuals prepared and trainings conducted for the users of the Social Card register and SOZIS (Social Protection Information System)	40	80	100

4. Expected impact on competitiveness

Not relevant for the area of "social protection and equality". The indirect impact on competitiveness.

5. Estimated costs of implementing structural reform and estimated sources of financing

The reform started with implementation in 2018. To implement the activities related to the Social Card register, which includes external records, i.e. connection with other state administration bodies and institutions, in order to consolidate data from their official records, funds were provided by the Law on Budget of RS for 2020 in the amount of EUR 833.333 (RSD 100 million).

For IS social protection - SOZIS, the planned funds in 2020 are – EUR 2,78 million, and in 2021 – EUR 2,5 million.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The establishment of a registry of the socio-economic status of individuals and persons related to them, i.e. the Social Card registry, will facilitate more equitable distribution of social assistance and reduction of abuse, faster response in case of changes in the data affecting the socio-economic status, as well as poverty prevention and addressing the consequences of social exclusion. It will also facilitate beneficiaries' access to entitlements, as it will enable them to exercise their entitlements through a single access point (a single contact with the competent institution regardless of the division of competences for services).

7. Expected impact on the environment

Structural reform is environmentally neutral.

8. Potential risks

Risk	Probability of occurrence	Planned mitigating action
Untimely passage of the Law on the Social Card	Medium	The Draft Law has been endorsed by Government committees. The Government should endorse the Bill and forward it to the National Assembly.
Failure to link the relevant institutions' information systems and open their databases	Medium	The passage of the Law on the Social Card is a prerequisite for the linking and implementation of the Social Card register.

VI. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the 2020-2022 period amount to EUR 604.62 million relative to the base year before the start of each individual reform. By year, the additional costs of implementing structural reforms in 2020 amount to EUR 184.85 million, in 2021 to EUR 274.98 million and a total of EUR 141.19 million for 2022.

The cost structure of reform measures in the coming three-year period is dominated by capital expenditure with a 67,94% share in total costs, followed by goods and services with 16,56% share, subsidies and transfers with a 15,11%, as well as wages with a 0,4% share.

Viewed from the standpoint of funding sources in the 2020-2022 the key source of additional funding of structural reforms are project loans with a 36,65% share and central government budget funds with a 36% share in total costs, followed by IPA funds representing 11.36% of all available resources.Local budgets and other domestic sources of funding have a negligible share in the total additional funding of structural reforms in the coming three-year period (their respective share is below 1% of total funds). The share of funding sources that are still to be determined for the funding of structural reforms stands at 9,95% and pertains to the funding of structural reforms in the period 2021 - 2022.

Funds for the implementation of structural reforms in 2020 are planned in line with the 2020 Budget Law ("Official Gazette of RS", No. 84/2019), in the form of budget funds and loan proceeds, donations or other sources.

Funds from the budget of the Republic of Serbia for the implementation of structural reforms in 2021 and 2022 must be planned in accordance with the assigned limits for those charged with their implementation during the budgetary procedure. Due to maintaining fiscal stability, securing additional funds for the implementation of structural reforms in 2021 and 2022 is limited and needs to be in line with budget constraints.

Detailed information about the additional impact of implementation of each individual structural reform on the budget and about potential non-budgetary financing is presented in Tables 10a and 10b in the Annex.

VII. INSTITUTIONAL MATTERS AND STAKEHOLDER PARTICIPATION

The preparation of the Economic Reform Programme (ERP) for the period 2020 to 2022 began in mid-2019, after the adoption of the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on the ECOFIN Council meeting on 17th of May 2019, receiving the European Commission guidelines in June 2019 and a regional kick-off meeting on 18th June in Brussels, presenting past experiences and new guidelines for the development of ERP.

The Republic of Serbia has a developed structure of inter-ministerial coordination of ERP. By Conclusion of the Government of the Republic dated 28 August 2018, Minister of Finance Siniša Mali was appointed National Coordinator and Head of the Working Group for ERP Preparation and Implementation Monitoring. By Decision of the Minister of Finance, on 18 July 2019, a new Working Group for Economic Reform Programme Preparation and Implementation Monitoring was formed. Annex 2 contains the list of institutions that took part in the preparation of ERP 2020-2022.

In line with the already established practice, the first part of the document, which concerns the macro-fiscal framework, was developed by the Ministry of Finance and the National Bank of Serbia and it relies, for the most part, on the 2020 Revised Fiscal Strategy with projections for 2021 and 2022. Work on the preparation of the content of the remaining chapters of this document was coordinated by the Ministry of Finance and the Public Policy Secretariat of the Republic of Serbia.

The sixth cycle of ERP development, for the period of 2020-2022, was launched in July (2-3 July) 2019, when an introductory meeting and a two-day training workshop were held; at the workshop, the European Commission's Guidance for the ERP 2020-2022, form for structural reform descriptions and methodology for structural reform costing were presented. The results achieved in the previous period, ECOFIN Council recommendations and further activities were also discussed. This two-day event was attended by ERP coordinators from line ministries and other relevant institutions of the Republic of Serbia, as well as European Commission and EU Delegation representatives; the event was organised with support from the regional IPA project “Strengthening Line Ministries’ Capacities to Assess Fiscal Implications of Structural Reforms”, implemented by the Centre of Excellence in Finance – CEF, Slovenia, and the Serbian-German development cooperation project “Support to Public Administration Reform“, implemented by the German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit – GIZ*).

The activities that followed concerned updating the diagnostics in all reform areas and collecting information on priority structural reform implementation for the 2019-2021 period. The preliminary list of structural reforms for the 2020-2022 period was formed based on the relevant institutions’ proposals, for which purpose a number of meetings were held with the competent ministries and the Working Group of the ERP Coordinators.

As until now, in the sixth cycle of ERP development, special attention was devoted to consultations with civil sector and academic community representatives, which were conducted in two cycles this year.

The process of comprehensive consultations was launched in the period of 11-21 October 2019, when the preliminary list of selected structural reforms was made available to the general public by being posted on the websites of the Ministry of Finance, Public Policy Secretariat and the Government of the Republic of Serbia. The first draft of the entire ERP 2020-2022 document was also made available to the general public from 6 to 20 December 2019 on the websites of the Ministry of Finance, Public Policy Secretariat and the Government of the Republic of Serbia. All stakeholders were thus given an opportunity to help improve the document through their comments.

In November 2019, process of structural reform costing was started in accordance with the new methodology for costing and identifying funding sources for individual structural reforms. A two-day workshop on this topic was held on 26-27th November in Vrdnik, for members of the ERP Working Group; it was organised with support from the regional IPA project "Strengthening Line Ministries' Capacities to Assess Fiscal Implications of Structural Reforms", implemented by the CEF. The work on this part of the document was finalised in December, after the adoption of the 2020 Budget Law on 28 November 2019.

Towards the end of November, meetings were held with European Commission and EU Delegation representatives and Serbian institutions responsible for specific areas of the ERP; at the meetings, the fulfilment of ECOFIN Council recommendations and the main challenges identified in the ERP assessment were discussed.

Final consultations with stakeholder representatives were held on 20 December 2019, at the meeting with the National Convention on the European Union, when first Draft of ERP 2020-2022 was discussed. The National Convention on the European Union brings together over 700 civil society organisations and represents a standing body within which a thematically structured debate on the Republic of Serbia's accession to the European Union is held between non-governmental organisations, experts, industry, trade unions and professional associations on the one hand, and Government representatives on the other, and has a very important role in this process. The National Convention has established within its structures a mechanism for ERP monitoring and evaluation, through a special horizontal ERP Task Force, and its members actively participate in this process.

The comments of civil society representatives, in the process of drafting the ERP, on this year's document are attached in Annex 1. Representatives of the Government of the Republic of Serbia, during the discussion held at the meeting on 20th December, 2019 responded to all the comments made by the representatives of civil society. Considering that the ERP is a rolling document, a large number of observations from the previous cycle was included in the ERP 2020-2022. After the consultations with stakeholders and internal procedure are completed, the document, adopted by the Government of the Republic of Serbia will be submitted to the European Commission by the planned deadline, i.e. by the end of January 2020. The ERP will then further be discussed with representatives of EU institutions and member states in the process of European semester Light for Western Balkans and Turkey, and the next, seventh cycle of ERP development is expected to begin in mid-2020.

VIII. ANNEXES

Country:	**Serbia**
Year of submission (deadline)	2020
Pre-year prices prices (no = 0, yes = 1)	0
BOP-Data: National Currency = 0, EUR = 1	1

Table 1: Macroeconomic framework

1a: Demand side, const. prices (Bn.NCU/EUR)	ESA Code	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
GDP at market prices	B1*g	3,580.1	3,737.4	3,868.6	4,023.3	4,184.2	4,351.2
Private consumption expenditure	P3	2,470.7	2,546.4	2,635.6	2,738.4	2,837.8	2,943.0
Government consumption expenditure	P3	630.8	654.0	680.8	691.0	700.0	702.8
Gross fixed capital formation	P51	691.0	814.2	886.1	942.8	994.1	1,051.2
Domestic Demand		3,792.5	4,014.6	4,202.5	4,372.2	4,531.9	4,697.0
6. Changes in inventories and net acquisition of valuables	P52+P53	52.8	80.1	78.3	78.5	80.5	82.2
Exports of goods and services	P6	1,858.4	2,012.8	2,185.5	2,362.5	2,561.0	2,775.1
Imports of goods and services	P7	2,123.7	2,370.1	2,597.7	2,789.9	2,989.1	3,203.1
Net exports		-265.2	-357.3	-412.2	-427.4	-428.1	-428.1
1a: Demand side, curr. prices (Bn. NCU)							
GDP at market prices	B1*g	4,754.4	5,068.6	5,417.1	5,826.8	6,263.6	6,740.5
Private consumption expenditure	P3	3367.5	3511.9	3703.9	3923.7	4155.6	4415.0
Government consumption expenditure	P3	768.8	839.3	928.8	992.7	1059.9	1126.9
Gross fixed capital formation	P51	843.7	1016.5	1139.1	1257.3	1370.8	1495.8
Domestic Demand		4,980.0	5,367.7	5,771.7	6,173.7	6,586.3	7,037.7
6. Changes in inventories and net acquisition of valuables	P52+P53	87.8	132.6	138.8	132.6	151.3	173.5
Exports of goods and services	P6	2402.9	2573.6	2830.9	3121.4	3425.3	3775.0
Imports of goods and services	P7	2716.3	3005.3	3324.4	3600.9	3899.4	4245.7
Net exports		-313.4	-431.7	-493.4	-479.5	-474.1	-470.6

1a: Exchange rate							
Exchange rate National Currency Unit/EUR (Annual average)	NCU/EUR	121.3	118.3	117.9			
Exchange rate National Currency Unit/EUR (End year)	NCU/EUR	118.5	118.2	117.6			
Table 1b: Price developments							
1. GDP deflator	Index	132.8	135.6	140.0	144.8	149.7	154.9
2. Private consumption deflator	Index	136.3	137.9	140.5	143.3	146.4	150.0
3. HICP	Index	105.0	107.1	109.3			
4. National CPI	Index	104.8	106.9	108.8	111.0	113.5	116.3
5. Public consumption deflator	Index	121.9	128.3	136.4	143.7	151.4	160.3
6. Investment deflator	Index	122.1	124.8	128.6	133.4	137.9	142.3
7. Export price deflator (goods & services)	Index	129.3	127.9	129.5	132.1	133.8	136.0
8. Import price deflator (goods & services)	Index	127.9	126.8	128.0	129.1	130.5	132.5
Table 1c: Labour markets developments							
1. Population (thousands)	1000 pers.	7020.9	6982.6	6954.7	6926.9	6899.1	6871.6
3. Working-age population (persons)[1]	1000 pers.	4618.5	4565.0	4583.1	4571.7	4553.4	4542.1
Total labour force	1000 pers.	3080.8	3096.4	3084.4	3085.9	3093.6	3097.7
5. Employment, persons [2]	1000 pers.	2647.9	2685.4	2739.1	2772.0	2799.7	2827.7
6. Employment, hours worked[3]	1000 pers.						
8. Public sector employment (persons)	1000 pers.						
13. Compensation of employees	Bn. NCU						
Table 1d: Sectoral balances		**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
1. Net lending/borrowing vis-à-vis the rest of the world	bn EUR	-2.1	-2.2	-2.7	-2.6	-2.7	-2.6
of which:							
- Balance of goods and services	bn EUR	-3.0	-4.2	-4.7	-4.7	-4.7	-4.6
- Balance of primary incomes and transfers	bn EUR	1.0	1.9	2.0	2.1	1.9	2.0
- Capital account	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0
Table 1e: GDP, investment and gross value added							
1. Agriculture	const. prices	217,423.5	250,467.9	250,467.9	243,454.8	245,061.6	246,433.9
2. Industry (excluding construction)	const. prices	807,734.8	815,862.6	818,310.2	853,497.5	893,611.9	937,756.3
3. Construction	const. prices	143,502.5	161,799.6	191,570.7	209,003.7	222,588.9	235,944.2

4. Services	const. prices	1,867,233.0	1,945,303.0	2,021,169.8	2,108,080.1	2,193,668.2	2,282,489.8
1. Agriculture	curr. prices	286,244.6	321,481.2				
2. Industry (excluding construction)	curr. prices	1,044,706.3	1,065,455.0				
3. Construction	curr. prices	195,677.8	225,802.4				
4. Services	curr. prices	2,419,723.1	2,585,990.2				
Table 1f: External sector developments		**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
2. Export of goods	bn EUR	14	15	17	19	21	23
3. Import of goods	bn EUR	18	20	23	25	27	29
4. Trade balance	bn EUR	-4	-5	-6	-6	-6	-7
5. Export of services	bn EUR	5	6	7	8	8	9
6. Import of services	bn EUR	4	5	6	6	7	7
7. Service balance	bn EUR	1	1	1	1	2	2
8. Net interest payments from abroad	bn EUR	-1	-1	-1	-1	-1	0
9. Other net factor income from abroad	bn EUR	-2	-2	-1	-2	-2	-2
10. Current transfers	bn EUR	4	4	4	4	4	4
11. Of which from EU	bn EUR		3	3	3	3	3
12. Current account balance	bn EUR	-2	-2	-3	-3	-3	-3
13. Capital and financial account	bn EUR	2	2	3	2	3	2
14. Of which: Net Foreign direct investment	bn EUR	2	3	3	3	3	3
14.a Of which: Net-FDI (Equity)	bn EUR	1	2	2	2	2	2
15. Of which: Portefolio investment	bn EUR	-1	-1	0	0	0	0
15.a Of which: Net-Portefolio investment (Equity)	bn EUR	0	0	0	0	0	0
16. Foreign reserves	bn EUR	10	10	14	14	14	15
17. Total Net External debt	bn EUR	17	17	18	18	18	16
18. Of which: foreign currency denominated external debt	bn EUR	16	15	16	16	15	14
19. Of which: public external debt	bn EUR	*6*	*6*	*6*	*6*	*5*	*5*
20. Of which: interest payments	bn EUR	1	1	1	1	1	0
21. Of which: repayments due	bn EUR	*4*	*4*	*5*	*5*	*4*	*4*
22. Net foreign saving	bn EUR						
23. Domestic private saving	bn EUR						

24. Domestic private investment	bn EUR						
25. Domestic public saving	bn EUR						
26. Domestic public investment	bn EUR						

[1] Age group of 15-64 years
[2] Occupied population, LFS definition
[3] National accounts definition

1g: Sustainability indicators	Dimension	2014	2015	2016	2017	2018	2019
1. Current Account Balance	Bn NCU or EUR	-2	-1	-1	-2	-2	-3
2. Net International Investment Position	Bn NCU or EUR	-32	-34	-35	-36	-37	-39
3. Export market shares	% of total export market	0	0	0	0	0	0
4. Real Effective Exchange Rate	Index	123	116	115	119	123	123
5. Nominal Unit Labour Costs	Index	173	171	174	182	191	205
6. Private sector credit flow	bn NCU	22	59	110	84	189	134
7. Private sector debt	bn NCU	1,642	1,701	1,811	1,895	2,084	2,218
8. General Government Debt	bn NCU	2,808	3,072	3,111	2,791	2,757	2,866
p.m. GDP at current market prices	bn NCU	4,161	4,312	4,521	4,754	5,069	5,417
p.m. Exchange rate (Annual average)	NCU/EUR	117	121	123	121	118	118

Table 1a: Macroeconomic prospects

Serbia

Percentages unless otherwise indicated	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		Level (bn EUR)	**Rate of change**				
1. Real GDP at market prices	B1*g	31.600	4.4	3.5	4.0	4.0	4.0
2. Current GDP at market prices	B1*g	42.856	6.6	6.9	7.6	7.5	7.6

Components of real GDP							
3. Private consumption expenditure	P3	21.531	3.1	3.5	3.9	3.6	3.7
4. Government consumption expenditure	P3	5.530	3.7	4.1	1.5	1.3	0.4
5. Gross fixed capital formation	P51	6.884	17.8	8.8	6.4	5.4	5.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.677	2.1	2.0	2.0	1.9	1.9
7. Exports of goods and services	P6	17.019	8.3	8.6	8.1	8.4	8.4
8. Imports of goods and services	P7	20.040	11.6	9.6	7.4	7.1	7.2
Contribution to real GDP growth							
9. Final domestic demand		33.9	6.2	5.0	4.4	4.0	3.9
10. Change in inventories and net acquisition of valuables	P52+P53	0.7	0.8	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-3.0	-2.6	-1.5	-0.4	0.0	0.0

Table 1b: Price developments

Serbia

Percentage changes, annual averages	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. GDP deflator		2.1	3.3	3.4	3.4	3.5
2. Private consumption deflator		1.2	1.9	2.0	2.2	2.4
3. HICP		2.0	2.1	:	:	:
4. National CPI change		2.0	1.9	2.0	2.2	2.5
5. Public consumption deflator		5.3	6.3	5.3	5.4	5.9
6. Investment deflator		2.2	3.0	3.7	3.4	3.2
7. Export price deflator (goods & services)		-1.1	1.3	2.0	1.2	1.7
8. Import price deflator (goods & services)		-0.9	0.9	0.9	1.1	1.6

Table 1c: Labour markets developments

Serbia

	ESA Code	Year 2018 Level	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
			Level/Rate of change				
1. Population (thousands)			6,982.6	6,954.7	6,926.9	6,899.1	6,871.6
2. Population (growth rate in %)			-0.5	-0.4	-0.4	-0.4	-0.4
3. Working-age population (persons)[1]			4,565	4,583	4,572	4,553	4,542
4. Participation rate			67.8	67.3	67.5	67.9	68.2
5. Employment, persons [2]			2,685	2,739	2,772	2,800	2,828
6. Employment, hours worked[3]			:	:	:	:	:
7. Employment (growth rate in %)			1.4	2.0	1.2	1.0	1.0
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate [4]			13.3	11.2	10.2	9.5	8.7
11. Labour productivity, persons[5]		1391.7	2.9	1.5	2.8	3.0	3.0
12. Labour productivity, hours worked[6]			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

[1] Age group of 15-64 years

[2] Occupied population, LFS definition

[3] National accounts definition

[4] Harmonised definition, Eurostat; levels

[5] Real GDP per person employed

[6] Real GDP per hour worked

Table 1d: Sectoral balances

Serbia

Percentages of GDP	ESA code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-5.2	-5.9	-5.3	-5.2	-4.7
of which:						
- *Balance of goods and services*		-9.7	-10.3	-9.6	-8.9	-8.2
- *Balance of primary incomes and transfers*		4.5	4.4	4.3	3.7	3.5
- *Capital account*		0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-5.8	-5.4	:	:	:
3. Net lending/borrowing of general government		0.6	-0.5	-0.5	-0.5	-0.5
4. Statistical discrepancy		0.0	0.0	:	:	:

Table 1e: GDP, investment and gross value added

Serbia

	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	5,068.6	5,417.1	5,826.8	6,263.6	6,740.5
Investment ratio (% of GDP)		20.1	21.0	21.6	21.9	22.2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		15.2	0.0	-2.8	0.7	0.6

2. Industry (excluding construction)		1.0	0.3	4.3	4.7	4.9
3. Construction		12.8	18.4	9.1	6.5	6.0
4. Services		4.2	3.9	4.3	4.1	4.0

Table 1f: External sector developments

Serbia

Billion Euro unless otherwise indicated		Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Current account balance (% of GDP)	% of GDP	-5.2	-5.9	-5.3	-5.2	-4.7
2. Export of goods	bn EUR	15.2	16.6	18.8	20.7	22.9
3. Import of goods	bn EUR	20.5	22.7	25.0	27.1	29.4
4. Trade balance	bn EUR	-5.2	-6.1	-6.2	-6.3	-6.5
5. Export of services	bn EUR	6.0	7.0	7.7	8.5	9.3
6. Import of services	bn EUR	4.9	5.6	6.3	6.8	7.4
7. Service balance	bn EUR	1.1	1.4	1.5	1.7	1.9
8. Net interest payments from abroad	bn EUR	-0.7	-0.6	-0.6	-0.5	-0.4
9. Other net factor income from abroad	bn EUR	-1.5	-1.4	-1.6	-1.7	-1.9
10. Current transfers	bn EUR	4.1	4.1	4.3	4.2	4.2
11. Of which from EU	bn EUR	2.8	2.9	3.0	3.0	2.9
12. Current account balance	bn EUR	-2.2	-2.7	-2.6	-2.7	-2.6
13. Capital and financial account	bn EUR	1.7	2.5	2.5	2.5	2.4
14. Foreign direct investment	bn EUR	3.2	3.2	3.0	3.0	3.0
15. Foreign reserves	bn EUR	10.1	13.5	13.8	14.3	14.6
16. Net Foreign debt	bn EUR	17.3	17.8	17.8	17.5	16.4
17. Of which: public	bn EUR	6.0	6.4	5.9	5.3	4.6
18. O/w: foreign currency denominated	bn EUR	15.4	15.8	15.7	15.3	14.1
19.O/w: repayments due	bn EUR	4.1	5.4	4.5	4.1	4.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	118.3	117.9	:	:	:
p.m. Exchange rate vis-à-vis EUR (annual average)	*%, year-on-year*	*-2.5*	*-0.4*	*:*	*:*	*:*

20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	118.2	117.6	:	:	:
p.m. Exchange rate vis-à-vis EUR (end-year)	*%, year-on-year*	*-0.2*	*-0.5*	*:*	*:*	*:*
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators

Serbia

	Dimension	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019
1. Current Account Balance	% of GDP	-3.5	-2.9	-5.2	-5.2	-5.9
2. Net International Investment Position	% of GDP	-94.9	-94.5	-91.0	-87.1	-84.0
3. Export market shares	%, yoy	2.9	12.2	3.1	5.2	6.2
4. Real Effective Exchange Rate [1]	%, yoy	-5.2	-1.3	3.3	3.6	-0.1
5. Nominal Unit Labour Costs	%, yoy	-1.1	1.6	4.6	4.9	7.3
6. Private sector credit flow	% of GDP	1.2	2.0	1.4	3.0	2.0
7. Private sector debt	% of GDP	39.5	40.1	39.9	41.1	40.9
8. General Government Debt	% of GDP	71.2	68.8	58.7	54.4	52.9

[1] Based on Consumer Price Index, Euro and Dollar weights 80:20, Jan-Oct 2019 / Jan-Oct 2018.
[2] Q1-Q3 2019 / Q1-Q3 2018.
[3] 2019 data - end of October.

Table 2: General government budgetary prospects	**bn NCU**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Net lending (B9) by sub-sectors							
1. General government	S13	52.3	32.2	-27.1	-29.0	-33.0	-35.9
2. Central government	S1311	30.2	26.7	-25.0	-25.3	-34.9	-35.6
3. State government	S1312						
4. Local government	S1313	12.3	0.7	5.2	2.6	1.9	-0.3
5. Social security funds	S1314	9.8	4.8	-7.2	-6.3	0.0	0.0
General government (S13)							
6. Total revenue	TR	1,973.4	2,105.3	2,244.7	2,340.8	2,466.8	2,608.8
7. Total expenditure[1]	TE	1,921.1	2,073.0	2,271.8	2,369.9	2,499.8	2,644.7
8. Net borrowing/lending	EDP.B9	52.3	32.2	-27.1	-29.0	-33.0	-35.9
9. Interest expenditure	EDP.D41 incl. FISIM	121.2	108.6	112.9	113.6	108.7	110.9
10. Primary balance[2]		173.5	140.9	85.8	84.6	75.7	75.0
11. One-off and other temporary measures [3]							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,150.5	1,202.6	1,305.5	1,359.2	1,433.6	1,508.9
12a. Taxes on production and imports	D2	833.7	870.4	937.1	986.4	1,038.3	1,090.3
12b. Current taxes on income and wealth	D5	316.1	331.2	367.4	371.9	394.2	417.6
12c. Capital taxes	D91	0.7	0.9	1.0	1.0	1.0	1.1
13. Social contributions	D61	567.4	619.7	673.1	725.2	782.9	844.4
14. Property income	D4	70.4	73.1	75.8	78.5	81.3	84.2
15. Other (15 = 16-(12+13+14)) [4]		185.1	209.9	190.4	177.9	169.0	171.3
16 = 6. Total revenue	TR	1,973.4	2,105.3	2,244.7	2,340.8	2,466.8	2,608.8
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,717.9	1,822.2	1,978.6	2,084.5	2,216.5	2,353.3
Selected components of expenditures							
17. Collective consumption	P32	701.2	812.2	896.3	949.5	1,015.1	1,084.1
18. Total social transfers	D62 + D63	720.1	746.0	794.9	824.8	869.4	910.5
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	720.1	746.0	794.9	824.8	869.4	910.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	121.2	108.6	112.9	113.6	108.7	110.9

20. Subsidies	D3	113.3	109.7	128.0	114.2	115.8	118.6
21. Gross fixed capital formation	P51	133.9	199.3	236.9	260.0	289.2	317.3
22. Other (22 = 23-(17+18+19+20+21) [6]		131.4	97.3	102.8	107.7	101.5	103.2
23. Total expenditures [7]	TE	1,921.1	2,073.0	2,271.8	2,369.9	2,499.8	2,644.7
p.m. compensation of employees	D1	426.3	468.8	514.4	554.8	594.8	638.4

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] 2The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

[7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects

Serbia

	ESA code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	32.2251	0.6	-0.5	-0.5	-0.5	-0.5
2. Central government	S1311	26.7000	0.5	-0.5	-0.4	-0.6	-0.5
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	0.7019	0.0	0.1	0.0	0.0	0.0
5. Social security funds	S1314	4.8442	0.1	-0.1	-0.1	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,105.2669	41.5	41.4	40.2	39.4	38.7

7. Total expenditure[1]	TE	2,073.0418	40.9	41.9	40.7	39.9	39.2
8. Net borrowing/lending	EDP.B9	32.2251	0.6	-0.5	-0.5	-0.5	-0.5
9. Interest expenditure	EDP.D41 incl. FISIM	108.6325	2.1	2.1	1.9	1.7	1.6
10. Primary balance[2]		140.8576	2.8	1.6	1.5	1.2	1.1
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,202.5705	23.7	24.1	23.3	22.9	22.4
12a. Taxes on production and imports	D2	870.4300	17.2	17.3	16.9	16.6	16.2
12b. Current taxes on income and wealth	D5	331.2039	6.5	6.8	6.4	6.3	6.2
12c. Capital taxes	D91	0.9365	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	619.6660	12.2	12.4	12.4	12.5	12.5
14. Property income	D4	73.1263	1.4	1.4	1.3	1.3	1.2
15. Other (15 = 16-(12+13+14)) [4]		209.9041	4.1	3.5	3.1	2.7	2.5
16 = 6. Total revenue	TR	2,105.2669	41.5	41.4	40.2	39.4	38.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,822.2365	36.0	36.5	35.8	35.4	34.9
Selected components of expenditures							
16. Collective consumption	P32	812.2006	16.0	16.5	16.3	16.2	16.1
17. Total social transfers	D62 + D63	745.9553	14.7	14.7	14.2	13.9	13.5
17a. Social transfers in kind	P31 = D63	0.0000	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	745.9553	14.7	14.7	14.2	13.9	13.5
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.6325	2.1	2.1	1.9	1.7	1.6
19. Subsidies	D3	109.6621	2.2	2.4	2.0	1.8	1.8
20. Gross fixed capital formation	P51	199.2631	3.9	4.4	4.5	4.6	4.7
21. Other (21 = 22-(16+17+18+19+20) [6]		97.3281	1.9	1.9	1.8	1.6	1.5

22. Total expenditures	TE [1]	2,073.0418	40.9	41.9	40.7	39.9	39.2
p.m. compensation of employees	D1	468.8223	9.2	9.5	9.5	9.5	9.5

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2b: General government budgetary prospects

Serbia

	ESA code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	32.23	-27.06	-29.04	-33.02	-35.91
2. Central government	S1311	26.70	-25.00	-25.30	-34.92	-35.60
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	0.70	5.19	2.60	1.86	-0.30
5. Social security funds	S1314	4.84	-7.20	-6.33	0.00	0.00
General government (S13)						
6. Total revenue	TR	2105.27	2244.74	2340.82	2466.80	2608.83
7. Total expenditure[1]	TE	2073.04	2271.80	2369.86	2499.82	2644.74
8. Net borrowing/lending	EDP.B9	32.23	-27.06	-29.04	-33.02	-35.91
9. Interest expenditure	EDP.D41 incl. FISIM	108.63	112.90	113.60	108.70	110.90
10. Primary balance[2]		140.86	85.84	84.56	75.68	74.99
11. One-off and other temporary measures [3]		:	:	:	:	:

Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1202.57	1305.50	1359.24	1433.58	1508.94
12a. Taxes on production and imports	D2	870.43	937.12	986.39	1038.33	1090.31
12b. Current taxes on income and wealth	D5	331.20	367.42	371.85	394.23	417.57
12c. Capital taxes	D91	0.94	0.96	0.99	1.02	1.05
13. Social contributions	D61	619.67	673.13	725.23	782.94	844.37
14. Property income	D4	73.13	75.76	78.49	81.31	84.24
15. Other (15 = 16-(12+13+14)) [4]		209.90	190.35	177.86	168.97	171.28
16 = 6. Total revenue	TR	2105.27	2244.74	2340.82	2466.80	2608.83
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1822.24	1978.63	2084.47	2216.52	2353.31
Selected components of expenditures						
16. Collective consumption	P32	812.20	896.30	949.51	1015.09	1084.13
17. Total social transfers	D62 + D63	745.96	794.90	824.85	869.44	910.53
17a. Social transfers in kind	P31 = D63	0.00	0.00	0.00	0.00	0.00
17b. Social transfers other than in kind	D62	745.96	794.90	824.85	869.44	910.53
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.63	112.90	113.60	108.70	110.90
19. Subsidies	D3	109.66	128.00	114.22	115.83	118.63
20. Gross fixed capital formation	P51	199.26	236.90	260.02	289.23	317.34
21. Other (21 = 22-(16+17+18+19+20) [6]		97.33	102.80	107.65	101.52	103.21
22. Total expenditures	TE [1]	2073.04	2271.80	2369.86	2499.82	2644.74
p.m. compensation of employees	D1	468.82	514.40	554.79	594.77	638.40

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3] A plus sign means deficit-reducing one-off measures

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3: General government expenditure by function (bn NCU)	COFOG Code	2017	2018	2019	2020	2021	2022
1. General public services	1	297.9	301.8	324.9	349.0	369.6	390.9
2. Defence	2	65.8	85.3	102.7	92.1	100.2	107.8
3. Public order and safety	3	113.9	129.2	149.8	152.8	156.6	168.5
4. Economic affairs	4	241.6	265.3	297.8	306.0	313.2	330.9
5. Environmental protection	5	13.4	14.5	16.3	18.3	18.8	20.2
6. Housing and community amenities	6	66.7	73.8	79.1	82.1	87.7	94.4
7. Health	7	242.3	276.0	292.4	317.8	344.5	370.7
8. Recreation, culture and religion	8	43.6	47.7	49.2	50.0	56.4	60.7
9. Education	9	147.4	162.6	172.6	185.6	206.7	222.4
10. Social protection	10	688.5	716.9	786.9	816.2	846.1	878.2
Other relevant variables							
11. Total expenditure (item 7 = 23 in Table 2)	TE	1,921.1	2,073.0	2,271.8	2,369.9	2,499.8	2,644.7

Table 3: General government expenditure by function **Serbia**

% of GDP	COFOG Code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. General public services	1	6.0	6.0	6.0	5.9	5.8
2. Defence	2	1.7	1.9	1.6	1.6	1.6
3. Public order and safety	3	2.5	2.8	2.6	2.5	2.5
4. Economic affairs	4	5.2	5.5	5.3	5.0	4.9
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	1.5	1.5	1.4	1.4	1.4
7. Health	7	5.4	5.4	5.5	5.5	5.5
8. Recreation, culture and religion	8	0.9	0.9	0.9	0.9	0.9
9. Education	9	3.2	3.2	3.2	3.3	3.3
10. Social protection	10	14.1	14.5	14.0	13.5	13.0
11. Total expenditure (item 7 = 23 in Table 2)	TE	40.9	41.9	40.7	39.9	39.2

Table 4: General government debt developments		**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
1. Gross debt [1]	bn NCU	2,790.5	2757.3	2865.5	2995.1	3138.3	3255.4
Contributions to change in gross debt							
5. Stock-flow adjustment	bn NCU	-268.0	-1.0	81.1	100.6	110.2	81.2
of which:							
- Differences between cash and accruals[4]	bn NCU						
- Net accumulation of financial assets[5]	bn NCU						
of which:							
- Privatisation proceeds	bn NCU						
- Valuation effects and other[6]	bn NCU						
Other relevant variables							
6. Liquid financial assets[8]	bn NCU						

[1] As defined in Regulation 3605/93 (not an ESA concept).
[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.
[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.
[6] Changes du to exchange rage movement, and operation in secondary market could be distinguished when relevant.
[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 4: General government debt developments **Serbia**

% of GDP	ESA code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Gross debt [1]		54.4	52.9	51.4	50.1	48.3
2. Change in gross debt ratio			-1.5	-1.5	-1.3	-1.8
Contributions to change in gross debt						

3. Primary balance [2]		-2.78	-1.6	-1.5	-1.2	-1.1
4. Interest expenditure [3]	EDP D.41	2.14	2.1	1.9	1.7	1.6
5. Stock-flow adjustment		0.6	-2.0	-2.0	-1.8	-2.3
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3.9	4.1	4.0	3.6	3.5
Other relevant variables						
6. Liquid financial assets [8]		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes du to exchange rage movement, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments		2018	2019	2020	2021	2022
4. One-off and other temporary measures [1]	% of GDP	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth	%, yoy	3.3	3.6	3.9	4.0	4.1
Contributions:						
- labour		1.3	2.0	1.0	0.7	0.6
- capital		1.0	1.1	1.2	1.3	1.4
- total factor productivity		1.0	0.6	1.7	2.0	2.1
6. Output gap	% of GDP	0.30	0.20	0.30	0.30	0.20
7. Cyclical budgetary component	% of GDP	0.10	0.10	0.10	0.10	0.10

[1] A plus sign means deficit-reducing one-off measures.

Table 5: Cyclical developments **Serbia**

% of GDP	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Real GDP growth (%, yoy)	B1g	4.4	3.5	4.0	4.0	4.0
2. Net lending of general government	EDP.B.9	0.6	-0.5	-0.5	-0.5	-0.5
3. Interest expenditure	EDP.D.41	2.1	2.1	1.9	1.7	1.6
4. One-off and other temporary measures [1]		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%, yoy)		3.3	3.6	3.9	4.0	4.1
Contributions:						
- labour		1.3	2.0	1.0	0.7	0.6
- capital		1.0	1.1	1.2	1.3	1.4
- total factor productivity		1.0	0.6	1.7	2.0	2.1
6. Output gap		0.3	0.2	0.3	0.3	0.2
7. Cyclical budgetary component		0.1	0.1	0.1	0.1	0.1
8. Cyclically-adjusted balance (2-7)		0.5	-0.6	-0.6	-0.6	-0.6
9. Cyclically-adjusted primary balance (8+3)		2.7	1.5	1.4	1.1	1.0
10. Structural balance (8-4)		0.5	-0.6	-0.6	-0.6	-0.6

[1] A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous programme		2018	2019	2020	2021	2022
1. GDP growth	%, yoy, previous programme	4.2	3.5	4.0	4.0	
2. General government net lending	% of GDP, previous programme	0.6	-0.5	-0.5	-0.5	
3. General government gross debt	% of GDP, previous programme	54.4	51.7	49.3	46.9	

Table 6: Divergence from previous programme **Serbia**

	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. GDP growth (%, yoy)					
Previous programme	4.2	3.5	4.0	4.0	:
Latest update	4.4	3.5	4.0	4.0	4.0
Difference (percentage points)	0.2	0.0	0.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	0.6	-0.5	-0.5	-0.5	:
Latest update	0.6	-0.5	-0.5	-0.5	-0.5
Difference	0.0	0.0	0.0	0.0	:
3. General government gross debt (% of GDP)					
Previous programme	54.4	51.7	49.3	46.9	:
Latest update	54.4	52.9	51.4	50.1	48.3
Difference	0.0	1.2	2.1	3.2	:

Table 7: Long-term sustainability of public finances (% GDP)	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
of which: property income							
of which: from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
of which: consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7a: Contingent liabilities		**2019**	**2020**
Public Guarantees	bn NCU	177.4	171.3
Of which: linked to the finanical sector	bn NCU		Optional

Table 7: Long-term sustainability of public finances **Serbia**

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
of which: property income	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:

Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: General government guarantees **Serbia**

% of GDP	Year 2019	Year 2020
Public guarantees	3.7	3.4
Of which: linked to the financial sector	:	:

Table 8: Basic assumptions on external economic environment [1]	**Dimension**	**2018**	**2019**	**2020**	**2021**	**2022**
Short-term interest rate [1]	Annual average					
Long-term interest rate	Annual average					
USD/EUR exchange rate	Annual average					
Nominal effective exchange rate	Annual average					
Exchange rate vis-à-vis the EUR	Annual average					
Global GDP growth, excluding EU	Annual average					
EU GDP growth	Annual average					
Growth of relevant foreign markets	Annual average					
World import volumes, excluding EU	Annual average					
Oil prices (Brent, USD/barrel)	Annual average					

[1] If necessary, purely technical assumption.

Table 8: Basic assumptions on the external economic environment [1] **Serbia**

	Dimension	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange rate	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	:	:	:	:	:
EU GDP growth	Annual average	:	:	:	:	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	:	:	:	:	:

[1] If necessary, purely technical assumption.

Table 9: Selected employment and social indicators

	Data source	2015	2016	2017	2018
1. Labour market participation rate (%) total (20-64 years old)	LFS*	68.0	70.0	71.2	72.5
- male	LFS	76.6	78.0	78.8	80.2
- female	LFS	59.4	62.0	63.6	64.8
2. Employment rate (%) total (20-64 years old)	LFS	55.9	59.1	61.4	63.1
- male	LFS	63.6	66.3	68.5	70.5
- female	LFS	48.2	51.9	54.4	55.8
3. Unemployment rate (%) total	LFS	17.7	15.3	13.5	12.7
- male	LFS	16.8	14.6	12.8	11.9
- female	LFS	18.8	16.1	14.3	13.7
4. Long-term unemployment rate (%) total	LFS	11.3	9.9	8.2	7.5
- male	LFS	10.6	9.5	7.9	7.2
- female	LFS	12.2	10.5	8.5	8.0
5. Youth unemployment (15-24 years old) rate (%) total	LFS	43.2	34.9	31.9	29.7
- male	LFS	40.1	32.2	29.2	28.3
- female	LFS	48.2	39.5	36.3	32.0
6. Young people (15-24 years old) not in employment, education or training (NEET), in %	LFS	19.9	17.7	17.2	16.5
7. Early school leavers, in % (Eurostat definition)	LFS	7.4	7.0	6.2	6.8
8. PISA Rating					
9. PIAAC rating					
10. Participation rate in early childhood education and care	SORS-Statistics of education	48.5	50.7	52.5	54.5
11. GINI coefficient	EU-SILC**	40.0	39.8	37.8	35.6
12. Inequality of income distribution S80/S20 (Income quintile ratio)	EU-SILC	10.7	11.0	9.4	8.6
13. Social protection expenditure in % of GDP					
14. Health expenditure in % of GDP					
15. At-risk-of-poverty before social transfers, % of the population	EU-SILC	52.2	52.1	51.3	48.7
16. Poverty rate (Please indicate which data are available for your country)	EU-SILC	26.7	25.9	25.7	24.3
17. Poverty gap (Please indicate which data are available for your country)	EU-SILC	37.5	39.4	38.8	37.4

Other indicators used in the EU Social Scoreboard					
18. Real adjusted GDHI - per capita in PPS (Index 2008=100)					
19. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	33.4	32.9	31.6	29.6
20. Self-reported unmet need for medical care***	EU-SILC	14.6	10.5	11.9	11.8
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)					

*Labour Force Survey

**Statistics on Income and Living Conditions

***Indicator refers to persons age 16 and over who needed examination or treatment but did not receive it

Table 10: Effects of structural reforms on the budget

Table 10a: Costing of structural reform measure for the period 2019-2021 in EUR					
1. Energy market development coupled with energy infrastructure construction					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	0	42,993,696.00	42,993,696.00
2021	0	0	0	58,126,006.00	58,126,006.00
2022	0	0	0	4,455,882.00	4,455,882.00
2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	624,936.00	1,189,399.00	6,071,429.00	6,422,000.00	14,307,764.00
2021	643,608.00	1,027,371.00	17,678,571.00	29,926,000.00	49,275,550.00
2022	643,608.00	271,982.00	17,678,571.00	39,000,000.00	57,594,161.00
3. Improvement of capacity and quality of road transport through reform of road sector to allow government to contract with state road operator and continued implementation of new performance-based maintenance contracting					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	3,780,000.00	0	0	3,780,000.00
2021	0	23,904.00	0	0	23,904.00
2022	0	0	0	0	0
4. Reform of railways through enhancement of rail transport safety and improvement of regulatory framework					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	344,346.00	0	11,930,000.00	12,274,346.00
2021	0	54,349.00	0	20,360,000.00	20,414,349.00
2022	0	52,515.00	0	26,000,000.00	26,052,515.00
5. Improvements to competitiveness of agriculture through enhancement of rural infrastructure, land management, and regulation of market in and quality of agricultural products					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	206,936.00	0	0	206,936.00
2021	103,584.00	786,676.00	4,500,000.00	500,000.00	5,890,260.00
2022	167,328.00	773,656.00	4,500,000.00	2,720,000.00	8,160,984.00
6. Improvement to management of register of agricultural estates and approval of national agricultural subsidies through development of E-Agrar web portal					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	40,000.00	0	1,025,000.00	1,065,000.00
2021	0	335,000.00	0	5,000.00	340,000.00
2022	0	95,000.00	0	0	95,000.00

7. Simplification and elimination of business procedures: ePaper (CutAP initiative)					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	2,786,485.00	0	0	2,786,485.00
2021	0	125,834.00	0	0	125,834.00
2022	0	125,834.00	0	0	125,834.00
8. Transformation of Tax Administration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	6,587,500.00	0	9,813,400.00	16,400,900.00
2021	0	3,475,000.00	0	9,813,400.00	13,288,400.00
2022	0	3,475,000.00	0	5,920,000.00	9,395,000.00
9. Improvement of geospatial sector through development of digital platform in support of decision-making for investments					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	47,808.00	2,784,052.00	0	0	2,831,860.00
2021	47,808.00	503,972.00	0	0	551,780.00
2022	0	500,000.00	0	0	500,000.00
10. Establishment of sustainable system for funding environmental protection					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	1,000,000.00	0	0	1,000,000.00
2021	0	0	0	0	0
2022	0	0	0	0	0
11. Introduction of circular economy concepts through definition of strategic framework					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	150,000.00	0	0	150,000.00
2021	0	0	0	0	0
2022	0	0	0	0	0
12. Support to sustainable funding of research and development					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	4,747,033.33	8,333,333.33	0	13,080,366.66
2021	0	0	10,341,108.33	0	10,341,108.33
2022	0	0	10,341,108.33	0	10,341,108.33
13. Support for innovative start-ups and digital transformation of businesses					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	3,388,041.67	0	3,388,041.67
2021	0	0	4,529,450.00	0	4,529,450.00
2022	0	0	3,984,950.00	0	3,984,950.00

14. Increased availability of e-government to public through enhancement of user-oriented services					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	75,000.00	0	20,000,000.00	20,075,000.00
2021	0	0	0	8,333,333.00	8,333,333.00
2022	0	0	0	8,333,333.00	8,333,333.00
15. Improvement of e-government and education services through development of national information and communication infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	1,783,333.33	0	18,616,666.67	20,400,000.00
2021	0	1,925,000.00	0	63,416,666.67	65,341,666.67
2022	0	1,925,000.00	0	0	1,925,000.00
16. Improving conditions for and removing obstacles to trade					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	28,008.00	3,087.00	0	0	31,095.00
2021	37,344.00	4,116.00	0	0	41,460.00
2022	37,344.00	4,116.00	0	0	41,460.00
17. ‘Product-info’ - establishment of single digital service for technical regulations					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	40,000.00	0	0	40,000.00
2021	0	260,000.00	0	0	260,000.00
2022	10,000.00	190,000.00	0	0	200,000.00
18. Qualifications oriented towards labour market requirements					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	1,090,266.67	0	8,945,000.00	10,035,266.67
2021	0	291,666.67	0	8,000,000.00	8,291,666.67
2022	0	291,666.67	0	0	291,666.67
19. Education system digitalisation and education management information system implementation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	19,899,999.99	0	0	19,899,999.99
2021	0	27,302,104.19	0	0	27,302,104.19
2022	0	9,695,833.33	0	0	9,695,833.33
20. National employment policy improvement in line with EU good practices and standards					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	100,000.00	0	0	100,000.00
2021	0	0	0	0	0
2022	0	0	0	0	0

21. Providing prerequisites for monitoring, promoting and supporting circular migration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0
22. Improvement of the adequacy, quality and targeting of social protection measures					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2020	0	0	0	3,608,333.33	3,608,333.33
2021	0	0	0	2,500,000.00	2,500,000.00
2022	0	0	0	0	0
Total	**2,391,376.00**	**100,123,034.18**	**91,346,562.66**	**410,763,716.67**	**604,624,689.51**

Table 10b: Financing of structural reform measure for the period 2019 - 2021 in EUR								
1. Energy market development coupled with energy infrastructure construction								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	17,155,600.00	0	552,382.00	17,500,000.00	2,323,529.00	5,462,185.00	0	42,993,696.00
2021	15,000,000.00	0	560,630.00	30,000,000.00	3,757,561.00	8,807,815.00	0	58,126,006.00
2022	2,600,000.00	0	105,882.00	1,750,000.00	0	0	0	4,455,882.00
2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	4,302,503.00	1,821,429.00	0	913,150.00	4,770,682.00	2,500,000.00	0	14,307,764.00
2021	9,803,754.00	1,928,571.00	0	867,225.00	8,176,000.00	28,500,000.00	0	49,275,550.00
2022	9,765,690.00	1,928,571.00	0	10,149,900.00	6,750,000.00	29,000,000.00	0	57,594,161.00
3. Improvement of capacity and quality of road transport through reform of road sector to allow government to contract with state road operator and continued implementation of new performance-based maintenance contracting								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	0	0	0	0	0	3,780,000.00	0	3,780,000.00
2021	23,904.00	0	0	0	0	0	0	23,904.00
2022	0	0	0	0	0	0	0	0

4. Reform of railways through enhancement of rail transport safety and improvement of regulatory framework								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	44,346.00	0	0	300,000.00	0	11,930,000.00	0	12,274,346.00
2021	54,349.00	0	0	0	0	0	20,360,000.00	20,414,349.00
2022	52,515.00	0	0	0	0	0	26,000,000.00	26,052,515.00
5. Improvements to competitiveness of agriculture through enhancement of rural infrastructure, land management, and regulation of market in and quality of agricultural products								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	206,936.00	0	0	0	206,936.00
2021	0	0	0	750,000.00	0	0	5,140,260.00	5,890,260.00
2022	0	0	0	750,000.00	0	0	7,410,984.00	8,160,984.00
6. Improvement to management of register of agricultural estates and approval of national agricultural subsidies through development of e-agrar web portal								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	0	65,000.00	1,000,000.00	0	1,065,000.00
2021	0	0	0	0	340,000.00	0	0	340,000.00
2022	0	0	0	0	95,000.00	0	0	95,000.00
7. Simplification and elimination of business procedures: CutAP initiative								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	1,100,283.00	0	0	450,992.00	1,235,210.00	0	0	2,786,485.00
2021	0	0	0	0	0	0	125,834.00	125,834.00
2022	0	0	0	0	0	0	125,834.00	125,834.00
8. Transformation of Tax Administration								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	7,005,900.00	0	0	0	0	9,395,000.00	0	16,400,900.00
2021	3,893,400.00	0	0	0	0	9,395,000.00	0	13,288,400.00
2022	0	0	0	0	0	9,395,000.00	0	9,395,000.00

9. Improvement of geospatial sector through development of digital platform in support of decision-making for investments								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	331,860.00	0	0	0	0	2,500,000.00	0	2,831,860.00
2021	51,780.00	0	0	0	0	0	500,000.00	551,780.00
2022	0	0	0	0	0	0	500,000.00	500,000.00

10. Establishment of sustainable system for funding environmental protection								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	0	0	0	1,000,000.00	0	0	0	1,000,000.00
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

11. Introduction of circular economy concepts through definition of strategic framework								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	150,000.00	0	0	0	0	0	0	150,000.00
2021		0	0	0	0	0	0	0
2022		0	0	0	0	0	0	0

12. Support to sustainable funding of research and development								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	13,080,366.66	0	0	0	0	0	0	13,080,366.66
2021	10,341,108.33	0	0	0	0	0	0	10,341,108.33
2022	10,341,108.33	0	0	0	0	0	0	10,341,108.33

13. Support for innovative start-ups and digital transformation of businesses								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	2,789,350.00	0	0	598,691.67	0	0	0	3,388,041.67
2021	2,664,350.00	0	0	1,865,100.00	0	0	0	4,529,450.00
2022	2,422,350.00	0	0	1,562,600.00	0	0	0	3,984,950.00

14. Increased availability of e-government to public through enhancement of user-oriented services								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	20,075,000.00	0	0	0	0	0	0	20,075,000.00
2021	8,333,333.00	0	0	0	0	0	0	8,333,333.00
2022	8,333,333.00	0	0	0	0	0	0	8,333,333.00

15. Improvement of e-government and education services through development of national information and communication infrastructure								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	18,700,000.00	0	0	0	1,700,000.00	0	0	20,400,000.00
2021	19,341,666.67	0	0	0	0	46,000,000.00	0	65,341,666.67
2022	1,925,000.00	0	0	0	0	0.00	0	1,925,000.00

16. Improving conditions for and removing obstacles to trade								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	31,095.00	0	0	0	0	0	0	31,095.00
2021	41,460.00	0	0	0	0	0	0	41,460.00
2022	41,460.00	0	0	0	0	0	0	41,460.00

17. 'Product-info' - establishment of single digital service for technical regulations								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	40,000.00	0	0	0	0	0	0	40,000.00
2021	78,000.00	0	0	0	182,000.00	0	0	260,000.00
2022	60,000.00	0	0	0	140,000.00	0	0	200,000.00

18. Qualifications oriented towards labour market requirements								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2020	1,090,266.67	0	0	0	0	8,945,000.00	0	10,035,266.67
2021	291,666.67	0	0	0	0	8,000,000.00	0	8,291,666.67
2022	291,666.67	0	0	0	0	0	0	291,666.67

19. Education system digitalisation and education management information system implementation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	19,899,999.99	0	0	0	0	0	0	19,899,999.99
2021	0	0	0	0	0	27,302,104.19	0	27,302,104.19
2022	0	0	0	0	0	9,695,833.33	0	9,695,833.33
20. National employment policy improvement in line with EU good practices and standards								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	0	0	0	0	100,000.00	0	0	100,000.00
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
21. Providing prerequisites for monitoring, promoting and supporting circular migration								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0
22. Improvement of the adequacy, quality and targeting of social protection measures								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determine d	Total
2020	3,608,333.33	0	0	0	0	0	0	3,608,333.33
2021	2,500,000.00	0	0	0	0	0	0	2,500,000.00
2022	0	0	0	0	0	0	0	0
Total	**217,656,798.32**	**5,678,571.00**	**1,218,894.00**	**68,664,594.67**	**29,634,982.00**	**221,607,937.52**	**60,162,912.00**	**604,624,689.51**

Table 11: Implementation report on structural reforms for ERP 2019-2021

	BRIEF DESCRIPTION OF ACTIVITIES PLANNED FOR 2019 (Activities referred to in Gantt chart)	IMPLEMENTATION PHASE (1-5) OF ACTIVITIES PLANNED FOR 2019	EXPLANATION IF PARTIAL IMPLEMENTATION (Steps taken, timeline of activities implemented, difficulties and delays in implementation)	EXPLANATION IF NO IMPLEMENTATION	OTHER ACTIVITIES (Activities not planned but undertaken with aim of implementing SR)
SR 1. Energy market development coupled with energy infrastructure construction					
SR is carried over to ERP 2020-2022					
	Construction of Niš to Dimitrovgrad transmission gas pipeline				
1	Development of conceptual design	Fully implemented			
2	Development of viability study	Fully implemented			
3	Development of construction permitting design	Fully implemented			
4	Development of environmental impact assessment	Fully implemented			
5	Assurance of clear title to property	Progress in implementation	Delays by local real estate cadastre services		
6	Approval of conceptual design and viability study	Fully implemented			
7	Issuance of energy permit	Full implementation			
8	Development of main design	Fully implemented			
9	Tender procedure	Progress in implementation	Technical part of tender documentation has been completed. The preparation of tender documentation is supported by the technical assistance of CONECTA program.		
10	Issuance of construction permit	Fully implemented			
	Trans-Balkan Corridor				

15	Commencement of reconstruction of Kraljevo 3 power substation, as required for new Kragujevac to Kraljevo overhead power line	Progress in implementation	Preparatory stage completed in full and all requisite permits obtained. Pre-qualification stage completed in line with KfW procedures. Final harmonisation of tender documents is in progress. The contractor for the construction of the transmission line (LOT 1) was selected. In December 2019, the financial part of the bids was opened and their evaluation began.		
16	Commencement of reconstruction of Kragujevac 2 power substation, as required for new Kragujevac to Kraljevo overhead power line	Progress in implementation	Preparatory stage completed in full and all requisite permits obtained. Pre-qualification stage completed in line with KfW procedures. Final harmonisation of tender documents is in progress as well as selection of contractor. The evaluation of bids for the technical part of Kragujevac 2 power substation and the approval of KfW obtained. In December 2019 the financial part of the offers was opened and evaluation began.		
17	Construction of Kragujevac to Kraljevo overhead power line	Progress in implementation	Preparatory stage completed in full and all requisite permits obtained. Pre-qualification stage completed in line with KfW procedures. Final harmonisation of tender documents is in progress. The evaluation of bids for the technical part of Kraljevo 3 power substation is completed and the approval of KfW obtained. In December 2019 the financial part of the offers was opened and evaluation began.		
18	Development of technical documentation for Obrenovac to Bajina Bašta overhead power line	Progress in implementation	Grant funds (WBIF14 programme) are being used to develop complete set of technical documents (construction permitting design and main design). Terms of Reference for development of technical documentation completed and approved. Selected consultant completed all formal activities envisaged in initial stage of project and actual implementation commenced in May 2019.		
19	Development of urban/ spatial plan for Obrenovac to Bajina Bašta overhead power line	Progress in implementation	Legally mandated procedures for spatial planning in special designated areas proceeding to plan. The Plan is finalized and adopted by the commission of Ministry of Construction, Transport and Infrastructure. Inter-ministerial harmonisation of the plan is currently ongoing, following the adoption of the decree by the Government of the Republic of Serbia.		
22	Development of technical documentation for Bajina Bašta – Višegrad – Pljevlja overhead power line	Progress in implementation	Grant funds (WBIF13 - REG-ENE-01 programme) are being used to develop complete set of technical documents (construction permitting design and main design). Terms of Reference for development of technical documentation is completed and approved. Inception report was agreed comencing the activities on drafting technical documentation for Bajina Bašta – Višegrad – Pljevlja power line has started.		
		90%			

SR 2. Improvement of conditions for increasing energy efficiency and improvement of the existing infrastructure in energy consumption sectors					
SR is carried over to ERP 2020-2022					
1	Amendment of Energy Efficiency Law to introduce eco-design concepts and improve current provisions of the Law, in order to facilitate implementation	Progress in implementation	Draft Law is prepared. Adoption expected by end of the year.		
2	Enhancement of existing Budgetary Fund for Energy Efficiency through preparation of rulebook to regulate new funding arrangements (IPA project)	Fully implemented			
3	Proposals for improving operation and legal status of Energy Efficiency Fund (IPA project)	Fully implemented			
4	Investigation of options for structuring Energy Efficiency Fund as special institution within the Working group established by the Ministry of Finance	Implementation commenced	Working group has met on several occasions, mainly to undertake preparatory work		
5	Commencement of collection of energy efficiency charge pursuant to Law on Fees	Fully implemented	Fee is being collected as of 1 July 2019		Rulebook adopted
6	Financing of energy efficiency projects	Progress in implementation	Rolling implementation. Projects approved for funding in 2018 are currently in implementation phase; additional open call for local authorities advertised in 2019		
7	Adoption of bylaws governing energy audits	Implementation commenced	Can be adopted only after law is amended (see Activity 1)		
		77%			

SR 3. Improvement of the capacity and quality of transport infrastructure and services
SR is carried over to ERP 2020-2022

1	Adoption of Rulebook on Manner of Licencing Persons for Conducting Road Infrastructure Safety Audits and Inspections pursuant to Law on Roads	Fully implemented			
2	Adoption of Rulebook on Manner of Conducting Road Infrastructure Safety Audits and Inspections pursuant to Law on Roads	Fully implemented			
3	Continued transition to new model of contracting with road maintenance firms for remainder of state road network (12,000 km)	Under preparation	Preparatory activities have been undertaken to implement PBMC as planned for remainder of state road network (approximately 12,000 km). State Road Operator has demarcated territories (first step for developing PBMC tender documentation); in parallel, databases of features and state of repair of state roads are being updated in effort funded by World Bank loan (procurement here is valued at some EUR 2.5 million). Tender documentation to select contractors for maintenance of road network is in the final stage of production. Upon completion of this complete inputs required to develop tender for PBMC for remainder of state road network (some 12,000 km) will be obtained. The activities of procurement of required number of roadside weather stations necessary to implement snow clearance aspects of PBMC are still ongoing		
4	Preparations for signing of first Service Level Agreement (SLA) and reorganisation of Putevi Srbije	Under preparation	Activity progressing at pace envisaged in final Deloitte report. Selection of consultant to support SLA contract development is ongoing		
		60%			

SR 4. Reform of railways

SR is carried over to ERP 2020-2022

1	Adoption of decision to remove public resource status	Progress in implementation	Decision taken to uphold objections made by National Geodetic Authority and National Property Directorate to exempt Sonta to Apatin Fabrika and Gajdobra to Bačka Palanka railway lines so as to ensure alignment with Water Transport Development Strategy (“Official Gazette of the RS”, No. 34/15), and to ensure that the ports of Apatin and Bačka Palanka are connected with public rail		

			infrastructure, and to reflect adverse opinion of RGA.This necessitated adoption of new decisions for which opinions of competent institutions were obtained and which Government of Serbia adoptedon 28 November 2019. Adoption by Serbian Parliament is expected		
2	Development of new Methodology for Calculating Railway Infrastructure Access Charges	Continuation of implementation with initial results	Addendum to 2017 contract with KPMG, consultant implementing Comprehensive Railway Reform project was signed in 2019, which has led to delays in implementation. All materials required to develop new methodology have been submitted for assessment, consultants were selected, initial meeting held, and development of methodology has commenced. Preliminary deadline to complete methodology is March 2020. Once proposed methodology is delivered by consultant, draft Regulation will be submitted to Government for adoption in Q2 2020.		
		70%			
SR 5. Improvement of competitiveness of agricultural producers and processors					
SR is upgraded and carried over to ERP 2020-2022					
1	Adoption of rules for and organisation of annual competitions for distribution of national and EU funds	Fully implemented	Support to investment in primary agricultural production and processing of agricultural products is fully implemented		
2	Drafting of rural development programmes for new programming period (2021-2027)	Under preparation	Sectoral assessments required to draft programmes are in preparation		
3	Drafting of IPARD III programmes for new programming period (2021-2027)	Implementation commenced	Sectoral assessments required to draft programmes are in preparation		
4	Drafting and adoption of rulebooks required to implement IPARD	Under preparation	Rulebooks governing IPARD II implementation are currently in effect, whereas IPARD III rulebooks will be drafted once programmes have been adopted		

5	Drafting of Law on Land Consolidation and amendments to Law on Agricultural Land	Under preparation	Amendments to Law on Agricultural Land are in preparation by the Working group. Due to significant changes envisaged to the current law, a new Law on Agricultural Land could be adopted Drafting of the Law on Land Consolidation is at early stage; proposals are currently being elaborated and assessed for viability so as to avert any issues or delays with land consolidation with the aim of considering their introduction into the text of the Draft Law on Consolidation with a preliminary consideration of the feasibility of the proposals themselves.		In addition to the drafting of the law, the plan for the land consolidation for 2019 envisages the recruitment of one official, which is expected to fully fulfill the plan. In August 2019, the Call for employment of a Civil Servant for Agricultural Land Management - Land Consolidation was announced and the procedure is being finalized, which will fully fulfill the plan.
		40%			

SR 6. Raising the competitiveness of industry

The SR is NOT carried over to ERP 2020-2022, as suggested in the preliminary phase. It was agreed to omit it in this cycle, bearing in mind that was already in the ERP during several cycles, and that the adoption of an Industrial Policy Strategy and accompanying Action Plan is planned soon, the content of which will underpin a potential reform measure in the next ERP cycle in this area.

1	Development of new industrial development strategy in consultation with private sector, building on results of “entrepreneurial discovery” process undertaken during drafting of Smart Specialisation Strategy	Progress in implementation	Financial support secured from GIZ to finance current and future activities of expert team developing initial Serbia Industrial Policy Strategy, 2021 to 2030. May 2019 saw establishment of Inter-ministerial Working group to draft Serbia Industrial Policy Strategy, 2021 to 2030, and draft Serbia Research and Innovation Strategy for Smart Specialisation Strategy (RIS3). Efforts to draft Industrial Policy Strategy included 13 public-private dialogue events throughout Serbia held in May and June 2019; report on these forums has been drafted that will inform development of strategic objectives and list of initiatives for each area of strategy, once diagnostic stage is completed. Final public-private dialogue session in this stage of Industrial Strategy development took place on 17 September 2019 and saw presentation of findings of public-private dialogue sessions held in May and June 2019 and exchange of opinions between all stakeholders. Draft Serbia Industrial Policy Strategy, 2021 to 2030, was finalised in December 2019; open to public consultation from 13 December 2019 to 3 January 2020. This draft outlines vision, goal,		

			and objectives, together with measures in six cross-cutting areas of intervention. Government plans to approve draft Strategy in January 2020 but not to adopt indicators for measures, activities, or implementation mechanisms.		
2	Development of action plan to implement new industrial development strategy	Under preparation	Action plan to implement new industrial development strategy is planned to be developed by end of Q2 2020		
		50%			

SR 7. Tax Administration transformation					
The SR is upgraded and carried over to ERP 2020-2022					
1	Establishment and implementation of new organisational stream for managing all non-core activities	Fully implemented	Tax Administration Transformation Programme. 2015-2020, and Transformation Action Plan, 2018-2023, adopted by Government of Serbia in its Conclusion of 5 December 2017, envisages organisational transformation of Tax Administration. To that end, Tax Administration has completed open procurement procedure and selected Pricewaterhouse Coopers Consulting of Belgrade to support division of tax operations into core and non-core activities. On January 2019 the consultant submitted a report and implementation plan with roadmap outlining concrete activities and timelines, so completing its engagement. Deadline to implement this plan is July 2019. Entry into effect of Enactment on Internal Organisation and Job Classification at Ministry of Finance – Tax Administration, of 7 June 2019, adopted by Government of Serbia in its Conclusion of 13 June 2019, provides		

			legal basis for implementation of new organisational structure. New structure became operational on 1 July 2019 and entails new network with 37 instead of 78 field offices and Large Taxpayer Unit, with non-core activities undertaken at 75 locations. These non-core activities entail audit and collection of tax types envisaged as non-core under Action Plan.		
2.	Consolidation of tax administration at fewer field offices (first stage of overall consolidation)	Fully implemented	Entry into effect of Enactment on Internal Organisation and Job Classification at Ministry of Finance – Tax Administration, of 7 June 2019, , allows re-allocation of staff across new organisational network starting on 1 July 2019. This completes consolidation of audit and collection for core activities at 37 sites as precondition for greater efficiency of audit and collection (first stage of overall consolidation)		
3	Restructuring of Head Office and provision of appropriate resources	Continuation of implementation with initial results	Division into core and non-core activities, as envisaged under Action Plan, has resulted in reduction of branch network from 78 to 37 field offices and Large Taxpayer Unit. Human and material resources and infrastructure, ICT, taxpayer services, and tax accounting activities have been centralised since 1 July 2019 in line with division into core and non-core activities. New units have been established at Head Office under new organisational structure: Non-Core Activities Department; Tax Accounting Department; Origin of Assets and Special Taxation Department; and Department for International Co-operation and Co-ordination of EU Integration Efforts.		
4	Business process re-engineering to introduce best global practices into Tax Administration operations	Under preparation	Automation of business processes requires business process re-engineering, as foreseen in World Bank's Tax Administration Modernisation Project (TAMP). Component 3 of TAMP defines the need for modernization of ICT system, automation of data exchange and data warehouse, as well as records management and archiving, which are key requirements for operation of smaller-scale branch network. Public procurement resulted in engagement of KPMG for comprehensive assessment of business processes at Tax Administration, current Tax Administration ICT system, ready-made commercial software intended to support the work of the Tax Administrations and available globally, as well as an analysis of development trends for own system for Tax Administration functioning. Business re-engineering programme will depend on whether the commercial software is purchased or Tax Administration develops own information system. Consultant, through reports, recommended ICT platform to be introduced as part of Tax Administration modernisation process. Final report		

			was submitted in September 2019. Component 2 of TAMP, which is funded by World Bank loan, includes activities regardingre-engineering of business processes related to tax activities.		
		70%			
SR 8. Improved capital investment management					
SR is NOT carried over to ERP 2020-2022 because the activities provided for in ERP 2019-2021 are fulfilled and further activities are of a regular nature.					
1	Adoption of Rulebook for implementation of Decree on Content, Manner of Preparation and Assessment, as well as Monitoring of Implementation and Reporting on Capital Project Execution (PIM Decree)	Fully implemented			
2	Training for budget beneficiaries regarding implementation of Decree on Content, Manner of Preparation and Assessment, as well as Monitoring of Implementation and Reporting on Capital Project and Rulebook	Fully implemented			
3	Development of Terms of Reference and procurement of hardware and software required for Integrated Capital Projects Database	Progress in implementation	Procurement materials complete		
4	Training for budget beneficiaries	Progress in implementation	Training complete; video guide for budget beneficiaries created		
5	Introduction and updating of Integrated Capital Projects Database	Continuation of implementation with initial results	Database format developed (to be used until introduction of dedicated information system); projects planned to be input in 2020 (once PIM Decree takes effect)		
		84%			
SR 9. Improved access to finance for SMEs and sole traders					
The SR is not carried over to ERP 2020-2022, bearing in mind that all envisaged reform activities have been fully met, and further work in this area is a regular activity of the line ministry. It was also agreed that in the new ERP cycle more attention would be paid to					

financing innovative SMEs and digitization (SR 13 Supporting innovative start-up companies and digital transformation of companies).					
1	Drafting of Development Finance Strategy	Progress in implementation	Strategy being drafted		
2	Piloting of first support programme that entails lending to start-ups in partnership with commercial banks, developed with KfW support	Fully implemented			
3	Improving various segments of financial market (Alternative Investment Funds Law and Investment Funds Law)	Fully implemented			Serbian Parliament has adopted Law on Open-Ended Investment Funds with a Public Offering and Alternative Investment Funds Law. The Investment funds Law shell ceased to apply on the date these laws become applicable, i.e. shell become effective up the expiry of six months of their entering into force.
4	Implementation of credit guarantee project funded under IPA 2016	Fully implemented			
5	New annual cycle of implementation of three MSME support programmes	Fully implemented			
6	Encouragement of stakeholders to make better use of opportunities offered by EU programmes (COSME) and regional initiatives (WB EDIF)	Fully implemented			
7	Encouragement of stakeholders to make better use of opportunities offered by EU new perspective programmes and regional initiatives (WB EDIF)	Fully implemented			
		97%			

SR 10. Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund					
SR is carried over to ERP 2020-2022					
1	Identification, alignment, and definition of measures and activities for the establishment of a sustainable financing system for the purpose of efficient implementation of environmental protection programmes and projects	Implementation commenced	Participation continued in Working group tasked with establishing arrangements for facilitating environmental protection and energy efficiency programmes/projects set up by Minister of Finance on 30 October 2019; drafted project proposal entitled 'Support for establishment of sustainable system to finance environmental protection through enhancement of Green Fund'; activities continued to revise performance indicators used in monitoring implementation of structural reform measure		
		40%			
SR 11. Improvement of corporate governance in public enterprises					
The SR is NOT carried over to ERP 2020-2022 as it was assessed that the activities undertaken by the Ministry of Economy in this area were regular and could therefore no longer be considered reform.					
1	Activities of Working group tasked with regulating certification of SOE management bodies	Continuation of implementation with initial results	Working group has been established to regulate professional development and certification of SOE management bodies, meetings have been held continuously to prepare Professional Development Programme		
2	Drafting of bylaws to introduce certification of SOE management bodies	Continuation of implementation with initial results	Final version of Corporate Governance Professional Development Programme drafted		
3	Training needs assessment (TNA) for members of SOE supervisory boards	Fully implemented			
4	Training for members of SOE supervisory boards in corporate governance	Under preparation	To follow once Professional Development Programme has been adopted		
5	Establishment of system for accreditation of training providers for SOE management bodies	Under preparation	To be contained in Professional Development Programme		
6	Certification of SOE management bodies and drafting of byelaws to introduce certification system	Under preparation	To follow once Professional Development Programme has been implemented		

7	Establishment and management of register	Under preparation	To be contained in Professional Development Programme		
8	Development of procedures at Ministry of Economy to monitor and evaluate impact of corporate governance at SOEs	Under preparation	To follow once Professional Development Programme has been implemented		
		40%			
SR 12. Simplification of procedures and other conditions for doing business					
The SR has been enhanced and carried over to ERP 2020-2022.					
1	Entry into effect of Law on Charges	Fully implemented			
2	Optimisation of procedures (in terms of costs and time for businesses)	Continuation of implementation with initial results	'Initial recommendations for optimization have been prepared for 1,850 administrative procedures, of which 4 have been eliminated, and recommendations have been fully implemented for 42 procedures (by being enshrined in legislation that has entered effect), with overall savings for economy amounting to EUR 30,1 million. The authorities have fully approved recommendations for 594 procedures and these are expected to enter implementation shortly. Recommendations for simplifying an additional 31 procedures have been harmonised, so 625 procedures can be said to be ready for simplification.'		During 2019, a total of 109 administrative procedures were conducted, which are being implemented at the level of AP Vojvodina. Recommendations for simplification of 105 administrative procedures have been prepared and agreed with the authorities.
3	Outreach	Fully implemented			
4	Instructions for digitalisation	Fully implemented			
5	Digitalisation of administrative procedures	Implementation commenced	A contract has been signed with the selected company that will perform the digitalisation activities. Priorities and a plan of activities for the digitalization of procedures in the first phase were identified. BPM licenses were procured and to-be diagrams were drawn up for the procedures foreseen for the first phase digitization. The configuration of the existing IT Office system was completed and a test environment was raised.		

6	Adoption and implementation of action plans to simplify administrative procedures	Continuation of implementation with initial results	On July 11, 2019, the Government adopted the Program for the Simplification of Administrative Procedures and Regulation "CutAP initiative" for the period 2019-2021. The measures envisaged by the Program will be implemented in accordance with the dynamics set out in the Action Plan for the implementation of the Program, which contains the first set of recommendations for abolishing or optimizing 592 administrative procedures implemented by 24 bodies and organizations. Implementation of the recommendations has already begun with the adoption of amendments to the Aliens Act, the Aliens Employment Act, the Citizens Income Tax Act, the Tobacco Act and numerous by-laws. In addition, a large number of procedures carry out a recommendation for the exchange of information ex officio, which relieves businesses of obtaining and submitting the documentation needed to decide the procedure.		
		77%			
SR 13. Improvement of the effectiveness of inspection oversight					
SR is NOT carried over to ERP 2020-2022 as all envisaged activities were implemented and further activities in this area are a regular business.					
	Establishment of single information platform for all national-level inspections (E-Inspektor)				
1	Training of trainers	Fully implemented			
2	Production stage	Fully implemented			
3	Handover and training	Fully implemented			
	Implementation of Law on Inspection Oversight				
4	Regular meetings of Co-ordinating Commission and 11 Working Parties	Fully implemented			
5	Implementation of inspector training programme	Progress in implementation	Programme being implemented in collaboration with National Academy for Public Administration and available donor initiatives		
6	Continued offering of inspector examinations	Fully implemented			

7	Enhancement of Co-ordinating Commission web site to introduce sub-domains for all inspections and videos explaining rights and obligations of businesses in course of scheduled official controls	Progress in implementation	Sub-domains introduced for all inspections; videos explaining rights and obligations of businesses are in preparation and will be complete by late September		
8	Adoption of Action Plan for Employment of Young Inspectors based on results of capacity assessment of central-level and local inspectorates	Fully implemented			Action Plan complemented by Decree on Job Categorisation and criteria fot job categorization in order to raise inspectors' salaries as lowest available title for national-level inspectors will now be Independent Advisor
9	Implementation of Memorandum of Understanding with Inspector Network Association	Fully implemented	Inspector Network has actively participated in Working group for Internal Oversight and has also made major contribution to capacity assessment of central-level and local inspectorates. Network representatives have also been attending Coordinating Commission meetings		
10	Continuing professional development of inspectors	Progress in implementation	Training delivered in co-operation with National Academy for Public Administration and donor programmes; individual inspections are also offering thematic training		
11	Development of Media Plan to promote inspector profession	Fully implemented			Promotional videos for inspections services created
12	Adoption and publication of annual plans by all national-level inspections, including Border Phytosanitary Inspection and Border Veterinary Inspection	Fully implemented			All inspections have published plans and annual reports on Coordinating Commission web site
		95%			

SR 14. Improvement of the geospatial sector as support to investment decision-making process

SR is carried over to ERP 2020-2022.

1	Adoption of NSDI bylaws	Progress in implementation	In line with INSPIRE Implementing Rules adopted by European Commission, Art. 7 of NSDI Law requires Government of Serbia to enact five bylaws to regulate: 1) metadata; 2) interoperability; 3) network services; 4) access to spatial data sets and services, including public access and data sharing by public authorities; 5) monitoring and reporting. Bylaws 1) and 5) to be adopted within one year from entry into effect of NSDI Law, i.e. by 14 April 2019, whilst 2), 3), and 4) must be enacted within two years, i.e. by 14 April 2020. On 25 July 2019, Government of Serbia adopted Decree on implementing rules for NSDI metadata, which was published in "Official Gazette of the RS" No. 54 of 26 July 2019 and took effect on 3 August 2019. Initial draft of Decree on NSDI Monitoring and Reporting has been prepared		
2	Adoption of NSDI Strategy, 2018 to 2022	Implementation commenced	Delay in adopting NSDI Law has carried over into other activities in connection with this piece of legislation. NSDI Council has been established and NSDI Strategy is expected to be enacted by end of 2019. NSDI Strategy is being drafted internally at NGA.		
3	Establishment of Regional Centre for Geospatial Data Management	Progress in implementation	Establishing Regional Centre for Geospatial Data Management entails setting up Centre's organisation and hiring staff. Organisational part has been completed. NGA Staffing Document has established appropriate organisational unit which became operational in January 2018. Eight positions were filled as of 31 December 2018 following public advertisement of vacancies by NGA. Remaining vacancies are to be filled following public advertisement at later date.		
4	Harmonisation of NGA spatial data	Implementation commenced	Five NGA geospatial data sets have been harmonised in line with INSPIRE Directive (2019 ERP objective is 13 data sets harmonised). Harmonisation of spatial data is ongoing. Projects are in progress to procure technical resources for continued harmonisation of NGA spatial data sets		

5	Development of National Geoportal in line with INSPIRE Directive	Progress in implementation	Enhancement of GeoSerbia National Geoportal in line with INSPIRE Directive is ongoing. GeoSerbia is continuously receiving upgrades in terms of new geospatial data sets. Geoportal currently allows access to 225 data sets, 30 services, and 73 metadata sets. Challenges have been encountered with greater involvement by other authorities due to delays in establishment of NSDI Council (which was set up later than envisaged, on 25 October 2018, by Government of Serbia Decision 24 No. 119-9822/2018; Responsible Bodies are to be designated by NSDI Council). Projects are in progress to procure technical resources for National Geoportal		
6	Establishment of technical preconditions for e-payment	Not being implemented		Activity not being implemented due to lack of funds for developing software, technical issues, and staff shortages	
7	Support to other institutions (Responsible Bodies) for harmonisation of data and development of metadata and services for National Geoportal	Implementation commenced	NSDI Responsible Bodies are public authorities legally responsible for creating, collecting, and maintaining geospatial data to be made available on National Geoportal, as well as public authorities using such geospatial data as part of their remits. NSDI Council will designate public authorities for particular types geospatial data, as mandated by law. NGA currently assists other institutions using digital platform provided they have legal basis for doing so (agreement/contract/ on demand according to law). Bylaws are to be enacted to regulate technical arrangements for interoperability and harmonisation of geospatial data sets and services and development of metadata and services for Geoportal. Delays in adopting bylaws may adversely affect activities		
8	Signing of agreements on cooperation and participation in projects with EU and regional institutions responsible for geospatial data	Implementation commenced	February 2019 saw signing of agreement with Sweden for project entitled 'Improvement of Investment Environment in Serbia'. This two-year project is expected to establish a National Register of Investment Maps and make it available via NSDI digital platform to public, businesses, and potential Serbian and foreign investors. This project is being implemented		

9	Designation of NSDI Responsible Bodies for spatial data themes envisaged in Annexes to INSPIRE Directive	Under preparation	NSDI Council will designate Responsible Bodies within one year from entry of NSDI Law into effect. NSDI Council was set up later than envisaged, on 25 October 2018, by Government of Serbia Decision 24 No. 119-9822/2018. Responsible Bodies are expected to be designated by end of 2019. Centre for Geospatial Data Management has internally commenced preparation of documents to implement this activity		
10	Drafting and adoption of Mass Valuation Law	Not being implemented		Drafting of Mass Valuation Law postponed until findings of pilot project (comparative assessment of 5 local authorities) become available	1. Engaging the coordinator with the pilot municipalities within the municipal administration itself for the perception of the municipal administration. Co-ordinators were engaged to work directly with local authorities and so facilitate data collection 2. Time limits were set for related activities to ensure pilot projects were informed by timely and available data 3. Data were collected in pilot local authorities in Q1 2019 to permit assessment and model development 4. Emphasis was placed in April and May on preparing data for publication of planning documents and development of sample databases for pilot local authorities' bodies/ organisations/ enterprises
11	Harmonisation of other laws with Mass Valuation Law and drafting of bylaws	Not being implemented		Can take place only after previous activity ('Drafting and adoption of Mass Valuation Law') is implemented	Involvement of relevant institutions in Serbia Real Estate Management Project (implemented by World Bank) to promote co-operation and prepare amendments to regulations

12	Permitting release/sale of real estate market data following online application and fee payment	Progress in implementation	Real estate market data maintained in Real Estate Prices Register application are now available online (http://www.rgz.gov.rs/usluge/procena-i-vo%C4%91enje-vrednosti-nepokretnosti/registar-cena-nepokretnosti). As of May 2019, 159 user accounts were opened to allow clients to access this information. Training in online data issuance is ongoing for new clients and assistance is provided to prepare reports. Clients are currently not able to pay related fees online but must provide proof of payment for each application		
13	Development of mass valuation system (market analysis, collection of data on real estate, and definition of procedures)	Continuation of implementation with initial results	Market data and building information based on satellite photography were collected. NGA and Ministry of Construction, Transport and Infrastructure developed application for recording demolition orders and metadata for structures built without planning permission; this has facilitated establishment of register of such demolitions. By end of Q2 2019, 308,252 demolition orders were migrated into central database. Central database of demolition orders is accessed via NSDI digital platform. Tax registers and planning documentation is being collected for pilot local authorities. Next step is development of information system to link all available registers so as to create fiscal register. Completion rate of real estate data collection is 35% relative to overall development of system and its implementation at pilot local authorities. Market analysis partly uses mass valuation IT system and partly commercial software. Plan is to upgrade software to allow it to be used for all mass valuation. Completion rate of market analysis is 40% relative to overall development of system and its implementation at pilot local authorities. Foreign consultant provided basic and intermediate training in SPSS and modelling to 12 staff. Emphasis here is placed on modelling training to allow development of initial models		
14	Updating of Address Register and Register of Spatial Units	Progress in implementation	Address Register Improvement Project, which involves all relevant ministries and organisations, plans to ensure each building is assigned street name and number so that official Address Register is fully updated and made available to all government authorities. NGA has completed its first task and prepared Street System Assessments for 161 local authorities (4,721 populated places), and proposed designation of names for 67,307 streets; formal naming decisions were adopted for 68 of these. House numbering assessments are in progress, and have been completed for 50 local authorities with 149,835 new house		

			numbers assigned in newly-named streets. Address Register has been updated for 858 populated places, accounting for 18% of all populated places covered by update (4,721). Register of Spatial Units is being updated pursuant to decisions made in relevant official journals (2019 saw publication of 3 decisions made by Government of Serbia or local authorities, or pursuant to legislation)		
15	Establishment of data interoperability between Address Register and records of government bodies and organisations and local authorities	Implementation commenced	NGA has begun to ensure data interoperability between Address Register and records of government bodies and organisations and local authorities. Key registered connected with and using data from Address Register are: - Register of Domiciles; - Register of Sale and Purchase Contracts; and - Register of housing units		
16	Development and implementation of central information system for Address Register	Implementation commenced	After contract was signed for second phase of World Bank project, project plan, baseline report, and detailed functional specification and data model were adopted. Development of software and migration procedures has commenced (application development is 34% complete). Central Address Register is expected to become operational in mid-2020		
17	Drafting and adoption of Law on Address Register and Register of Spatial Units	Under preparation	Operational Group, comprising representatives of several relevant authorities, is involved in drafting Law on Address Register and Register of Spatial Units. Group has met on a number of occasions and NGA staff have developed initial draft of Law on Address Register and Register of Spatial Units, which has been made available to Ministry of Public Administration and Local Government. Co-ordinating Body for Improvement of Address Register is steering all activities in connection with enhancement of Address Register. On 12 February 2019 these activities were followed by enactment of decision to establish Working Party tasked with drafting Law on Address Register, which first met on 16 May 2019		
		44%			

SR 15. Set of measures providing financial support to research and innovation contributing to the development of the knowledge-based economy
The SR has been significantly enhanced and continued into ERP 2020-2022.

1	Implementation of projects by beneficiaries of funding, monitoring by Fund as part of Collaborative Grant Scheme – IPA 2013 direct grant agreement	Fully implemented			
	IPA 2014				
2	a) Preparation of documentation for grant programmes (Mini Grants Programme and Matching Grants Programme) – open call, promotional activities (information days) and open days and workshops, support to prospective applicants	Fully implemented			
3	b) Assessment of project proposals submitted and adoption of decisions on financing; contracting	Fully implemented			
	Competitiveness and Jobs				
4	a) Implementation of projects under 1st public call (Mini Grants Programme and Matching Grants Programme) by beneficiaries; monitoring by Innovation Fund	Progress in implementation	Project implementation is carried out as envisaged by agreed dynamics and assigned contracts with grantees. Mini Grants projects have been completed, and Matching Grants projects are expected to be completed in Q2 2020		
5	b) Implementation of projects under 2nd open call (Mini Grants Programme and Matching Grants Programme) by beneficiaries; monitoring by Innovation Fund	Progress in implementation	Activity is being implemented as envisaged by agreed dynamics and assigned contracts with grantees		
6	c) Assessment of project proposals submitted under 1st open call (Collaborative Grant Scheme) and adoption of decisions on financing; contracting	Fully implemented			

7	d) Implementation of projects under 1st open call (Collaborative Grant Scheme) by beneficiaries; monitoring by Innovation Fund	Continuation of implementation with initial results	Contracts have been signed with grantees and implementation is proceeding as agreed		
8	1. Collection of project proposals by TTF and TTO, 2. Evaluation of project proposals received, and 3. Definition of commercialisation strategy under IPA 2013 and Competitiveness and Jobs + development of new service lines	Fully implemented			
9	Completion of project to introduce technology transfer service lines at Central Technology Transfer Facility - IPA 2013 and Competitiveness and Jobs	Fully implemented			
10	Implementation of Technology Development Programme – Ministry of Education, Science and Technological Development	Fully implemented			
		92%			
SR 16. Improvement of e-Government services through the development of national ICT infrastructure					
SR is carried over to ERP 2020-2022					
1	Adoption of Law on Broadband Communications Infrastructure	Under preparation	Law on Broadband Communications Infrastructure is being drafted		
2	Connection of educational and cultural institutions to the Academic Network of the Republic of Serbia (continuous activity)	Fully implemented			
3	Construction of wireless local area networks in primary and secondary schools: 'Connected Schools' initiative	Fully implemented			

4	Preparation of project documentation for implementation of pilot project	Continuation of implementation with initial results	Conceptual designs for rural broadband networks progressing as planned; procurement complete and contract signed in Q1 2019; conceptual designs expected to be completed by end of 2019		
5	Construction of FTTH networks to cover 40,000 rural households* (deadline for construction is 18 months from provision of funds)	Not being implemented		No FTTH networks were constructed as funds could not be made available in 2019	Ministry of Finance has been asked for additional funds for Construction of Rural Broadband Infrastructure project. In compliance with WBIF procedure, final version of Next Generation Broadband Connectivity for Rural Schools in White Zones project, developed by GAF project has been registered with online database used by Ministry to apply for grants to finance technical assistance for mapping and development of feasibility study, cost-benefit assessment, environmental impact assessment, and project and tender documentation
6	Adoption of Decree on Detailed Conditions for Maintenance and Upgrading of Government Data Management and Disaster Recovery Centre	Under preparation			
7	Data collection	Fully implemented			
8	Needs assessment	Fully implemented			
9	Development of feasibility study and terms of reference	Progress in implementation	Feasibility study is being developed. Due to complexity of project, some terms of reference have been completed and others are in progress, whilst new activities are yet to be implemented		
10	Development of design	Continuation of implementation with initial results	Construction permitting design complete for Building 1. Main design for Building 1 is expected to be developed, alongside construction permitting design for Building 2		

11	Obtaining necessary building permits	Fully implemented			
12	Construction of Secondary Government Data Management and Disaster Recovery Centre ('Data Centre')	Implementation commenced	Preliminary works have been completed for Building 1. Design and construction work is in progress for Building 1, together with development of construction permitting design for Building 2		
		65%			
SR 17. Improvement of the conditions and removal of barriers to trade					
SR is carried over to ERP 2020-2022					
1	Negotiations on WTO accession – bilateral negotiations, adoption of regulations harmonised with WTO rules and principles	Implementation commenced	Consultations held and contacts re-established with WTO members with which Serbia remains engaged in bilateral negotiations		
2	Coordination of activities and competent ministries and administrations on execution of obligations under Additional Protocol 5	Progress in implementation	Decision to establish safety and security validation procedure for mutual recognition of national Authorised Economic Operator (AEO) programmes of CEFTA Parties. Serbia completed internal procedures on 28 June 2019, Decision was adopted by the CEFTA Joint Committee on 18 December 2019		
3	Implementation of trade policy obligations envisaged under Stabilisation and Association Agreement between EU and Serbia	Continuation of implementation with initial results	Ongoing activity		
4	Implementation of obligations foreseen under Law Confirming Decision of EFTA-Serbia Joint Committee No. 1/2018 amending Protocol B to Agreement on Free Trade between EFTA States and Republic of Serbia on definition of concept of originating products and methods of administrative cooperation; and Decision of EFTA-Serbia Joint Committee No. 2/2018 amending Annex IV of Free Trade Agreement between	Fully implemented			

	EFTA States and Republic of Serbia				
5	Activities to implement MAP REA	Progress in implementation	CEFTA full cumulation and duty drawback arrangements in force since 1 July 2019; implementation of SEED+ commenced; e-commerce report adopted identifying regulatory barriers; CEFTA Additional Protocol 5 being implemented; CEFTA Additional Protocol 6 (Trade in Services) adopted; progress made in negotiations on CEFTA Additional Protocol 7		
6	Adoption of CEFTA Additional Protocol 6 (Trade in Services)	Fully implemented	On 21 June 2019 Government of Serbia adopted Conclusion on starting points for adoption of Additional Protocol 6 (Trade in Services), thereby completing internal adoption procedure. Meeting in Tirana, Albania on 18 December 2019, CEFTA Joint Committee adopted Additional Protocol 6 (Trade in Services), whereupon Serbia initiated procedure to enact legislation ratifying Additional Protocol 6		
7	Activities of National Trade Facilitation Body (NTFB) as defined in 2018 and 2019 Action Plans	Fully implemented			
8	Adoption of new Action Plans for all four NTFB Expert Groups and implementation of activities defined	Progress in implementation	2020-2021 Action Plans for all four NTFB Expert Groups have been adopted		
		80%			

SR 18. Qualifications oriented towards labour market requirements					
SR is carried over to ERP 2020-2022					
1.	Adoption of bylaws on the basis of the Law on NQFS	Progress in implementation	In the reporting period, the Rulebook on the Standards for Career Guidance and Counselling Services was adopted ("Official Gazette of RS", No 43/2019). The Draft Rulebook on the Development of Qualification Standards and the Draft Rulebook on the Contents and Modality of Keeping the NQFS Register were prepared.		
2.	Improve capacities of the Qualifications Agency	Progress in implementation	The Qualifications Agency is fully functional and operational. It currently has 29 workers. Premises and equipment have been provided. Funding is defined by the 2020 Budget Law. With support from the IPA 2014 programme, procedures to standardise the key business processes in the Qualifications Agency are being developed.		
3.	Adoption of the Rulebook on the work of the Sectoral Councils	Fully implemented	The process of additional mapping of sectoral council members was finalised in the reporting period. All 12 sectoral councils held their inaugural sessions. They adopted their rules of procedure and work programmes for 2019 and 2020.		
4.	Development of a methodology for the development of the sector profiles	Progress in implementation	With support from the IPA 2014 programme, a draft methodology for the development of sector profiles was prepared.		
5.	Development of 5 profiles / sector descriptions for the needs of sectoral councils	Under preparation	Sector profiles will be developed only after the methodology for the development of sector profiles is finalised.		
6.	Development of qualification standards	Progress in implementation	Four new qualification standards were developed in the reporting period.		
7.	Enter qualifications into the qualifications database	Progress in implementation	95 qualification standards were entered in the qualifications database in Serbian and English.		
8.	Establish the NQFS Register	Progress in implementation	With support from the IPA 2014 programme, NQFS Register elements were defined, as well as the specification for supplying software for the NQFS Register.		
9.	Prepare the report on referencing the NQFS to the EQF	Fully implemented	The report on referencing the NQFS to the EQF was prepared.		
10.	Harmonize the proposed report on referencing NQFS to EQF with social partners	Implementation commenced	While developing the report on referencing the NQFS to the EQF, a consultation process with international and national social partners was conducted – the National Education Council, National Higher Education Council, Council for Vocational and Adult Education, NQFS Council, Interministerial Group members, ETF, EU experts etc.		

11.	Notification and referencing NQFS to EQF	Fully implemented	Serbia’s first (state of play) report was presented to the EQF Advisory Group on 4-5 November 2019, while the presentation of the report on referencing the NQFS to the EQF is scheduled for the 52nd meeting of the EQF Advisory Group on 4-5 February 2020.		
12.	Analyse and update the Concept of recognition of prior learning	Progress in implementation	With support from the IPA 2014 programme, the Concept of recognition of prior learning is being analysed and updated. Good practices in the prior learning recognition process in Portugal were mapped and an action plan for piloting the prior learning recognition concept in Serbia was prepared.		
13.	Revise the enrolment policy in vocational secondary schools	Progress in implementation	The enrolment policy in vocational secondary schools is being aligned with the real economic development needs of a given local community.		
14.	Implementation of service standards for career guidance and counselling	Implementation commenced	The Standards for Career Guidance and Counselling Services were adopted in the form of a rulebook, and the NQFS Council adopted recommendations on the implementation of these Standards.		
15.	Create and implement the plan for promotion and visibility of dual and entrepreneurial education	Fully implemented	In the previous period, activities to promote dual and entrepreneurial education were implemented.		
16.	Create legislative framework for implementation of dual education in the field of higher education	Progress in implementation	The Law on the Dual Studies Model in Higher Education was passed in September 2019 (“Official Gazette of RS”, No 66/2019).		
17.	Monitoring of the activities of establishing student cooperatives in elementary and secondary schools in accordance with the Rulebook on student cooperatives	Under preparation	The operation of student cooperatives will be monitored through the Dositej education information system, whereby the key information on the establishment and operation of student cooperatives will be obtained.		
18.	Create and implement a strategy for the development and implementation of entrepreneurial education at all levels of education (student cooperatives...)	Under preparation	The strategy for the development and implementation of entrepreneurial education at all levels of education is in the preparatory phase		

19.	Establish and work on the analytical system for monitoring and evaluation of dual and entrepreneurial education	Under preparation	The Master Plan for the implementation of the Law on Dual Education was adopted at a session of the Commission for Dual Education Development and Implementation. Instruments of the Framework for Dual Education Monitoring and Evaluation are being piloted. The Framework is expected to be finalised during next year. The Education Management Information System will enable the generation of specific reports (average duration of studies/schooling for graduates and secondary education graduates, average grade of graduates and secondary education graduates, average earnings of graduates and secondary education graduates once employed, prevailing employment modality after graduation and passing the graduation/ final exam, average duration of job seeking after graduation, annual budget expenditure on specific courses of study and secondary school qualification profile/stream, average annual budget expenditure on specific courses of study per student and on specific qualification profiles/streams per secondary school student, and average budget revenues per graduate of specific courses of study). Within these reports, dual education qualification profiles and courses of study following the dual model will be monitored separately.		
20.	Develop additional analyses on dual education (Analysis of the impact of dual education on society, Quality, equity and efficiency of dual education, link between education and the labour market...)	Under preparation	Further analyses will be carried out once the prerequisites are in place, more specifically after the Law on Dual Education becomes applicable and the first generation of students in the dual system finishes schooling and enters the labour market.		
21.	Report on the efficiency and quality of implementing dual education during the past year and recommendations for further work and the implementation of the Law on Dual Education.	Under preparation	Dual education quality monitoring will be fully realised after the full implementation of the Law and the bylaws governing in detail the implementation and quality assurance of dual education.		
22.	Modernise the existing and create new educational profiles for the dual education model	Progress in implementation	In the Call for Applications for enrolment of first-year secondary school students in school year 2019/20, 35 educational profiles following the dual education model, including 4 new profiles, were offered. Since the launch of dual education, the total number of dual education profiles introduced has reached 37.		
		64 %			

SR 19. Increased labour activation of social welfare beneficiaries who are fit for work and hard-to-employ unemployed persons in line with employment legislation					
SR is NOT carried over to ERP 2020-2022, given that the envisaged activities have been fulfilled and became regular activities of the Ministry of Labor, Employment, Veterans' Affairs and Social Welfare.					
1.	Entry into force of the Law on Simplified Arrangements for Seasonal Work in Certain Activities	Fully implemented			
2.	Operability of the software for receiving and processing data on employees/seasonal workers in the Tax Administration	Fully implemented			
3.	Establish the seasonal worker records in the NES	Fully implemented			
4.	Adopt the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators	Continuation of implementation with initial results	Continued analysis of the situation in the field of social entrepreneurship in order to improve the text of the Draft Law. The Law is expected to enter parliamentary proceedings in the Q4 of 2020.		Further analysis of the situation in the field of social entrepreneurship.
5.	Adopt the Law on Temporary Agency Work	Fully implemented	The Law on Agency Employment ("Official Gazette of the RS", No. 86/19) was adopted on December 6, 2019. Pursuant to Article 5, paragraph 5 and Article 8, paragraph 4 of the Law on Agency Employment, the Rulebook on Conditions for Issuing the License for Work of the Agency for Temporary Employment and Passing the Professional Examination for the Agency ("Official Gazette of RS", No. 96/19).		
		92 %			

SR 20. Improvement of the adequacy, quality and targeting of social protection measures					
SR is carried over to ERP 2020-2022					
1.	Revise the benchmarks and criteria for costing social protection services	Under preparation	Final version of the Draft Decree methodology for determination of Social Services Costing was prepared. The adoption of the Decree is planned after the adoption of the Law on Amendments to the Law on Social Protection.		
2.	Link centres for social work into a single network (by implementing software)	Implementation commenced	Given that the Centers for Social Work and the Ministry do not have a single information system in the field of social protection, its security is one of the priorities. The plan is to procure the information system in the period from 2019 to 2022. For 2019 it is planned to carry out an analysis of the situation and develop a project task that will be the basis for the development of an information system that will provide information linking of the social protection system. In this regard, a procedure has been initiated to procure a service for analysis and project design, and by the beginning of 2020 initiates the procurement of the missing information system for the needs of social welfare institutions and the Ministry.		
3.	Increase the adequacy of cash benefits	Under preparation	Cash benefits are adjusted 2 times a year, as provided for under the law. The Ministry has prepared the Draft Law Amending the Law on Social Protection, public review has been conducted and opinions obtained from all relevant authorities and organisations, and the consolidated Draft Law is currently in the phase of being submitted to the Government to be endorsed as a Bill. The Draft Law provides for more advantageous terms for assessment of eligibility for financial social assistance (FSA): it specifies a three-year period during which the applicant is not allowed to sell or give away property or disclaim an inheritance (in the existing Law, there was no time limit). In addition, under the existing Law, individuals who are fit for work but refuse a job offer, participation in public works etc. are ineligible for FSA, while the proposed amendments limit the period during which an applicant must not have refused a job offer to the past six months.		
4.	Complete the process of service standardisation and licensing of social protection institutions and professionals, and develop the relevant by-laws, but also establish and strengthen the education programme	Progress in implementation	By 31 July 2019, a total of 505 service provision licences were issued to social protection organisations, and 82 licences from 1 January 2019 to 31 December 2019. The licencing of professionals in the social protection system unfolds according to the planned schedule. A total of 5017 licences have been issued since the launch of the licencing process, and 91 licenses were issued to professionals between 1 January 2019 and 31 July 2019. Both licencing processes are continuous efforts to ensure quality.		

			The Draft Rulebook Amending the Rulebook on Detailed Requirements and Standards for Provision of Social Services and is expected to be adopted. The Rulebook Amending the Rulebook on Organisation, Norms and Standards of Work of Centres for Social Work was adopted (July 2019).		
5.	Improve the quality of social protection services	Progress in implementation	Ongoing process, closely tied to the process of licencing of social services and professionals in the social protection system. In addition, service quality improvement directly depends on the budget scope for investment in social protection institutions, as well as on the development of community-based services.		
6.	Harmonise the legislation related to social protection with the aim of connecting various sectors through information technologies	Implementation commenced	Draft Law on the Social Card was passed by both committees in the Government, it is expected that the Government will establish the Proposal of the Law on the social card. The Draft Law is being consolidated to include the outcomes of the public review. This Law will integrate three existing Ministry databases (social, child and disabled veteran protection), thus facilitating links to external databases.		
7.	Connect various sectors using information technologies	Continuation of implementation with initial results	The implementation of activities related to the "social card" is going according to plan. The first phase of the development of the information system has been completed. It will provide information linkage to data sources of importance for the social and economic status of individuals and families, which is the basis for the realization of the set social policy reform goals. At this stage, the internal integration of the subsystems at the Ministry level has been completed. This is followed by the implementation of the next phase related to the information connection to external data sources (Ministry of Public Administration and Local Self Government, Ministry of Interior, Tax Administration, Central Register of Compulsory Social Security, The Disability and Pension Fund, Geodetic Authority…) to be realized in the second half of 2020. The legal framework for linking is the Law on Social Card, which is in the process of being adopted (public debate completed).		
8.	Shorten the deadlines for the exercise of rights	Progress in implementation	The Law on the General Administrative Proceedings stipulates the obligation of first-instance authorities to obtain evidence in the proceedings ex officio, which is facilitated in the eZUP system through access to the databases of the MoI, RGA, NES, civil registries, RS PDIF and Tax Administration.		

9.	Strengthen inspection services (increase staff numbers, establish new organization and work methods)	Progress in implementation	The Ministry of Public Administration and Local Self-Government has prepared a functional analysis of state inspectorates, including a capacity analysis and a three years' action plan for the recruitment of civil servants to perform inspection affairs; under the action plan, the social protection inspectorate should recruit 18 new social protection inspectors by the end of 2021. Under the Government Decree on the special status of inspectors in the civil service system, the process of improving the status of inspectors was launched by promoting inspectors – advisers to inspectors – independent advisers. Realization of SR13 - Improvement of the effectiveness of inspection oversight from ERP 2019-2021 is positively reflected to this activity.		
		56 %			

Annex 1: Contribution of Civil Society Representatives to ERP 2020-2022

Comments of the NCEU Cross-Sector Working Group on the draft Economic Reform Programme (ERP) 2020-2022

The Cross-Sector Working Group of the National Convention on the European Union (CS WG NCEU) for the ERP considered the proposal of structural reforms in the draft of the Economic Reform Programme for the period 2020-2022, and prepared comments and suggestions on this proposal. At the event held on December 20, 2019, comments and proposals were presented to the Ministry of Finance, the Public Policy Secretariat, as well as to the relevant ministries, and representatives of the Government of the Republic of Serbia, during the discussion at the meeting, responded to all the comments made by the representatives of civil society. Below is a summary of the comments and suggestions of the NCEU:

General comments

It was noted that a macro-fiscal framework was absent from the ERP draft, which can be only partially replaced by the fiscal strategy referred to by the ERP. Therefore, the suggestion is to submit this part for discussion in the next cycles.

From a macroeconomic point of view, the reasons for concern are the following: the delay in adopting and implementing the country's re-industrialization strategy, neglecting public enterprise reform, lack of concrete and clearly traced support for SMEs (beyond the access to finance), delaying the suspension of public sector employment bans, delaying the introduction of pay grades and the continuation of the arbitrary determination of salaries for the same positions by different ministries, and finally the fact that the most recent ERP has neglected the imperative of raising the competitiveness of the economy through smart specialisation, as highlighted in the latest recommendations of the European Commission to Serbia. However, the macroeconomic comments - provided in the ERP as an analytical template for presenting related structural reforms - are of high quality and professionally and responsibly recognize and highlight many of the weaknesses and risks just mentioned in this review.

CS WG NCEU for ERP believes that state institutions could involve NCEU experts earlier in the process, primarily in the methodology of identifying possible structural reforms that can get the green light before being officially prioritized. This would contribute to transparency and optimization of the whole process, where the NCEU offers assistance in auditing both ex ante (prioritizing one reform over others) and ex post indicators (which measure the success rate of implementation of selected structural reforms and achieving the effects that those reforms should have).

When it comes to priority structural reforms, it seems that this time they have been predominantly determined by popular digitalisation initiatives (i.e., some of the measures are such that, while they are definitely a priority, it is questionable whether they should be in a document that is dealing with economic governance and economic policy), large databases, dual education and the circular economy, and without sufficient focus on economic policy that will provide better quality and better paid jobs, and a balanced sustainable development.

Improving the competitiveness of industry should be one of the key structural reforms; hence, the suggestion is that it should be returned to the list of structural reforms. In support of this is the draft of the Industrial Policy Strategy, which defines specific goals and indicators.

Given that the existing Strategy for the Support to Development of Small and Medium-Sized Enterprises (SMEs), Entrepreneurship and Competition is defined for the period 2015-2020, preparations for defining a new strategy will be intensified during the next year. The suggestion is that more attention in the next Economic Reform Programme should be paid to strengthening the SME sector (in other words, not only facilitating access of SMEs to finance), especially as SMEs make up 99% of the Serbian economy.

Also, the CS WG for ERP believes that indicators should be more adequately defined, primarily as outcome and output indicators, in order to monitor the effect of structural reforms, rather than input level indicators.

Structural reforms in the field of energy market reform:

Despite the fact that the document states that the energy sector contributes only 4% to the GDP formation, this sector also has an impact on other sectors such as agriculture, forestry, environment, as well as the financial and fiscal structure of Serbia. It is important that this is reflected in the text.

It is necessary to create the infrastructure conditions for the transition to the use of renewable energy sources. The target for national renewables for 2020 is 27% of gross final energy consumption. The 2013 National Renewable Energy Action Plan defined the goal of 23.1% share of renewable energy in gross final consumption in 2017. According to the latest data, 20.6% was achieved in 2017. Adoption of prepared by-laws in the field of biofuel use is required.

The proposal is to provide initial data for the use of renewable energy sources, and after reforms, to show through indicators how far has Serbia progressed.

Existing energy plants emit large amounts of greenhouse gas, which has a negative impact on the environment. Lignite is the most used electricity source, which negatively affects air quality. Through coal combustion, EPS releases large quantities of harmful gases. Fees for environmental protection and promotion were prescribed by the Law on Charges for the Usage of Public Goods, and from March 2019 the implementation of these charges began. The amounts that polluters pay are prescribed depending on the type and amount of pollution. The revenues from charges are paid into the budgets of cities and municipalities.

Structural reforms in the field of transport market reform:

In the field of transport, there is a high level of alignment with the acquis communautaire. The greatest progress has been made through the adaptation of legislation, the construction of transport infrastructure (European Commission’s Report on the Republic of Serbia for 2019, p. 73) and diversification in the field of railway transport. In the coming period, it is necessary to continue with the rail reform, improve road safety and improve road and rail infrastructure. Administrative capacity for all modes of transport needs to be further improved.

The proposal is to consider stimulating the use of water transport on the river and canal networks. Also important for the development of the economy is the further development of industrial railroads and closed loop roads. With the implementation of Intelligent Transportation Systems (ITS) in Serbia still being delayed, it is necessary to introduce integrated transport tariffs and point-to-point transport.

Structural reforms in the field of agriculture:

The NCEU welcomes the introduction of the structural reform “Improvement of the keeping of the register of agricultural holdings and the approval of national incentives in agriculture through the development of e-agrar portals", which was added to the ERP following the advocacy activities of one of the NCEU members - the National Alliance for Local Economic Development (NALED). The Ministry of Agriculture, Forestry and Water Management and the Ministry of Finance have recognized the importance of this reform and included it in the proposal, although it was not originally planned.

Structural reforms in the field of business environment and reduction of the informal economy:

Regarding the structural reform on the simplification and the guillotine of procedures for business entities – CutAP initiative, CS WG NCEU for ERP, firstly proposes to change the name of the reform - Simplification and the guillotine of procedures for business entities, i.e. to delete the word CutAP. The proposal is to correct the text by adding the measures foreseen by the National Program for Countering Shadow Economy and the Grey Book:

1. Reform of non-tax revenue - updating and upgrading of the existing electronic register of non-tax duties, which will regulate taxes and other non-tax levies, in order to increase transparency and predictability of the economic environment.
2. Continued reduction of fiscal burden of labor - reduction of tax and contribution rates or significant increase of non-taxable part, with the aim of increasing competitiveness and employment.
3. Introduction of new tax treatments for new models of work engagement

Adopting these structural measures is extremely important given that last year's ERP assessment and the EC's recommendations for its improvement stated that the main challenges in increasing competitiveness and long-term sustainable inclusive growth were to increase transparency and predictability of the business environment and to enhance competition, as well as labour contributions to GDP growth.

Also, the establishment of a single point of contact (SPOC) does not essentially belong to the structural reform that deals with the establishment of a single public register of administrative procedures. Although the SPOC would use data obtained from a single public register, this platform, in addition to providing information on procedures, should also serve as an electronic station where businessmen from the services sector will be able to carry out all necessary administrative procedures (tax related procedures, workers registration, etc.). It should be emphasized that the establishment of such a platform should not only be seen as a requirement that must be fulfilled when joining the EU, but that the functioning of such a system is important and beneficial for our businessmen even before the official membership of the Republic of Serbia in the EU. Therefore, the establishment and functioning of the SPOC should play a significant role in the proposed ERP document, as a separate structural reform or a relevant part of a structural reform that addresses the overall improvement of conditions for doing business in the services sector.

Regarding the structural reform on the Tax Administration transformation we propose to further define and clarify the activities of the TA, especially in the part of capacity building for risk analysis. Further revise indicators (define whether they are % or indices, relative to what baseline they are measured, etc.).

Regarding the structural reform on the improvement of the geospatial sector by creating a strategic digital platform to support investment decision-making, we would like to note that the address register is being updated throughout Serbia. So far, about 45% have been completed, final completion being expected in 2022. This is a very complex task, and the risk is whether there will be sufficient administrative capacity to achieve the planned dynamics.

Regarding the structural reform on the establishment of a sustainable system for environmental protection financing we consider this reform to be of great importance, as rightly recognized in the ERP. However, it needs to be refined. Bearing in mind that the mandatory earmarking of funds from local environmental funds has been abolished, it is necessary to amend the Budget System Law, which abolished this obligation and to strengthen the control of the purposeful use of funds raised for environmental protection.

Regarding the structural reform on the introduction of the concept of circular economy by defining a strategic framework we believe that the reform itself is not contentious, but that the title of structural reform needs to be changed since structural reform cannot be reduced to defining a strategic framework.

Indicators are signs of progress in implementing the reform and it is best for them to be quantitative. Accordingly, and with the aim of monitoring the effects of structural reforms, it is not appropriate to use the following indicators: “1. A public policy document with an action plan was drafted and adopted and 2. Activities carried out to introduce the concept of a circular economy, in accordance with the action plan ". Bearing in mind that the industrial policy has been excluded from the list of structural reforms, the approach for selecting the structural reforms is not consistent. Indicators are a key element of any strategy, so indicators within the ERP should also be consistent with the strategy. For example, it could be the number of recycling companies, the amount of recycled waste per capita, or any other indicator of structural changes in this area.

The anticipated impact of this reform on competitiveness states that companies that have "switched to a circular economy" are becoming more competitive as the new mode of production leads to raw materials and energy efficiency, reduced waste, which results in long-term savings. In the first place, there are no countries that have or have not switched to a circular economy, but only countries that implement the principles of the circular economy to a greater or lesser extent. There is no methodology to measure the "circularity" of the economy, nor is there a plan and methods to motivate companies that apply the principles of circular economy (and to determine how large this "circularity" is). On the other hand, there is no mechanism for sanctioning companies that do not apply the circular economy principle in their operations.

Example: Manufacturers of plastic products such as PET packaging and other products made of a variety of plastic materials can choose from newly produced or recycled raw materials. It should be taken into account that not all plastics can be recycled, that there are a limited number of times that certain plastics can be recycled and that certain types of plastics degrade in the process, in other words, they cannot be reused for the same type of product. In addition, plastic recycling is an energy-inefficient and logistically demanding process, which raises the cost of recycled plastic. Thus, the use of recycled plastics often does not contribute to improving competitiveness, but on the contrary, although it does undoubtedly contribute to the conservation of the environment and creates jobs in the recycling chain.

Also, it is stated that the transition to a circular economy leads to economic growth in the short to medium and long term, however, it does not clarify in what way or what parameters were considered in reaching such a conclusion.

Structural reforms in the field of research, development and innovation and the digital economy:

Considering the structural reform “Support for innovative start-ups and digital transformation of businesses”, we believe that the innovation should be understood in a broad sense so that it comprises, for example, technological processes that improve productivity, increase energy efficiency, reduce CO_2 emissions, etc. Innovation is not exclusively about innovative products. It is necessary to introduce the right to a tax credit for SMEs, that is, to reduce the corporate income tax when a SME invests in the procurement of equipment. Also, although tax exemptions for start-ups have been introduced, the period for which they are exempted from this obligation should be increased (to 3 to 5 years), bearing in mind that beginners in the business begin to realize profit only after a period of three years, that is, they no longer operate at zero or minus. This would also help reduce the shadow economy. An important indicator is the number of start-up incubators as well as the number of companies in these incubators, the number of commercialized products, etc.

Considering that the measures covered by the structural reform “Increasing the accessibility of e-Government to citizens and businesses by improving customer service” are already in the e-Government Development Program in the Republic of Serbia, as well as the new Public Administration Reform Strategy in the Republic of Serbia, which is being drafted, the proposal is to clearly highlight the link between the ERP and these planning documents. Given that the reform of public administration has addressed the issue of e-Government comprehensively, it is proposed that the ERP focuses on improving the business environment through greater use of digital services and that the proposed activities should be part of a set of measures focused on facilitating business activities. The Draft of the e-Government Development Program includes a Specific Objective 1: Development of e-Government Infrastructure and Ensuring Interoperability, as well as a Measure 1.1: Establishment of the State Data Management and Storage Centre in Kragujevac and improvement of the National Data Management and Storage Centre in Belgrade. Therefore, it is not clear what the added value of listing an identical measure in the Economic Reform Programme is, or why the focus was placed on the Data Centre in Kragujevac and not on upgrading the Data Centre in Belgrade, that is, it is not clear why these activities are mentioned in the ERP at all, and what would be its added value for the economy.

Moreover, in the Draft of the e-Government Development Program, the Measure 1.4, Activity 1.4.1 "Improvement of the system of fees and charges by using the e-Payment+ software solution", coincides with the activity specified in Structural Reform 14: "Improvement of functionality of e-Payments+ on the e-Government Portal ". As in the previous case, there is no clear need or added value for duplicating this activity in another planning document. All this is related to the indicators that need to be adapted to this perspective of the role of the e-Government for the economy. For example, the indicator should be specifically set to measure the number of actions (or services) on the e-Government portal for which businesses are enabled to use e-Payments+, expressed in percentages. In addition to the number of procedures that enable this feature, it is also necessary to measure their user-friendliness, i.e. whether the percentage of electronic service users has increased since the introduction of electronic payment. The most advanced indicator would be a survey, testing customer satisfaction with this new feature.

The structural reform”Improvement of e-Government and education services through the development of national ICT infrastructure” and the dynamics of its implementation are relevant and well defined. The expected effect should be added: improving the business environment for the economy, as well as an additional indicator: customer satisfaction. However, there is also a risk here: a large shortage of IT staff is to be expected in the near future; thus, it is necessary to increase quotas for studying IT by 100% in the next 3 years. Also, it is necessary to introduce programs for raising the digital competencies of the lecturers.

Structural reforms in the field of trade-related reforms:

Establishing a digital service "Product info" as a structural reform is a good move, but it is also necessary to design and present a procedure for the functioning of this service, in other words, present the way in which the TEHNIS portal will be expanded to serve as a Contact Point for eliminating technical barriers to trade. Furthermore, from year to year, the European Commission calls for the establishment and improvement of the Product Contact Point. This process in Serbia should be accelerated by setting this goal as a priority in the proposed action plan.

Structural reforms in the field of education and skills:

Regarding the structural reform "Digitalisation of the education system and introduction of the Unified Education Information System", we consider that developing of IT education in elementary and high schools should continue. It is necessary to explain the effects of creating a new unified record. The roles and responsibilities are vaguely defined, and it is also necessary to ensure the protection of personal data in the new integrated records. Introduce programmes to enhance the digital competencies of lecturers.

Structural reforms in the field of employment and labour market:

Regarding the structural reform that proposes creating conditions for monitoring, encouraging and supporting circular migration, we believe that special economic programs for returnees are not required, because what is good for returnees is good for other citizens of Serbia. Returnees do not want special privileges that would differentiate them from other citizens because thus would only hinder already complicated process of reintegration. The focus should be on facilitating return procedures and facilitating working and investment conditions for all citizens. State-level nostrification could be eliminated completely. In many of the more developed economies, universities and companies decide on the value of diplomas and check their validity. Imports of furniture and cars must be faster and more liberal. Reducing paperwork is a serious undertaking and will certainly have additional costs. When the conditions for healthy conduct of business are met, the economy will grow. This will also create jobs for young people. Subsidies and incentives for returnees will only lead to inefficient allocation of capital. Any completion of the database by the state for the purpose of monitoring the migrants should be voluntary and should not create a condition in the paperwork on return.

Annex 2 – The list of institutions participating in preparation of the ERP

With the Decision of the Minister of Finance no. 119-01-282/2019-24, on 18 July 2019, a Working Group for the Preparation of the Draft Economic Reform Programme (ERP) and Programme Implementation Monitoring was formed. The members and deputy members of the Working Group are delegated from the following institutions:

- Prime Minister's Office
- Ministry of Finance
- Public Policy Secretariat
- Ministry of Economy
- Ministry of Trade, Tourism and Telecommunications
- Ministry of Public Administration and Local Self-Government
- Ministry of Justice
- Ministry of European Integration
- Ministry of Health
- Ministry of Education, Science and Technological Development
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Environmental Protection
- Ministry of Mining and Energy
- Ministry of Labor, Employment, Veteran and Social Affairs
- Ministry of Construction, Transport and Infrastructure
- Ministry of Youth and Sport
- Ministry of Defense
- Ministry of Culture and Information
- Ministry of Foreign Affairs
- Office of the Minister without portfolio responsible for regional development and coordination of the work of public companies
- Office of the Minister without portfolio responsible for innovation and technological development
- National Bank of Serbia
- Statistical Office of the Republic of Serbia
- Republic Geodetic Authority
- National Employment Service
- Social Inclusion and Poverty Reduction Unit
- Public Procurement Office
- Office for Information Technologies and E-Government
- Commission for State Aid Control