



Brussels, 8.10.2014  
SWD(2014) 302 final

**COMMISSION STAFF WORKING DOCUMENT**

**SERBIA  
2014 PROGRESS REPORT**

*Accompanying the document*

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL  
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Enlargement Strategy and Main Challenges 2014-2015**

{COM(2014) 700 final}

## TABLE OF CONTENTS

1.	<u>Introduction</u> .....	3
1.1.	<u>Preface</u> .....	3
1.2.	<u>Context</u> .....	3
1.3.	<u>Relations between the EU and Serbia</u> .....	3
1.4.	<u>Normalisation of relations between Serbia and Kosovo</u> .....	5
2.	<u>Political criteria</u> .....	6
2.1.	<u>Democracy and the rule of law</u> .....	7
2.2.	<u>Human rights and the protection of minorities</u> .....	13
2.3.	<u>Regional issues and international obligations</u> .....	14
3.	<u>Economic criteria</u> .....	16
3.1.	<u>The existence of a functioning market economy</u> .....	16
3.2.	<u>The capacity to cope with competitive pressure and market forces within the Union</u> .....	21
4.	<u>Ability to take on the obligations of membership</u> .....	22
4.1.	<u>Chapter 1: Free movement of goods</u> .....	22
4.2.	<u>Chapter 2: Freedom of movement for workers</u> .....	24
4.3.	<u>Chapter 3: Right of establishment and freedom to provide services</u> .....	24
4.4.	<u>Chapter 4: Free movement of capital</u> .....	24
4.5.	<u>Chapter 5: Public procurement</u> .....	25
4.6.	<u>Chapter 6: Company law</u> .....	26
4.7.	<u>Chapter 7: Intellectual property law</u> .....	26
4.8.	<u>Chapter 8: Competition policy</u> .....	27
4.9.	<u>Chapter 9: Financial services</u> .....	27
4.10.	<u>Chapter 10: Information society and media</u> .....	28
4.11.	<u>Chapter 11: Agriculture and rural development</u> .....	29
4.12.	<u>Chapter 12: Food safety, veterinary and phytosanitary policy</u> .....	30
4.13.	<u>Chapter 13: Fisheries</u> .....	31
4.14.	<u>Chapter 14: Transport policy</u> .....	31
4.15.	<u>Chapter 15: Energy</u> .....	32
4.16.	<u>Chapter 16: Taxation</u> .....	34
4.17.	<u>Chapter 17: Economic and monetary policy</u> .....	34

<a href="#">4.18.</a>	<a href="#">Chapter 18: Statistics</a> .....	35
<a href="#">4.19.</a>	<a href="#">Chapter 19: Social policy and employment</a> .....	35
<a href="#">4.20.</a>	<a href="#">Chapter 20: Enterprise and industrial policy</a> .....	37
<a href="#">4.21.</a>	<a href="#">Chapter 21: Trans-European networks</a> .....	38
<a href="#">4.22.</a>	<a href="#">Chapter 22: Regional policy and coordination of structural instruments</a> .....	39
<a href="#">4.23.</a>	<a href="#">Chapter 23: Judiciary and fundamental rights</a> .....	39
<a href="#">4.24.</a>	<a href="#">Chapter 24: Justice, freedom and security</a> .....	50
<a href="#">4.25.</a>	<a href="#">Chapter 25: Science and research</a> .....	55
<a href="#">4.26.</a>	<a href="#">Chapter 26: Education and culture</a> .....	55
<a href="#">4.27.</a>	<a href="#">Chapter 27: Environment and climate change</a> .....	56
<a href="#">4.28.</a>	<a href="#">Chapter 28: Consumer and health protection</a> .....	58
<a href="#">4.29.</a>	<a href="#">Chapter 29: Customs union</a> .....	59
<a href="#">4.30.</a>	<a href="#">Chapter 30: External relations</a> .....	60
<a href="#">4.31.</a>	<a href="#">Chapter 31: Foreign, security and defence policy</a> .....	61
<a href="#">4.32.</a>	<a href="#">Chapter 32: Financial control</a> .....	61
<a href="#">4.33.</a>	<a href="#">Chapter 33: Financial and budgetary provisions</a> .....	62
	<a href="#">Statistical Annex</a> .....	64

## 1. INTRODUCTION

### 1.1. Preface

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

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

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

This report covers the period from October 2013 to September 2014. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many sources have been used, including contributions from the government of Serbia, the EU Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

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

### 1.2. Context

The European Council granted the status of candidate country to Serbia in March 2012 and decided to open accession negotiations in June 2013. Accession negotiations were formally launched in January 2014. The Stabilisation and Association Agreement between Serbia and the EU entered into force in September 2013.

### 1.3. Relations between the EU and Serbia

Following the adoption of the framework for **accession negotiations** with Serbia by the Council in December 2013, the first Intergovernmental Conference with Serbia was held in January 2014. The analytical examination of the EU *acquis* (screening process) started in September 2013. In line with the new approach for the chapters on judiciary and fundamental rights, together with justice, freedom and security, the screening meetings for these chapters

---

<sup>1</sup> Until 1 July 2014, the rapporteur for Serbia was Mr Jelko Kacin. The current rapporteur is Mr David McAllister.

<sup>2</sup> Enlargement Strategy and Main Challenges 2014-2015, COM(2014) 700.

took place from September to December 2013. 15 chapters have been fully screened and screening of 9 more chapters have started. Overall, the screening exercise is expected to be completed in 2015.

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

Following the entry into force of the **Stabilisation and Association Agreement (SAA)**, the inaugural Stabilisation Association (SA) Council met in October 2013. Serbia has continued to build a satisfactory track record in implementing the obligations of the SAA. The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was signed in June 2014; pending its ratification, the protocol is applied on a provisional basis with effect from 1 August 2014. Further efforts are needed in particular in the area of state aid control, especially to ensure the operational independence of the Serbian Commission for State Aid Control and to repeal the exemption of enterprises under privatisation from state aid rules.

Regular political and economic dialogue between the EU and the country has continued. The SA Committee met in March and seven sub-committee meetings were held. Serbia participates in the multilateral economic dialogue with the Commission and EU Member States to prepare the country for participation in multilateral surveillance and EU economic policy coordination. As part of the new approach to economic governance, this exercise resulted in a number of targeted policy recommendations endorsed by the Economic and Financial Affairs Council in May. Serbia is expected to follow up on these recommendations in the course of the year. A Special Group on Public Administration Reform was established under the SAA.

The SA Parliamentary Committee (SAPC) met for the first time in November 2013 in Belgrade. The composition of the EU-Serbia Inter-Parliamentary Committee was renewed in May. The European Parliament adopted an opinion on the Commission's progress report on Serbia in January. Local and regional representatives from the EU countries and Serbia met in May in the framework of the Committee of the Regions' Working Group on the Western Balkans to discuss EU-Serbia relations, their impact on the role of local authorities and the state of local democracy in the process of EU accession. In December, the Serbian parliament adopted a resolution on its role in the accession negotiations.

**Visa liberalisation** for citizens of Serbia travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. The next report will be presented by the end of 2014. A visa-waiver suspension mechanism entered into force in January 2014. On this basis, EU Member States can request the Commission, in an emergency situation and as a measure of last resort, to examine the possibility of temporarily suspending the visa waiver for third-country nationals. A **readmission agreement** between the European Union and Serbia has been in force since 2008.

The EU has provided **financial assistance** to Serbia under the Instrument for Pre-accession Assistance (IPA) for the period 2007-2013, with a total allocation to Serbia of €1.4 billion. The IPA National Programme 2013 amounts to €178.8 million overall with most of the funding supporting justice and home affairs, private sector development, and environment, climate change and energy.

In March, the Commission granted conferral of management powers to Serbia. Part of the IPA 2013 national programme will be implemented for the first time under decentralised management by the national authorities.

Under IPA II, Serbia will continue to benefit from pre-accession assistance for the period 2014-2020 with a total indicative allocation of €1.5 billion. An indicative strategy paper for the years 2014-2020, drafted in partnership with Serbia and in consultation with all relevant stakeholders, was adopted by the Commission in August. Over this period, IPA will aim at supporting reform efforts in direct line with the negotiation process, in particular in the area of rule of law and governance, as well as competitiveness and growth, including key investments for economic development.

In July, the Commission hosted a donors' conference for Bosnia and Herzegovina and Serbia, co-organised with France and Slovenia. Total pledges for Serbia amounted to €986 million of grants and soft loans out of which €80 million grants from the EU budget.

Serbia continues to benefit from support under the IPA multi-country and regional programmes and to participate in cross-border cooperation programmes with neighbouring Western Balkan countries and in trans-national cooperation programmes with Member States under the European Regional Development Fund and the IPA Adriatic cross-border programme.

Serbia participates in the following **EU programmes**: the Seventh Research Framework Programme, Progress, the Competitiveness and Innovation Framework Programme, Culture, Safer Internet, Lifelong Learning, Europe for Citizens, Customs and Fiscalis. Serbia has also recently concluded or is in the process of concluding new agreements for a number of programmes, including: Horizon 2020, Competitiveness of Enterprises and Small and Medium-sized Enterprises, Erasmus+, Creative Europe and Employment and Social Innovation. Serbia has applied for observer status in the EU Fundamental Rights Agency.

#### **1.4. Normalisation of relations between Serbia and Kosovo\***

Serbia and Kosovo have remained engaged in the EU-facilitated dialogue, but progress has markedly slowed down since March 2014. Early general elections were held in Serbia in March and in Kosovo in June. Six high-level meetings attended by both Prime Ministers were held between September 2013 and March 2014. Work continued throughout the reporting period at technical level.

As a result of intense work in the first months of the reporting period there has been progress in the implementation of the agreements reached in the dialogue, in particular the April 2013 '*First agreement of principles governing the normalisation of relations*'. For the first time, local elections were held Kosovo wide with the facilitation of the OSCE in November 2013 (and repeated in North Mitrovica in February 2014) and, again for the first time, municipalities in the north of Kosovo were inaugurated in conformity with Kosovo law. Kosovo Serbs from both north and south of the Ibar river took part in the early general elections in June 2014. The establishment of the Association/Community of Serb majority municipalities is still pending. There has been progress in the dismantling of the Serbian structures on police and justice. Serbia took measures to facilitate the integration of the police and judiciary following the adoption of an amnesty law by Kosovo. Integration has been completed as concerns police officers, while integration of other Serbian Ministry of Interior

---

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

personnel is still pending. An agreement in principle has been reached regarding the judiciary, but its finalisation and implementation are still pending. Integration of civil protection personnel is also pending.

Some progress has been made in other important areas. Serbia played a constructive role in ensuring Kosovo's participation in the South-East European Cooperation Process (SEEC) at the Bucharest summit in June 2014. Nevertheless, the implementation of the agreement on representation and participation of Kosovo in regional forums continued to be problematic. Preparation for the implementation of the energy and telecoms agreements reached in September 2013 has continued, leading up, in the energy sector, to the signing of an inter-TSO agreement, together with the approval of an action plan, in September 2014.

As concerns the north of Kosovo, a development fund has been set up to collect revenue at the northern crossing points. It has received over €2.9 million to date, but its board has yet to decide on its use. Implementation of the freedom of movement arrangements has allowed the use of Serbian and Kosovo ID cards by residents to enter and exit both Serbia and Kosovo. An agreement was reached to allow residents in Kosovo to use their ID cards to travel to third countries through Serbia via six border crossing points. The setting-up of new roadblocks on the north side of the main Mitrovica bridge in June 2014 increased tensions. Despite an agreement by both sides on the need for a joint solution, the roadblocks known as the 'Peace Park' are still in place. Kosovo and Serbian insurance bureaus have defined the parameters for a commercial agreement on mutual vehicle insurance cover between Serbia and Kosovo. This progress should now be confirmed by means of a signed agreement.

Implementation of other agreements has continued, albeit at a slower pace. Regarding IBM, the six joint interim crossing points have continued to be operational and technical agreements on the exact locations and on draft layouts of the permanent IBM crossing points were reached. However, illegal crossing roads/ by-passes, in particular in the north of Kosovo, continue to be regularly used to smuggle substantial amounts of goods, as reported by EULEX. Additional measures need to be taken by Serbia to stop illegal crossings.

As concerns cadastre, Serbia continues to implement the pilot project, but legislation necessary to implement the agreement is still pending in Kosovo. The copying of Kosovo civil registry books located in Serbia has been successfully completed. The implementation of the agreement on acceptance of university diplomas has had limited results. The certification of diplomas by the European University Association has progressed well and 387 diplomas have been certified. However, Serbia has accepted only five certified diplomas so far, following an additional nostrification process. The deployment of liaison officers has had limited impact.

Serbia has continued to cooperate with EULEX, especially on war crimes, but legal cooperation on the fight against organised crime needs to improve significantly. Criticism of the handling by EULEX of several criminal cases against Kosovo Serbs is counterproductive. The Serbian authorities should refrain from statements undermining the rule of law. Kosovo needs to continue the good cooperation with EULEX.

The Serbia Constitutional Court judged the form in which some dialogue agreements have been transposed unconstitutional. Serbia needs to find legal solutions for the implementation of agreements that are sustainable over time and not vulnerable to legal challenges.

*Overall*, Serbia and Kosovo have remained engaged in the dialogue and committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue, leading to irreversible changes on

the ground. However, progress has slowed down. Early general elections were held in both Serbia and Kosovo. New momentum needs to be generated to tackle key outstanding issues and open a new phase in the normalisation of relations. Progress in this area remains essential for advancing the European future of both Serbia and Kosovo.

## **2. POLITICAL CRITERIA**

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

### **2.1. Democracy and the rule of law**

#### *Constitution*

The Constitution is largely in line with European standards. Some provisions remain to be put in line with the recommendations of the Venice Commission, in particular concerning the role of parliament in judicial appointments, the political parties' control over parliamentary office, the independence of key institutions and the protection of fundamental rights, including data protection.

*Overall*, constitutional changes should be considered early on in the new legislature, to address issues of importance for the accession negotiations from the outset.

#### *Elections*

The coalition agreed to hold early parliamentary elections in March, together with a by-election in Belgrade. The turnout was 53%. The list of the Serbian Progressive Party (SNS), led by Aleksandar Vučić, obtained a majority, with 158 seats out of 250, and the list of its main coalition partner, the Socialist Party of Serbia (SPS), led by outgoing Prime Minister Ivica Dačić, obtained 44 seats. Of the opposition parties, the Democratic Party (DS) obtained 19 seats, while 18 seats went to the New Democratic Party (NDS), newly founded by former president Boris Tadić. Three parties representing national minorities obtained eleven seats. None of the parties critical of the EU reached the necessary threshold of 5%. Women continue to comprise a third of all MPs. The opposition chairs 4 committees out of 19 standing committees, including the one on European integration.

According to international observation bodies, the elections were inclusive and transparent, with a genuine choice offered to voters and effective procedures. The campaign was peaceful overall, although isolated incidents and cases of voter intimidation were reported. The legal framework is generally in line with international standards. The OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR) noted that some of its previous recommendations remained unaddressed, in particular those pertaining to transparency of campaign financing and of the electoral process. It also found that media reporting was insufficiently analytical and was influenced by the political parties in power, including through public funding, which led to widespread media self-censorship. A review by the Anti-Corruption Agency of electoral campaign financing faced a lack of government cooperation in providing the data necessary to scrutinise possible misuse of public funding for election purposes.



*Overall*, elections were inclusive and transparent, with a genuine choice offered to voters and effective procedures. Attention should be given early on in the new legislature to the OSCE/ODIHR recommendations with a view to revising the electoral framework and provisions on financing political parties and electoral campaigns before the next elections.

### *Parliament*

Early elections in March meant that institutional activity in parliament was suspended from January until April but it regained momentum as of May and parliament enacted several important laws, including on labour, bankruptcy, privatisation and on media. All were however adopted under urgent procedure with limited possibility for parliamentary debate. Parliament adopted a resolution in December 2013 aiming at its close involvement in the accession negotiations process, together with other stakeholders, including civil society, and a decision in August further regulating the internal consultation procedure on government draft negotiating positions. Regarding its oversight activities, parliament remained engaged in public hearings and oral questions. In April, the *ad hoc* enquiry committee on Serbian budget spending in Kosovo issued its report, which remains to be debated and followed up in plenary. The already extensive use of urgent procedures, which limit the time for scrutiny of draft legislation, further increased, in part to make up for the time lost because of early elections. A smoother and more trusting relationship has yet to be established with independent regulatory bodies and a more proactive approach taken to examine and promote their findings and recommendations, including by organising an effective debate on their reports. Allocation of resources should not be misused by parliament to exert control over these bodies.

*Overall*, the legislative activity was partly held up by the early elections but regained momentum afterwards, albeit with a further increase in the use of urgent procedures. Parliament continued to perform oversight activities but still needs to develop a genuine relationship with independent regulatory bodies, supporting their independence and promoting their findings.

### *Government*

Following the early parliamentary elections, the new government of Prime Minister Aleksandar Vučić (SNS) took office at the end of April, renewing the coalition between the SNS, SPS lists, and extending it to the Alliance of Vojvodina Hungarians and other junior parties. The government is based on an unprecedented wide majority of close to 80% of seats in parliament. It consists of 19 ministers, including four women. A deputy prime minister now oversees public administration and local self-government, while there is no longer a minister in charge of Kosovo. The new government remains fully committed to EU integration and to continuing the EU-facilitated dialogue with Pristina; it aims as a priority to conduct an ambitious economic reform programme and to further intensify the reforms relating to the rule of law, in particular the reform of the judiciary, fight against corruption and organised crime.

Under the leadership of its Chief Negotiator and with the effective support of the Serbian European Integration Office (SEIO), the Serbian government has so far demonstrated a high level of preparedness and engagement in the screening process of the EU *acquis*. A National Convention on the European Union was set up as a platform for cooperation with civil society in the accession negotiation process in June. It gathers around 200 civil society organisations structured in 21 working groups, covering all 35 negotiating chapters. In February, the government adopted an action plan to address the findings of the 2013 Progress Report and in July revised the National Plan for the Adoption of the *Acquis* (NPAA) for the period 2014-2018. Further efforts are needed to ensure closer and consistent involvement of parliament

and civil society in the accession process. Greater coordination of sectoral policies and anticipation of their financial implications will be key ingredients in a coherent approach to the negotiations.

Although public consultations have been slightly further developed in the legislative process, they remain to be conducted more extensively and under more realistic timelines to enable interested parties to provide qualitative input. This is especially needed for draft legislations of high economic and social impact to improve the social dialogue, which has deteriorated over the reporting period. Effective monitoring of the implementation of enacted legislation and strategic documents needs to be strengthened with a view to anticipating and addressing delays and bottlenecks. The government still needs to develop its understanding of the role of independent regulatory bodies and to guarantee that these bodies have appropriate resources to perform their role effectively. Finally, systematic follow-up of their findings should be ensured.

As regards *local self-government*, a revised Statute for Vojvodina was proclaimed in May as a result of a consensual and collaborative process in the state parliament and the provincial assembly, effectively following up the Constitutional Court ruling of December. The law on Vojvodina's resources has yet to be adopted as prescribed by the Constitution. Administrative and management capacity at local level remains weak and significant disparities between municipalities persist. The National Council for Decentralisation and the inter-ministerial Municipal Finance Commission remained inactive and none of the tools needed to monitor functions delegated to municipalities have so far been developed. The legislation on municipal finance needs to be properly implemented with regard to calculation of the transfers earmarked by line ministries. Consultation of local authorities on new legislation that has local implications remains limited.

*Overall*, the Serbian government remained actively engaged towards the goal of EU accession throughout the last period, irrespective of early elections in March and demonstrated preparedness and engagement in the first phase of the negotiations process. Involvement of the parliament and other stakeholders, including the civil society, needs to be strengthened. Independent regulatory bodies' recommendations need to receive proper follow-up and their independence needs to be fully respected. The government needs to develop its capacity to anticipate the financial implications of policies and new legislation and to effectively monitor the implementation of enacted legislation. The legal framework for local self-government remains to be improved and further implemented.

#### *Public administration*

With the adoption of a new public administration reform strategy in January 2014, Serbia has a more comprehensive **strategic framework for public administration reform** in place. The strategy covers organisational policy at central and local level, including decentralisation; policy planning and coordination; e-government; public service and human resources management; public financial management relating to budgeting, internal control and public procurement; legal certainty and public services, including administrative procedures; transparency and openness of the public administration. The strategy needs to be accompanied by the identification of activities in an action plan, which is being finalised under the leadership of the new Ministry of State Administration and Local Government in cooperation with all key stakeholders. As concerns political leadership for the reform, the Public Administration Reform Council met in August 2014 in a renewed composition under the leadership of the Prime Minister. A special group on PAR was established as a forum for policy dialogue between the Commission and Serbia in the framework of the SAA.

The recent establishment of the Secretariat for Public Policies has the potential to substantially improve **policy development and coordination** at the centre of government. This area has presented a considerable challenge to Serbia, not the least in Serbia's EU accession process. There are weak links between the government's programme and its annual work plan, and a lack of consistency among ministries' policies and plans. Serbia has an excessive number of national strategies (91 sector and 14 multi-sector strategies) of varying quality and with frequent overlaps. Neither strategies nor action plans usually contain assessments of their impact on the national budget. Regulatory impact assessments are also underdeveloped. Laws are often passed without a sufficiently comprehensive assessment of the policy and budgetary impact, resulting into inefficiencies in the implementation and enforcement of legislation.

Concerning **public service and human resources management**, recruitment, both for senior and middle management positions, continues to be an issue of serious concern, as, in 2013, a substantial proportion of recruitments (60%) was not based on open competitions. The current legal framework and its uneven application leave room for undue influence in the recruitment process. Administrative and management capacity at local level continues to be weak and significant disparities between municipalities persist. In the absence of specific legislative framework, public employees at local level are governed by general labour legislation. Training needs to be given more importance in professional development. The civil service legal framework is being revised. Amendments to laws regulating the state administration and public services were introduced in September, as an initial step towards further progress in the establishment of an adequate merit-based civil service system, as regards selection, appointment, training, evaluation, remuneration and dismissal of civil servants and other state employees. Substantial changes in recruitment practices are needed to establish a merit-based professional public administration both at central and local level. This should include well defined criteria for appraisal and career development for civil servants. Internal control should be reinforced. Laws regulating the status of local government employees and their salaries, and the training strategy for local government, are still pending. Independent regulatory bodies still lack a consistent regulatory framework for their establishment and functioning in the area of human resources.

There has been no progress with regard to **accountability and service delivery**. A new Law on General Administrative Procedures remains to be adopted. The Law on Administrative Disputes has not yet been fully aligned with European standards for judicial review of administrative acts.

Serbia is committed to engaging in a more comprehensive **public financial management** reform. This area is acknowledged to be an important aspect of public administration reform and is partly covered under the new public administration reform strategy. The Ministry of Finance has engaged in a public expenditure and financial accountability assessment and is in parallel preparing a public financial management reform programme which aims to sequence the reform actions in different parts of the public finance system. The reform programme is expected to address a number of challenges that Serbia faces, including improvement of revenue administration and tax collection, transition to a medium-term expenditure framework and multi-year programme budgeting, more efficiency in debt management policy, in accounting and reporting, in public procurement, in public internal financial control, anti-fraud measures and external audit.

*Overall*, the adoption of the new public administration reform strategy, a new dedicated Ministry for Public Administration and Local Government, and the increased focus on policy planning and coordination following the establishment of the Secretariat for Public Policies, represent initial positive steps towards more efficient public administration. Sound

implementation of the reform strategy together with strong political impetus and mechanisms are needed to move towards a transparent and merit-based public service system. Lack of transparency in recruitment and politicisation of public administration employees remain an issue of concern. Serbia has started to take steps towards a more comprehensive public financial management reform programme in order to ensure economy, efficiency and effectiveness in the use of public funds.

### *Ombudsman*

The State Ombudsman continued to be active and recorded an increase in the number of citizens' complaints, related mostly to economic, social and cultural rights and administrative procedures. There was a decline in the follow-up of the Ombudsman's recommendations by the authorities, especially those requiring systematic changes. The constitutional position of the Ombudsman needs strengthening. The Ombudsman should be allocated sufficient resources and, in general, his office's independence needs to be better respected and understood.

### *Civilian oversight of the security forces*

The parliamentary committee for oversight of the security forces extended its regular review of activities to the reports of the Inspector General of the Ministry of Defence, beyond the ones of the Security-Information Agency (the BIA) and military services. In November, the committee held a joint closed session with the committee for defence and internal affairs about the activities of extremist organisations and sport hooligans. The committee had a field visit to BIA in July 2014. Following a Constitutional Court ruling in December, the Law on the BIA was amended in June to give judges responsibility for making decisions on exceptions to the principle of absolute confidentiality of letters and other means of communication. The Ombudsman reiterated the need to adopt a new law on the BIA, to review the current regulations giving the security services responsibilities for criminal proceedings and the use of special measures. A law on access to state security files still needs to be adopted.

### *Civil society*

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the state institutions. The civil society sector in Serbia has continued to grow, especially at local level. Civil society organisations and human rights defenders continued to play a key role in raising awareness about civil and political rights in a climate often hostile to their activities, in particular when they express critical views. Their activities took place against increased campaigns often targeting individuals in tabloid media and threats from extremist organisations. A more visible political commitment to promoting a culture of respect and raising awareness is needed. The authorities have taken steps to involve civil society in the accession process at regular intervals. A National Convention on the European Union was set up as a platform for cooperation with civil society in the accession negotiation process in June. The Office for Cooperation with Civil Society improved its management capacity and played an important role in ensuring civil society participation in the screening process. The government adopted in August guidelines for the participation of civil society in the legislative process. Those instruments and mechanisms need to be consistently implemented throughout, and the transparency over public budget expenditure for civil society increased.

### *Judicial system*

First steps were taken in the implementation of the 2013-2018 strategy on judicial reform and its related action plan, aiming at ensuring structural and sustainable changes with a view to an impartial, independent and efficient judiciary. Intensive legislative activities took place. Appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents were appointed on a permanent basis. The implementation of the new public notaries system remains to be further assessed. Several important laws (i.e. on free legal aid and on mutual legal assistance) and constitutional amendments remain to be adopted. Delays in adopting key measures under the implementing action plan reveal the urgent need for effective implementation of the reforms backed by strong monitoring and coordination mechanisms. The Strategy Implementation Commission, which should be instrumental in moving forward the judicial reform, needs to play a more proactive role so as to anticipate delays in implementation and to adopt corrective measures in due time.

Considerable challenges remain regarding independence, impartiality, accountability, efficiency and access to justice, including primarily through the revision of the Constitution. Attention should further focus on (i) adopting clear rules for the appointment of Court Presidents, (ii) implementing merit-based recruitment (iii) tackling the significant backlog of cases and adopting a case weighting methodology allowing for equal and fair distribution of cases. Beyond legal steps, significant efforts are required to back these reforms with appropriate financial resources to produce effective results.

Finally, inclusive consultation of major stakeholders and main users of the judiciary system is not systematically ensured. Such consultation would contribute to reinforcing the accountability and independence of the judiciary as a whole and to ensure ownership of the new reforms by main practitioners.

Serbia's ability to deliver on the implementation of the national judicial reform strategy and action plan in good time and to enforce clear measures conducive to a more predictable and sustainable judicial environment will provide a clear indication of its ability to move forward on its path to accession.

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

### *Fight against corruption*

There is a strong political impetus to fight corruption. Serbia further implemented the recommendations of the Group of States against Corruption (GRECO). The implementation of the national strategy on the fight against corruption for the period 2013-2018 and its related action plan have yet to mirror the strong political impetus to fight corruption. Several measures were delayed and key developments are expected in the short to medium term, in particular laws on whistle-blower protection and legislative changes in the field of conflicts of interest. Monitoring and coordination mechanisms for the implementation of the national anti-corruption strategy and action plan have yet to yield results. A track record on effective verification of asset declarations and checks on party funding needs to be established. Corruption remains prevalent in many areas. Significant efforts are needed not only to enhance and fully enforce the legal framework for the fight against corruption but also to back these reforms with appropriate resources. Inclusiveness of stakeholders throughout the process should be guaranteed.

The new inter-ministerial coordination mechanism put in place in August is a positive initial step but its impact on the ground remains to be assessed. Attention needs to be paid to providing the Anti-Corruption Agency and Anti-Corruption Council with sufficient resources and to ensuring the follow-up to their proposals and recommendations.

Final convictions, especially for high-level corruption, remain rare. Further efforts are needed to establish a convincing track record of investigation, prosecution and final convictions. A sustainable solution is needed to address the excessive recourse to the provision on abuse of position in the private sector in the criminal code. The review of the economic section of the criminal code needs to be completed without delay.

Finally, repeated leaks to the media about ongoing investigations, in breach of the presumption of innocence, are an issue of serious concern.

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

### *Fight against organised crime*

Serbia actively participated in regional law enforcement cooperation, which led to effective results in the fight against organised crime and in particular to a high-profile arrest in connection with organised crime groups. However, there is no overarching strategic threat assessment of organised crime in the country and final convictions remain rare. Additional efforts are needed to systematically carry out financial investigations in parallel with complex criminal investigations. Intelligence-led policing based on crime mapping and systematic use of threat assessments remain to be developed. The dependence of the police on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations remains a matter of serious concern and should be addressed urgently.

The witness protection unit needs adequate staff, equipment and premises to be fully operational and create a confidence-building environment for witnesses and victims. Serbia remains a country of origin, transit and destination for trafficking in human beings, and for sexual and labour exploitation. Both the institutional framework and shelter capacity should be considerably enhanced to ensure that the fight against trafficking in human beings is deterrent and sustainable. Finally, thorough rationalisation of the Ministry of Interior, including reorganisation of its human resources management, is advisable to increase efficiency in fighting crime. The introduction of transparent and merit-based criteria for recruitment and career advancement is crucial, as is more specialised training. Organised crime remains a serious concern in Serbia.

For a detailed analysis of developments in the fight against organised crime, *see Chapter 24 — Justice, freedom and security*.

## **2.2. Human rights and the protection of minorities**

The legislative and institutional framework for observance of international human rights law is in place. Sustained efforts are needed from Serbian authorities to ensure its implementation.

Three laws under the media strategy have been adopted with a view to improving the situation in the media sector and clarifying the legal framework, particularly in relation to state financing and control of the media. However, there are concerns about deteriorating conditions for the full exercise of freedom of expression. A continued lack of transparency over media ownership and sources of media advertising and funding was accompanied by a tendency to self-censorship in the media. The authorities have an important responsibility to

work to create an enabling environment in which this fundamental freedom can be exercised without hindrance, including by reacting to and publicly condemning threats, physical assaults and cases of incitement to violence and hate speech from extremist groups against civil society organisations (CSOs), human rights defenders, journalists and bloggers.

The holding of the pride parade in Belgrade on 28 September without major incident marked a substantial step towards the effective exercise in Serbia of human rights in general and LGBTI (lesbian, gay, bisexual, transgender and intersex) rights in particular. Notwithstanding the government's good preparatory work for this event, enhanced political support for the promotion of fundamental freedoms is needed. There is also a need for a consistent and visible political commitment to promoting a culture of respect towards the LGBTI community. Discriminatory statements, intimidation and violence still occur without substantial political reaction nor appropriate follow-up by authorities. An action plan for the implementation of the anti-discrimination strategy has been adopted in October 2014. A national mechanism for monitoring the implementation of the UN human rights bodies' recommendations remains to be adopted.

New strategy and action plan for further development of the correctional system 2013-2020 were adopted. Further efforts remain necessary to improve conditions in the prison system. The legal framework for data protection has yet to be aligned with the EU *acquis*.

The legal and institutional framework to protect women and children's rights was further improved. Measures to tackle domestic violence and gender inequality at the workplace remain to yield effective results. The situation of Roma children and children with disabilities, who remain the most discriminated against, further weakened in the aftermath of the severe floods in May. Social inclusion of people with disabilities needs significant improvement.

The legal framework for the protection of minorities is broadly in place but its consistent implementation across the country needs to be ensured, e.g. in relation to education, use of languages, and access to the media and to religious services in minority languages. The positive steps taken to improve the situation of the Roma need to be stepped up, particularly when it comes to education, housing and employment. Further sustained efforts and additional financial resources are needed to improve the situation of the Roma and of refugees and displaced persons.

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

### **2.3. Regional issues and international obligations**

Implementation of the **Dayton/Paris Peace Agreement** continued. In his first visit abroad, to Sarajevo in May, Serbian Prime Minister Aleksandar Vučić reiterated his support for the agreement and for the sovereignty and territorial integrity of Bosnia and Herzegovina. Under the Agreement on Special Parallel Relations between Serbia and the Republika Srpska, joint sessions of the governments were held in December 2013 and September 2014, with the emphasis on joint efforts to fight organised crime and corruption and on economic cooperation.

Serbia has continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** and to answer the ICTY's requests for assistance in good time. The new Law on Ministries of April 2014 abolished the former Office of the National Council

for Cooperation with ICTY and transferred its competences to the Ministry of Justice. Serbia maintained its request to the ICTY for Serbian convicts to be allowed to serve sentences in Serbia. For developments related to the domestic processing of war crimes, *see Chapter 23 — Judiciary and fundamental rights*.

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

Serbia, along with Bosnia and Herzegovina, Croatia and Montenegro, have continued to closely cooperate in the framework of the **Sarajevo Declaration Process**, which aims to find sustainable solutions for people who became refugees and displaced persons as a result of the armed conflicts in ex-Yugoslavia during the 1990s. In March, the UN High Commissioner for Refugees (UNHCR) recommended that UN member states terminate refugee status for refugees originating from Croatia, at the latest by the end of 2017.

Implementation of the regional housing programme, expected to provide sustainable housing solutions for some 45 000 people in Serbia, has started. The legal framework and the national implementation bodies have been set up. Four waves of projects have been approved for Serbia. However, first housing has yet to be provided. The issue of refugees' pensions between Croatia and Serbia is still unresolved. Good overall cooperation between the partner countries on the process and its housing programme needs to continue.

The unresolved fate of **missing persons** from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. As of August, a total of 11 155 persons were still missing, according to the International Committee of the Red Cross (ICRC). Of these, 7 282 cases relate to the conflict in Bosnia and Herzegovina, 2 163 to the conflict in Croatia and 1 710 to the conflict in Kosovo. Ascertaining the fate of missing persons remains vital for reconciliation and stability in the region. Greater political commitment and renewed efforts are needed.

Serbia, Bosnia and Herzegovina, Croatia and Montenegro signed in August a Declaration on the role of the state in addressing the issue of persons missing as a consequence of armed conflict and human rights. The lack of information on new gravesites and the difficulties in identifying the already exhumed human remains continue to be the key obstacles to solving the remaining cases. The ICRC-chaired Working Group on Missing Persons continued to be the frame within which Belgrade and Pristina maintain the related dialogue. Since October 2013, the two delegations have met three times. Significant progress was made by locating the Rudnica-Raska gravesite in south Serbia, where the exhumation of human remains started in April. Still, the pace of solving cases of missing persons has been slow, with only 16 cases closed between October 2013 and August 2014. Following the first session of the re-established working group between Serbia and Croatia held in Zagreb in July 2013, no formal meeting took place and no progress was reported.

**Regional cooperation and good neighbourly relations** form an essential part of Serbia's process of moving towards the EU. Serbia has continued to actively participate in regional initiatives, such as the South-East Europe Cooperation Process, the Regional Cooperation Council and the Central European Free Trade Agreement. As chair of the Energy Community Treaty, Serbia hosted the Ministerial Council in October 2013. Serbia took over in June the chair of the Danube Commission for a period of three years. Serbia played a constructive role in achieving participation of Kosovo in the South-East Europe Cooperation Process. Serbia also continued to support the Coalition for Reconciliation Commission (RECOM) and Igman initiatives on regional reconciliation.



In December, Serbia, Bosnia and Herzegovina and Montenegro signed a protocol to establish a joint centre for police cooperation in Trebinje (Bosnia and Herzegovina), which opened officially in March. On 29 September 2014, Serbia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Montenegro signed an agreement on reducing the prices of roaming services on public mobile communications networks. A trilateral meeting of the Prime Ministers of Bulgaria, Romania and Serbia took place in Ruse (Bulgaria) in March.

Concerning **bilateral relations with other enlargement countries and neighbouring EU Member States**, Serbia has maintained a constructive approach and significantly improved its relations with some of its neighbours through fruitful high-level visits. However, a range of open issues remain with several neighbours. Serbia has concluded a bilateral convention on regional cooperation, under Article 15 of the SAA, with Montenegro, but not yet with Albania or the former Yugoslav Republic of Macedonia.

Relations with *Albania* are stable overall. In November, the Albanian Minister for Social and Youth Affairs visited the Serbian municipality of Bujanovac where he met with the chair of the government's coordinating body for the municipalities of Presevo, Bujanovac and Medvedja and with the local ethnic Albanian political leaders. A regular air link between Belgrade and Tirana was established in September.

Relations with *Bosnia and Herzegovina* remained good. The new Serbian Prime Minister Vučić made his first official foreign visit to Sarajevo and focused on improving economic and trade cooperation and resolving remaining bilateral issues. There were several other high-level reciprocal visits. The Serbian leadership took a constructive approach during the social protests in Bosnia and Herzegovina, calling for restraint and moderation by the political representatives of the Republika Srpska. A readmission agreement and its implementing protocol have been ratified. Border demarcation remains to be addressed.

Relations with *the former Yugoslav Republic of Macedonia* remained good. The Serbian Prime Minister visited Skopje in January. A joint centre for police cooperation was opened at the border crossing at Tabanovce and a protocol on cooperation between the Ministries of the Interior was signed. The two countries also signed agreements on the exchange and mutual protection of classified information, on mutual recognition of diplomas, and on mutual sharing of premises for diplomatic and consular offices, as well as a protocol for cooperation in the field of tourism. There were no developments in the dispute related to the Orthodox churches in both countries.

Relations with *Montenegro* were further upgraded. The Montenegrin Prime Minister visited Belgrade in December for the first such visit in a decade. A memorandum on cooperation in the field of tourism was signed in February, and cooperation agreements on diplomatic training and mutual sharing of premises for diplomatic and consular offices were signed in June. A joint operation between Serbia and Montenegro contributed to the arrest of the alleged leader of a prominent organised crime group. There were no developments regarding disputes related to citizenship rights and the Orthodox churches in the two countries.

There were ups and downs in relations with *Turkey*. The Turkish Prime Minister visited Serbia in October 2013. Serbia protested over statements made by the Turkish Prime Minister during his subsequent visit to Kosovo, following which the Serbian President cancelled Belgrade's participation in the trilateral Serbia, Turkey and Bosnia and Herzegovina summit. Political dialogue between the two countries' officials resumed in April and relations further improved with a visit to Belgrade by the Turkish Minister of Foreign Affairs in June. Alleged statements of the Turkish Prime Minister, threatening those in the region acting against Bosniaks, although denied by the Turkish authorities, provoked acute reactions from Serbian

authorities in July.

Relations with *Bulgaria, Croatia, Hungary and Romania* remained good. The Serbian Prime Minister visited Bulgaria in December and March and attended the unveiling of a memorial to a Bulgarian national hero in Dimitrovgrad (Serbia) in February with his Bulgarian counterpart. A regular air link between Belgrade and Sofia was established in March. Negotiations on a bilateral agreement are still ongoing. A landmark visit by the Croatian President to Serbia took place in October. The Croatian Ministers of Defence and of Foreign Affairs visited Belgrade in February. An annual plan of bilateral military cooperation was signed in April. The hearings on mutual genocide lawsuits were held in March before the International Court of Justice. Missing persons and border demarcation remain open issues between the two countries. The Serbian government held a first joint session with the Hungarian government in Belgrade in July. The Serbian Prime Minister led a delegation to Romania in October 2013, while the Romanian Prime Minister visited Serbia in July.

*Overall*, Serbia generally complies with its international obligations. It continues to fully cooperate with the International Criminal Tribunal for the former Yugoslavia. Serbia is participating actively in regional cooperation and has further developed bilateral relations with its neighbours. Open bilateral issues with neighbours need to be addressed with a pragmatic and constructive spirit.

### **3. ECONOMIC CRITERIA**

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

Monitoring of the economic criteria needs to be seen in the context of the increased role of economic governance in the enlargement process, as welcomed by the General Affairs Council of 17 December 2013. To this end, targeted policy guidance for Serbia, based on its pre-accession economic programme, was adopted at the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries in May 2014.

#### **3.1. The existence of a functioning market economy**

State presence in the economy remains significant. The private sector is weak and unprotected as the rule of law is not systematically observed. The new government has a mandate for economic reforms but their implementation has progressed slowly. Although external deficits declined strongly, fiscal imbalances remain very high and structural rigidities and obstacles to growth still need to be addressed. The functioning of market mechanisms remained hampered by significant distortions and legal uncertainty.

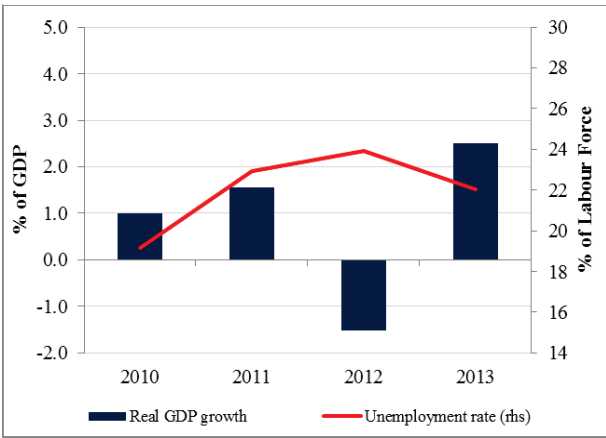
##### *Economic policy*

In January 2014, the government submitted to the Commission its Pre-Accession Economic Programme for the period 2014-16. The main objectives of the programme are economic recovery and stabilising government debt below 70% of GDP. To this end, the government has proposed a number of fiscal consolidation measures and structural reforms. Key legislation related to improving the business environment has been recently adopted but the authorities would need to step up their efforts to implement the envisaged reforms, in line with the conclusions from the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries from May 2014. The Ministerial Dialogue

provided policy guidance on a number of macroeconomic challenges and structural reforms with particular emphasis on fiscal consolidation, public administration reform and privatisation. Delays in the implementation of reforms led to the resignation of the finance minister in July and discussions with the International Monetary Fund on a new pre-cautionary Stand-By Arrangement have remained inconclusive. Reducing the very high budget deficit and taming government debt would require additional efforts. Fiscal consolidation needs to be further strengthened and frontloaded. **Overall, commitment to economic reforms exists, but significant efforts are needed to strengthen fiscal consolidation and accelerate the implementation of the announced structural reform measures.**

*Macroeconomic stability*

**Figure 1: Real GDP growth and unemployment**

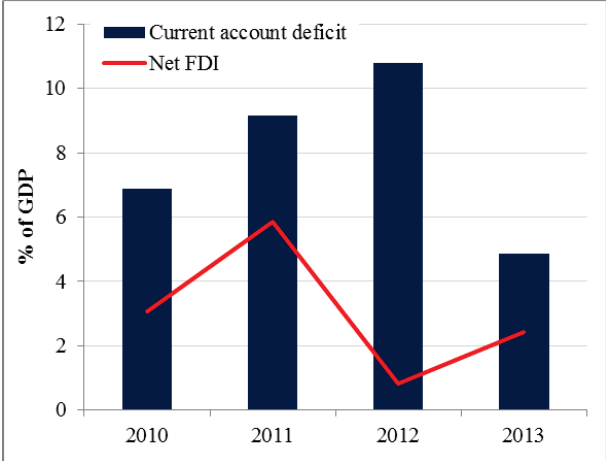


Following an export-led recovery last year, the economy contracted in the first half of 2014. Small pockets of growth remained isolated, suppressed by weak domestic demand. Net exports have been the major driver of economic activity and underpinned a continuing rebalancing of the economy away from consumption. After a slump in 2013, investments remained subdued in the first half of the year, despite increased government capital expenditure. In addition, heavy floods in the spring have hit agriculture and damaged transport and, in particular, energy infrastructure, further undermining short-term growth. Average per capita income, expressed in purchasing

power standards, increased to 36% of the EU average in 2013 from 35% in the previous year. **Overall, impacted by heavy floods the economy contracted in the first half of 2014. Exports remained the only engine of growth.**

External imbalances fell strongly, mainly due to stellar export performance. The current account deficit almost halved in euro terms last year, dropping to around 6.5% of GDP, and continued falling in 2014. Exports of goods and services in euro terms kept growing by

**Figure 2: External position**



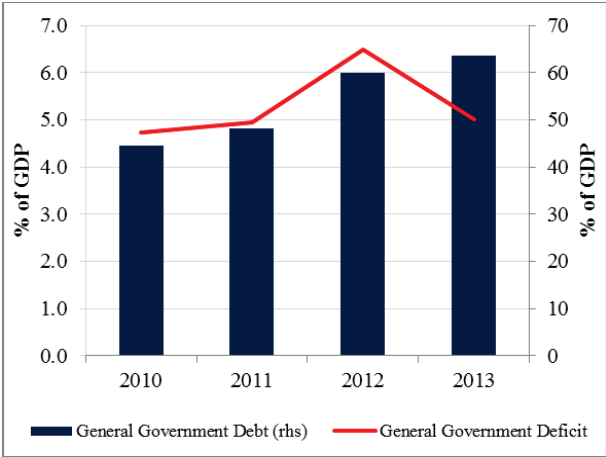
double-digit rates, while imports remained restrained due to weak domestic demand. Net foreign direct investment rose slightly on the previous year, but is still far below its pre-crisis levels, representing 3.8% of GDP in 2013. Most foreign direct investment went into trade, construction, real estate and financial services. After falling in the first months of the year, the central bank's international reserves have recovered, covering more than seven months' worth of imports. External debt has been fairly stable in euro terms, but fell in relation to GDP to

around 80% by the end of June. **Overall, strong export growth contributed to a further narrowing of external imbalances.**

Unemployment stood very high at an average of 22.1% in 2013. According to the Labour Force Survey (LFS), it remained above 20% in the first half of 2014. The number of registered employed has steadily declined and a fifth of total employment is in agriculture and about a third in the public sector, revealing deep-seated structural problems. According to the LFS, informal employment remains substantial and has further increased. The activity rate of the population aged 20-64 is comparably low at 66%, as is the employment rate, which stood at 51.2% in 2013. In a step towards reversing growing public employment, the government adopted a partial hiring freeze in January. However, strict implementation of the envisaged public administration reform is needed to streamline the bloated public sector and to tackle the unfounded salary differentials in the public administration. Long-term and youth unemployment are very high and active labour market programmes remain underfunded. Following a few months of real growth in the autumn, gross wages fell throughout most of the period and by an average of 1.0% in the first seven months of 2014. A number of labour market rigidities have been addressed with the recently adopted revision of the Labour law. **Overall, deep-seated structural problems and a weak economy keep unemployment very high. Recent legislative changes have addressed important labour market rigidities.**

The National Bank of Serbia continued pursuing inflation targeting, reaffirming its target of 4%,  $\pm 1.5$  percentage points. After staying at the average of 7.8% in 2013, inflation decelerated strongly, influenced by weak demand, a relatively stable exchange rate, dampened food prices after a good harvest and further reduction of tariff protection under the Stabilisation and Association Agreement. Since October 2013, monthly inflation rates have averaged 0.1% until August and year-on-year inflation stayed mostly below the target band, the central bank missing its target for six consecutive months. Inflation expectations have declined as well, but in order to anchor them further and reduce inflation volatility, stronger competition on product markets and fiscal consolidation efforts will be crucial. The central bank reduced its key policy rate only gradually, from 11% in September 2013 to 8.5% by mid-June 2014. The dinar had remained broadly stable against the euro until late July, supported by central bank interventions mainly in the first months of the year, before coming again under depreciating pressures recently. **Overall, weak demand, dampened food prices and the relatively stable dinar brought a period of very low inflation, even below the target band of the central bank.**

Figure 3: Fiscal developments



Despite a series of consolidation efforts, the fiscal situation remains precarious. The 2013 general government deficit of 5.0% of GDP greatly exceeded the initial target, although it came in below the 2012 deficit. Budget execution was marked by significant revenue underperformance and the deficit was contained only by spending cuts, in particular of public investment, which suffered a serious blow and was reduced by a third from its medium-term average. Interest expenditure reached a new high of 2.6% of GDP, eating up a quarter of the space generated by consolidation efforts. The 2014 budget envisaged an increase in the deficit to 5.5% of GDP to finance mainly higher investment and interest payments. This does not include expenditure amounting to 1.6% of GDP, such as servicing activated guarantees, financial system support, and the assumption of obligations from other entities. A new round of consolidation measures was implemented at the beginning of the year, which saw the reduced VAT rate raised from 8% to 10%, progressive reduction of public sector wages and limitations on public sector

employment. Amendments to the pension and disability insurance law were adopted in July — a welcome step towards improving the long-term sustainability of the pension system. Penalties for early retirement were introduced and the retirement age for women is set to gradually increase to 65 years, equalising with that for men in 2032. Other reforms, with a potentially large budgetary impact, like finalising the process of enterprise restructuring or improving the efficiency of big state-owned companies, suffered continuous delays. A process of modernisation of costly public administration was launched with the adoption of a public administration reform strategy in the end of 2013 but more efforts would be needed for its sustained implementation.

Repeating a pattern from previous years revenues underperformed and, by the end of July, the budget deficit expanded by 21% to 2.7% of the expected GDP. To stimulate the flagging economy and employment, the government introduced a set of new measures ranging from tax breaks for new employment, to lending, construction and investment subsidies. However, some of these subsidies are of questionable efficiency and might further erode competition and weaken the fiscal situation. The weak budget performance and reconstruction needs, following the spring floods, prompted the announcement in September of a budget revision, which is likely to include progressive cuts of public sector wages and pensions. The significant fiscal imbalances have led to a further increase of government debt, which has approached 70% of GDP. ***Overall, despite a series of new measures, fiscal imbalances remain very high. Significant further efforts are required to reduce government expenditure and implement the announced structural reforms in order to restore fiscal sustainability and improve the credibility of the consolidation programme.***

Falling external imbalances reduced some of the pressure on the dinar and, coupled with weak domestic demand, have brought a period of very low inflation. However, monetary policy remained relatively restrictive in view of the significant external risks and domestic uncertainty. Therefore, achieving a proper policy mix depends on stepping up reform efforts and implementing a strong and credible medium-term fiscal adjustment programme, which will also allow for a more accommodative monetary policy.

#### *Interplay of market forces*

The state continues to hold dominant positions in major sectors such as energy, transport and telecommunications. The law on public companies, setting criteria and delineating a procedure for management appointments, has not yet brought about visible improvement in public companies' governance and they continued to be largely overstaffed and inefficient. The envisaged restructuring of Srbijagas, the state-owned gas incumbent, has been delayed and has not started yet. The company has accumulated further losses as other public companies using its service are not paying their bills. The announced reorganisation and corporatisation of Elektroprivreda Srbije, the state-owned power utility company, has been launched in August with changes increasing the control of the company over its subsidiaries. ***Overall, the slow process of restructuring of the big state-owned companies is having a negative impact on public finances and the rest of the economy and needs to be urgently addressed.***

With the exception of the establishment of a strategic partnership between the national air carrier and Etihad, privatisation efforts have only been revived in summer 2014. After some 26 companies in restructuring went bankrupt, there was little further progress and around 160 companies, employing more than 50 000 people, continued to be protected from forcible collection of debts and bankruptcy. The companies in restructuring have accumulated significant liabilities through the years, representing a serious contingent risk to public finances and a heavy burden to potential investors. A new privatisation law was enacted in

August, setting the end of 2015 as a deadline for completing the privatisation process and outlining the possible models of privatisation — strategic partnership, transfer of capital without compensation, sale of capital and sale of assets. In line with the law, in mid-August the Privatisation Agency invited investors to show their interest in the sale of 502 companies. By mid-September, the agency received 1 732 letters of interest concerning 403 companies. **Overall, the state presence in the economy is significant and the privatisation process was revived only in summer 2014. Companies in restructuring remain a heavy drain on the budget and the economy.**

#### *Market entry and exit*

In 2013, the number of companies newly established (8 574) was more than three times the number of companies closed (2 562). However, market entry has continued to be burdened by lengthy and costly procedures for obtaining various specific permits and rising parafiscal charges. This is particularly valid for construction permits. The issue of converting usage rights into ownership rights has not been solved, which further hinders potential investment. Problems with construction permits are meant to be addressed shortly by amendments to the Law on Planning and Construction. In the first half of the year, the number of insolvent companies fell by 5% to 37 711. However, those in insolvency for more than 180 days continued to increase, representing more than three quarters of all. In August, amendments to the bankruptcy law were adopted, regulating more in detail the role of the bankruptcy administrator and creditor rights. **Overall, some steps were taken to resolve shortcomings in bankruptcy legislation. Red tape, parafiscal charges and difficulties in obtaining construction permits remained major obstacles to more dynamic business creation and expansion. Further efforts are needed to implement the planned reforms in this area.**

#### *Legal system*

Many laws, important for structural reforms and socioeconomic development, are still adopted without proper consultations with businesses and other social partners thus excluding them from dialogue on a better regulatory environment. Moreover, the implementation of laws remains problematic as there are long delays in the adoption of bylaws. The judicial system is slow in enforcing property rights, which adds to uncertainty and the cost of doing business. The backlog in the courts is still substantial and companies often avoid using the courts as a legal solution to their problems. Enforcement of restitution legislation, which is expected to improve legal clarity over real estate ownership, is ongoing. By August 2014, about 18% of all submitted claims had been resolved. Several high-level cases of corruption have been prosecuted, but the number of final verdicts is low. Corruption remains a major threat to the business environment. **Overall, legal predictability and enforcement of court decisions remain weak. Significant efforts are needed to strengthen the legal system and ensure even implementation of laws, as a crucial part of the business environment.**

#### *Financial sector development*

The banking system continued to face challenges and lending activity deteriorated further, falling by 6.1% by the end of March. Corporate lending fell the most as banks tightened their lending terms and demand for loans weakened. However, the restarting of government subsidised lending boosted credit activity and slowed down the fall in bank claims on the non-government sector to 2.7% in July. The domestic deposit base expanded further and banks remained highly liquid, although this liquidity did not spill over to the real economy. Euroisation continued to be widespread, with about three quarters of deposits and of loans to households and businesses denominated in or linked to foreign currency. Deteriorating economic activity pushed non-performing loans up, mainly in the corporate segment, to a new

high of 23.0% in the second quarter of 2014. Bank profitability also suffered and in 2013 the system as a whole registered negative returns on assets and equity. However, most of the losses were concentrated in a few banks and the system turned profitable again in early 2014. The regulatory capital adequacy ratio remained consistently high and stood at around 21% at the end of June, well above the required minimum of 12%.

Financial intermediation declined and banking sector assets stood at 92.4% of GDP at the end of 2013. Banks and, in particular, foreign-owned banks, continued to dominate the financial system, accounting for most of the assets and liabilities. Weak governance led to the failure of some of the small banks. In the last two years, four banks had their licences revoked for failing to align their capital and performance ratios with the law on banks, which cost the state a total of about €1 billion. In December, the central bank adopted a strategy for implementing the Basel III standards in Serbia. Limited measures were adopted to address non-performing loans. ***Overall, lending activity declined and the banking system, although well capitalised and liquid, continued to face challenges. The issues of improving corporate governance and the high burden of non-performing loans still need to be effectively addressed.***

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

#### *Human and physical capital*

The mismatch between the available human capital and economic needs is significant, leading to low labour market participation and high unemployment. Employment creation is limited, reflecting narrow production base and structural rigidities. Human capital fundamentals are very weak as declining population, emigration and population ageing undermine long-term growth potential. Unemployment among the youth and those with lower and intermediate education remains above the average. Although the number of pupils has declined steadily, employment in the education sector continued to increase. Inefficiencies of the education system are also revealed by the long average length of university studies and the significant number of unemployed with a university degree. A reorganisation of the schools network, the introduction of funding per student as planned from next year, and the implementation of the education strategy adopted in 2012 should improve the quality of education. ***Overall, significant efforts are needed to improve the quality and efficiency of the education system.***

The physical infrastructure would require sustained and large investments to improve and upgrade it. Floods in the spring have additionally impaired infrastructure in vast areas of the country and placed an additional burden on the already modest public investment funds. Due to fiscal constraints, government investment fell by more than a third last year but started recovering in 2014, when it grew by 26% the first seven months. Furthermore, in the short-term, public investment is expected to be boosted by international aid, linked to reconstruction efforts after the floods. The government has continued its efforts to attract foreign financing for strategically important projects. However, its approach to attracting strategic investors has often been non-transparent and with a potentially adverse impact on public finance. Consideration should be given to finding a systemic and transparent approach for attracting private capital to cover at least part of the large investment needs. ***Overall, the physical infrastructure is underdeveloped and was further damaged by heavy floods. Reducing the budget deficit and improving the performance of publicly owned companies is needed to create space for infrastructure investment.***

### *Sectoral and enterprise structure*

The sectoral structure of the economy remained broadly unchanged. Agriculture activity, highly sensitive to weather conditions, recovered strongly last year and increased its share of gross value added to 11.4%, but is set to fall again following the floods in 2014. Industry's share increased slightly to 25.3%, while that of construction and services fell to 3.3% and 62.7% respectively. Nevertheless, intrasectoral changes were noticeable; in particular, manufacture of refined petroleum products and of motor vehicles, linked to foreign direct investment made in previous periods, increased their share of total manufacturing and the information and communication sector continued to gain importance, also recording a marked increase in employment. The economic weight of the small and medium-sized enterprises is significant, representing more than half of the value added in the economy and about two thirds of employment. According to various surveys, SMEs suffer mostly from the weak financial and liquidity situation and the unpredictable regulatory environment. The SME sector is also negatively affected by unfair competition of the large informal economy.

As regards network industries, the lack of unbundling of the gas utility continued to hamper competition and market development. The gradual liberalisation of the electricity market progressed slowly with the opening up of the medium-voltage network. However, low prices, compared to the region, suppress actual competition and the state-owned company continued to dominate the market. The telecommunication market was further liberalised with the introduction of fixed number portability in April. ***Overall, the economic structure is changing slowly, driven mainly by foreign direct investment, but important sectors of the economy need further restructuring and liberalisation.***

### *State influence on competitiveness*

State-owned, monopolistic structures dominate many sectors and the state continued to subsidise them heavily. Since the beginning of 2014, until the end of July, government subsidies expenditure increased by a real 7.1%. Contrary to previous years, the annual State aid report for 2013 has been delayed and was not available by the time of writing this report. State aid control needs to be enforced consistently and the exemption from state aid rules given to enterprises that are being privatised still needs to be abolished. New state aid measures need to be systematically notified before being put into force. The Commission for State Aid Control still has to demonstrate its independence. ***Overall, the state continues to substantially and negatively influence competitiveness by providing significant and wide-ranging forms of state aid. The system of state aid needs to be thoroughly reviewed.***

### *Economic integration with the EU*

The openness of the economy increased and total exports of goods and services reached 44.7% of GDP, while imports stood at 56.4% of GDP in 2013. The EU (including Croatia) increased its trade with Serbia and remained by far the country's main trading partner with 62.8% of total exports of goods and 61.8% of total imports of goods. Serbia's exports to the EU have grown faster than its imports, resulting in an increase in the export to import ratio vis-à-vis the EU from 60% in 2012 to 72% in 2013. The share of net foreign direct investment from the EU in total FDI stood at 72% in 2013. In real effective terms (deflated by inflation), the dinar has remained broadly stable since mid-2013. ***Overall, economic integration with the EU increased further and export performance improved, albeit from a low level.***



#### 4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

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

##### 4.1. Chapter 1: Free movement of goods

Concerning **horizontal measures**, implementation of the legislation on metrology continued. The Quality Infrastructure Strategy remains to be adopted. The administrative capacity of the Ministry in charge of horizontal coordination remains to be strengthened.

On *standardisation*, the Institute for Standardisation of Serbia (ISS) has adopted 94.5% of the European standards (ENs), of which 80% are standards required for membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). The total number of EU standards and other deliverables applied nationally stood at 22916, including 16137 CEN standards, 6395 CENELEC standards and 384 European Telecommunications Standards Institute (ETSI) standards. The number of withdrawn conflicting Serbian standards and related documents was 12066. Serbia has not yet applied for membership of CEN and CENELEC. Serbian legislation on standardisation remains to be aligned with EU Regulation 1025/2012. The ISS has downsized its active technical committees from 215 to 193. Institute staff decreased to 61 full-time employees.

In the area of *conformity assessment*, a number of conformity assessment bodies designated in accordance with the relevant EU directives stood at 29: 6 for the Machinery Directive, 2 for the Low Voltage Directive, 4 for the Electromagnetic Compatibility Directive, 6 for the Lift Directive, 8 for the Pressure Equipment Directive, 2 for the Radio and Telecommunications Terminal Equipment Directive and 1 for the Personal Protective Equipment Directive. Serbia has introduced *ex-ante* formal controls of certificates of conformity in areas where EU law only requires self-certification by the manufacturer. Such controls are not in line with the *acquis*.

In the field of *accreditation*, in April 2014 the Accreditation Body of Serbia (ABS) signed a multilateral agreement with the European Accreditation (EA) body. The agreement will expand the scope of the ABS's activities to include certification bodies providing certification of management systems and certification of persons. By the end of August, the ABS had granted accreditation to 527 bodies, including 302 testing laboratories, 52 calibration, and 10 medical laboratories, 128 inspection bodies, and 22 certification bodies for products, 11 for management systems and 2 for persons. ABS staffing levels remain insufficient.

National legislation in the area of *metrology* is in line with the *acquis* and Serbia has already started preparations for adopting new *acquis* in this area. The number of internationally recognised national standards for calibration and measurement is now 142.

A new law on *market surveillance* remains to be adopted. Surveillance of non-food products on the Serbian market has increased. The Product Safety Council continued its regular operations. The administrative capacity of the line ministry remains weak in the area of market surveillance.

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

As regards **‘New and Global Approach’ product legislation**, Serbia has adopted legislation transposing the Measurement Instruments Directive. Further alignment is needed in the areas of construction products, cableway installations, recreational craft, cosmetics and toy safety.

As regards **procedural measures**, Serbia has yet to align its legislation with the *acquis* on civil firearms and the return of cultural objects unlawfully removed from the territory of an EU Member State.

### *Conclusion*

Some progress was made in the area of free movement of goods. Serbia continued with the alignment of its horizontal legislation and the adoption of European standards. However, stronger emphasis needs to be put on implementing transposed directives and ensuring adequate equipment and administrative capacity. Better coordination is needed among various quality infrastructure and market surveillance authorities. Overall, preparations in the area of free movement of goods are moderately advanced.

## **4.2. Chapter 2: Freedom of movement for workers**

As regards **access to the labour market**, the Law on Employment of Foreigners has not been adopted yet. The law should allow free access to the labour market for EU citizens upon accession.

The pre-selection of 15 future **EURES** (European Employment Services) counsellors has been carried out. Strengthening of the vacancy database of the National Employment Services (NES) is needed, in particular for what concerns the collection of vacancies at central/national level.

As regards **coordination of social security systems**, a new agreement was signed with Hungary. Agreements with Canada, Luxembourg and Belgium have been ratified and the agreement with Turkey has entered into force. The capacity of social security institutions needs to be strengthened.

Preparations with regard to the **European Health Insurance Card** have not started yet.

### *Conclusion*

Little progress has been made in the area of movement of workers. Overall, preparations in this area are moderately advanced.

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

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

As regards **freedom to provide cross-border services**, a general law aligning the Serbian legislation with the Services Directive is still needed. The capacity of the institutions dealing with services needs strengthening.

Amendments to the law on **postal services** aiming at merging the postal service regulator with the electronic communications regulator were adopted in June 2014. In line with the

postal strategy for 2013-2016, legislation remains to be brought in line with the third postal Directive. The administrative capacity of the line ministry's inspectorate remains weak, affecting the monitoring of the sector. The public postal operator has not yet been corporatised.

A law on the **mutual recognition of professional qualifications** remains to be adopted.

#### *Conclusion*

Limited progress was made in the area of the right of establishment, freedom to provide services and mutual recognition of professional qualifications. A general law on services remains to be adopted. Overall, preparations are moderately advanced in these fields.

#### **4.4. Chapter 4: Free movement of capital**

In the area of **capital movements and payments**, in September 2013, the National Bank of Serbia adopted a decision facilitating loans in dinars granted by international financial institutions to commercial banks or companies. In April and July, it adopted two decisions partially liberalising transactions in foreign currency by Serbian residents. Limitations remain regarding short-term capital transactions and deposit activities by residents, while long-term capital transactions are fully liberalised. Restrictions on the acquisition of real estate, especially agricultural land, still exist.

Serbian legislation on **payment systems** is not fully in line with the *acquis*.

As regards the **fight against money laundering** and financing of terrorism, the Agency for Prevention of Money Laundering signed two memoranda of understanding with Monaco and Liechtenstein. The new draft strategy for fighting money laundering and related action plan remain to be adopted. The administrative and analytical capacity of the agency and the Financial Intelligence Unit of the Ministry of Finance needs to be strengthened. In addition, the agency does not yet have adequate premises, preventing recruitment of new staff. Serbia has not yet established a solid and systematic track record of suspicious investigations and final convictions in money laundering cases. Reporting remains low, in particular outside the banking sector and especially in the real estate sector, currency exchange offices and insurance companies. An effective system for monitoring and analysing cash transactions needs to be put in place and made operational.

#### *Conclusion*

There was little progress in the area of capital movements. Serbia needs to adopt and implement outstanding legislation on free movement of capital. Overall, Serbia's alignment in the area of the free movement of capital is moderately advanced.

#### **4.5. Chapter 5: Public procurement**

In the field of **general principles**, the Public Procurement Office (PPO) continued to adopt regulations and model documents for the implementation of the new Law on Public Procurement that entered into force last year. The government adopted three decrees and one decision concerning centralised procurement, procurement in the field of defence and security and common procurement vocabulary. The PPO recorded an increase in the use of the upgraded public procurement portal. Most of the measures prescribed by the new law and by the national strategy and action plan for the fight against corruption with a view to increasing transparency and preventing corruption and conflicts of interest in public tenders have been

adopted. The national strategy and action plan for upgrading the public procurement system remain to be aligned with the new law.

As regards the **award of public contracts**, the value of negotiated procedures conducted without prior notice decreased to 4% of the total value of public tenders in the first half of 2014, from 24% in 2012. The average number of bids per tender remained stable, at 2.7 in 2013 and in the first half of 2014 against 2.6 in 2012. In the area of public-private partnerships (PPPs) and concessions, five projects were approved by the PPP Commission, the same number as in the previous reporting period. Eight new posts were created in the PPO, but further reinforcement of its administrative capacity is needed in view of its new responsibilities. Since the entry into force of the new Law on Misdemeanours in March, the PPO initiated 26 misdemeanour procedures against contracting authorities. Institutional cooperation on public procurement, including with audit, judicial and police institutions, is improving, but needs to be reinforced.

In the field of **remedies**, the number of requests for protection of rights received by the Republic Commission for the Protection of Bidders' Rights (Republic Commission) increased by 39% from the entry into force of the new legal framework in April 2013 until the end of 2013 compared to the same period in 2012. The Republic Commission reached a total of 1.966 decisions in 2013 compared to 1700 in 2012. In 909 cases, public procurement decisions were partially or fully annulled. In 2013, the Republic Commission further built up its enforcement record by reviewing the implementation of 635 of its decisions and concluded that in 24 cases, they had not been properly enforced by the contracting authorities. It has continued to build up its administrative and enforcement capacity to a total of 54 employees.

### *Conclusion*

There has been good progress in the field of public procurement. The capacity of the PPO needs to be strengthened further. The national strategy and action plan for upgrading the public procurement system remain to be updated. Overall, alignment in the area of public procurement is moderately advanced.

## **4.6. Chapter 6: Company law**

In the field of **company law**, the Business Registers Agency, which centrally manages all registers, increased the number of registers from 15 to 17. The Register of Bidders became operational in September 2013, and the Register of Factoring in October 2013. The electronic company registration process is not yet operational. Reporting obligations regarding domestic mergers and divisions need to be enforced.

In the areas of **corporate accounting** and **auditing**, all implementing acts for the new laws on accounting and auditing were adopted. Further efforts are needed to comply with the new EU accounting directive from 2013. In the field of auditing, the Public Oversight Board was established in October 2013 as a government body, which affects its independence. The full version of the International Financial Reporting Standards in Serbian was published in March 2014. These standards are applied in Serbia.

### *Conclusion*

Some progress was made in the field of company law. Implementation of the new laws on accounting and auditing has started. The electronic company registration process should become operational as soon as possible to contribute to a better business environment.

Independence of the public audit oversight body needs to be ensured. Overall, Serbia is well advanced in this area.

#### 4.7. Chapter 7: Intellectual property law

In the area of **copyright and neighbouring rights**, the amendments to the Law on Copyrights and Related Rights introduced in 2012 are not aligned with the *acquis*. The Intellectual Property Office has not yet obtained the administrative capacity corresponding to the responsibilities of the Commission for Copyright that were transferred to it when the latter was abolished in 2013.

The relevant laws in the field of **industrial property rights** remain to be further aligned with the *acquis*.

As concerns **enforcement**, the number of requests received by the customs administration for protection of intellectual property rights increased from 205 in 2012 to 244 in 2013. The Tax Administration slightly increased the number of software legality controls in 2013, from 555 to 573. The Market Inspectorate received 74 applications for protection of intellectual property rights in 2013 compared to 73 in 2012. It confiscated 127 000 counterfeited and pirated products in 2013 compared to 138 000 in 2012. The number of controls and of criminal charges filed by the Ministry of the Interior fell from 414 in 2012 to 350 in 2013. Specific courts were assigned to handling civil intellectual property rights (IPR) cases from January 2014: the Higher Court in Belgrade was entrusted with cases involving natural persons and the Commercial Court in Belgrade with cases concerning legal persons.

Further alignment of legislation with the Directive on Enforcement of Intellectual Property Rights needs to be ensured. A formal coordination mechanism for effective IPR enforcement is still missing. There are still delays in the implementation of the national IPR strategy and action plan 2011-2015. The participation of economic operators and consumers in the prevention of counterfeiting and piracy remains limited.

#### *Conclusion*

Little progress was made in the area of intellectual property law. Formal coordination between different stakeholders has yet to begin with a view to ensuring more effective enforcement. Overall, alignment in the area of intellectual property law is advanced.

#### 4.8. Chapter 8: Competition policy

In the field of **anti-trust and mergers**, the Law on Competition Protection was further aligned with the *acquis* in October 2013. The amendments reinforce the investigative capacity of the Commission for the Protection of Competition (CPC) and bring the definition of dominant market position closer to the *acquis*. The CPC adopted one decision on restrictive agreements, one decision on abuse of dominance and 82 decisions on mergers in summary procedure and carried out four investigation procedures on mergers, one of which was conditionally approved. The CPC issued 35 opinions related to application of the Law on Competition Protection and other draft legislation. Seven court decisions were in favour of the CPC and four against. The CPC published sector analyses of the milk and oil markets. It signed Memoranda of Understanding with the Croatian and Slovenian competition authorities. The financial plan of the CPC for 2014 was adopted by the government in February.

Public authorities need to ensure more systemic follow-up of the CPC's opinions relating to draft legislation affecting competition. With 30 employees, the CPC's administrative and

investigative capacity remains stable but insufficient. The judiciary's capacity to assess complex competition cases and the CPC's competition advocacy need to be strengthened.

In the area of **state aid**, the rules regarding *de minimis* aid were further aligned with the *acquis*. The Commission for State Aid Control (CSAC) adopted 47 decisions and conclusions, including 13 initiating *ex post* control. This is a significant decrease compared with the previous period, which can in part be attributed to the end of the notification of *de minimis* aid cases. The capacity of the CSAC's secretariat was reinforced with two staff members. A mechanism to trace the cumulation of *de minimis* aid was developed but the monitoring of aid granted for the same objective under different legal bases must be strengthened. A number of existing state aid schemes, including fiscal aid schemes, still need to be aligned with the *acquis*. The exemption from state aid rules for companies in the process of restructuring and privatisation needs to be repealed. The independence of the CSAC remains to be ensured. Further efforts are needed to ensure that all aid measures are notified to the CSAC and approved before being granted. State aid advocacy and awareness-raising activities need to be stepped up.

As regards liberalisation of specific sectors, additional efforts need to be made to move towards market liberalisation in line with the *acquis* as a number of Serbian undertakings continue to enjoy special or exclusive rights in specific business areas.

### *Conclusion*

Limited progress was made in the area of competition. The operational independence of the CSAC must be ensured. The legislation on state aid control must be aligned with the *acquis* and applied to all undertakings, including those in the process of restructuring and privatisation. Overall, alignment in the area of competition policy is moderately advanced.

## **4.9. Chapter 9: Financial services**

In the area of **banks and financial conglomerates**, the National Bank of Serbia (NBS) adopted amendments to the decision on classification of bank balance and off-balance sheet assets in December 2013 and to the decision on assigning receivables to other banks in October, in an attempt to help resolving the still growing issue of non-performing loans. In December, the NBS adopted its strategy for the full implementation of Basel III standards, which are transposed in EU legislation in the new Capital Requirement Directive (CRD IV) and Regulation (CRR), and which are only partially applied in Serbia. Alignment with the latest *acquis* on deposit guarantees remains to be achieved. The Basel II standards have not been fully implemented yet.

In the area of **insurance and occupational pensions**, the NBS carried out eight on-site controls of insurance companies and the operating licence of one insurance company was revoked in July. In December, amendments to the Insurance Law introduced provisions allowing domestic insurance companies to re-insure abroad for natural disasters. They also postponed the deadline for separating life from non-life insurance by one year until the end of 2014, pending the adoption of the new Law on Insurance. Alignment with the Solvency II Directive is part of NBS strategy, but has yet to be achieved. There have been no changes in legislation relating to occupational pension funds.

As regards **financial market infrastructure**, there have been no new developments.

In the area of the **securities market and investment services**, in December, the inaugural meeting of the Financial Stability Committee was held. This advisory body brings together

the NBS, the Ministry of Finance, the Deposit Insurance Agency and the Securities Commission to improve cooperation between market regulators. There has been no further alignment with the *acquis* on rating agencies or on undertakings for collective investment in transferable securities (UCITS).

### *Conclusion*

Little progress has been made in the area of financial services. Additional steps are needed to align Serbia's rules with Basel III standards (and the related EU *acquis*), the Solvency II and UCITS directives. Overall, alignment in the area of financial services is moderately advanced.

## **4.10. Chapter 10: Information society and media**

In the field of **electronic communications and information and communications technology**, amendments to the Law on Electronic Communications to introduce the legal basis for the merger of the telecommunications and postal regulators were adopted in July. Serbia is yet to fully align with the 2009 EU regulatory framework. As of April 2014, fixed number portability was introduced but its implementation needs to be improved. The frequency assignment rules for 900 MHz and 1800 MHz bands, the former of which is still held for military purposes, need to be amended to allow 3G and 4G services in these bands. Competitive safeguards remain to be fully implemented, notably in the fixed telephony market. The Constitutional Court found in April the provision of the Law on Cinematography directing 10% of the revenues of the telecoms regulator to 'national cinematography' to be unconstitutional. The operational independence of the regulator remains to be fully ensured. The emergency number 112 has been introduced and is partially operational.

The fixed broadband penetration exceeded 16%, the EU average being almost 30%. The penetration rate of mobile broadband services, including 3G, was slightly above the EU average at around 56% in 2013.

Consultations have continued between Serbia and Kosovo on the implementation of the telecommunications agreement under the EU-facilitated dialogue.

In the field of **information society services**, the national interoperability framework and additional e-government services were introduced as of January. Further alignment with conditional access and EU legislation on e-commerce remains to be ensured. The administrative and inspectorate capacity of the line ministry and its units responsible for ICT and digital administration remain insufficient. A broadband development strategy was adopted in July.

As regards **audiovisual policy**, a package of three laws – the Law on Public Information and Media, the Law on Electronic Media and the Law on Public Service Broadcasting – was adopted in August. The adoption of the three laws significantly improves the media legal framework, in line with the 2011 Serbian media strategy, and further aligns Serbian legislation with the EU legal framework in this area. Their implementation and the adoption of necessary bylaws will be crucial to achieve the goals of the 2011 Serbian media strategy. It has been reported that the media market continues to suffer from non-transparent public funding of selected state-owned media and commercial media through direct budgetary subsidies and contracts with public enterprises and authorities. Pending the full implementation of the newly adopted legislative package, the Serbian media continued to operate in a blurred legal environment which delayed the state's withdrawal from media ownership, one of the cornerstones of the 2011 Serbian media strategy. Media ownership remains non-transparent. The independence as well as the transparency of the work of the

Regulatory Body for Electronic Media needs to be ensured. The implementation of the digital switchover remains to be fully ensured to meet the deadline of June 2015 through technical preparations and a communication campaign to citizens. (See also Chapter 23: Judiciary and fundamental rights —Freedom of expression)

### *Conclusion*

Good progress was made in the area of information society and media. A package of three laws implementing the 2011 Serbian media strategy and further aligning Serbia's legal framework with the EU *acquis* has been adopted. The digital switchover remains to be implemented. The legislative framework in electronic communications needs to be aligned with the 2009 framework. The independence of the Regulatory Body for Electronic Media remains to be ensured. Overall, alignment with the *acquis* in the area of information society and media is moderately advanced.

## **4.11. Chapter 11: Agriculture and rural development**

As regards **horizontal issues**, a comprehensive strategy for agricultural and rural development for the period 2014-2024 has been adopted by government in July. It defines the framework for a) the institutional and political reform process, b) for subsidies allocated to agriculture and rural development and c) the EU and WTO integration process. According to the strategy the subsidies for agriculture and rural development will be gradually aligned to the Common Agricultural Policy of the EU.

Establishment of the Farm Accountancy Data Network (FADN) is progressing. The number of participating holdings increased from 173 to 499. Rulebooks fully transposing the FADN regulation have yet to be adopted and the required administrative structures and capacity need strengthening. There has been no progress as regards the development of the integrated administration and control system.

As regards alignment with the **common market organisation** (CMO), progress is ongoing, notably in the wine sector, where registration of vineyards continued smoothly. However, the capacity of the administration in charge of the wine sector still needs further strengthening. A draft law on spirit drinks needs to be further aligned with the *acquis* before adoption. Serbia will need to develop a roadmap for the alignment and implementation of the CMO for other products.

Regarding **rural development**, preparations for the Instrument for Pre-accession Assistance for Rural Development (IPARD) programme 2014-2020 continued. While substantial progress has been achieved as regards the preparation of the programme, the capacity and readiness of the required operating structures for accreditation for IPARD has not progressed at the same pace. A major obstacle to the accreditation preparations is the relocation of the IPARD Agency to Belgrade and the related recruitment and training of sufficient staff to fulfil accreditation requirements. In addition, the functions and responsibilities of the National Authorising Officer (NAO), National IPA Coordinator (NIPAC) and the Audit Authority in relation to IPARD still have to be established. This is a serious concern as regards the early implementation of IPARD. Solid and effective cooperation between all IPARD bodies must be established.

In the area of **quality policy** work is underway towards revising the law on geographical indications.



As regards **organic farming** the cultivated area has increased, with considerable potential for further development. A national action plan for the development of the organic sector is still outstanding.

### *Conclusion*

There has been some progress in the area of agriculture and rural development. The Agricultural and Rural Development Strategy has been adopted. The Farm Accountancy Data Network was expanded. IPARD operating structures need to be considerably resourced and major national obstacles for accreditation related to all IPARD bodies should be solved. Overall, in the area of agriculture and rural development, alignment with the *acquis* remains at an early stage.

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

In the field of **general food safety**, despite a small increase in their scientific staff, the national reference laboratories are still understaffed and unable to perform their duties. Serbia still has no operational milk quality testing laboratory and no reliable system for quality control of raw milk.

As for **food safety rules and specific rules for feed**, the Law on Animal Medicine and Medical Devices is not fully in line with the *acquis*. Further efforts are needed in the area of specific food safety rules. A Rulebook on the Quality of Feed was adopted in March 2014. It set, further to the crisis last year, the maximum level of allowed aflatoxin in feed and milk to 0.25 micrograms per kilogram, which is not in line with the *acquis*. Amendments to the Food Safety Law are still pending, notably to address the lack of a well-established national reference laboratory.

In the field of **veterinary policy**, the downward trend in cases of rabies continued, with only one case notified this year until August. No cases of classical swine fever were detected. The annual animal health control programme was published in February 2014. The implementation of animal welfare legislation needs to be improved. A new instruction on the method and procedures regarding the bovine movement control system has been adopted. New rulebooks on the identification and registration of bovine, sheep and goats, swine and equidae have yet to be adopted.

With regard to the **placing on the market of food, feed and animal by-products**, a rulebook on veterinary and sanitary conditions was adopted in March 2014, postponing the Serbia's deadline for meeting EU raw milk quality standards until 2019. Serbia has not yet adopted a programme for upgrading agri-food establishments. The national monitoring and control programme for food and feed safety is still under preparation. The national system for the management of animal by-products remains weak and the management of animal waste needs further strengthening. The hygiene rules for food and feed establishments are not fully in line with the *acquis*.

In the area of **phytosanitary policy**, plant variety rights were granted to 34 new plant varieties. Several rulebooks based on the Law on Plant Health were adopted. Also, a national programme on budget funds for plant health was adopted in January 2014, providing funds for the implementation survey on harmful organisms in line with the *acquis*. In the field of plant protection products, several bylaws were adopted. The laws on plant protection products and plant nutrition products have yet to be amended. The Phytosanitary Laboratory remains the weakest part of the National Reference Laboratories Directorate and its capacity needs to be thoroughly strengthened.

The new Serbian law on **genetically modified organisms (GMOs)** remains to be adopted in line with the *acquis*, as a condition for Serbia to become a member of the World Trade Organisation (WTO).

#### *Conclusion*

There has been limited progress in the area of food safety, veterinary and phytosanitary policy. The maximum level of aflatoxin in milk was not realigned with EU standards. The administrative capacity of the national reference laboratories needs to be significantly strengthened. A programme for upgrading agri-food establishments remains to be adopted and the GMO legislation to be aligned. Overall, in the areas of food safety, veterinary and phytosanitary policy, Serbia remains moderately advanced.

#### **4.13. Chapter 13: Fisheries**

EU requirements on **resource and fleet management, and inspection and control** do not apply to inland fishing and are therefore not applicable to Serbia, except for control of marketing and traceability of fishery products. There are no new developments in these areas. A national catch certification scheme for imports and exports of fishery products in Serbia remains to be adopted.

Serbia does not have any **structural actions** in place for small-scale fisheries or inland fisheries.

As regards **market policy**, the capacity of the administration managing and controlling imports and exports of fisheries' products needs to be upgraded and brought into line with the *acquis*. A producers' organisation still needs to be established, and market data collected.

No new **international agreements** have been signed.

#### *Conclusion*

No progress was made in the area of fisheries. The relevant Serbian legislation needs to be amended to establish a national catch certification scheme for imports and exports of fishery products and a system for the collection of market data. Overall, preparations in the area of fisheries remain moderately advanced.

#### **4.14. Chapter 14: Transport policy**

As regards **road transport**, amendments to the law on public roads, aiming at further alignment with the *acquis* on safety in tunnels, were adopted in November. The Road Traffic Safety Agency has increased its capacity to 52 of the 75 planned posts. Road safety remains a concern with a high, but decreasing, number of fatal road traffic accidents per year. Alignment with the recent road safety and dangerous goods *acquis* is still necessary. Implementing legislation on driving and on rest periods for drivers engaged in domestic transport has not been adopted.

As regards **rail transport**, the new law on railway safety and interoperability was adopted in November 2013, thus completing alignment with the railway *acquis*. Protocols on cooperation were signed between all the relevant border services and railway companies of Serbia and Montenegro. The rulebook on the content and form of the network statement was adopted in October but the network statement remains to be published. The role of the railway regulator still requires further strengthening. The Rail Directorate should be given the jurisdiction to enforce regulatory decisions by fines that do not depend on prior court decisions. Open access

to the railway market, with transparent track access charges and capacity allocation, still needs to be achieved. Serbian Railways continue to deny track access to a fully licensed and safety certified domestic freight operator. The freight and public service passenger undertakings of Serbian Railways should be unbundled. Public service obligation contracts have not yet been signed at national or local level, and the establishment of an independent accident investigation body has not been completed.

Implementing legislation on **inland waterway transport** was adopted with regard to the classification of state waterways, testing navigational accident vessels in December 2013 and the medical fitness of seafarers in February 2014. The River Information Services for the Danube and Sava rivers require upgrading with a remote aid to navigation (ATON) monitoring and reaction system. As regards **intermodal transport**, the construction of the first modern intermodal terminal in Belgrade has not yet started. Serbia should develop a balanced intermodal environmentally-friendly and competitive transport and mobility system, based on the further use of inland waterways transport. Implementing legislation on supporting measures for intermodal transport, on incentive measures for road carriers and on loading units on railway have yet to be adopted.

In the area of **air transport**, 18 pieces of implementing legislation were adopted, along with regulations on common rules for the allocation of slots, ground handling and airport charges. There was further progress towards meeting requirements for the first transitional period of the European Common Aviation Area Agreement (ECAA), but there are some gaps as regards requirements in the field of economic regulation and aviation safety. There were no major safety findings identified in the inspections carried out by the European Aviation Safety Agency. Further harmonisation with the *acquis* on accident investigation and working time needs to be achieved. In January 2014, the Civil Aviation Directorate adopted the revised list of air carriers that are subject to an operating ban within the European Union. A decision on a list of experts for the investigation of accidents and serious incidents was adopted in March 2014. The new national airline, Air Serbia, was established in October 2013 as a joint venture owned by the Republic of Serbia and United Arab Emirates' flag carrier Etihad Airways. Inquiries are ongoing regarding the airline's compliance with the 'effective control' requirements stipulated in the ECAA. The administrative capacity of the Civil Aviation Directorate needs to be strengthened in order to fulfil obligations of the ECAA Agreement.

As regards **maritime transport**, amendments to the law on maritime transport were adopted in November, harmonising the law with the 2006 Maritime Labour Convention and other International Labour Organisation (ILO) conventions. Serbia complied with the requirements of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers.

Serbian participation in the Galileo **satellite navigation** programme has yet to start.

### *Conclusion*

Some progress was made in the area of transport policy, particularly on road, rail, inland waterways and aviation. Further strengthening of administrative capacity is required, in particular for enforcement and inspection. Access to the railway market has yet to be achieved. Overall, Serbia is moderately advanced in its alignment with the *acquis* in the area of transport policy.

#### 4.15. Chapter 15: Energy

In the field of **security of supply**, the Law on Commodity Reserves, regulating the compulsory reserves of oil and oil derivatives, was adopted in December 2013. Serbia did not provide information regarding the current oil stock levels. Delays in the construction of the interconnecting gas pipeline between Serbia and Bulgaria are a cause of concern. The Intergovernmental Agreement (IGA) signed by Serbia and Russia to build the South Stream pipeline is not compatible with the *acquis*. Serbia should not commence work on constructing South Stream until the IGA is aligned with the *acquis*. Legislation on security of supply for natural gas has yet to be aligned with the *acquis*. Serbia has contributed to the energy security stress test carried out by the European Commission in the framework of the European Energy Security Strategy.

On the **internal energy market**, Serbia has yet to transpose the third Energy Package. Regulated tariffs for households and small commercial customers do not reflect costs. Further efforts are needed strengthen the independence of the Energy Regulatory Agency (AERS), as well as to increase its capacity to cover additional responsibilities resulting from the third Energy Package.

The electricity market was liberalised as of January for all consumers connected to the distribution network except households and small commercial customers. About 3 200 new eligible customers, representing around 40% of total consumption, no longer have the right to be supplied by the public supplier at regulated tariffs. In July, the public supplier was established as a separate legal entity, but the unbundling of distribution and supply functions in the public electricity company EPS has not been finalised. AERS approved bilateral agreements between the transmission system operators of Serbia, Bulgaria, and Croatia. Following September's 2013 agreement on energy between the Serbian and Kosovan Prime Ministers, Kosovo's transmission system operator (TSO) KOSTT, and its Serbian counterpart, Elektromreza Srbije, signed an inter-TSO agreement in September 2014. Serbia and Kosovo also approved the action plan to implement the September 2013 agreement. These represent significant steps in normalising energy relations between Serbia and Kosovo.

In the gas sector, AERS approved rules on quality of service in December 2013. Yugorosgaz-Transport has been legally but not yet operationally unbundled from Yugorosgaz. The state-owned gas company, Srbijagas, has still not been unbundled. The Ministerial Council of The Energy Community condemned Serbia for a failure to comply with obligations under the Treaty as a result of this failure to unbundle the transmission system operators.

As regards **renewable energy**, a power purchase agreement for electricity produced from renewable sources above 50 MW was adopted in February, but has not yet led to major new investment. The administrative procedures for issuing permits and network connections need to be simplified. Under its Energy Community obligations, Serbia has taken on the target of achieving 27% of its gross final energy consumption from renewable sources in 2020.

In the area of **energy efficiency**, the second action plan for energy efficiency, for 2013-2015, was adopted in October 2013. The energy efficiency fund established by the Law on Energy Efficiency became operational in January 2014. Implementing legislation has yet to be adopted. Administrative capacity in this area needs to be strengthened.

In the areas of **nuclear energy, nuclear safety and radiation protection**, Serbia started preparing a nuclear safety and security programme. However, the inspection functions are fragmented and have yet to be transferred to the Serbian Radiation Protection and Nuclear Safety Agency. Financial independence, funding and sufficient staffing (only 23 posts out of

35 are filled) are needed to ensure that the agency functions properly. Environmental radioactivity monitoring at national level faces problems due to a lack of financial means and ineffective tendering procedures. A national strategy for radioactive waste management has yet to be adopted. A national programme for spent fuel remains to be adopted, and the *acquis* in the field of radiation protection, nuclear safety and security transposed. The action plan for decommissioning research Reactor A at Vinča has yet to be drafted. Further efforts are required to improve the radiological situation at the Vinča site and the abandoned Kalna mine and to improve radioactive waste management.

### *Conclusion*

Progress was made in the area of energy, in particular in the electricity market, renewable energy and energy efficiency. Additional efforts are needed to achieve cost-reflective electricity tariffs. A final decision on the unbundling model of Srbijagas, in line with the *acquis*, needs to be urgently made. Serbia should not commence work on constructing the South Stream pipeline until the IGA is aligned with the *acquis*. The administrative capacity and independence of the energy and nuclear regulators need to be significantly strengthened. Serbia needs to increase its efforts to meet its renewable energy targets. Approval of the action plan to implement the September 2013 agreement on energy with Kosovo, and signature of the inter-TSO are positive steps in the process of normalisation of relations with Kosovo. Serbia should continue to engage constructively in this process. Overall, preparations in the area of energy are moderately advanced.

#### **4.16. Chapter 16: Taxation**

In the area of **indirect taxation**, the reduced *value added tax* (VAT) rate was increased in December 2013 from 8 to 10%, while some items (e.g. IT equipment) passed from the reduced to the standard 20% rate. Regarding *excises*, legislation on rates, movement and control, excise warehouses, storage and the concept of taxpayer remains to be aligned. The same applies to current rules and exemptions on specific energy resources. Finally, imported spirits remain taxed at higher level than comparable spirits which are frequently produced in Serbia.

In the area of **direct taxation**, salaries in the public sector above fixed thresholds are additionally taxed by 20% and 25% since January 2014. Some corporate tax incentives have been abolished as part of fiscal consolidation.

Regarding **administrative cooperation and mutual assistance**, exchange of information with neighbouring countries intensified.

In the area of **operational capacity and computerisation**, in March 2014, electronic declarations for direct and indirect taxes, as well as for social contributions have been allowed and electronic submission of VAT forms was introduced in July 2014. Administrative procedures have been simplified. 205 accounts were transformed into one for the payment of taxes and 35 different tax forms have been reduced to one, thus enabling human resources to be shifted to tax inspections. However, there is still a significant number of staff engaged in non-core duties and audit tools are insufficiently used. Efforts have been made to enhance transparency, tax compliance and communication with the public. The Serbian Tax Administration has introduced standards for performance measurement, but tax procedures need to be further unified and simplified, while the discretionary powers of individual tax inspectors should be reduced and closely monitored. The administration's Computer Data Centre is properly organised and is being modernised. A new taxation strategy, addressing human resources, further development of taxpayer services and the fight against the informal

economy remains to be adopted. Frequent changes in the tax administration's management are not conducive to its transformation into a compliance and revenue oriented service.

### *Conclusion*

Some progress has been made in the area of taxation, notably in the fields of e-declarations, organisation and transparency. Serbia should continue to align its rules concerning excise goods, including on imported spirits, with those in the *acquis*. Urgent measures are needed to tackle the informal economy in a consistent, lasting manner. These include further simplifying tax procedures and reducing and effectively monitoring the discretionary powers of individual tax inspectors. Overall, preparations in the area of taxation are moderately advanced.

#### **4.17. Chapter 17: Economic and monetary policy**

On **monetary policy**, the National Bank of Serbia (NBS) continued its policy of inflation targeting in the range of 4% ± 1.5 percentage points. Inflation reached historically low levels, but stayed mostly below the target band of the NBS.

As regards **economic policy**, Serbia continues to participate in pre-accession economic surveillance. It submitted its 2014 Pre-accession Economic Programme to the Commission in January. Fiscal consolidation and economic recovery are set as the main objectives of the new government. The macroeconomic scenario underlying the programme was broadly plausible and the presented alternative scenario captured some of the main risks. Although largely appropriate, the fiscal consolidation path envisaged in the programme requires strong additional efforts. The structural reform framework is coherent and sufficiently comprehensive; however, the authorities would still have to follow-up on most of the announced policy intentions. Further efforts are needed to increase the capacity for economic policy planning, coordination and implementation. Public debt continued increasing up to 63% in July 2014, breaching by far the 45% of GDP ceiling introduced by the fiscal rules. The Fiscal Council has actively expressed its opinion, contributing to debates on budgetary and economic developments and policies.

### *Conclusion*

There has been little progress in the area of economic and monetary policy. Monetary policy credibility was enhanced but further efforts are required to pursue the announced fiscal consolidation. Implementation of the announced reforms needs to be improved. Overall, Serbia is moderately advanced in the area of economic and monetary policy.

#### **4.18. Chapter 18: Statistics**

Concerning **statistical infrastructure**, the capacity of the Statistical Office of the Republic of Serbia needs to be further strengthened.

Concerning **classification and registers**, the regional statistical classification (NUTS classification) remains to be decided, pending a political decision on its territorial coverage.

With regard to **sectoral statistics**, several additional reports on the results of the 2011 population census have been published. In December 2013, the official results of the agriculture census were released. The Statistical Office published an agricultural statistics development strategy 2013-2018 which presents actions to be taken in order for Serbia to become compliant with EU standards in agricultural statistics. It remains to be adopted by the government. For the censuses additional analytical material has been produced and presented to the public at large. Data from the first wave of the survey on income and living conditions

were released in late December 2013, while work on the second wave continued in 2014. These data include the main indicators of poverty and social exclusion and were inserted into a database to be further updated. Work on the preparation of national accounts has continued as a priority. Full compliance with the European System of Accounts (ESA) 2010 standards remains to be ensured.

### *Conclusion*

Good progress was made in the area of statistics. The release of the results of the population and agriculture censuses continued. Sectoral statistics have been further developed. Work on the preparation of national accounts has continued. The administrative capacity of the Statistical Office needs to be further strengthened. The issue of regional statistical classification should be solved. Overall, Serbia is advanced in the area of statistics.

## **4.19. Chapter 19: Social policy and employment**

The amended **Labour Law** aiming also at achieving some alignment with the *acquis* was adopted in July. However, as the law was adopted in an urgent procedure consultation with the social partners and public debate could not be fully respected.

In the field of **health and safety at work**, work on amending the Law on Health and Safety at Work is well advanced. The new strategy on health and safety at work for 2013-2017 was adopted in November 2013 and the accompanying action plan for 2014 was adopted in July. A rulebook on display equipment entered into force in December. The register of injuries at work is still under construction and depends on the adoption of the Law on Registers.

The capacity of the Labour Inspectorate needs to be strengthened to allow for efficient inspections in the field (there are currently 250 inspectors or 1 inspector per 1 300 companies) and for better implementation of the Labour Law.

Tripartite **social dialogue** has been at a stalemate since autumn 2013 with the representative trade unions withdrawing from the Working Group on the Labour Law. The meetings of the Economic and Social Council are not systematic and should be improved according to the relevant rules. No agreement has been reached on the level of the minimum wage. Consultation of the Council on legislative amendments remains limited. The criteria and procedure to establish representativeness of trade unions and employers' organisations need to be agreed in a clear and transparent manner. At local level, tripartite social dialogue still needs to be developed. The administrative capacity of social partners needs further strengthening to ensure their participation in collective bargaining and legislative consultations. Bi-partite social dialogue remains underdeveloped. There are only few sectoral collective agreements, while several have expired and need to be renewed. The law on strike remains to be adopted. The agency for peaceful settlement of labour disputes needs further strengthening.

In the area of **employment policy**, administrative capacity to ensure better-targeted and efficient labour market policies is being further developed in the Ministry of Labour, Employment, Veterans and Social Policy, the National Employment Service and at local level. The 2015 national employment action plan was adopted in September. The focus of this year's action plan is on youth, unemployed with low qualifications, and workers made redundant from companies in restructuring. Serbia is preparing its first employment and social reform programme, with a view to identifying and addressing its key challenges in employment policy and social policies. A kick-off meeting took place in November 2013. Recent improvements in labour market participation and employment rate can mainly be attributed to an increase in seasonal and family work and remain fragile. Unemployment

remains very high at 20% (June 2014) and long-term unemployed still represent more than three quarters of the unemployed. Youth unemployment (15-25 years old) is growing (53% in June) and the share of young people not in employment, education or training (NEET) is at around 27% (June 2014). The implementation of the 2013 national employment action plan was hampered by a 65% cut in the budget earmarked for active labour market policies. Still, of the targeted 109 000 unemployed, 92% were included in active labour market measures and 22% found employment. Some 30% of the unemployed included in active labour market measures in 2013 belong to the most vulnerable groups and to groups with high incidence and persistence of unemployment, including Roma. Roma will continue to benefit from specific programmes in addition to regular active measures. The 2014 budget earmarked for active labour market measures is less than 0.1% of GDP, which is very low but nevertheless an increase from the previous year. This is insufficient to address the high level of unemployment and of long-term unemployment and to face future challenges, notably the forthcoming large redundancies linked to the restructuring of 153 state-owned enterprises. According to Labour Force Survey, informal employment grew significantly, from 17.9% in October 2012 to 21% in June 2014.

Administrative capacity to prepare for the **European Social Fund** needs strengthening. The department responsible for international cooperation, EU integration and projects is now accountable directly to the Minister of Labour, Employment, Veterans and Social Policy and is structured in three sub-units. Coordination between the priorities identified in the indicative strategy paper for Serbia and in the employment and social reform programme needs to be further enhanced for the programming of IPA funds. (*See also Chapter 22 — Regional policy and coordination of structural instruments*)

In the area of **social inclusion**, according to preliminary data from the first survey on income and living conditions, the at-risk-of-poverty rate in Serbia is 24.6%. Despite some progress in the overall legislative and regulatory framework, the implementation of the action plan to improve the status of Roma needs to be stepped up. Scarce financial resources were mobilised from the budget. The Roma community continues to be disproportionately excluded from a range of social services and initiatives to promote social inclusion and access to employment. A national mechanism ensuring reliable, adequate and timely data on the social situation needs to be developed. The availability of community-based services across the country remains limited. The efficiency of the licensing process for social services providers introduced by the 2011 Social Welfare law is being discussed. As regards people with disabilities, €12.8 million was allocated to the fund for professional rehabilitation and enhancement of employment of persons with disabilities in 2014. In 2013, approximately 5 700 people with disabilities benefited from active measures, down from 6 500 in 2012.

In the field of **social protection**, the pension fund deficit remains large. More than 40% of the revenues of the pension fund come from the budget. Budget transfers to pay pensions continue to be the largest single item on the expenditure side. About 14% of GDP was spent on pensions in 2013. Amendments to the Law on Pension and Disability Insurance were adopted in July. They introduce changes in pension calculation and retirement rules, including extending women's retirement age to 65.

In the field of **anti-discrimination** policy, the Equality Protection Commissioner's office continued its awareness-raising activities on discrimination and mechanisms for protection against discrimination. However, the capacity of the Office still needs to improve. An action plan for the implementation of the strategy for the fight against discrimination was adopted in October 2014. The anti-discrimination law remains to be further aligned with the *acquis*. The groups most discriminated against remain the Roma, sexual minorities, and persons with HIV/AIDS. Notwithstanding the government's good preparatory work for the pride parade, a



more visible political commitment to promoting a culture of respect towards the LGBTI community and raising awareness is needed. Training has been provided for the police on anti-discrimination and equality issues. *(See also Chapter 23 — Judiciary and fundamental rights)*

Regarding **equal opportunities** between women and men, legislation with regard to the dismissal of pregnant women and women on maternity leave, sexual harassment and inequality in promotion and salaries needs to be systematically enforced. Administrative capacity on gender equality issues remains weak. The law on Ministries from April dismantled the previous Directorate for Gender Equality. The new Ministry of Labour, Employment, Veterans and Social Policy includes a Unit for gender equality under the sector for development and planning. *(See also Chapter 23 — Judiciary and fundamental rights)*

### *Conclusion*

Limited progress can be reported in the area of social policy and employment. Developments continued in the area of health and safety at work but have slowed down in the areas of employment policies and social inclusion. Further work is needed to align the Labour Law with the *acquis*. Social dialogue needs to be strengthened at all levels and the stalemate of tripartite social dialogue is of particular concern. Further efforts are needed to address labour market segmentation and to ensure alignment with the *acquis*. An action plan for the implementation of the strategy for the fight against discrimination was adopted in October 2014. Overall, preparations in this area are at an early stage.

## **4.20. Chapter 20: Enterprise and industrial policy**

Regarding **enterprise and industrial policy principles**, the strategy for the development of entrepreneurship and competitiveness 2014-2020 has been prepared but remains to be adopted. This strategy is wider in scope and does not exclusively cover SMEs like the previous one. It identifies the main activities to support entrepreneurship and competitiveness, in line with Small Business Act principles, but does not include a budget for these activities. The SME Council stopped meeting after years of difficulties — it could not ensure inter-ministerial coordination as it lacked powers to take binding decisions. Plans to establish a new body with more powers have been launched.

The implementation of the law limiting payment deadlines has been relatively successful with regard to public sector payments, for which a control and monitoring system has been set up by the Treasury. The law, however, needs to be further aligned with the EU legislation.

In the field of **enterprise and industrial policy instruments**, Serbia continues to implement the Small Business Act (SBA) and participated in SBA performance Review. Serbia decided to participate in the EU Programme ‘Competitiveness of Enterprises and Small and Medium-sized Enterprises’ (COSME), but could not yet agree with the Commission on full participation in 2014 due to budgetary problems. Serbia has been invited to consider joining the COPERNICUS programme.

As regards policy instruments, there are a number of financial instruments, such as reimbursement of consulting services, subsidies for innovating activities, subsidies for investment, public promotion of entrepreneurship and women’s entrepreneurship and support for clusters and incubators. These instruments remain limited in scope.

As regards the business environment, the regulatory guillotine process has stalled, while regulatory impact assessments continue to be applied to new legislation. Further efforts are

needed to improve access to finance for companies, especially in view of the negative credit growth. Company registration has been simplified, but parafiscal charges for company operations have increased.

In **sector policies**, particular efforts are needed to improve procedures for construction permits, so as to contribute to the more dynamic construction sector and improve the business environment in general. A new law facilitating the issuing of construction permits remains to be adopted.

#### *Conclusion*

Limited progress has been made in the field of enterprise and industrial policy. A number of strategies and financial instruments are in place, but the business environment remains weak. Overall, Serbia needs to continue efforts to improve the environment for its businesses, particularly SMEs.

### **4.21. Chapter 21: Trans-European networks**

In the area of trans-European **transport networks**, Serbia continued to participate in the work of the South-East Europe Transport Observatory. Development and prioritisation of projects should take into account the routes defined in the indicative extension of the TEN-T to the Western Balkans region. Works on most sections of the road E-75 started. Little progress has been made regarding the implementation of the action plan for the construction of Road Route 4 (Belgrade-Bar), also referred to as Corridor XI, for which several agreements with third countries have been concluded. There has been limited progress regarding the construction of road corridor X and works on four sections of the E-80 were delayed due to a change of contractor. On rail corridor X, project documentation is being prepared for the Novi Sad-Subotica-Hungarian border and for the section of the Nis bypass. Work on the Zezelj rail bridge has been further delayed. Different loan agreements for rail projects have been concluded with third countries. Several infrastructure projects to improve navigation conditions on the inland waterways network are in progress.

In the field of trans-European **energy networks**, Serbia continues to support the implementation of the Gas Ring Project for South-East Europe. The financing of the construction of Nis-Dimitrovgrad interconnector is in jeopardy due to delays on the part of the government to agree on an unbundling model for the restructuring of the public gas company, Srbijagas. An expropriation process was completed for the Resita-Pancevo electricity interconnection between Romania and Serbia. An investment pipeline for priority infrastructure projects in energy and transport was worked out in May 2014, and needs to be adopted by the government.

#### *Conclusion*

Serbia has made little progress in the area of trans-European networks. The financing of the new interconnections, and various structural problems leading to delays in construction, both in transport and energy, need to be addressed. Decisive government action is urgently needed by the end of 2014 to ensure the construction of Nis-Dimitrovgrad interconnector. Overall, preparations in the field of trans-European networks remain moderately advanced.

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

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

As regards the **institutional framework**, management of IPA components I and II (IPA 2007-2013 period) was conferred on Serbia in March 2014, under the decentralised implementation system. Work is ongoing to align the programming and implementation structures with EU regional policy and to increase the absorption and co-financing capacity of the EU-funded programmes.

With regard to **administrative capacity**, further efforts are needed to an adequate staff retention and recruitment policy, in line with the anticipated workload stemming from the conferral of management.

In the field of **programming**, Serbia is well prepared for a sectoral approach under IPA II. The capacity of potential final beneficiaries to produce project documentation in line with IPA requirements needs to be improved. Serbia has prepared a project selection methodology and developed a project pipeline for investments in the fields of energy, transport, environment and business infrastructure which needs to be adopted by the government. This project pipeline should serve as the sole basis for investment projects to be financed by the international donors' community, international financial institutions and the national budget over the next programming period. On **monitoring and evaluation**, sectoral monitoring committees for all sectors of IPA components I and II have been set up.

In the field of **financial management, control and audit**, financial management and control systems have been further developed to comply with the indirect management requirements of IPA components I and II. The capacity of the audit authority is still undeveloped.

### *Conclusion*

There has been good progress in the area of regional policy and coordination of structural instruments. Serbia is starting to acquire experience in the management of EU funds under the decentralised implementation system. Adequate implementation capacity needs to be ensured under indirect management to improve results. Overall, preparations in this area are moderately advanced.

## **4.23. Chapter 23: Judiciary and fundamental rights**

### *Judicial system*

In the area of **judicial reform**, the reinstatement of previously dismissed judges and prosecutors was finalised. Several key acts, such as the law on seats and territorial jurisdiction, amendments to the law on the organisation of courts, the law on judges and the law on public prosecution offices, were adopted. A new network of courts of general jurisdiction started operating in January 2014. However, special legislation related to the judicial network in Kosovo, the deadline for which was set by the law on seats and territorial jurisdiction as 31 December 2013, has not yet been adopted.

A Strategy Implementation Commission, led by the Ministry of Justice and composed of 15 representatives of major stakeholders, was set up in September 2013 to monitor and measure progress in the implementation of the 2013-2018 national strategy and the related action plan. However, the commission has not yet been instrumental in securing timely and adequate implementation of judicial reform. Various delays in the implementation of the action plan occurred. Work on constitutional amendments to improve the position of the judiciary, on legal changes to address the quality and consistency of judicial practice and judicial education is at an early stage.

Regarding the **independence** of the judiciary, the High Judicial Council and the State Prosecutorial Council adopted respectively in July and May 2014 appraisal rules for judges and prosecutors. The two Councils continued to share responsibility with the Ministry of Justice for budget planning, execution and monitoring. An important number of Court Presidents have been appointed on a permanent basis following several nominations, albeit in the absence of clear criteria. The law on judges and public prosecution was amended in June 2014 and provides that the High Judicial Council and the State Prosecutorial Council will propose only one candidate, rather than three, to parliament for each judicial and prosecutorial post. This is a positive step, but only as a transitional solution: the constitutional and legislative framework still leaves room for undue political influence affecting the independence of the judiciary, particularly in relation to the career of magistrates. Constitutional amendments on the composition and method of election of members of the two Councils and allowing for judicial review of dismissal decisions are needed to strengthen the independence, representativeness and hence legitimacy of these self-governing bodies. Some judges from higher and appellate courts were confronted with direct attempts to exert political influence over their daily activities without the High Judicial Council properly defending their independence. The practice of publicly commenting on trials and announcing arrests and detentions in the media ahead of court decisions risks being detrimental to the independence of the judiciary and raises serious concern.

The **impartiality** of judges is ensured through the constitutional and legal framework. However, practical implementation is hampered by the fact that the system of random allocation of cases is not yet automated in all courts, which provides scope for circumventing the system.

In relation to **accountability**, 24 disciplinary charges against prosecutors were filed in 2014. The number of disciplinary charges against judges increased in 2013 to 540 and 8 new proposals for disciplinary measures were submitted. Four of them have been processed and there has been one case of dismissal based on a criminal conviction. The High Judicial Council nominated new members for its disciplinary bodies in January 2014 as some mandates expired in December 2013. It also adopted measures to facilitate the performing of disciplinary functions by reducing ordinary workload. Nevertheless, Serbia still needs to implement a comprehensive system of regular individual and periodical evaluation of judges and prosecutors. Effective implementation of codes of ethics, disciplinary rules and legislation on conflicts of interest and the lifting of immunity for certain posts are needed to ensure full accountability of judges and prosecutors.

As regards the **efficiency** of the judiciary, the judicial budget (including the prison system) was €269 million in 2014, a 13% increase on 2013. The Constitutional Court declared unconstitutional the provisions of the Law on the Judicial Academy stipulating that the High Judicial Council and the State Prosecutorial Council could propose only graduates of the Academy's initial training as candidates for first election to judicial office. The Academy's legislative and institutional framework needs to be adapted to allow it to become the compulsory point of entry to the judicial profession while ensuring compliance with the ruling. Training capacity and expertise should be significantly increased.

In December 2013, the Supreme Court of Cassation adopted a national backlog reduction programme with the objective of reducing the number of cases older than two years by 80% nationwide by the end of 2018. The law on mediation in dispute resolution was adopted in May 2014 but has not yet entered into force. The backlog of court cases remained a concern, with 2.8 million cases pending at the end of 2013. The figure for cases older than two years is particularly worrying (at over 1.7 million out of which 1.2 million are enforcement cases). Migration of case files to mirror the delegation of competences under the new court network

has not been finalised. The Administrative Court continued to face an increasing volume of new cases. It resolved 18 277 cases, but received 21 756 new ones in 2013. The backlog of the Constitutional Court also remained significant in 2013, with more than 16 000 pending cases (as compared with 12 000 at the end of 2012). The current system of collecting court statistics is not efficient and does not allow making a meaningful analysis of the performances of the Serbian Judicial system. There is also a need to further improve the expertise of judges in certain areas, especially in taxation and financial matters, consumer protection, state subsidies, competition, asylum and human rights protection.

The appointment of the first generation of public notaries took place in July. The Chamber of notaries and its managing and disciplinary bodies were established. The number of notaries will need to increase substantially in order to meet the demand. While the introduction of public notaries is a positive step, concerns were raised as to the selection and appointment procedures, which should be improved. The law should be implemented by taking into consideration the need to ensure quality services and access to justice. The number of bailiffs increased, but remains insufficient to meet the target set by the law for its implementation.

Persistent differences in the workload among judges, lack of adequate premises and equipment still constitute serious obstacles to judicial efficiency. A proper case methodology to measure workload and to ensure a more equal distribution of cases among judges and prosecutors as part of the reform of the court network is required.

Inconsistency in case-law continues to be a concern, especially in appeal courts, and represents a challenge to the principle of equality before the law. Efforts are needed to foster more consistency and coherence through judgments made by the most authoritative courts in the system.

As regards **access to justice**, following the general introduction of the adversarial system in criminal proceedings from October 2013, concerns about procedural safeguards remain, especially in the absence of a free legal aid system. The draft law on free legal aid remains to be adopted. A unified case management system remains to be established. Differences in workload, the high average duration of proceedings, the significant backlog of cases, the absence of a free legal aid system and the lack of enforcement of final judgments and indemnity claims are major obstacles in practice. The system of awarding compensation to victims of crime through criminal or civil proceedings is not functional.

In the area of **domestic processing of war crimes**, implementation of the protocol on cooperation signed in January 2013 substantially improved cooperation between the special prosecutors of Serbia and Bosnia and Herzegovina. Cooperation and exchange of information with Croatia and EULEX continued. It is important that Serbia continues to strengthen its efforts on regional cooperation in this regard. In the reference period, Serbia opened investigations in four cases and brought charges against ten people, and five judgments were rendered in first instance, with thirteen convictions. A first-instance ruling in a complex case of war crimes in Kosovo against Albanian civilians acknowledged for the first time the responsibility of members of the Yugoslav army, who were in the first instance sentenced to up to 20 years in prison. Despite consistent efforts by the war crimes jurisdictions, the number of investigations against high-level officers still remains low, and courts continued to pass lenient sentences in such cases. Only few victims of war crime have access to effective compensation under the current legal framework. Serious weaknesses in the witness protection system have not been addressed and assistance to victims has not improved. The Commissioner for Public Information denounced the practice of anonymising the names of convicted persons in judgments made available to the public. (*See Political criteria — Regional issues and international obligations.*)

## *Anti-corruption policy*

Serbia further implemented the recommendations of the Council of Europe Group of States against Corruption (GRECO). Implementation of the strategy and action plan for 2013-2018 has yet to mirror the strong political impetus to fight corruption. Several measures have been delayed. An efficient mechanism for monitoring implementation of the anti-corruption strategy and action plan needs to be ensured. Adequate resources and human capacities for implementation of the Strategy and action plan need to be allocated. The new inter-ministerial coordination mechanism put in place in August and the appointment of a new State Secretary for the fight against corruption, in the Ministry of Justice and Public Administration, are positive initial steps but their impact on the ground remains to be assessed. Adequate capacity tools and resources need to be ensured to strengthen the Anti-Corruption Agency with a view to fulfilling its mandate. In addition, the agency should reflect on proactively enhancing its role as a key institution in the fight against corruption. This implies in particular developing and ensuring sound working conditions with the Ministry of Justice and other relevant institutions.

Almost half of the relevant authorities did not fulfil their obligation to report to the Anti-Corruption Agency on the implementation of the national strategy in their field of competence, without it being entitled to engage their responsibility. As a result, the agency's first report to parliament, in June, on the implementation of the strategy and action plan does not give a clear and comprehensive picture. Amendments to the legislation enabling the Agency to perform monitoring in accordance with the Strategy remain to be adopted. A mechanism to hold public bodies accountable while reporting on implementation of anti-corruption measures needs to be introduced.

On the prevention side, the Anti-Corruption Agency received almost double the number of requests to investigate conflicts of interest compared to the previous year (1402 requests in 2013 compared to 872 in 2012); however very few cases were finalised. The Agency filed 56 misdemeanour requests, which is a substantial increase from the previous years when only 9 such requests were filed. There were 451 procedures begun in 2013 to check the property and revenues of public officials, of which the majority (252) referred to officials who had not submitted a report on their property and income by the deadline set by law. Serbian legislation in the area of conflict of interest (including provisions defining conflict of interest) needs to be amended to meet the European and international best practices to ensure all cases of conflict of interest are addressed and deterrent sanctions imposed. The agency stepped up asset declaration checks, and filed a total of 168 requests for misdemeanour proceedings relating to asset declarations in 2013, of which 142 were for failing to submit reports on time. It also filed nine criminal charges in 2013, and an additional 14 criminal charges in the first four months of 2014 out of which 9 due to reasonable suspicion that a public official did not report property or gave false information about the property, with an intention to conceal facts. Moreover, the problem of lack of dissuasiveness of sanctions needs to be addressed.

The agency continued to monitor the funding of political activities, including funding for the early elections that took place in 2014. In 2013, the agency submitted 335 requests for misdemeanour proceedings, of which the majority (303 cases) related to the failure of political organisations to submit reports on expenses for the 2012 election campaign. In connection with these cases, only 28 judgments have been passed, of which 8 are final. In the first months of 2014, the agency issued 10 decisions pertaining to the loss of funds from public sources for political entities which were fined for misdemeanour under the Law on Financing Political Activities. In-depth verification of political parties financing needs to be carried out by the agency. A track record of enforcing asset declarations and checks on party funding still needs to be established. Cases of illicit wealth need to be addressed in line with

the provisions of the action plan for the fight against corruption so as to make illicit enrichment a criminal offence. The OSCE/ODHIR recommendations on financing electoral campaigns need to be addressed.

The Anti-Corruption Agency stepped up risk analysis of draft legislation. Training and education activities in 2013 were fewer than previous year (only 417 people attended various educational programmes, as compared with 3 679 in 2012). Overall, the agency's capacity for collection and analysis of data needs to be improved and its access to relevant databases ensured.

The Anti-Corruption Council continued to be active in exposing and analysing cases of systemic corruption, in its advisory role to the government. However, its recommendations are insufficiently dealt with and followed up by the government and it is under resourced. This situation needs to be addressed. In addition, appointment of new Council members should be ensured.

Transparency of public procurement procedures has improved with the use of the upgraded public procurement portal. New requirements introduced by the Law on Public Procurement and the national strategy and action plan for the fight against corruption remain to be fully implemented. Comprehensive risk analyses for areas vulnerable to corruption such as health, construction, privatisation and education, justice and law enforcement are needed. Corruption in local level administration needs additional attention.

Civil society still plays a limited role in the implementation of the anti-corruption agenda. Effective whistle-blowing protection mechanisms have yet to be established. The government adopted a draft law in October 2014, which remains to be adopted by parliament. Internal control departments lack equipment, resources and human capacity. Independent supervision and capacity for early detection of wrongdoing and conflicts of interest in state-owned companies, privatisation procedures and public expenditure remain underdeveloped. The Commissioner for Free Access to Information of Public Importance and Personal Data Protection recorded an increase in the number of requests for access to data on public procurement, privatisation, concessions, public-private partnerships and other related procedures that have an impact on the budget. The legal framework needs to be strengthened to ensure adequate follow-up and effectiveness of the Commissioner's decisions.

In relation to law enforcement, the Prosecution for Organised Crime and Corruption has raised indictments against 168 persons in 2013, which is an increase from the 81 indictments raised in 2012. Leaks to the media about ongoing investigations, in breach of the presumption of innocence, are an issue of serious concern and should be investigated and processed in line with the law. The number of investigations launched in 2013 by the Special Prosecutor for Corruption and Organised Crime in high-level corruption cases remained about the same as last year (at 147 new investigations, compared with 140 in 2012). Final convictions remained rare and high-profile cases remained at risk of political interference. Further efforts are needed to establish a track record of investigations, prosecution and final convictions, in corruption cases, including high-level cases. Law enforcement bodies and prosecution need to become more proactive. Lack of internal capacity and expertise in financial investigations and asset recovery, together with a lack of technical equipment for special investigative measures, hamper the effectiveness of investigations. Interinstitutional cooperation between law enforcement agencies has improved to a certain extent, but needs to be developed further. The independence of all investigative and judicial bodies dealing with investigations into corruption needs to be strengthened.

Most cases formerly handled under Article 359 (abuse of office) of the criminal code were re-qualified under the new Article 234 (abuse of a position) applicable to private operators: out of the 2411 cases (involving 4455 persons) that were processed under former Article 359 and that were re-qualified, 2202 cases (involving 4168 persons) were re-qualified under new Article 234. This illustrates a continuing tendency to overuse these offences in the context of business disputes, which is harmful to the business climate and legal certainty. The comprehensive review of the criminal code being conducted to ensure that corruption and economic crimes are precisely defined and can be effectively investigated and processed needs to be completed without delay. The criminal code needs further amendment in this respect.

### *Fundamental rights*

Serbia has ratified all the main **international human rights instruments** and is on track with reporting to the UN human rights mechanisms. Nevertheless, implementation needs to be more consistent.

During the reporting period, the **European Court of Human Rights** delivered 29 judgments on 73 applications against Serbia. In 27 judgments the Court found that Serbia had violated the European Convention for the Protection of Human Rights and Fundamental Freedoms. The majority of judgments refer either to violation of the right to a fair trial due to the length of the procedure or to the non-enforcement of domestic judgments. As of September 2014, there were 4690 pending allocated applications before the Court regarding Serbia, and 110 cases pending before the Committee of Ministers in charge of supervising the execution of judgments. More attention needs to be paid to safeguarding procedural rights connected to arrest, detention and fair trial, in accordance with Serbia's obligations under the ECHR. Important developments have taken place at EU level strengthening procedural safeguards and victims' rights and to which Serbia will need to gradually align (including on rights, support and protection of victims, on translation and interpretation, on the right to information and on access to a lawyer), in addition to preparing for implementing the European protection orders in criminal and in civil matters upon accession.

In relation to the **promotion and enforcement of human rights**, the government's Office for Human and Minority Rights, but also relevant parliamentary committees, independent bodies and civil society organisations, have carried out various activities to promote respect for human rights, tolerance and anti-discrimination. The Office continued with training courses for legal practitioners, police officers and social workers on the rights of the LGBTI population. However, the implementation of relevant international instruments is still insufficient, particularly at the local level. The role and the position of the Office need to be strengthened. A national mechanism for monitoring the implementation of the UN Human Rights Bodies' recommendations, enabling an overview on recommendations still to be met, remains to be established.

As regards the **prevention of torture and ill-treatment**, the administrative capacity of the Ombudsman, acting as the national preventive mechanism against torture, needs to be strengthened. Penalties are not proportionate to the gravity of the crimes of ill-treatment and torture. Proper legal safeguards for prevention of torture and abuses in social institutions have yet to be adopted. The legislation on detention in police custody, the prevention of torture and the internal complaints system needs to be improved. The internal non-judicial mechanism for reviewing complaints needs to be strengthened in order to be effective. There have been no positive developments in changing the unlawful practice of using district prison facilities for police detention.



Concerning the **prison system**, a new strategy and action plan for the further development of the correctional system 2013-2020, were adopted. New laws on enforcement of criminal sanctions and on alternative sanctions and measures are in force since September 2014. This should improve the level of protection of human rights in enforcement of sanctions. Pilot programmes for vocational training in three main prisons (Pozarevac, Nis and Sremska Mitrovica) were successfully conducted. The number of alternative sanctions, such as home imprisonment monitored by electronic tagging and community service orders, remains to be further increased. The probationary service network needs to be expanded. Serious overcrowding in maximum security wards, difficult access to treatment programmes and quality healthcare remain matters of concern.

Concerning **freedom of expression**, a package of three laws — the Law on Public Information and Media, the Law on Electronic Media and the Law on Public Service Broadcasting was adopted in August, following an inclusive consultation process with the active participation of media associations during the preparatory phase albeit under urgent procedure. The laws' adoption represents a significant positive development. Their implementation will be crucial for achieving the goals of the 2011 Serbian media strategy. The commission specially tasked to look into unresolved cases of murdered journalists from 1999 and 2001 has made progress in its work, with new details relating to one particular murder surfacing and three persons charged so far. The Regulatory Body for Electronic Media has stepped up activity related to content monitoring but its independence needs to be strengthened. Access to information of public interest is generally functional, although disclosure of some documents followed only after intense public pressure.

However, there are concerns about deteriorating conditions for the full exercise of freedom of expression in Serbia. More generally, there is a growing trend of self-censorship which, combined with undue influence on editorial policies, and a series of cases of intervention against websites, are detrimental to freedom of the media and adversely affect the development of professional and investigative journalism. In this respect, efforts are expected to identify and prosecute suspects of violations of internet freedoms. Pending the full implementation of the newly adopted legislative package, the Serbian media continued to operate in a blurred legal environment which delayed the state's withdrawal from media ownership, one of the cornerstones of the 2011 media strategy. Significant involvement of professional associations is necessary in regulating the position of journalists and ensuring their employment rights. The sustainability of public broadcasting services in minority languages, including sustainable financing of RTV, should be ensured. *See also Chapter 10: Information society and media.*

*Threats and violence* against journalists, including cases of physical assault at local level, still remain a concern. While some criminal charges were filed for incitement to ethnic, racial and religious hatred and intolerance, final convictions remain rare.

*Media campaigns* based on anonymous or leaked sources, detailing investigations, announcing arrests and quoting investigation documents undermine trust in judicial institutions, violate personal data laws and challenge the presumption of innocence. A track record of investigation and convictions in these cases has to be established. More generally, media owners and top editorial staff should pay more attention to abiding by professional standards, with support from the Press Council.

**Freedom of assembly and association** is in general upheld. 98 political parties, including 57 representing minorities, were registered as of April 2014. The holding of the pride parade without major incident and the government's good preparatory work in this respect marked a substantial step towards the effective exercise of freedom of assembly. The activities of

extreme right-wing organisations and violent groups of so-called sports fans continued to be a cause of concern. Public officials should publicly and more systematically condemn or react to threats, physical assaults and cases of incitement to violence and hate speech from extremist groups against non-governmental organisations (NGOs), prominent human rights defenders, journalists, bloggers or individual citizens. A track record of investigation and convictions has yet to be established. The public assembly law has yet to be fully aligned with the Constitution.

As regards **freedom of thought, conscience and religion**, in addition to seven communities recognised as traditional religious communities, several religious organisations have been registered. However, the lack of transparency and consistency in the registration process continues to be one of the main obstacles preventing some religious groups from exercising their rights. Some disputable provisions of the rulebook on the register of churches and religious communities may constitute a breach of the principle of state neutrality towards the internal affairs of religious communities. Access to church services in some minority languages is not fully guaranteed in practice.

Concerning **women's rights and gender equality**, parliament ratified in October 2013 the Council of Europe 'Istanbul Convention' on fighting violence against women. The catalogue of criminal offences has yet to be harmonised with the Convention. The Gender Equality Directorate in the Ministry of Labour, Employment and Social Policy has been transformed into a division within the Department for planning and development affairs. Adequate resources and better coordination of the national machinery for promotion of gender equality need to be ensured. An action plan for the implementation of the national strategy for prevention and combating violence against women remains to be adopted. The number of women killed by their partners increased. Emergency protection orders are not issued promptly, no national women's helpline is in place; the number of shelters is insufficient and there are no centres for victims of sexual violence. The mechanisms for coordinating the collection and sharing of data between all relevant actors in the system need to be improved. Labour legislation needs to be fully implemented, particularly regarding the dismissal of pregnant women and women on maternity leave, sexual harassment and inequality in promotion and salaries.

In the area of **children's rights**, the governmental council of children in charge of monitoring children's rights was re-established in January 2014 and has met twice. An active role of this Council is expected as to bring effective progress in practice. Roma children and children with disabilities remain the most discriminated against, with Roma children still overrepresented in special schools, segregated classrooms and in the state care system. The legal limit of 50 children in residential care institutions is disregarded. Young Roma girls face specific risks to their right to sexual and reproductive health, such as marriage at a young age. Lack of resources is an obstacle to the inclusion of children with disabilities in mainstream schools at local level. Community-based services should be expanded and service delivery, bringing together health, education and social welfare, should be ensured. A new national strategy for the prevention of and protection from violence against children should be designed. Even though most juvenile offenders are not sentenced to closed institutions, alternative sanctions need to be improved and measures aimed at reintegrating juvenile offenders and reducing recidivism are rarely implemented in practice. Measures for the protection of children as victims in criminal cases are not properly implemented. International Labour Organisation's Worst Forms of Child Labour Convention (No 182) remains to be effectively implemented.

Regarding **socially vulnerable persons and/or persons with disabilities**, the system of social services is still largely institutionalised and community-based support services at local

level remain very limited. People with disabilities face obstacles in their everyday activities due to lack of physical access to public transportation, public and private buildings and various services and products. Social inclusion of people with disabilities needs significant improvement, particularly with regard to employment, education and availability of community-based services. A law on the use of sign language has yet to be adopted. Placement and treatment of people with mental disabilities in institutions is still not regulated in accordance with international standards. Oversight of living conditions and of the way people are admitted to institutions needs to be strengthened. The procedure for depriving people with psychosocial and intellectual disabilities of their legal capacity and the related safeguards need to be aligned with international standards, as it leaves room for abuse.

Serbia's **anti-discrimination** legislation is generally in line with European standards on combating racism and racial discrimination. Further alignment is expected as regards several provisions such as the scope of exceptions from the principle of equal treatment, the definition of indirect discrimination and the obligation to ensure reasonable accommodation for employees with disabilities. An action plan for the implementation of the anti-discrimination strategy was adopted in October 2014. The Equality Protection Commissioner's office opened its first regional office in Novi Pazar and has continued to be active in raising awareness on discrimination. The Commissioner's office reported a rise in the number of complaints, partially due to better awareness of discrimination and of protection mechanisms among citizens, and increased confidence in the office's work. However, the Commissioner's office still lacks adequate premises and its capacity needs to be improved. Women and persons with disabilities remain discriminated against. The groups most discriminated against remain the Roma, sexual minorities and persons with HIV/AIDS, some of whom often face hate speech and threats. Hate-motivated offences are not always properly investigated, prosecuted and sanctioned. Further steps are needed to align with the EU equal opportunities *acquis*.

Awareness and protection of the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI)** persons have started to improve, but this needs to be sustained. The Ministry of Interior appointed a liaison officer for the LGBTI community, with whom dialogue improved. This contributed to the pride parade being held in Belgrade on 28 September without major incident. Discriminatory statements in Serbian society still prevail, however. A continued and more visible political commitment to promoting a culture of respect and raising awareness is needed. Discrimination based on sexual orientation is still regularly reported in employment. LGBTI activists continue to be subject to threats and hate speech, and a track record of investigations and convictions where appropriate remains to be established.

**Labour and trade union rights** are guaranteed by the Constitution and broadly respected. The Labour Law from July 2014 only briefly addressed these rights. Alignment with the European Charter for Fundamental Rights and conventions of the International Labour Organisation need to be ensured when it comes to strikes, abolition of forced labour, right to organise collective bargaining and freedom of association, while a new Law on Trade Unions remains to be adopted. The procedures and criteria for determining the representativeness of social partners, notably trade unions, need to be agreed in a transparent way. The work of the Economic and Social Council is not systematic; its meetings are held at random and often delayed, while consultations on draft laws within the Council's remit remain sporadic. As a result, tripartite social dialogue came to a stalemate. At local level, there is no tripartite social dialogue.

With regard to **property rights**, the deadline for submission of claims under the Law on Restitution expired in March 2014. As a result, the total number of claims rose from 40 000 to about 75 000, thus significantly increasing the workload of the Agency for Restitution. By mid-August, the agency had adopted 13 500 first-instance decisions. While most of them have

been approved by the Ministry of Finance as the second instance decision body, a number of them — mainly on agricultural land and real estate of privatised companies — were overruled. Nevertheless, by this date about 3 500 ha of agricultural land and forest, almost 2 600 apartments and business premises and 580 ha of land for construction had been returned to the original owners. A working group mandated to draft a special law on the restitution of Holocaust-era Jewish property was set up in February, but has remained dormant so far.

The legal framework for the protection of **minorities** and cultural rights is in place and generally upheld, in line with the Framework Convention on National Minorities to which Serbia is party. Close cooperation between the Office for Human and Minority Rights and the National Minority Councils has been established. A traineeship programme offering opportunities in the state administration to members of underrepresented minorities has continued. The Third Opinion on Serbia of the Advisory Committee on the Implementation of the Framework Convention for the Protection of National Minorities was published in June. It assessed the overall legal framework in Serbia favourably, while pointing to the need for several improvements, particularly the need for Serbia to ensure a comprehensive and strategic approach to the integration of national minorities in Serbian society and several gaps in implementation that still need to be addressed. Amendments to the Law on National Minority Councils aimed at eliminating shortcomings in the electoral procedure were adopted in May and elections are scheduled for October. However, a comprehensive revision of the law remains to be carried out, in line with the Constitutional Court ruling of February. The Republican Council for Minorities is not functioning, and local councils for inter-ethnic relations remain under-used. Attention is needed to consistent implementation of the legislation throughout Serbia especially in the areas of education, the use of languages, and access to media and religious services in minority languages, whenever there is demand from minorities. This should not affect learning of the official language, which is an important factor in the social inclusion of minorities. National minorities' representation in public administration bodies, particularly at local level, remains to be improved overall. Serbia has been invited to adopt by the end of 2015 a dedicated action plan on the protection of national minorities throughout Serbia, including in the areas of education, use of minority languages, access to media and religious services in minority languages, and representation in public administration.

The Autonomous Province of *Vojvodina* continued to provide a high degree of protection for minorities and the inter-ethnic situation remained generally good, despite sporadic incidents. Measures to promote the learning of minority languages by police officers have been put in place. The 2013 annual report by the Provincial Ombudsman reported that 67 out of a total of 1 253 (5.35%) complaints were related to minorities and of this number the majority, 30 complaints (44.78%), concerned official use of language and script.

Concerning the *municipalities of Presevo, Bujanovac and Medvedja*, after a first meeting in October with the Prime Minister and the chairman of the government's coordinating body on the implementation of a comprehensive programme of integration and economic recovery, local ethnic Albanian leaders decided in November to suspend their participation in these talks over disagreements about the new law on the court network. One ethnic Albanian party took part in the general elections in March, while the other parties boycotted them. New scholarships for university and high-school students were provided, as were investments in infrastructure and grants to local entrepreneurs. Members of the Albanian national community remain underrepresented in public employment. Further commitment from the government is needed to foster the area's economic development.

Regarding the *Sandzak* area, the situation continued to be stable for most of the reporting period but tensions arose in September. Classes in the Bosniak language started to be held in

primary schools. The Bosniak community continues to be underrepresented in the local administration, judiciary and police. The issue of the election of the Bosniak national minority council remain unsolved but elections are scheduled for October 2014. The area remains one of the most underdeveloped and requires additional commitment from the central authorities to boost economic development.

The action plan for the national strategy to improve the status of the **Roma** in Serbia to 2015, adopted in June 2013, has started to be implemented. The new set of recommendations formulated during the June 2013 EU-Serbia seminar on Roma inclusion produced some positive results, and contributed to a broader awareness of the challenges. Legal provisions to register 'legally invisible persons' are being implemented and producing encouraging results. Support given to 170 teaching assistants and 75 health mediators continued to produce a further positive impact on the ground. Cooperation with EU-funded initiatives has improved: the multi-sectoral EU programme for Roma inclusion received full support from various relevant institutions, while cooperation with local authorities on providing housing and other forms of assistance has shown some progress. The appointment of the Minister of Labour and Social Affairs as a chairperson of the Council for the improvement of the Status of Roma is expected to strengthen government coordination, which needs improvement.

However, the Roma continued to face difficult living conditions. Those living in the many informal settlements across the country are subject to high levels of discrimination in access to social protection, health, employment and adequate housing, including basic sanitation, water and electricity. Compliance with international standards on forced evictions and relocations still needs to be ensured. The legal provision allowing social welfare centres to be used as a temporary address for registration purposes is implemented unevenly across the country. The school drop-out rate for Roma children remains high. Despite some improvements, the Roma population, and especially Roma women, remain the most discriminated against in the labour market. Roma women and children are still frequently subject to family violence, which often goes unreported. Governmental coordination, together with operational cooperation between the various ministries and bodies relevant for Roma inclusion, remain to be further improved. Adequate financial and human resources, together with better involvement by local authorities in implementing the Roma strategy, are needed.

According to UNHCR, there are around 43 763 **refugees** and 204 049 **internally displaced persons** (IDPs) in Serbia. There are 14 remaining collective centres hosting 268 refugees and 901 IDPs. The programme to support municipalities that adopted local action plans to improve the situation of refugees and IDPs has continued, and the housing situation of displaced persons has improved somewhat. Local Councils for Migration Management and Durable Solutions have been set up in 129 municipalities, while 137 municipalities have adopted local action plans so far, including the allocation of specific municipal budget lines to implement the plans (in addition to the state budget and donors' funds). Nevertheless, the living conditions of many refugees and IDPs are still difficult. Many are unemployed and live in poverty. The Law on Permanent and Temporary Residence, which allows IDPs to apply for residence at social welfare centres, still needs to be implemented more consistently to allow IDPs without proper documentation to obtain basic rights.

As regards access to information and **protection of personal data**, the trend of increasing numbers of requests from citizens continued in 2013, with the public becoming better informed of their rights. The office of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection should dispose adequate resources for the tasks of the Commissioner. The legal framework remains to be fully aligned with EU standards. Video surveillance, biometrics, the security of data on the internet, and the processing and protection of sensitive data, especially by some new professions such as

bailiffs or notaries as well as direct marketing, must comply with EU data protection legislation. The power to acquire data from electronic communications in criminal cases remains to be brought in line with data protection rules. No progress was made in adopting the action plan to protect personal data.

### *Conclusion*

Limited progress was made in the area of the judiciary and fundamental rights.

As regards judicial reform, intensive legislative activities took place. Appraisal rules for judges and prosecutors were adopted. An important number of Court Presidents were appointed on a permanent basis. The implementation of the notary system remains to be further assessed.

Implementation of the national judicial reform strategy is at an early stage and requires effective and reliable monitoring and coordination mechanisms. Significant efforts are needed to enhance the constitutional and legal framework for the independence, accountability, efficiency and quality of the judiciary. Clear measures conducive to a more predictable and sustainable judicial environment and career of magistrates remain to be adopted and fully enforced. The disciplinary system needs to be substantially reinforced.

Despite strong political impetus to fight corruption, corruption remains prevalent in many areas and continues to be a serious cause of concern. The implementation of the strategy on the fight against corruption has not yet yielded concrete results. The ratio of convictions remains low. Recent strengthening of institutional coordination and leadership, including the setting-up of a monitoring mechanism, has yet to produce effective results. Attention needs to be paid to providing the Anti-Corruption Agency and the Anti-Corruption Council with sufficient resources and to following up their recommendations. A sustainable solution is urgently needed for the excessive recourse to bringing cases for the offence of ‘abuse of position’ in the private sector through revision of the economic section of the criminal code. The legal framework for whistle-blower protection and conflicts of interest still needs to be amended. A track record of asset declarations and checks on party funding needs to be established.

Regarding fundamental rights, proactive steps have been taken to create an enabling environment that guarantees fundamental freedoms. The holding of the pride parade in Belgrade on 28 September without major incident, following good preparatory work by the government, marked a substantial step towards the effective exercise of human rights in general and LGBTI rights in particular. An action plan for the implementation of the anti-discrimination strategy was adopted in October 2014. A new strategy for the correctional system has been adopted but further efforts remain necessary to improve conditions in the prison system. Three laws under the media strategy have been adopted with a view to improving the situation in the media sector. However, there are concerns about deteriorating conditions for the full exercise of freedom of expression. Public officials rarely condemn or publicly react to threats, physical assaults and cases of incitement to violence and hate speech from extremist groups against non-governmental organisations (NGOs), human rights defenders, journalists, bloggers or individual citizens. A track record of investigation and prosecution for these cases needs to be established. The legal framework for the protection of minorities is broadly in place but its consistent implementation across the country needs to be ensured, notably in the areas of education, the use of languages, and access to the media and to religious services in minority languages. The positive steps taken to improve the situation of the Roma need to be stepped up, particularly in education, housing and employment. The

situation of refugees and IDPs needs to be further improved. The legal framework on data protection remains to be aligned with the EU *acquis*.

#### 4.24. Chapter 24: Justice, freedom and security

Serbian authorities continued to be proactive overall with regard to fighting irregular **migration**. From September 2013 to February 2014, 108 criminal charges against 167 persons were filed for 114 criminal acts on illegal border crossing and trafficking in human beings. The number of detected cases of illegal entry into the EU through Serbia decreased from 13 900 in 2012 to 8 500 in 2013. However, reception and accommodation capacity needs to be upgraded and adapted to increasing needs. Efforts are required to ensure that sufficient and well-trained staff can take up the challenges related to migratory pressure. Particular attention should be given to the needs of minors and vulnerable groups. Better coordination is required among all institutions involved in tackling irregular migration, in particular at local level. Legislation on legal migration remains to be aligned with the *acquis*. 6 239 persons were returned to Serbia from EU Member States in 2013 (6 282 in 2012). Readmission agreements were signed with Bosnia-Herzegovina and Montenegro.

In the area of **asylum**, the unified national database for checking the personal data and fingerprints of foreigners, including asylum-seekers, is established. Three temporary accommodation centres opened during winter. The decision of the government to open a third permanent asylum centre remains to be implemented. In 2013, Serbia faced over 5 000 applications (compared with 2 723 in 2012), of which only 153 were effectively handled by the asylum authorities, resulting in two people being granted subsidiary protection and two refugee status. Further substantial increases in the number of applicants in the first seven months of 2014 require urgently short-term measures from the Serbian authorities for improving the processing of applications and accommodation capacity. A comprehensive reform of the asylum system is required, including sufficient and well-trained staff to handle an increasing number of applications, strengthening accommodation capacity, and, at the same time, rationalising the whole asylum procedure. The fact that applicants have no effective access to the asylum procedure and that, once submitted, their asylum applications are not effectively processed tends to encourage asylum applicants to see Serbia as a transit country for entering the EU illegally. The Asylum Office is still operating as the first-instance body on an ad hoc basis under the Border Police Directorate of the Ministry of Interior and remains to be established permanently in line with the 2007 Law on Asylum. Closer cooperation between the asylum bodies and the border police is necessary. The criteria of safe countries of origin and of safe third countries have yet to be fully aligned with the *acquis*. In the first half of the reporting period, in particular, there were allegations of illicit activities carried out within the Serbian asylum system, facilitated by organised criminal groups. The authorities should open an official enquiry on those issues. More generally, efforts are needed to prevent asylum centres from being targeted by organised crime groups involved in smuggling migrants.

As regards **visa policy**, Serbia has not yet established a unified Visa Information System to allow swift information exchange. The list of countries for which a visa is required, is not fully harmonised with the *acquis*.

As regards the implementation of the visa-free regime with the EU, following the entry into force in January 2014 of the visa-waiver suspension mechanism, Serbia continued to take measures to address the phenomenon of unfounded asylum applications lodged by Serbian nationals in the EU and Schengen countries. Operational controls on tourist agencies and transport companies were stepped up, as were border control and surveillance. Nine criminal charges were filed against 11 persons for the criminal offence of facilitation of abuse of the

visa-free regime. With more than 22 760 applications in 2013 (a 36% increase compared to 2012), Serbian nationals remained one of the largest groups of asylum applicants in the EU and Schengen associated countries. This trend was confirmed in August 2014 as applications from Serbia amounted to 10 529 out of 25 866 applications, e.g. an increase of 36% since August 2013. In turn, the number of Serbian citizens finally granted asylum remained identical in 2013 compared to 2012 (310). The recognition rate of around 1% confirms the largely unfounded nature of these claims. Immediate actions by Serbia must be taken in the framework of the post-visa liberalisation monitoring mechanism to address asylum abuse through closer operational cooperation and information exchange with EU Member States and Schengen associated countries, carrying out investigations of facilitators of irregular migration, more effective border controls in line with fundamental rights, and information campaigns for travellers. More efforts are needed in the short term to address socioeconomic needs and in the longer run to sustainably improve social and economic inclusion of the most vulnerable groups of the population most likely to migrate, in particular Roma and to ensure systematic funding of integration policies. The capacity and resources for integrating Serbian returnees from the EU are very limited. In September 2014, the German parliament adopted amendments to the national asylum legislation for the inclusion of Serbia in the safe country of origin list.

As regards **external borders and Schengen**, infrastructure and equipment at border crossing points continued to be modernised with passport scanners, licence plate capture cameras, video surveillance and fingerprint scanners. A risk analysis system has yet to be established in order to enhance control of the borders. Inter-agency cooperation between the bodies operating at the borders needs to improve as there is a lack of coordination between border police, customs and phytosanitary services. The activities of the coordinating body for implementing the Integrated Border Management need to be strengthened. Serbia has cooperated actively with Frontex and in regional initiatives. Joint patrolling at the external borders with Croatia and Hungary has been agreed upon but is not yet implemented. Two new joint centres for border police cooperation were established in December in the former Yugoslav Republic of Macedonia and in March in Bosnia-Herzegovina (although in the latter case police officers have not yet been posted). The unimpeded cross-border traffic through unauthorised alternative crossing places — in particular with Bosnia and Herzegovina — remains an issue that needs to be urgently addressed. All border crossing points need to be connected to the Interpol database and the smaller crossing points modernised. Overall, interconnectivity between the databases and biometric devices (in both directions) still needs to be improved to support the operations of the border police.

As part of the dialogue on the implementation of the IBM protocol, all six interim IBM BCPs with Serbia/Kosovo are operational and technical agreements on the exact locations and on draft layouts of the permanent IBM crossing points were reached. Since the entry into force in March 2013 of the ‘Procedures on Mutual Legal Assistance’ (annexed to the IBM Agreement), Kosovo has sent approximately 2 000 requests to Serbia, and received 1 100 responses. Serbia has sent approximately 180 requests to Kosovo, and of these, around 130 have been answered.

As regards **judicial cooperation in civil and criminal matters**, Serbia ratified the Fourth Additional Protocol to the European Convention on Extradition in November 2013, followed by the Hague Convention on the protection of children and cooperation in the area of international adoption in December. However, Serbia has not yet acceded to the 1996 Hague Convention on Child protection. Serbia needs to further strengthen its administrative capacity and to put in place the necessary infrastructure to reply promptly to requests for mutual legal assistance and, later on, to apply the principle of mutual recognition. This implies fostering direct cooperation between Serbian courts and courts from third countries and centralising the



receipt of requests to courts for international judicial cooperation. Serbia participated in a joint investigative team for the first time in September 2013. Serbia does not yet have an cooperation agreement with Eurojust as it needs first to amend its legislation on data protection.

In the field of **police cooperation and the fight against organised crime**, Serbia actively participated in regional police cooperation. A Regional Police Coordination Centre for Serbia, Bosnia-Herzegovina and Montenegro was opened in Trebinje (Bosnia and Herzegovina) in March 2014 to fight against all forms of trans-border crime but remains to be fully operational. In January 2014, Serbia signed an operational agreement with Europol which entered into force in June. Cooperation with CEPOL, the EU police academy, has increased: a fact-finding mission took place in March 2014 and Serbia participated for the first time in the CEPOL exchange programme. However, a working arrangement remains to be signed. Specialisation within the police was further developed with the creation of three new services for Crime Analysis; Terrorism and Extremism; and Drug Prevention, Addiction and Repression. But most positions still have to be filled and staff trained and equipped. No progress was made in building up capacity to carry out financial investigations in tandem with complex criminal investigations. Access of law enforcement agencies and prosecution services to relevant databases and inter-agency cooperation needs to be ensured. Serbia needs to develop and introduce a strategic threat assessment on organised crime in line with the EU SOCTA (Serious and Organised Crime Threat Assessment) methodology. Intelligence-led policing based on crime mapping and systematic use of threat assessments still needs to be developed. Final convictions and the effective dismantling of criminal organisations remain rare. The track record of proactive investigations and final convictions needs to be established. A central criminal intelligence system and harmonised statistical data remain to be established. An integrated IT system linking the police, the prosecution and the courts is needed for efficient case management. The police's dependence on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations remains a matter of serious concern, in particular regarding interception of communications. Urgent measures are needed to align the legislation in this area. The witness protection unit still lacks qualified staff, equipment and premises. Human resources management in the Ministry of Interior, including merit-based recruitment and career advancement, specialised training and internal control, remain areas in need of improvement. An independent and robust external oversight mechanism for the police force is still missing. The Directorate that manages seized assets still lacks resources in terms of staff and capacity, including storage space. In 2013, the Directorate dealt with 16 court decisions on temporary seizure of assets; assets were returned in 13 of these cases. Further efforts are needed for full legislative and institutional alignment with the new *acquis* in this area.

In relation to *cybercrime*, police officers received training on conducting investigations at domestic level and in cooperation with other countries. Cooperation with the prosecution is also improving. The High-Tech Crime Unit is still understaffed and needs to strengthen its capabilities considering the wide range of complex criminal activity it is expected to investigate. Partnerships with the public and private sectors and academia remain to be concluded. Further specialised training, better coordination between institutions and adequate budgetary resources are needed.

The Administration for the Prevention of *Money Laundering* (APML) put further efforts into improving national and international cooperation on the investigation and processing of money laundering and related criminal offences while continuing with training events and awareness-raising. Judiciary and law enforcement services need better expertise as well as systemic and specialised training to handle money laundering and financial crime cases more efficiently. Efforts to coordinate and harmonise criteria for keeping records and collecting

statistics are needed with a view to establishing a track record. (*See also Chapter 4 — Free movement of capital.*)

In the field of *trafficking in human beings*, Serbia remains a country of origin, transit and destination for trafficking in human beings, for all forms of exploitation, in particular sexual and labour exploitation. New awareness-raising campaigns and training sessions for prosecutors were rolled out and should continue. The network of local anti-trafficking teams expanded and is in place in 17 locations. The draft anti-trafficking strategy 2013-2018 and action plan 2014-2015 are still pending adoption and a comprehensive, multi-disciplinary and victim-oriented approach remains to be developed in cooperation with NGOs. The Centre for Protection of Victims of Human Trafficking needs to strengthen its capacity to be fully operational. Victims need to be better identified and receive more assistance, support and protection. A shelter for victims of trafficking needs to be made operational. Police capacity to efficiently combat trafficking in human beings needs to be ensured, and enforcement to be improved. Training modules for the police, including the border police, regarding trafficking in human beings need to be enhanced. The position of the National Coordinator should reflect a multi-disciplinary approach to the trafficking in human beings phenomenon.

Overall, organised crime remains a concern in Serbia. Fighting organised crime and corruption is fundamental to countering criminal infiltration of the political, legal and economic systems.

As regards the **fight against terrorism**, the police set up a new service in December 2013 with two departments: one for terrorism and other for extremism, but most positions still have to be filled. Criminal charges were pressed in the first ever case of terrorism. The draft strategy and action plan for the fight against terrorism still remain to be adopted, together with a new law on freezing assets that are the proceeds of terrorism. A national database and more efficient exchange of information are needed, as is better inter-agency cooperation. Serbia will need to step up its capacity to prevent radicalisation, including developing adequate measures to address the phenomenon of foreign fighters.

Good international and regional **cooperation in the field of drugs** led to the arrest of a suspected drug lord in March 2014 in cooperation with Montenegro. The new strategy 2014-2021 is still under preparation. In January 2014, a new Service for Drug Prevention Addiction and Repression was created in the police but most positions still have to be filled. More work on drugs prevention for risk groups is needed. Treatment demand indicator software was developed. In April, a new department for the monitoring and prevention of misuse of psychoactive substances was established in the National Public Health Institute to serve as a national monitoring centre. In July, an inter-ministerial office in charge of coordinating the drug policy and overseeing the activities of the Ministries of Health and Interior was created. Good cooperation has continued between the national correspondent, also located since April in the National Public Health Institute, and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA). However, the operational capacity of police and customs needs to be stepped up. The accreditation process for the forensic institute of the Serbian police needs to be completed. A solid track record of drugs seizures remains to be established. Destruction of seized drugs resumed after a halt lasting several years but is not yet comprehensive and systematic. Secure storage of seized drugs prior to destruction is not yet ensured.

Concerning **customs cooperation** (*see also Chapter 29 — Customs union*), Serbia's customs administration continues to cooperate with agencies from neighbouring countries and to take part in international activities concerning the fight against illegal trade in and smuggling of

narcotics, oil and cigarettes. The investigative powers of the custom officers and the scope for exchanging data with other agencies at the border need to be broadened.

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

### *Conclusion*

Overall, Serbia made limited progress in the area of justice, freedom and security. Migration management and asylum policies need to be significantly and urgently strengthened and asylum procedures need to be streamlined. Further efforts are needed to tackle the phenomenon of unfounded asylum applications lodged by Serbia's nationals in the EU Member States. A risk analysis system has to be established in order to enhance control of the borders. Additional efforts are needed to increase the inter-agency cooperation between the services operating at the country's borders. Across the board, efforts are needed to align with the EU *acquis*, to increase efficiency, foster specialisation and ensure better operational cooperation between the judiciary, law enforcement and non-law-enforcement bodies. Serbia is actively involved in international and regional police and judicial cooperation, with good results. However, a track record of proactive investigations and final convictions needs to be established. Additional efforts are needed to systematically carry out financial investigations in conjunction with complex criminal investigations. A strategic threat assessment on organised crime is needed.

## **4.25. Chapter 25: Science and research**

The level of participation in the EU **framework programme** for research (FP7) is satisfactory and the overall success rate is around 15.3%, compared to the EU average of 21.6%. The agreement associating Serbia to the new EU research and innovation programme Horizon 2020 (covering 2014-2020) was signed on 1 July 2014, allowing for retro-active participation of entities from the country as from 1 January 2014. In June, Serbia notified a revised list of national contacts points and representatives in the programme committees.

With respect to the **European Research Area**, Serbia nominated its representative in the European Research Area Committee (ERAC). The action plan, implementing the Strategy on scientific and technological development for the period 2010-2015 was adopted in January 2014. The level of investment in research in 2013 remained broadly unchanged as in 2012, close to the national target of 1% of GDP. This is still substantially below the EU average of 2.07%.

Concerning measures for the **Innovation Union**, the Business Technology Incubator of Technical Faculties in Belgrade successfully continued to support start-up firms. While the Innovation Fund disbursed 53 grants to stimulate innovative companies in different sectors, further institutional support is needed to ensure the sustainability of this body. Serbia has been active in cooperating at regional level and co-signed the Western Balkans Regional R&D Strategy for Innovation adopted in October 2013.

### *Conclusion*

Some progress was made in the area of science and research. Further efforts are required in particular to increase the capacity at national level through increased investment in research both from public and private sector. Good administrative capacity will also be necessary to ensure successful participation under Horizon 2020. Overall, preparations in the area of science and research are on track.

#### 4.26. Chapter 26: Education and culture

In the field of **education, training and youth**, Serbia continued to participate successfully in the Tempus, Erasmus Mundus, and Youth in Action as well as in the centralised actions of the Lifelong Learning programme until 2013. In June, Serbia signed an agreement with the EU establishing its participation in the new Erasmus+ programme, allowing it to take part in policy support measures as well as in electronic platforms for virtual cooperation among schools and adult education providers. Preparations for the opening of a National Agency to manage the future full participation in Erasmus + have started. As a candidate country, Serbia is expected to track statistics on the EU's five education and training indicators and make efforts to come closer to the benchmarks set for 2020.

Quality assurance in primary and secondary education is improving. The action plan to implement the strategy for the development of education up to 2020 has not yet been adopted. The reform of the VET system, which currently does not match labour market needs, is a major priority but little progress has been made. There is a need to rationalise the number of VET schools and mainstream more of the new, more labour market-relevant, VET pilot profiles.

The lack of an efficient system for recognition of diplomas represents a serious impediment to graduates for further schooling and employment. A new law on higher education was adopted in September. It regulates accreditation issues, access of EU citizens to higher education, recognition of foreign diplomas, as well as measures to improve transparency in the system. The law is establishing a registry of PhD theses, thus increasing transparency in the attainment of the highest university degrees in the country. Plans to reform the training of primary and secondary school teachers were presented in the 3rd ministerial meeting of the Western Balkans Platform on Education and Training.

In 2013, the Youth in Action programme involved an increased number of young people from Serbia in international youth activities such as youth exchanges and the European Voluntary Service and offered youth workers the opportunity to cooperate within training and networking activities.

Regarding **culture**, Serbia continued its successful participation in the Culture programme and signed an agreement to participate in the Culture strand of the new Creative Europe programme.

#### *Conclusion*

Little progress was made in the area of education and culture and significant efforts are needed to improve the quality and efficiency of the education system. Participation in the relevant EU programmes in this area has continued successfully. Overall, preparations for aligning with EU standards are moderately advanced.

#### 4.27. Chapter 27: Environment and climate change

In the area of the **environment**, there has been no further progress with regard to *horizontal legislation*, while improvements in environmental reporting continued. In 2013, 225 operators reported their data to the Serbian pollutant release and transfer register, out of 255 with reporting obligations. Additional efforts are required to improve reporting from the agricultural and mining operators. Serbia cooperates well with the European Environment Agency within the European Environment Information and Observation Network (EIONET),

as evidenced by the level of completeness of data delivery. Public participation and consultation in the decision-making process need to be strengthened.

The annual update of *air quality* showed that seven of Serbia's eight urban agglomerations fall into air quality category III, exceeding the margin of tolerance of several pollutants. Air quality plans for Belgrade remain to be adopted and planning for the remaining urban agglomerations needs to be accelerated. Serbia has started work on a National Emission Reduction Plan (NERP) for its power sector, in order to achieve nationwide emission reduction.

In the area of *waste management*, preparations for new collection and disposal schemes covering 340 000 people are ongoing. The collection rate of household waste has increased from 78% — 80%. A new regional waste management centre has been opened in Sremska-Mitrovica-Sabac covering a population of approximately 200 000. Serbia has now 7 EU compliant regional sanitary landfills. Other forms of waste management need to be developed in order to use landfilling only as a last resort. New investments in the area of waste should focus more on waste separation and recycling. Non-compliant landfills need to be closed more quickly and enforcement of waste legislation enhanced. Full alignment with the Waste Framework Directive remains to be achieved. A pipeline of priority infrastructure projects for waste management was worked out in May.

As regards *water quality*, the decree on limit values for priority and priority hazardous surface water pollutants was amended in February. The amended decree increases the number of priority substances to be monitored in line with the requirements of the Water Framework Directive. Significant investment is needed to modernise drinking water treatment capacity in all types of agglomerations. Strategic investment planning for water pollution abatement continues to be hampered by the lack of a national water protection strategy. The lack of a wastewater treatment plant in Belgrade limits the scope of investment in wastewater treatment of upstream urban agglomerations. There has meanwhile been no further expansion of the monitoring network. The capacity of the Ministry of Agriculture's Water Directorate needs to be significantly enhanced to manage transposition and implementation of the vast body of EU water law. The extreme floods that took place in May call for swift improvements in flood prevention and water management systems and infrastructure. A pipeline of priority infrastructure projects for waste water management was worked out in May.

As regards *nature protection*, legislation implementing the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) has been updated to include protected species listings. Important seizures of illegally traded endangered species were made. The capacity of the CITES unit and that of enforcement agencies needs to be enhanced to keep up with the challenges of illegal wildlife trade. The institutional framework for designating and managing future Natura 2000 sites needs to be upgraded and adequately resourced.

As regards *industrial pollution and risk management*, 162 out of an estimated 185 integrated pollution prevention and control (IPPC) installations have submitted their requests for integrated permits. Ten permits have so far been issued compared to six in the previous reporting period. The capacity constraints of the competent department in the Ministry of Agriculture and Environmental Protection and the applicants' limited knowledge, in spite of training, explain slow progress in issuing permits. Serbia needs to address the EU legal requirement of either a fully integrated permitting process covering all areas or formal consultation between permitting authorities. Capacity constraints also hamper progress in implementing the legislation on prevention of chemicals accidents.

As regards *chemicals management*, the Law on Amendments to the Law on Prohibition of the Chemical Weapons and on their Destruction was adopted in November 2013. The newly formed department in the Ministry of Agriculture and Environmental Protection has taken over all the functions of the Chemicals Agency, which has closed. However, technical posts have been reduced by 30%. Further strengthening of administrative capacity is therefore necessary, especially in the field of risk assessment of biocidal products. Clear and non-overlapping responsibilities for chemicals inspection remain to be assigned. In the area of *noise*, no developments can be reported.

In the area of **civil protection**, disaster risk reduction and disaster management need to be treated as a matter of priority, particularly in the light of recent severe floods. In July 2014, the European Commission invited Serbia to join the EU Civil Protection Mechanism.

Regarding **climate change**, Serbia does not yet have a comprehensive countrywide climate policy and strategy. It should reflect on its climate and energy framework for 2030 in line with the expected EU 2030 policy framework on climate and energy. Serbia regularly associated itself with EU positions in international forums. While having previously associated itself with the Copenhagen Accord and having submitted an assessment of its mitigation potential to the United Nations Framework Convention on Climate Change (UNFCCC), the country has not yet put forward a commitment for mitigation by 2020. Serbia needs to put forward by the first quarter of 2015 its intended nationally determined contribution to the 2015 Climate Agreement, consistent with those of the EU and its Member States. Preparations for alignment with emissions trading legislation are advancing with the support of the IPA. An implementing law was adopted in December on reducing consumption of ozone-depleting substances, establishing a licensing and reporting system and a recovery and recycling scheme in accordance with the Montreal Protocol and relevant EU legislation. Legislation on fluorinated greenhouse gas management and on conditions for issuing licences to import and export such gases entered into force in January. Priority should be given to the establishment of a monitoring, reporting, and verification system for greenhouse gas emissions in line with EU Monitoring Mechanism legislation.

Serbia continued to participate in the Environment and Climate Regional Accession Network (ECRAN) project. Following the reorganisation of the competent ministry, the establishment of an administrative structure on climate change with adequate human and financial resources and clearly defined responsibilities needs to be pursued. The interinstitutional cooperation and coordination mechanism needs to be improved and expand beyond steering certain bilateral cooperation projects.

### *Conclusion*

Little progress has been made in the areas of environment and climate change. Strategic planning, greater administrative capacity and substantial investments linked to strategic priorities are needed to further align with EU policies in areas of environment, climate action and civil protection. A pipeline of investment priorities was developed in May 2014. Efforts under way to strengthen inspection and enforcement need to be accompanied by the removal of inconsistencies and gaps in legislation that prevent effective enforcement. An effective and permanent financing system for environment and climate action is needed. The country needs to put forward by the first quarter of 2015 its intended contribution to the 2015 Climate Agreement. Overall, priorities in the fields of environment and climate change have started to be addressed.

#### 4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, as regards *horizontal aspects*, a new consumer protection law was adopted in June, further aligning with the EU consumer *acquis*, consolidating the State institutional framework for consumer protection policy, further empowering consumer organisations and introducing new mechanisms for enforcement and actual consumer redress. The National Consumer Complaint Register started operation in July. Currently it includes the Ministry of Trade, Tourism and Telecommunications and four consumer associations. Currently, there are 31 registered consumer protection organisations, of which five participate in the National Council for Consumer Protection. Cooperation between the line ministries and consumer organisations needs to be reinforced, as does cooperation between consumer protection organisations.

With regard to *product safety-related issues*, the Product Safety Council is operational and active. The new Law on Safety Items of General Use has not been adopted; this remains a precondition for the adoption of four specific rulebooks further aligning Serbian legislation with the *acquis* in the field of product safety.

In the field of *non-safety-related issues*, the law on the protection of users of financial services has to be further aligned with the *acquis*.

In the area of **public health**, the Law on healthcare and the Law on health insurance were amended in July. An e-Health Unit was established at the Ministry of Health to deal with information technology development and regulation in the sector. The overall financial sustainability of the sector remains seriously endangered by the poor financial situation of the public health fund.

In the area of *tobacco control*, amendments were made to the Law on tobacco, focusing on measures against illicit tobacco trade and labelling of tobacco products, and on increasing the relevant fines. No progress was made in the preparation of a new strategy and action plan on tobacco control.

In the area of *communicable diseases*, surveillance and response capacity, including microbiology laboratory capacity, remains limited and requires modernisation. Human resource management and organisational strengthening are required. More attention needs to be paid to effective and sustainable financing of disease-specific strategies, including the national HIV/AIDS strategy and awareness-raising. Additional work is needed in particular on surveillance of antimicrobial resistance.

In the area of *blood, tissues, cells and organs*, further efforts are needed to align national legislation with the *acquis* and to implement the Law on Organ Transplantation. The administrative and technical capacity of the Directorate for Biomedicine needs further strengthening.

No new developments can be noted in the field of *patients' rights in cross-border healthcare*.

In the area of *pharmaceuticals*, in 2013 the status of privately owned pharmacies was aligned with that of state-owned ones. The Ministry of Health issued a tender for partnership with the Institute of Virology for the production and market supply of vaccines. The ministry also called for improved cooperation with pharmaceutical companies, many of which have not yet registered all the required medications in Serbia. A new reference laboratory for identification and testing of controlled psychoactive substances was opened in December 2013.

In the field of *mental health*, a bylaw was passed in October 2013 on the conditions for using physical restraint and isolation of people with mental disorders being treated in psychiatric institutions. Community-based mental health services still remain to be developed following the recent adoption of a bylaw regulating centres for such services in December 2013.

In the area of *drug abuse prevention*, no measures were taken in the national educational programme to curb the demand for illicit drugs in schools. As regards *cancer screenings*, full implementation of the national screening programme for colorectal and cervical cancers has yet to be achieved. The capacity of the national screening office remains very limited. Screening efforts are still fragmented and strongly rely on the capacity of different municipalities, not favouring equal access for all citizens. Efforts are needed to develop disease prevention strategies, such as to fight malnutrition and lack of physical activity, to improve citizens' health and provide affordable healthcare in the long run. In the field of *rare diseases*, more sustainable funding for treatment has been provided.

### *Conclusion*

There has been some progress in the area of consumer and health protection. The new law on consumer protection has been adopted. The overall financial sustainability of the public health system needs to be strengthened. Overall, preparations in these areas remain moderately advanced.

## **4.29. Chapter 29: Customs union**

As regards **customs legislation**, the customs tariff nomenclature was aligned with the 2014 EU Combined Nomenclature and the liberalisation schedule under the Stabilisation and Association Agreement implemented in November 2013. However, the Law on the Customs Service remains to be adopted. In the framework of CEFTA, since April 2014, Serbia, Albania, Montenegro and the former Yugoslav Republic of Macedonia started applying the regional Convention on Pan-Euro-Med Preferential Rules of Origin. The legislation on cash controls, cultural goods and duty relief on imports of new production equipment needs to be aligned with the *acquis*. Legislation on customs-related security initiatives and authorised economic operators remains to be implemented.

As regards **administrative and operational capacity**, the customs administration continued to strengthen its administrative capacity for effective enforcement of customs legislation. Integrity procedures for customs officials were applied by initiating 25 disciplinary procedures against 30 customs officers for serious violation of official duty and completing another 22 disciplinary procedures. The number of companies making use of simplified customs or approved exporter procedures increased. Work to establish a functioning interconnected IT system has started. Intelligence messages are exchanged with other state bodies and international organisations. In 2013, around 65% of right holders used customs' web application to submit their requests for protection of intellectual property rights. A new centralised system for the management of bank guarantees has been established and the core IT system is being reorganised from a decentralised to a centralised system, enabling the implementation of the New Computerised Transit System (NCTS) upon accession to the Common Transit Convention, as planned for 1 June 2015. The customs declaration processing system needs to be upgraded and the customs laboratory further equipped. The administration improved communication with the public.

In June 2014, Serbia and Moldova signed an Agreement on Cooperation and Mutual Assistance.



In 2013, in technical dialogue between Serbia and Kosovo, the parties agreed to automatically exchange electronic pre-arrival data related to customs declarations for consignments intended to cross the administrative border/boundary line. The collection of customs duties started at the joint crossing points between Serbia and Kosovo in December 2013. As part of the dialogue on the implementation of the IBM protocol, all six interim IBM BCPs with Serbia/Kosovo are operational and technical agreements on the exact locations and on draft layouts of the permanent IBM crossing points were reached. However, the administrative border/boundary line between Kosovo and Serbia remains vulnerable to illicit activities.

### *Conclusion*

There has been some progress in the area of the customs union. However, further efforts are needed to complete alignment in a number of key areas. The customs administration is steadily strengthening its administrative capacity, but further efforts are needed. The customs declaration processing system remains to be upgraded. Overall, preparations in the area of the customs union are on track.

## **4.30. Chapter 30: External relations**

In the area of the **common commercial policy**, the finalisation of Serbia's World Trade Organisation membership remains dependent on the adoption of a WTO-compliant law on genetically modified organisms, as requested by the United States, and on the completion of bilateral market access negotiations with some countries, most notably with Ukraine. Serbia's General Agreement on Trade in Services (GATS) schedule is almost aligned to the EU GATS schedule.

As regards administrative capacity, trade policy would benefit from formal coordination between various ministries responsible for regulations which affect trade in goods and services. This permanent coordination could include services responsible for technical and industrial standards, sanitary/phytosanitary controls, intellectual property rights and government procurement rules.

The Law on Trade in Dual-Use Goods, adopted in November 2013, further aligned procedures and controls with the relevant *acquis*. Two rulebooks were adopted later in February. They ensured further coherence with regard to the *acquis* on trade in dual-use goods. Serbia would benefit from joining some of the international bodies in charge of overseeing the national export control systems (the 'Multilateral Export Control Regimes').

As concerns **bilateral agreements with third countries**, Serbia is negotiating a free trade agreement (FTA) with Ukraine. The Serbian parliament ratified a bilateral investment treaty with Morocco in October 2013. A bilateral investment treaty with Canada was signed in September this year. No progress can be reported in the areas of **development policy** and **humanitarian aid**.

### *Conclusion*

Limited progress has been made in the field of external relations. Preparations for accession to the WTO are well advanced but move slowly in the final phase. Overall, preparations in the area of external relations are moderately advanced.

#### 4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and Serbia on foreign and security policy continued. (For more information on relations with other enlargement countries and EU Member States, *see Political criteria — Regional issues and international obligations*).

Regarding the **common foreign and security policy (CFSP)**, Serbia aligned itself, when invited, with 28 out of 45 EU declarations and Council decisions (62% alignment compared to 89% during the reference period of the 2013 Progress Report). Serbia supported the sovereignty and territorial integrity of Ukraine in general terms but was absent at the vote of the UN General Assembly Resolution on the territorial integrity of Ukraine. Serbia did not align itself, when invited, with Council decisions introducing *restrictive measures* in the context of Russia's illegal annexation of Crimea and events in eastern Ukraine. The Serbian government gave reassurances that Serbia would not actively seek to take undue advantage of the situation arising from the introduction of the Russian embargo on imports of EU agricultural products in answer to the restrictive measures against Russia.

A law that would establish a system for tracking the implementation of restrictive measures still needs to be adopted. (As regards the International Criminal Court, *see Political criteria — Regional issues and international obligations*.)

Regarding *non-proliferation*, in October 2013 Serbia adopted a new law on dual-use goods, partially fulfilling the preconditions for joining the Wassenaar Arrangement on export controls for conventional arms and dual-use goods and technologies. Its 2008 application to join the Wassenaar Arrangement now remains dependent on the adoption of a new law on trade of arms and military equipment. The ratification of the Additional Protocol to the Nuclear Non-Proliferation Treaty is still pending. Serbia signed the UN Arms Trade Treaty in August 2013.

Serbia continued to engage actively in *cooperation with international organisations*. Serbia is preparing to take over the 2015 chairmanship of the OSCE.

Regarding the **common security and defence policy (CSDP)**, Serbia continued to participate in two EU *civil and military crisis management operations*, the EU NAVFOR-Atalanta operation and the EUTM Somalia operation, with respectively four and five members. In June, the parliament adopted a decision on the participation of the Serbian Army in multinational operations for 2014, including to EUTM Mali. The parliament also adopted a decision on the participation of the Serbian Army in the EUFOR RCA in September. In December 2013, Serbia signed an administrative agreement with the European Defence Agency enabling Serbia to participate in the agency's programmes.

#### *Conclusion*

Serbia continued to participate in civil and military crisis management operations. The country's alignment with EU declarations and Council decisions in the field of foreign and security policy significantly declined compared to previous years and needs to be improved. Legislation on the tracking mechanism for the implementation of EU restrictive measures has yet to be adopted. Overall, preparations in this field are on track.

#### 4.32. Chapter 32: Financial control

The new public administration reform strategy from January 2014 includes **public internal financial control (PIFC)** among its priorities. A new PIFC strategy and an action plan for 2015-2019 are under preparation and PIFC is expected to be embedded in a wider framework

for reform of public financial management. The Central Harmonisation Unit continued its training and mentoring activities, whereas it should start to focus more on policy development. Implementation of financial management and control is at an early stage and risk management is not applied systematically. Implementing legislation to better define managerial accountability still remains to be developed. Understanding of the managerial accountability principle and internal control standards at central and local levels and in publicly owned enterprises is still weak and needs to be further developed among senior managers. The centralised budget inspection function has yet to be developed and regulated in line with PIFC requirements.

In the area of **external audit**, the State Audit Institution (SAI) published its first performance audit report in June 2014. The 2013 audit programme was implemented on time, but audit capacity is still insufficient to ensure full audit coverage. The SAI currently has around 175 audit staff, compared with 372 planned audit posts. The SAI should be strengthened to provide for the institution's full operational and financial independence. In this context, the SAI's role in filing misdemeanour and/or criminal charges against individuals with the competent authority needs to be reconsidered. Audit manuals in line with the INTOSAI standards are being developed. Certification and systematic training of audit staff need to continue.

With regard to the **protection of the EU's financial interests**, a national anti-fraud coordination service (AFCOS), an independent unit under the direct authority of the Minister of Finance, was set up as a contact point for cooperation with the Commission in October 2013. While two out of three foreseen posts have been filled, the AFCOS has yet to become fully operational. It also lacks a comprehensive legal basis defining its tasks, responsibilities and cooperation arrangements with the Commission. The AFCOS network also has yet to be established.

With regard to **the protection of the euro against counterfeiting**, the National Bank of Serbia has administrative structures for technical analysis and classification of counterfeit money, including euro banknotes and coins. Serbia concluded an agreement on the handling of euro coins with the Commission in January and on the handling of euro banknotes with the European Central Bank in July. Serbia still needs to ratify the Geneva Convention for the suppression of counterfeiting currency as well as to ensure full legal alignment with the *acquis*.

### *Conclusion*

Some progress has been made in the area of financial control. Considerable efforts are needed with implementation of PIFC at all levels of the public administration. A new PIFC strategy and an action plan need to be developed for 2015-2019. In the area of the protection of the EU's financial interests, the national anti-fraud coordination service needs to become operational. Overall, preparations in this area are moderately advanced.

### **4.33. Chapter 33: Financial and budgetary provisions**

There were no developments in the areas of **traditional own resources**, the **value added tax-based resource** and the **gross national income-based resource**. (*For developments in the underlying policy areas, see Chapters 16 — Taxation; 18 — Statistics; 29 — Customs union; and 32 — Financial control.*)

As regards **administrative infrastructure**, administrative capacity of the institutions in charge in the policy areas affecting the correct application of the own resources rules needs

to be further strengthened and developed. The coordinating agency necessary to ensure correct calculation, accounting, forecasting, collection, payment and control of own resources still needs to be established. Instruments to fight and reduce tax evasion and fraud and to reduce the informal economy need to be further developed and strengthened.

### *Conclusion*

No progress can be reported on financial and budgetary provisions. The coordinating body required under the own resources scheme still needs to be established. Overall, preparations in this area are at a very early stage.

## STATISTICAL ANNEX

### STATISTICAL DATA

#### Serbia

Basic data	Note	2001	2009	2010	2011	2012	2013
Population (thousand)		7 505	7 335	7 307	7 276	7 217	7 182
Total area of the country (km <sup>2</sup> )		77 474	77 474	77 474	77 474	77 474	77 474

National accounts		2001	2009	2010	2011	2012	2013
Gross domestic product (GDP) (million national currency)		762 178	2 720 084	2 881 891	3 208 620	3 348 689	3 618 167 e
Gross domestic product (GDP) (million euro)		12 819	28 952	27 968	31 472	29 601	31 980e
GDP (euro per capita)		1 708	3 955	3 836	4 351	4 112	4 453e
GDP (in Purchasing Power Standards (PPS) per capita)	1)	:	8 400	8 500	8 900	9 100	:
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	1)	:	36	35	36	35	36
Real GDP growth rate: change on previous year of GDP volume (%)		5.3	-3.5	1.0	1.6	-1.5	2.5e
Employment growth (national accounts data), relative to the previous year (%)		2.0	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		3.5	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)	2)	19.8	9.6	10.2	10.9	9.9	11.4e
Industry (%)	2)	25.1	23.0	23.2	24.3	24.5	25.3e
Construction (%)	2)	3.4	4.9	4.8	5.0	4.9	3.3e
Services (%)	2)	53.5	65.4	65.0	62.8	63.4	62.7e
Final consumption expenditure, as a share of GDP (%)		104.0	99.6	99.8	96.3	96.9	93.2e
Gross fixed capital formation, as a share of GDP (%)		10.7	18.8	17.8	18.5	21.4	20.5e
Changes in inventories, as a share of GDP (%)		1.0	-0.7	-0.5	1.7	-0.4	-2.1e
Exports of goods and services, relative to GDP (%)		25.6	29.4	36.0	36.6	40.3	44.7e
Imports of goods and services, relative to GDP (%)		41.3	47.1	53.0	53.0	58.2	56.4e

Industry	Note	2001	2009	2010	2011	2012	2013
Industrial production volume index (2010 = 100)		96.9	98.8	100.0	102.5	100.2	105.6

Inflation rate and house prices	Note	2001	2009	2010	2011	2012	2013
Consumer price index (CPI), change relative to the previous year (%)		93.3	8.4	6.5	11.0	7.8	7.8
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2001	2009	2010	2011	2012	2013
Balance of payments: current account total (million euro)		282	-1 910	-1 887	-2 870	-3 176	-1 585
Balance of payments current account: trade balance (million euro)		-2 603	-4 946	-4 581	-5 318	-5 480	-3 978
Balance of payments current account: net services (million euro)		272	21	8	163	156	334
Balance of payments current account: net income (million euro)		7	-502	-670	-758	-799	-1 095

Balance of payments current account: net current transfers (million euro)		2 606	3 518	3 356	3 043	2 947	3 153
of which government transfers (million euro)		652	197	193	206	151	131
**3 year backward moving average of the current account balance relative to GDP (%)		:	-15.3	-11.6	-7.5	-8.9	-8.3
**Five year change in share of world exports of goods and services (%)		:	52.1	37.3	21.3	-2.4	9.2
Net inward foreign direct investment (FDI) (million euro)		184.5	1 372.5	860.1	1 826.9	241.9	768.5
Foreign direct investment (FDI) abroad (million euro)		13.8	37.6	143.0	122.0	42.3	10.0
of which FDI of the reporting economy in the EU-28 countries (million euro)		:	27.7	37.2	100.2	22.3	19.8
Foreign direct investment (FDI) in the reporting economy (million euro)		198.3	1 410.1	1 003.1	1 948.9	284.1	778.5
of which FDI of the EU-28 countries in the reporting economy (million euro)		:	826.9	820.9	1 710.3	96.4	575.9
**Net international investment position, relative to GDP (%)		:	:	:	:	:	95.6

<b>Public finance</b>	Note	2001	2009	2010	2011	2012	2013
General government deficit / surplus, relative to GDP (%)		:	-4.5	-4.7	-4.9	-6.4e	-5.0
General government gross debt relative to GDP (%)		104.8	34.0	43.5	46.0	59.0e	63.2

<b>Financial indicators</b>	Note	2001	2009	2010	2011	2012	2013
Gross foreign debt of the whole economy, relative to GDP (%)		85.5	77.7	85.0	76.7e	86.9	80.8
Gross foreign debt of the whole economy, relative to total exports (%)		407.3	265.2	236.2	210.3	217.4	179.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	3)	975	2 695	2 401	2 807	2 715	3 365
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	4)	1 141	4 555	3 891	4 663	4 227	4 746
Money supply: M3 (M2 plus marketable instruments, million euro)	5)	2 101	12 573	12 899	14 339	14 438	14 880
Total credit by monetary financial institutions to residents (consolidated) (million euro)		4 866	14 863	17 544	18 995	19 783	19 137
**Annual change in financial sector liabilities (%)	6)	:	:	:	:	:	0.5
**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)			9.45	12.02	8.46	9.81	7.04
Lending interest rate (one year), per annum (%)		16.92	12.00	14.00	12.25	13.75	12.00
Deposit interest rate (one year), per annum (%)		:	7.00	9.00	7.25	8.75	7.00
euro exchange rates: average of period (1 euro = ... national currency)	7)	59.458	93.952	103.043	101.95	113.128	113.137
Trade-weighted effective exchange rate index (2005 = 100)	8)	78.6	122.2	115.4	127.1	118.3	126.4
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		:	10 602	10 002	12 058	10 915	11 189

<b>External trade in goods</b>	Note	2001	2009	2010	2011	2012	2013
Value of imports: all goods, all partners (million euro)		:	11 505	12 623	14 269	14 799	15 474
Value of exports: all goods, all partners (million euro)		:	5 983	7 388	8 462	8 836	11 001
Trade balance: all goods, all partners (million euro)		:	-5 522	-5 235	-5 806	-5 962	-4 473
Terms of trade (export price index / import price index * 100) (number)		103	116	115	119	122	122
Share of exports to EU-28 countries in value of total exports (%)		:	57.0	60.5	61.6	61.6	62.7
Share of imports from EU-28 countries in value of total imports (%)		:	59.4	58.6	58.0	61.0	61.9

<b>Demography</b>	Note	2001	2009	2010	2011	2012	2013
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		-2.7	-4.6	-4.8	-5.1	-4.9	-4.8
Infant mortality rate deaths of children under one year of age (per thousand live births)		10.2	7.0	6.7	6.3	6.2	6.3
Life expectancy at birth: male (years)		69.6	71.4	71.4	71.6	72.2	72.5
Life expectancy at birth: female (years)		75.0	76.7	76.6	76.8	77.3	77.7

<b>Labour market</b>	Note	2001	2009	2010	2011	2012	2013
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	65.2	63.7	64.1	64.3	66.0
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	54.5	51.2	49.2	48.9	51.2
Male employment rate for persons aged 20–64 (%)		:	63.0	59.2	56.8	56.7	59.5
Female employment rate for persons aged 20–64 (%)		:	46.4	43.5	41.7	41.1	43.1
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		42.1	35.4	32.8	31.4	31.6	34.3
<b>Employment by main sectors</b>							
Agriculture, forestry and fisheries (%)		:	:	22.3e	21.2e	21.0	21.3
Industry (%)		:	:	21.0e	21.5e	21.3	21.1
Construction (%)		:	:	5.0e	5.3e	5.2	4.8
Services (%)		:	:	51.7e	52.0e	52.6	52.9
Unemployment rate: proportion of the labour force that is unemployed (%)		12.2	16.1	19.2	23.0	23.9	22.1
Male unemployment rate (%)		10.5	14.8	18.4	22.4	23.2	20.8
Female unemployment rate (%)		14.8	17.8	20.2	23.7	24.9	23.8
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		46.4	41.6	46.2	50.9	51.1	49.4
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		9.0	10.5	13.3	16.9	18.6	16.8

<b>Social cohesion</b>	Note	2001	2009	2010	2011	2012	2013
Average nominal monthly wages and salaries (national currency)	9)	8 691	44 147b	47 450	52 733	57 430	60 708
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)	9)	118.4	275.6b	277.4	277.9	280.4	275.0
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	9.3	8.2	8.5	8.1	8.7

<b>Standard of living</b>	Note	2001	2009	2010	2011	2012	2013
Number of passenger cars relative to population size (number per thousand population)		184.2	223.2	214.3	230.5	239.2	246.5
Number of mobile phone subscriptions relative to population size (number per thousand population)		251.1	1 351.3	1 357.0	1 399.4	1 261.9	1 280.9

<b>Infrastructure</b>	Note	2001	2009	2010	2011	2012	2013
Density of railway network (lines in operation per thousand km <sup>2</sup> )		49.2	49.3	49.3	49.3	49.3	49.3
Length of motorways (kilometres)		370	495	495	595	606	606

<b>Innovation and research</b>	Note	2001	2009	2010	2011	2012	2013
Public expenditure on education relative to GDP (%)		3.2	5.0	4.9	4.8	4.9	:
*Gross domestic expenditure on R&D relative to GDP (%)		:	0.92	0.79	0.77	0.96	:
Percentage of households who have internet access		:	37.0	39.0	41.2	47.5	55.8

at home (%)							
-------------	--	--	--	--	--	--	--

<b>Environment</b>	Note	2001	2009	2010	2011	2012	2013
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)		:	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2000 constant prices)		:	:	:	:	:	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		43.3	28.6	31.4	22.6	24.8	:
Road share of inland freight transport (based on tonne-km) (%)		13.8	23.6	27.8	30.5	44.8	43.1

<b>Energy</b>	Note	2001	2009	2010	2011	2012	2013
Primary production of all energy products (thousand TOE)		:	9 487	9 876	10 504	10 105	:
Primary production of crude oil (thousand TOE)		:	676	929	1 111	1 224	:
Primary production of hard coal and lignite (thousand TOE)		:	7 330	7 226	7 822	7 276	:
Primary production of natural gas (thousand TOE)		:	232	342	449	472	:
Net imports of all energy products (thousand TOE)		:	5 046	6 320	5 048	4 179	:
Gross inland energy consumption (thousand TOE)		:	14 657	15 093	15 749	13 997	:
Electricity generation (thousand GWh)		31.0	37.9	38.0	38.6	36.8	:

<b>Agriculture</b>	Note	2001	2009	2010	2011	2012	2013
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		118.0	101.0	99.4	100.9	82.3	121.7
Utilised agricultural area (thousand hectares)		5 077	5 057	5 052	5 056	5 052	5 069
Livestock numbers: live bovine animals (thousand heads, end of period)		1 128	1 002b	938	937	921e	913
Livestock numbers: live swine (thousand heads, end of period)		3 587	3 631b	3 489	3 287	3 139e	3 144
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 612	1 647b	1 604	1 590	1 867e	1 841
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)	10)	1 594	1 503	1 486	1 461	1 478e	1 464
Harvested crop production: cereals (including rice) (thousand tonnes)	11)	9 001	9 111	9 280	9 066	5 920	9 157
Harvested crop production: sugar beet (thousand tonnes)		1 806	2 798	3 325	2 822	2 328	2 983
Harvested crop production: vegetables (thousand tonnes)		1 283	1 257	1 314	1 305	1 054	1 242

: = not available

b = break in series

e = estimated value

\* = Europe 2020 indicator

\*\* = Macroeconomic Imbalance Procedure (MIP) indicator

Footnotes:

- 1) Source: Eurostat's reference database (Eurobase).
- 2) The share of each activity is calculated as a percentage of gross value added after deducting FISIM; as a result the sum exceeds 100% by the amount of FISIM.
- 3) The money supply M1 consists of currency in circulation and funds in giro, current and other accounts belonging to the owners of money balances in banks' liabilities, including money balances in the accounts of local government bodies, i.e. accounts from which payments can be made without any restrictions.
- 4) The money supply M2, in addition to M1, includes other dinar deposits, both short-and long-term.
- 5) The money supply M3, in addition to M2, includes short-and long term foreign currency deposits (without the so-called frozen foreign currency savings).
- 6) The total financial sector liabilities are the sum of all liabilities of the following sectors: Central Bank, Banks, Other financial intermediaries' which include leasing companies, factoring/forfeiting companies. Insurance companies include insurance companies, agency for deposits insurance and national mortgage insurance corporations.
- 7) Arithmetic mean of official middle exchange rates of the dinar against the euro on working days.
- 8) Index of nominal effective exchange rate adjusted for the ratio of domestic consumer price index to the weighted sum of indices of consumer prices in the euro area and the United States. Calculation based on geometric average.
- 9) 2001: wages and salaries paid to employees of legal entities. 2009–13: wages and salaries paid to employees of legal entities



and of unincorporated enterprises.

- 10) In million litres. Milk from cows and sheep used for human consumption or processing.
- 11) 2001: excluding triticale.