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**SERBIA 2007 PROGRESS REPORT**

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

**Enlargement Strategy and Main Challenges 2007-2008**

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# COMMISSION STAFF WORKING DOCUMENT

## Serbia 2007 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region.

This progress report largely follows the same structure as in the previous years. The report:

- briefly describes the relations between Serbia and the Union;
- analyses the situation in Serbia in terms of the political criteria for membership;
- analyses the situation in Serbia on the basis of the economic criteria for membership;
- reviews Serbia capacity to implement European standards, that is, to gradually approximate its legislation and policies with those of the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities.

The period covered by this report is from 1 October 2006 to early October 2007. Kosovo, as defined by the UN Security Council Resolution 1244, is dealt with in a separate Progress Report. 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 await parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Serbia, the 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

Serbia is a potential candidate for EU membership. Negotiations on a Stabilisation and Association Agreement (SAA) between Serbia and the EU were officially opened in October 2005. Full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) is required before the SAA can be signed.

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<sup>1</sup> The rapporteur for Serbia is Mr J. Kacin.

<sup>2</sup> Enlargement Strategy and Main Challenges 2007-2008.

### 1.3. Relations between the EU and Serbia

Serbia is participating in the **Stabilisation and Association Process (SAP)**.

The **Stabilisation and Association Agreement (SAA)** provides a framework of mutual commitments on a wide range of political, trade and economic issues. SAA negotiations, which were officially opened in October 2005, were called off by the Commission in May 2006 due to the failure of Serbia to meet its commitments on cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY). In February 2007, following parliamentary elections in Serbia, the Council welcomed the Commission's readiness to resume negotiations on the SAA with a new government in Belgrade, provided that it took concrete and effective action for full cooperation with the ICTY. Following a period of political uncertainty, a coalition government was formed in May 2007 and soon after met the conditions set by the Council.

Following Council conclusions in June 2007 welcoming the commitments and actions taken by the new government, the Commission resumed SAA negotiations. The Council recalled that the pace and conclusion of the negotiations would depend, in particular, on Serbia's progress in developing the necessary legislative framework and administrative capacity to implement its obligations under the Agreement, and on full cooperation with ICTY. An official negotiating round took place in June 2007. The Serbian administration was professional and well-prepared and negotiations were finalised in September 2007. Full cooperation with the ICTY is required before the SAA can be signed.

The EU provides guidance to the Serbian authorities on reform priorities through the **European Partnership**. Progress on these reform priorities is encouraged and monitored through the **Enhanced Permanent Dialogue (EPD)**. A plenary EPD meeting was held in November 2006. Several sub-EPD meetings took place, covering such sectors as internal market, trade, agriculture, justice, liberty and security. A political dialogue meeting at ministerial level took place in March 2007.

Visa facilitation and readmission agreements between the EU and Serbia were initialled in May 2007 and signed in September 2007. The new arrangements are important to facilitate people-to-people contacts. They will simplify procedures for issuing visas for certain categories of citizens of Serbia, including students, academics, businesspeople, journalists, and tourists. They will also keep the cost of visas at its current level and, in some cases, lead to visas free of charge.

From 2007 onwards, Serbia will receive pre-accession **financial assistance** under the Pre-Accession Instrument (IPA). The Serbian national allocation for 2007 amounts to €164.8 million. The Serbian government actively participated in the preparation of the 2007 IPA programme and the 2007-2009 Multi-Annual Indicative Planning Document (MIPD) for Serbia was adopted in June 2007.

Focus areas for financial assistance include political requirements covering, *inter alia*, democratic institutions, public administration reform, rule of law, reform of the judiciary, fight against corruption, human rights and protection of minorities, socio-economic requirements and European Standards. Serbia has continued to benefit from regional and horizontal programmes and will participate in cross-border cooperation. A number of civil society initiatives are being supported both under the IPA national programme and under thematic financing instruments such as the European Initiative for Democratisation and

Human Rights (EIDHR), which provide for amounts of €2 million (for 2007) and €1.5 million (for 2007 and 2008) respectively. Ongoing CARDS assistance is implemented by the European Agency for Reconstruction, but preparations are ongoing for the transfer of responsibilities to the Commission delegation in Belgrade. IPA assistance will be implemented by the Commission delegation. The management of aid on a decentralised basis is a medium-term objective for Serbia.

In May 2007, Serbia was admitted to the EC Seventh Research Framework Programme. The related memorandum of understanding was signed in June 2007.

## **2. POLITICAL CRITERIA**

This section examines 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 respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

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

#### *Constitution*

The new constitution entered into force in November 2006. The parliament subsequently adopted a Law for the implementation of the constitution (Constitutional Law). This law prescribes a number of legal and institutional adaptations and sets out conditions and deadlines for the scheduling of parliamentary, presidential, provincial and municipal elections.

Provisions from the Constitutional Law concerning the Ombudsman and the Commissioner for free access to public information have already been implemented. The governor of the National Bank of Serbia was reappointed and members of the State Audit Institution appointed in September 2007.

The new constitution contains some provisions that are not fully in line with European standards. The Venice Commission of the Council of Europe highlighted in its opinion of March 2007 areas of concern, including political party control of mandates of individual members of parliament, and the role of parliament in judicial appointments. In addition, the Constitutional Law lacks clear and objective criteria regarding the re-election of judges.

Overall, there has been some progress in implementing the new constitution. However, key provisions, in particular in the area of the judiciary, remain to be implemented in line with European standards.

#### *Parliament*

Parliamentary elections were held in January 2007 in line with the Constitutional Law. International observation bodies qualified them as free and fair and conducted in line with international standards. The removal of the 5% threshold for ethnic minority parties resulted in an increase in ethnic minority representation in parliament. A representative of an ethnic minority party was appointed as deputy speaker. The parliament was formally constituted in

February 2007. The parliament constituted 30 committees, including a committee for European integration. A number of committees are chaired by opposition parties.

However, developments adversely affected the functioning of the parliament. The first sitting after its inauguration was adjourned for almost three months due to the protracted negotiations to form a government.

Difficulties faced by political parties in reaching an agreement on a common government platform contributed to a climate of heightened political instability which culminated in the Democratic Party of Serbia (DSS) and New Serbia (NS) forming in May a temporary alliance with the Serbian Radical Party (SRS) in order to elect the SRS acting leader speaker of the parliament.

The alliance was short-lived and the speaker resigned after a coalition agreement was reached between the Democratic Party (DS), DSS-NS and G17+ to form a reform-oriented government. In May 2007, the coalition government of DS, DSS-NS and G17+ was sworn in and a new speaker elected.

The legal framework for elections has not been fully revised, in particular as regards the voters' register. The elections also exposed the need for better regulation of party financing. The capacity of the parliamentary committees is not sufficient to address current demands, and the parliament continues to lack a sufficient number of specialised staff. The current parliamentary rules of procedure also contributed to a slow-down in the legislative process.

Overall, the period of political uncertainty in Serbia restricted the work of the parliament and little progress was achieved. The delays in fully constituting a new parliament have had an impact on the pace of adoption of legislation. The capacity of parliamentary committees remains limited.

### *Government*

In the months following the parliamentary elections, there was little activity from the caretaker government. A new coalition government was finally formed in May 2007, following a long period of political uncertainty.

The new government has 25 members, including one Deputy Prime Minister in charge of European Integration. There are six more ministerial posts than in the previous government, following a restructuring of ministries. A new Ministry for Kosovo and Metohija was established and the Coordination Centre for Kosovo was brought under its framework.

The government set out a number of key priorities for its term in office: the status of Kosovo, implementation of international obligations and cooperation with International Criminal Tribunal for former Yugoslavia (ICTY), acceleration of the process of European integration, economic development and the fight against corruption and crime. Discussions on the status of Kosovo have dominated the political agenda since the new government took office.

Following the European Commission's decision to resume SAA negotiations in June 2007, the government appointed a new negotiating team, led by the Deputy Prime Minister. It also reinstated the Council for European Integration, chaired by the Prime Minister and made up of a wide range of ministries, civil society groups, religious organisations and representatives of national minorities. The government agreed to include a debate on progress in EU integration as an obligatory item on the agenda of each of its sessions. In August 2007 the government

adopted a revised Action Plan for the implementation of the European Partnership and an Action Plan for harmonisation of laws with the EU *acquis*. Government and parliament have improved cooperation on European integration issues. However, more needs to be done to coordinate effectively among ministries and government agencies.

In the area of local governance, the European Charter on local self-government was ratified. Serbian legislation on local government financing was implemented as of January 2007. This regulates the financing of local governments in a more efficient manner and provides greater stability and predictability of financing. The yearly amount of transfers has been set at 1.7% of GDP. The new constitution contains provisions allowing municipal ownership of property. However, the legal framework necessary to transfer state property to municipalities has not yet been adopted. A number of other laws in the area of decentralisation and local government are also pending.

Overall, there was little activity during the period when the caretaker government was in charge and few government initiatives. Since the formation of the new government, there has been some progress in re-launching the process of approximation with European standards. However, policy coordination remains to be improved. The legal framework in the area of local governance has still to be further developed.

#### *Public administration*

The principles of an independent and accountable civil service are enshrined in the new constitution, and the legislative framework for public administration reform – a key priority of the European Partnership - has almost been completed. The new Law on salaries of civil servants came into force in January 2007. In autumn 2006, the public administration launched an open competition to fill senior management positions that were formerly occupied by political appointees. The deadline for the completion of these competitions was extended until May 2008. Serbia has not yet adopted legislation on salaries of political appointees.

The Human Resources Management Agency is operational and almost fully staffed. Its new director was appointed in December 2006 following an open competition. The Agency prepared a programme for training civil servants that was adopted by the government in March 2007. Following the adoption of a new law on ministries in May 2007, internal rules on organisational charts and job descriptions are being prepared in all ministries and government agencies. All government services are connected to a common IT network.

The European Integration Office continued to coordinate activities relating to the European integration process. It currently employs 42 people, with a budget for 10 additional staff. In May 2007, the head of the European Integration Office was reappointed for a term of five years.

The new parliament appointed a state Ombudsman, as required by the Constitutional Law and the relevant legislation. The government, however, has not yet taken the necessary measures to ensure the full functioning of the office of the state Ombudsman. The provincial Ombudsman in Vojvodina reported that 457 cases had been lodged in 2006. Of 284 eligible cases, 148 have been resolved and 136 are being investigated.

Concerning free access to information of public interest, the Commissioner for Public Information was re-appointed. However, the free access to information has to be further improved. Limited resources and the lack of enforcement powers have restricted the work of

the Commissioner for Public Information. In several instances the government has not sufficiently acted on the Commissioner's recommendations.

Overall, there has been progress in the field of public administration reform which is generally in line with European standards. Serbia has shown good administrative capacity in the context of negotiations on the SAA. Capacity, however, remains to be strengthened at all levels. Regulatory and independent bodies are not yet sufficiently developed to ensure the necessary oversight and enforcement of legal obligations. Reforms need to be continued in order to build, at both governmental and sub-national levels, an impartial, accountable and efficient civil service, based on professional career development criteria. The performance of the recently appointed Ombudsman has still to be tested.

#### *Civilian oversight of the security forces*

In December 2006, the President appointed a Chief of Staff of the Armed Forces. In November 2006, Serbia was invited to join the NATO Partnership for Peace.

The new constitution stipulates that the parliament is in charge of civilian oversight of security services. The parliamentary committee for security and defence was constituted in May 2007. The office of the Chief of Staff of the Armed Forces, the budget and procurement departments have been fully integrated within the Ministry of Defence, bringing them under civilian control. A new internal audit system is being developed. The transfer of border control responsibilities from the Ministry of Defence to the Ministry of Interior has been completed. In May 2007, the new Serbian government issued a decision establishing a National Security Council, which is chaired by the President of the Republic and is responsible for coordinating the activities of all security services.

However, a new revised legislative framework, as required by the constitution, is needed. In particular, laws on defence, the armed forces, civilian and democratic oversight of the army and security services have still to be adopted. The relevant defence and military strategies and doctrines are not yet fully harmonised with the constitution. Furthermore, a special parliamentary commission for civilian oversight of the security services has not yet been established.

Overall, there has been progress in civilian democratic oversight of the military, which is one of the key European Partnership priorities. However, further reforms need to be undertaken and the scope and effectiveness of civilian control, including financial oversight, remains to be tested.

#### *Judicial system*

The new constitution provides for significant changes in the judiciary. The legal status of the High Judicial Council and State Prosecutors' Council has been upgraded to the constitutional level. The permanent tenure of judges and deputy prosecutors has been confirmed. According to the constitution, judges and deputy prosecutors are to be appointed by the High Judicial and State Prosecutors' Councils respectively with the exception of an initial three-year probationary period for newly appointed staff which remains the responsibility of the parliament. The parliament is also responsible for appointing the President of the Supreme Court as well as the Republic Public Prosecutor and the Public Prosecutors.

Upon the formation of a new government, the Ministry of Justice has launched an in-depth analysis of the Serbian judiciary, preparing the ground for important legislative changes on the basis of a sound strategy.

The prosecution service and the special courts responsible for war crimes and organised crime have been active, as reflected in the increased number of judgments passed, and several investigations are ongoing. Professional associations, particularly the Association of Judges, have continued to play a positive role in supporting the judicial reform process.

However, the provisions of the new constitution on judicial appointments have not been implemented as new laws on courts and prosecution are yet to be adopted. Clear criteria and procedures for judicial appointments have not yet been established. There are concerns about the level of influence of parliament over the judiciary. Parliament is responsible for the appointment of judges and prosecutors for the initial probationary period following a proposal from the High Judicial Council and State Prosecutors' Council. Several members of the High Judicial and Prosecutors' Councils are also elected by parliament.

The Constitutional Court has not been operational since October 2006 as a new court President has not been appointed. The provisions of the new constitution relating to the election of the Constitutional Court have not been implemented. These shortcomings in the functioning of the Constitutional Court have created a legal vacuum for judicial oversight of the legality and constitutionality of adopted legislation.

Appellate and administrative courts have not yet been established and the planned deadline for entry into force of the relevant legislation has been postponed. This has had a negative impact on the efficiency of the administration of justice. The Supreme Court has had to carry out the functions of an appellate court. The planned entry into force of the new Criminal Procedure Code was postponed until December 2008 owing to a lack of financial resources and of the capacity to implement a more efficient model of police-prosecutorial investigation.

Several sentences passed in the special court for war crimes have since been annulled by the Supreme Court. A number of high-profile cases in the area of organised crime have not yet been concluded.

The significant backlog in both civil and criminal cases is a matter of serious concern even if there was a slight reduction in 2006. There is no clear strategy to tackle this problem and the use of simplified procedures for minor cases is not sufficient. There is not yet an effective system of case-management and problems with the overall efficiency of the judiciary remain. The excessive length of court proceedings led to exoneration of indictees in a number of cases.

Overall, there has been little progress in the judiciary which is a key priority of the European Partnership - and the new legal framework is still pending. At present, the constitution and the constitutional law leave room for political influence over the appointment of judges and prosecutors. Further efforts need to be made to ensure the independence, accountability, and efficiency of the judicial system.

#### *Anti-corruption policy*

In December 2006, an action plan was adopted to implement the national strategy against corruption. Ministries submitted reports on the implementation of anti-corruption measures

and some positive results were recorded in prosecuting corruption. Several new cases were opened involving alleged corruption by civil servants, police and customs officers. Serbia continued to participate in the Council of Europe's GRECO initiative.

However, corruption is still widespread and constitutes a serious problem in Serbia. The Council of Europe civil law convention against corruption and the additional protocol to the criminal law convention against corruption have not been ratified. The action plan on the fight against corruption lacks clear deadlines, concrete actions and the necessary resources for its implementation. There are shortcomings in implementing the GRECO recommendations. An anti-corruption agency has not yet been established.

Recent elections highlighted shortcomings in the regulations on the financing of political parties. The new official form for transparent reporting, adopted by the Ministry of Finance, was not implemented. Political parties failed to disclose complete information on their finances and adequate enforcement procedures are not provided by the law. An independent audit of the declared finances did not take place.

Legislation on conflict of interest was generally observed by officials reporting on their assets, but no enforcement procedures are in place and no adequate follow-up is foreseen by the law. The legal framework that regulates public procurement, the privatisation process and large budgetary expenditures do not provide sufficient checks and balances to minimise the risk of misuse and corruption. A comprehensive audit system is not yet in place. This constitutes an obstacle to the establishment of a duly regulated public expenditure system, capable of preventing systemic corruption at its source.

Overall, limited progress has been made in the fight against corruption. Corruption is widespread and remains a serious problem in Serbia. Most of the necessary legislative measures against corruption are in place. However, the anti-corruption action plan needs to be implemented and an anti-corruption agency established. A more systemic approach to fighting corruption, including proper financial control, transparent public procurement procedures and parliamentary oversight is needed.

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

### *Observance of international human rights law*

Serbia has met its reporting obligations to the UN Treaty bodies. It also submitted the first Periodic Report on the Implementation of the European Charter on Regional and Minority Languages. However, Serbia has not yet ratified the revised European Social Charter as provided for in the post-accession commitments to the Council of Europe.

The **European Court of Human Rights** (ECtHR) delivered six judgements finding that Serbia had violated at least one article of the European Convention for Human Rights (ECHR). The first ruling of the ECtHR has been fully enforced by Serbia. A total of 843 new applications regarding Serbia were made to the ECtHR. The total number of pending cases before the Court regarding Serbia is around 1300 cases. Constitutional appeal against human rights violations has not been possible due to the non-functioning of the Constitutional Court.

Ratified international treaties on human rights standards are directly applicable as long as they comply fully with the provisions of the new constitution. However, Serbian courts are in

practice reluctant to directly apply human rights standards arising out of ratified international treaties.

Overall, progress has been made in improving the observance of international human rights law and the new constitution contains a number of guarantees. Constitutional appeal has not yet been possible and a track record of judicial enforcement has still to be developed.

### *Civil and Political Rights*

The new constitution explicitly prohibits **torture**. A new rulebook on measures for order and security in prisons was adopted in November 2006. Monitoring of discretionary powers was improved. Mandatory supervision, reporting and judicial control of enforcement are in place to guarantee protection of fundamental rights.

However, judicial control over the respect for human rights in prisons has not been implemented in practice, due to the delays in establishing administrative courts. There has been little follow-up to continuing allegations of police **ill-treatment** against members of the Roma community.

As regards the **fight against impunity**, there have been some improvements. Better cooperation between police and the prosecution service led to the opening of several war crimes cases involving senior police and military officials.

In the area of **access to justice** legislation on free legal aid has not yet been adopted.

As regards **prisons**, regulations on disciplinary procedures and sanctions against prisoners and on safety measures in prisons were adopted. Some efforts were made to improve the capacity of prisons. A special facility for prisoners convicted of organised crime was opened and reconstruction works continued on several prisons. Access to training for prisoners has improved.

However, the general conditions in prisons are still poor, due in large part to continuing overcrowding and inadequate financial resources. A report by the UN Committee for the Prevention of Torture (CPT) highlighted the existence of serious levels of violence in prisons in Serbia. Excessive force allegedly used by the police against prisoners in several violent protests revealed flaws in the security system and in the overall capacity of the prison services.

The new constitution contains guarantees for **freedom of expression**, including the media. The competition organised by the Broadcasting Council for the allocation of radio and television frequencies for the territory of Belgrade has been completed. Competitions for the allocation of regional and local frequencies have not been finalised, as an appeal procedure is ongoing. The Supreme Court overruled a decision of the Broadcasting Council from 2006 on the allocation of national frequencies, but the Council reconfirmed its initial decision, after publicly contesting the Supreme Court's decisions and authority over the matter.

There has been no progress in the investigations of murders of journalists, some of which date back to the 1990s. Intimidation and attacks against journalists continued, involving physical threats and an assassination attempt.

The new constitution guarantees the **freedom of assembly** and is broadly in line with European standards. Existing legal provisions have not been adjusted to fully meet the new

constitutional requirements. There have been incidents and attacks against organisations active in the promotion of peace, the fight against impunity or those defending the right to different sexual orientation with insufficient follow-up by the law enforcement authorities.

In the area of **freedom of association**, the Ministry for Public Administration and local government set up a department for registration of citizens' associations, including minority national councils. New legislation on associations is pending.

**Civil society organisations** continue to play a key and active role in Serbia. They maintain regular internal dialogue and cooperate on a wide range of civic initiatives. However, the regulatory environment for civil society organisations is deficient. There has been a lasting legal vacuum concerning NGO financing, including restrictive and unfavourable fiscal conditions applied on an *ad hoc* and arbitrary basis. There have been cases of public denigration and attacks against NGO activists dealing with sensitive issues, in particular war crimes and the fight against organised crime. The perpetrators have not been brought to justice.

Concerning **freedom of religion**, a regulation on the registration of churches and religious communities was adopted by the Ministry of Religion as part of the implementation of the 2006 legislation on churches and religious organisations. A number of administrative appeals have since been lodged by religious communities against this regulation for increasing the minimum registration threshold.

Overall, progress has been made on civil and political rights. The new constitution contains provisions in this area, however implementation and enforcement needs to be developed in order to improve the overall climate in which civil and political rights can be exercised.

### *Economic and Social Rights*

In the area of **women's rights**, the new constitution provides for gender equality and requires the State to ensure equal opportunities. The new Civil Servants Law prescribes equal access to public services. The parliamentary committee for gender equality has been constituted and the government council reactivated. In October 2006, Serbia submitted the Initial Report on the Implementation of the UN Convention on the Elimination of all Forms of Discrimination against Women (CEDAW). Following the legislative elections, representation of women in the 250-seat parliament increased from 27 to 51. A specific law on gender equality has not yet been adopted and there are concerns over the level of violence against women and the insufficient criminal penalties. In practice, women continue to be discriminated in the labour market.

The new constitution explicitly recognises **children's rights**. The relevant institutions, including the Child Rights Council and the office of the Children's Ombudsman in Vojvodina have continued to work actively to protect children's rights. At the local level, units for children were established in three municipal ombudsman offices and action plans were adopted in 13 municipalities. In May 2007, Serbia, as a signatory to the UN Convention on the Rights of the Child, submitted the Initial Report on its Implementation. Nevertheless, difficulties regarding children's rights persist and children from socially vulnerable groups suffer from discrimination and exclusion. Domestic violence remains a concern, with only a limited number of cases being reported and prosecuted.

As regards **socially vulnerable and/or persons with disabilities**, the government adopted a strategy for the period 2007-2015 for improving the conditions of persons with disabilities; this strategy provides for community housing and other services. In April 2007, the government selected 40 municipalities to participate in a programme of support to local authorities in the implementation of social care. Serbia is a signatory to the UN Convention on the rights of persons with disabilities. However the law on professional rehabilitation and employment of persons with disabilities has not yet been adopted. Persons with disabilities remain a particularly vulnerable group; children with disabilities continue to suffer discrimination and exclusion, and their families are often left without adequate state support. Out of an estimated 700,000 persons with disabilities, only 13% are employed, while only 15% of children with special needs are included in the educational system.

The transformation of mental health services has started, with the emphasis on community care, anti-stigma campaigns and continuing education. There are 46 inpatient psychiatric institutions in Serbia and a further 71 outpatient services in the municipal health centres. The reorganization of these services is underway.

There is a new legal framework for **labour rights** and **trade unions**, but the provisions of the Labour Law are not fully respected. Criteria for social partners to participate in the Economic and Social Council are still pending. Implementation of labour legislation has been hampered by insufficient protection mechanisms.

As regards **property rights**, the registration of claims for restitution of property was finalized in 2006, with the number of submitted claims standing at 70,000. However, the legislation on restitution that would be required to allow the process to be properly launched and implemented has not yet been adopted. In spite of protests by former owners, privatisation of some of the properties in question has continued.

The new constitution prohibits all forms of direct and indirect **discrimination**. The laws on media, labour and the family prohibit sexually motivated discrimination; however, penalties are rarely imposed. A comprehensive anti-discrimination law has not yet been adopted and there is very little case law. In practice, discrimination is widespread, affecting in particular the Roma community, persons with disabilities, ethnic minorities and persons of different sexual orientation. Protection against discrimination in the labour market remains low.

There have, overall, been improvements in the area of economic and social rights, with, in particular, greater legal guarantees and strengthened institutions. The legal framework still needs to be completed, and whilst the rights of vulnerable groups, including children, have improved on paper, the conditions on the ground remain poor.

#### *Minority Rights, Cultural Rights and Protection of Minorities*

The overall conditions for respect of minority rights have continued to improve. The new constitution contains several provisions on rights for minorities, including an explicit ban on discrimination and guarantees for affirmative action. It gives a constitutional basis to national councils, which are the bodies responsible for the cultural autonomy of ethnic minorities. Ongoing financing has been secured and there are currently 14 national councils. The implementation of the 2006 government conclusions on minority representation in public services has continued, with an enhanced role for the human resource management Agency. There has been further progress in making textbooks available in the Croatian, Hungarian, Slovak and Bulgarian languages, as well as approval of the use of textbooks from Kosovo in

Southern Serbia. There has been progress in the official use of minority languages. As a result of legislative amendments in 2004, affirmative action was implemented during the 2007 parliamentary elections, leading to better minority representation in the new Serbian parliament.

However, the Republican Council for Minorities has not met since 2006. The legislation necessary to regulate the election of national councils and their duties has not been adopted. The mandate of a number of existing councils has expired, but fresh elections cannot be called due to the current legal vacuum.

The number of ethnically motivated incidents has decreased. However, some serious incidents did take place involving incitement, and offensive language in some sections of the media. Some minorities complained about insufficient implementation of guaranteed rights, notably in the area of the official use of language and education in their mother tongue.

The situation in *Vojvodina* has improved, with a decrease in the number of incidents. Several sentences have been passed in cases involving extremist behaviour and incitement to racial and religious hatred. The Provincial Ombudsman has issued a number of recommendations to the relevant institutions concerning the proportional representation of minorities in the public administration.

The situation in *Southern Serbia* has remained stable, but tense, with sporadic incidents continuing. There has been further progress in the work of the multi-ethnic police and recruitment of Albanians. The delay in the formation of the Serbian government affected the work of the coordinating body for South Serbia, which continued to carry out routine tasks, but without the necessary political impetus. In August 2007 the government adopted a decision restructuring the coordinating body and appointed a new director, however, Albanian representatives complained about the lack of consultation on these decisions. Albanian representatives were divided over their participation in the Serbian legislative elections. Some parties eventually took part in the elections for the first time since the early 1990s and an Albanian deputy was elected. However, the majority of Albanian voters in South Serbia opted for a passive boycott. Tensions persist within the ethnic Albanian community and in their relations with the Serbian population regarding appointments in public services in the aftermath of the 2006 municipal elections. In September 2007, the main Albanian political actors issued a declaration reiterating their early requests from January 2006 seeking comprehensive political and territorial autonomy and institutional links with Kosovo.

The situation in *Sandžak* in Southwest Serbia has deteriorated, and there has been a deepening of religious divisions within the Muslim community and outbreaks of violence. There have been a number of incidents involving followers of the Wahhabi movement.

There are around 104,000 **refugees** and 208,000 **internally displaced persons (IDPs)** in Serbia. Some 2,400 refugees and 5,500 IDPs are still accommodated in 72 collective centres and 89 specialised institutions. There are also IDPs in unofficial and illegal centres, where conditions are very poor. The difficult socio-economic situation of IDPs, and of refugees in general, continues to have an impact on the overall political situation. The obsolete legislation on refugees has not been revised. Access to documentation, health and education remain particularly difficult for vulnerable IDP groups, such as Roma, Ashkali and Egyptians.

Concerning the **Roma** population, new regulations have institutionalised the Roma National Strategy Secretariat as part of the Government's Human and Minority Rights Agency. This

will enhance its administrative capacity to handle the integration of the Roma population. Action plans have been drawn up in the context of the 2005-2015 Decade of Roma Inclusion and are in the early stages of implementation. The areas covered are education, health care, employment, housing, social protection, media, culture and anti-discrimination. Working groups were established in four line ministries. Roma teaching assistants have been employed in a number of schools. Guidelines for the improvement and legalisation of Roma settlements have been adopted. Twenty Local Action Plans for Roma were drawn up and Roma coordinators have been employed in 20 municipalities. Awareness-raising activities were undertaken by national authorities in cooperation with international partners.

However, the Roma population continues to face very difficult living conditions and discrimination. Roma persons experience considerable difficulties in obtaining personal documents, which hinders their access to the social security system, education, employment and other services. A significant portion of the Roma population lives in extreme poverty and exclusion, and regularly faces discrimination and attacks. Over 80% of Roma children living in Roma settlements are poor and suffer from various forms of discrimination and exclusion. On average, around one third of Roma children complete primary education.

Overall, there has been progress with the adoption of the new constitution, which contains provisions on minority rights. In practice, respect for and protection of minority rights have improved. The conditions of groups such as Roma are precarious, especially in the areas of education, social protection, health care, housing and employment. The situation in Southern Serbia and Sandžak remains tense.

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

In May 2007, Serbia took over the six-month rotating Presidency of the Council of Europe's Committee of Ministers. Serbia is still part of the monitoring procedure of the Parliamentary Assembly of the Council of Europe on verifying the fulfilment of obligations and commitments relating to its membership in the Council of Europe.

With the exception of Serbia's obligations to the International Criminal Tribunal for the Former Yugoslavia, there are no major outstanding issues regarding Serbia's compliance with the **Dayton/Paris Peace Agreement**.

After months of stalemate in Serbia's cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**, the Serbian authorities made progress in May and June 2007, which enabled the Commission to resume the SAA negotiations on 13 June 2007. On 18 June 2007, the ICTY Chief Prosecutor submitted a report to the UN Security Council in which she took note of the positive developments in Serbia.

In its programme, the new government gave a clear commitment to achieve full cooperation with the ICTY and fulfil its international obligations. The government adopted a decision establishing a National Security Council. This body is chaired by the President of the Republic and is responsible for coordinating the work of military and civilian security services. In addition to the National Security Council, the National Council for Cooperation with the ICTY was reinstated and new members appointed. The Council swiftly proceeded to hand over a number of documents requested by the ICTY.

Close cooperation among the intelligence services of Serbia, Bosnia and Herzegovina and Montenegro resulted in the arrest in May and June 2007 of two fugitive ICTY indictees and their transfer to The Hague.

First instance judgements have been passed on the three war crimes cases that have been transferred from the ICTY to the Belgrade District Court since 2006. One of the first instance judgements has since been annulled by the Serbian Supreme Court.

The status of the former State Union law on the freezing of the assets of ICTY fugitives has not yet been clarified, thus allowing potential loopholes in the legal framework and shortcomings in enforcement.

In spite of the early positive achievements by the government, Serbia has not yet achieved full cooperation with the ICTY. Four ICTY indictees are still at large.

Good cooperation among prosecution services in the region continued. In October 2006, Serbia and Croatia signed an agreement on cooperation on exchange of evidence and transfer of cases. Improved cooperation with the police (the special unit for investigating war crimes within the criminal police directorate) resulted in opening of new cases related to Kosovo and Croatia. However, the work of the Serbian war crimes prosecution service, which is faced with an increasing number of cases, is hampered by its limited investigative capacity.

Serbia's policy regarding the **International Criminal Court (ICC)** is fully aligned with the EU Common Positions on the integrity of the Rome Statute as well as related EU guiding principles. Serbia did not conclude bilateral agreements granting exemptions from ICC jurisdiction.

The full respect of **UN Security Council Resolution 1244** is an obligation for Serbia as a UN member. It is also one of the key priorities of the European Partnership. Serbia has continued to discourage Kosovo Serbs from participating in the provisional institutions of self-government. Serbia, furthermore, called on Kosovo Serbs not to participate in elections to the Kosovo provisional assembly and municipalities.

Serbia participated in discussions on the future status of Kosovo held by the UN Special Representative for Kosovo which were concluded in March 2007. In May 2007, the Serbian government requested the UN Secretary-General to launch a new phase of negotiations. The Serbian parliament adopted a Resolution in February 2007 in which it expressed its opposition to future independence for Kosovo. The parliament adopted a second Resolution in July 2007 re-confirming the territorial integrity of Serbia and expressing willingness to continue negotiations to find a favourable solution for the future status of Kosovo.

Serbia is currently participating in political talks under the aegis of the international Troika of the EU, US and Russia on the future status of Kosovo. Serbia has maintained its position that Kosovo should remain an integral part of Serbia's territory, whilst offering substantial autonomy.

No decisive progress on implementation of the **Sarajevo Declaration**, aimed at finalising the return process by the end of 2006, has been achieved. The process remains blocked by the lack of political consensus between the signatories. Further efforts are urgently needed to resolve the outstanding issues, namely how to deal with compensation claims of those who

lost occupancy and tenancy rights (OTRs) in Croatia, and recognition of pensions and other rights for years spent working in Serb-controlled areas of Croatia during the war.

**Regional cooperation** and good neighbourly relations form an essential part of the process of Serbia's moving towards the European Union. In May 2007, the country took over the chairmanship of the Committee of Ministers of the Council of Europe. From November 2006 until May 2007, Serbia chaired the Black Sea Cooperation Council. Serbia has also continued to actively participate in other regional initiatives including the Stability Pact and the process of its transition into a more regionally owned cooperation framework with a strengthened South East Europe Cooperation Process (SEECF) and a new Regional Cooperation Council (RCC). Serbia participated actively and constructively in the negotiations on the amended Central European Free Trade Agreement (CEFTA) and ratified the agreement in September 2007. However, Serbia needs to show a more constructive approach towards the participation of Kosovo under UNSCR 1244 in regional cooperation and other fora. The Serbian President, together with his Croatian, Bosnian and Montenegrin counterparts, signed a Joint Statement, initiated by NGOs and municipalities from all respective countries, providing a political commitment towards promotion of good neighbourly relations, reconciliation and refugee return.

Serbia continues to have generally good **bilateral relations with other enlargement countries and neighbouring member states**. Relations with *Montenegro* are good. Since Montenegro's independence, several agreements were signed, including an Agreement on Social Security and an Agreement Entrusting Serbia with the Protection of Interests of Montenegrin Citizens abroad. There are some unresolved issues regarding dual citizenship for members of the Serb community in Montenegro and continuing tensions between the two orthodox churches.

Relations with *Croatia* are good in general. The provisional visa-free regime remains in force. The Croatian State Prosecutor and the Serbian War Crimes Prosecutor signed an agreement on cooperation on war crimes prosecution. There has been some progress in cooperation on missing persons. However, the two countries have not yet signed a border agreement. Croatia continues to pursue its case for genocide against Serbia before the International Court of Justice (ICJ). There are still a number of outstanding issues regarding property and refugee return.

Relations with *Bosnia and Herzegovina* were affected by the International Court of Justice (ICJ) ruling in February 2007. The ICJ, in its case of Bosnia and Herzegovina versus Serbia and Montenegro, found that acts of genocide had been committed in Srebrenica. The Court ruled that Serbia had not committed genocide in violation of its obligations under the relevant convention. However, the Court found that Serbia had failed to take all measures necessary to prevent the Srebrenica genocide and to bring the perpetrators to justice.

A Serbian Consulate was opened in Banja Luka in May 2007. In July 2007, Serbia ratified an Agreement with the Republika Srpska on Special Parallel Relations. There is not yet a border agreement between Serbia and Bosnia and Herzegovina. There are also some outstanding issues related to trade and property.

Serbia continues to have good relations with the *Former Yugoslav Republic of Macedonia*, with high level visits taking place. A bilateral agreement on protection of national minorities entered into force. There are some unresolved issues between the Serbian and *Macedonian*

Orthodox Churches but these did not have an adverse impact on overall relations between the two countries.

Relations with *Albania* have remained positive and stable. The Serbian authorities have rejected Albania's position in favour of Kosovo's independence, but this has not adversely affected bilateral relations.

Serbia continues to have good relations with *Slovenia, Hungary, Bulgaria* and *Romania*. After their accession to the EU, Bulgaria and Romania introduced preferential visa regimes for Serbian citizens, involving a lighter procedure and visa waivers.

Overall, Serbia has continued to contribute to regional cooperation and to pursue policies aimed at improving relations with its neighbours. Serbia has made some progress on cooperation with the ICTY, however full cooperation has still to be achieved. Serbia has rejected the recommendations of the UN Secretary General's Envoy and maintained its position that Kosovo should remain an integral part of Serbia. The Serbian authorities are currently participating in political talks under the aegis of the international Troika of the EU, US and Russia on the future status of Kosovo.

### **3. ECONOMIC CRITERIA**

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

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

##### *Economic policy essentials*

In December 2006 the government submitted to the European Commission its first economic and fiscal programme (EFP), covering 2007-2008. It builds on the budget memorandum of April 2006 and presents a generally coherent macroeconomic and fiscal framework together with an ambitious agenda for structural reforms. If implemented in full, the EFP will contribute to sustainable growth and real convergence. The government adopted the 2007 budget memorandum in June. No new cooperation with the International Monetary Fund (IMF) has been sought after the previous arrangement expired in February 2006. The government has cited the need for greater ownership of and autonomy for economic policy planning and implementation. Cooperation with the World Bank has remained a firm anchor for structural reforms. Overall, consensus on the fundamentals of a market economy has been maintained, but some dissent between different institutions has been growing in regard to stability-oriented fiscal policy targets.

##### *Macroeconomic stability*

In 2006, real GDP growth slowed down to 5.7% compared with 6.2% a year earlier. Growth was driven by strong gains in transport, storage and communication, but also in the financial sector and in wholesale and retail trade. In the first half of 2007, GDP grew strongly by 8.0% year-on a year-on-year basis, driven by continuing strong gains in wholesale and retail trade, transport, finance and manufacturing. Industrial production expanded by 4.4% in 2006 compared with 0.8% in 2005 and continued to grow, by 5.1% on a year-on-year basis, during

the first seven months of 2007. This was driven by strong gains in the food industry and production of base metals. Overall, the Serbian economy continued to grow due, in part, to the relaxation of fiscal policy, laxer wage policy and strong export performance.

The current account deficit widened to 11.5% of GDP in 2006, from 8.4% in 2005, partially caused by an increase of the trade deficit to 19.6% of GDP. Exports grew faster than imports, expanding by 30% and 25% year-on-year, respectively. However, exports remained small, accounting for about 58% of imports only. Financing of the external deficit has improved and foreign direct investment (FDI), after reaching a record 13% of GDP, more than covered the current account deficit for 2006. Foreign debt financing, primarily to the private sector, totalled EUR 2.3 billion or 9% of GDP. As a result of these strong capital inflows, the foreign exchange reserves of the National Bank of Serbia (NBS) grew by EUR 2.7 billion to EUR 9 billion, equivalent to 10 months' imports of goods and services.

In the first half of 2007, exports and imports of goods and services grew by 43.3% and 39.4% respectively on a year-on-year basis and the trade deficit widened to about 22% of GDP. The current account deficit increased to about 14% of GDP as a result of the growing trade deficit, but also due to a significant drop in current transfers. Nevertheless, capital inflows remained strong during the same period amounting 18% of GDP. FDI declined to about 4% of GDP.

Portfolio investment picked up substantially, reaching about 3% of GDP, attracted by strong gains at the Belgrade stock exchange and relatively high domestic interest rates. During the same period, the amount of medium- and long-term loans accounted for about 11% of GDP. External debt grew to €16.8 billion, equivalent to about 60% of GDP, by the end of July 2007. Private- and public-sector external debt stood at 35% and 25% of GDP respectively. Overall, while the current account deficit grew, the inflow of foreign capital into the economy remained strong.

As a consequence of corporate restructuring, employment declined by 2.1% in 2006. Small- and medium-sized enterprises and the private sector in general are playing a growing role in job creation. However this was not enough to result in net job growth during 2006. Official unemployment figures stood at approximately 22% of the total workforce at the end of 2006. During the first half of 2007 the official figures on unemployment dropped by about 4% on a year-on-year basis. Youth unemployment (amongst under-24s) remains very high at 49% of the total workforce in that age group. About 30% of the active population is reportedly engaged in the grey economy. Overall, despite high economic growth rates in recent years, unemployment is still a major challenge. Labour market inflexibilities and high social security contributions remain another obstacle to job creation in the formal sector.

As far as monetary policy is concerned, in response to strong capital inflows and in order to prevent excessive appreciation of the dinar, the National Bank of Serbia (NBS) continued to intervene in the foreign exchange market in late 2006. In addition, the reference interest rate of the NBS was lowered in several steps from 18% in September 2006 to 9.5% in May 2007. This did not prevent the dinar from strengthening further against the euro. In all, the dinar appreciated by 7.6% in 2006. As a result of capital inflows and the related foreign exchange interventions, money supply rose by 47% on a year-on-year basis in 2006. In order to counterbalance the liquidity effect of the foreign exchange operations, the NBS increased sales of NBS and treasury bills, which constituted the major monetary policy instruments in the last four months of 2006. In addition, the NBS raised the reserve requirements for the foreign currency deposits of banks. However, as inflation slowed, reserve requirements were

again lowered to 45% on foreign currency deposits and to 10% on dinar deposits in January 2007.

During the first four months of 2007 the dinar depreciated slightly, losing 2.2% of its nominal value against the euro, partly as a result of the growing market unease over delays in formation of the government. The NBS decided to leave setting of the exchange rate, by and large, to market forces, but also announced that it intended to continue to play a role in preventing excessive daily fluctuations. Overall, monetary policy continued to be challenged by strong capital inflows and the appreciation of the local currency. The policy of allowing the exchange rate to be determined by market forces has proved appropriate and conducive to reducing inflation.

In 2006, retail price inflation stood at 12.7%, compared with 17.3% a year earlier. Core inflation, which excludes prices for agricultural products, energy and communal services, stood at 10.3%. The progressive decline in inflation was mainly due to the appreciation of the dinar, falling international oil prices and delays in increasing prices for communal services. From January to August 2007, the average annual inflation rate stood at 5.6%. Overall, inflation has continued to decline and this has contributed to a stable environment for economic operators.

In 2006, the consolidated government budget recorded a surplus of 1.6% of GDP (including proceeds from the sale of a mobile telephone operator licence). This compares with a surplus of 1.9% of GDP in 2005. Non-tax revenue, including from the licence fee for the mobile operator, grew by 1.2 percentage points of GDP. Expenditure declined marginally by 0.1% of GDP to 38.1%. Cuts were recorded in subsidies, interest payments, social security and pensions. However, revenue fell by 0.3% of GDP to 39.1%. Tax revenue in 2006 declined by 1.5% of GDP, mostly driven by a 1.7 percentage point drop in revenue from VAT. This was only partly offset by a 0.5 percentage point gain in personal and corporate income tax.

After a start was made with putting into action the national investment plan (NIP), an increase of 1.2 percentage points of GDP was recorded for capital expenditure. In addition, expenditure on public-sector salaries and social welfare grew by 0.2 and 0.3 percentage points to 9.7% and 3.6% of GDP respectively.

Overall, the upward trend in public expenditure during recent years was interrupted in 2006. In addition, there was a rebalancing of expenditure away from consumption towards investment. However, fiscal policy turned more expansionary in the second half of 2006 and early 2007. Wage policy, in particular, became substantially relaxed ahead of general elections.

Consequently, the 2007 budget envisages a deficit of about 0.5% of GDP, driven by an increase in expenditure to 41.4% of GDP, mainly due to a substantial rise in public-sector salaries agreed by the previous government ahead of general elections and higher investment. The latter partly reflects the fact that the NIP is now included in the budget. Revenue is projected to increase to 40.9% of GDP<sup>3</sup>. Overall, the recent relaxation of fiscal policy has contributed to external imbalances and inflationary pressures.

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<sup>3</sup> According to the IMF definition of fiscal deficit, the fiscal deficit in 2006 totalled 1.5% of GDP and is projected to rise to 2.7% of GDP for 2007. This suggests a looser fiscal stance for both years, an increase in expenditure in 2006 and slower fiscal expansion in 2007 than official figures indicate.

General government debt declined by about 15 percentage points of GDP to about 35%, due to debt write-offs and early repayments to international financial institutions. In January 2007, amendments to the personal income tax law came into force, reducing the tax rate on salaries by 2 percentage points to 12% and introducing a tax-free allowance of 5,000 dinar per month.

As regards macroeconomic policy mix, fiscal policy turned expansionary while monetary policy remained rather restrictive. Reserve requirements, in particular on foreign currency deposits, have been raised substantially to curb credit growth. Overall, the macroeconomic policy mix has not been entirely adequate, as the reversal of fiscal consolidation has added to fiscal and macroeconomic risks. In addition, the relatively large size of the public sector has been curbing the prospects for faster economic development.

#### *Interplay of market forces*

Privatisation of socially-owned companies continued in late 2006 and the first half of 2007, both by tenders and by auctions. About 300 socially-owned companies were sold in 2006 followed by some 100 more in the first half of 2007. The total number of socially-owned companies privatised since the start of the process climbed to almost 2,000 by mid 2007. However, 1,200 socially-owned companies have yet to be privatised and the deadline for completing this process has been extended by one year until the end of 2008. A commission for the privatisation of public utilities has been set up and the government plans to privatise two state-owned companies by the end of the year. However, there is still no clear strategy for privatisation of state-owned companies. The situation of heavily indebted conglomerates has not yet been adequately addressed. Bankruptcy procedures have been slow due to lack of qualified bankruptcy administrators and delays in commercial courts.

In the last quarter of 2006 and the first quarter of 2007 no progress was recorded on restructuring and privatising large and highly inefficient state-owned companies. The new government, which took office in mid-May, has stated that it intends to relaunch the privatisation of NIS and of the national air carrier JAT Airways. A privatisation strategy for NIS is expected to be adopted soon and the tender for sale of an initial minority stake of 25% could be launched in autumn 2007. The sale of JAT Airways has been announced and several potential bidders have been identified. There has been little progress, however, on privatising other inefficient state-owned companies.

The share of the private sector has not changed significantly and remains relatively low at about 55% of total output. The private sector accounts for about 60% of total employment. State-owned and socially-owned enterprises still generate a large part of Serbia's output. The absence of a larger share of private-sector activity is an obstacle to developing competitive domestic products and services, and risks affecting adversely inflation and external accounts. In addition, unviable public companies continue being a burden for public finances. Overall, despite the progress made with privatisation in recent years, a competitive and dynamic private sector has not yet been fully established.

The economy still has to cope with a high proportion of administered prices (34.7% of the retail price index).

#### *Market entry and exit*

In 2006, the number of newly registered companies increased by 7.6%. About 3,000 new companies were registered in the first half of 2007. The business environment improved in

2006, in particular access to financing and trading across borders. However, dealing with licences, registering property, enforcing contracts and closing a business can all be improved. A deterioration was notable in procedures related to starting a business and to labour market regulation. In 2006, 269 bankruptcy procedures were initiated and only 66 cases were closed, bringing the number of pending cases to 1,266. Until August 2007, 76 new bankruptcy procedures were initiated. The number of pending bankruptcy procedures grew to 437 of which some cases now last for seven or eight years. Overall, despite some progress, excessive bureaucratic requirements and complex legislation are continuing to hamper market entry and exit.

### *Legal system*

The new constitution recognises private ownership of construction land. No progress has been made on promulgating a restitution law or policy. Overall, the judicial system continues to suffer from slow and inefficient court proceedings, poor case management and limited administrative capacity. These circumstances deter economic operators from taking cases to court and undermine effective enforcement of creditor and property rights.

### *Financial sector development*

In 2006, lending activity of banks increased by 25.5%. Loans totalled about 21% of GDP and 46.6% of the banking sector's balance sheet. This is somewhat lower than the 55% recorded a year earlier, due to the significant increase in reserve requirements in 2006 in an attempt by the NBS to curb credit expansion. At the same time, the total assets of the banking system grew by 51%. Liabilities to clients grew by 41% and account for 70% of the banking sector's total liabilities. Total deposits grew by 37.5% in 2006 and foreign currency deposits accounted for 65.9% of total deposits. Foreign loans taken by Serbian banks almost doubled in 2006 to about € 2.3 billion, of which 98% have a maturity of over one year. Overall, financial intermediation by banks has continued to grow but from a still relatively low level.

In 2006, four majority state-owned banks were sold to foreign financial institutions. As a result, the share of the remaining state-owned banks in total assets declined to 14.9% at the end of 2006 compared with 36.1% at the end of 2004. The number of majority state-owned banks shrank to 8 (out of a total of 37), while 22 banks are now majority-owned by foreign shareholders. The five largest banks in terms of balance sheet accounted for 47.2% of the entire banking sector. Overall, privatisation of the state-owned banks is well advanced and competition between banks is well established.

At the end of 2006, 33% of the banking sector's total assets were classified as risky. Although this is somewhat higher than a year earlier, the increase is mainly attributable to a new methodology applied by the NBS. Under the old methodology, 23.8% of the sector's total assets would have been considered risky. The capital adequacy ratio of the banking system averaged 24.7% and, consequently, remained well above the required minimum of 12% of risk-weighted assets for each bank. The profitability of the banking sector has improved and the return on equity increased to 9.7% from 6.5% a year earlier. Overall, the banking sector is exposed to a relatively high number of risky assets. However, this sector is profitable and remains generally sound.

Financial markets posted strong gains in 2006. The two indices of the Belgrade stock exchange gained 22.4% and 58% respectively and reached historic highs. Volatility of stock prices increased in 2007, following strong gains in the first quarter of 2007. Total market

capitalisation of companies traded at the Belgrade stock exchange rose significantly to over € 15 billion or about 45% of GDP in July 2007 from about 23% in July 2006.

A number of by-laws on voluntary pension funds and pension schemes were passed. The security and exchange commission adopted rules on acquisition of titles and licences for brokers, investment advisers and portfolio managers. At the end of 2006, 17 insurance companies were operating in the country. Premiums grew by an annual 12% to 1.5% of GDP. The market remains relatively concentrated as the three largest insurers accounted for 75% of total premium income. Foreign ownership is still relatively small at 26.4% of total premium income, but accounts for 83.5% of the life insurance market. The structure of the insurance sector is changing substantially since privatisation of socially-owned insurance companies started and the arrival of foreign greenfield investments in this sector. Overall, tangible progress has been made with developing the non-banking financial sector.

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

#### *Existence of a functioning market economy*

Macroeconomic stability was strengthened in 2006 and the first months of 2007, allowing economic operators to make decisions in a climate of relative stability and predictability. However, the functioning of market mechanisms which allow efficient allocation of resources is still hampered by the large proportion of administered prices, the small private sector, market distortions, inflexible labour market regulation and heavy involvement of the state sector in the production of private goods.

#### *Human and physical capital*

Reforms of the education system have continued. However, the lack of adequately educated personnel is often identified by foreign investors as an obstacle to further investment. The reform to bring the higher education system into line with the Bologna requirements has started. Efforts need to continue in order to link the university education and curricula with the labour market and economic needs. Progress can also be reported on endorsement of the framework policy documents to develop vocational education and training (VET). Further action is now needed to implement the policies and to strengthen coordination between VET, university education and other sectors of education and the labour market. Administrative capacity also needs to be strengthened. The share of education in overall public expenditure remains low at 3.5% in 2006. Overall, the labour market is still suffering from a mismatch between supply and demand as well as lack of funding.

In 2006, gross fixed capital formation grew by 15.4%. The investment ratio rose to 17.9% of GDP from 15.8% a year earlier. Foreign direct investment (FDI) reached a record 13% of GDP in 2006, mainly due to privatisation and acquisitions in the telecommunication sector, pharmaceutical industry and financial services. This trend, however, slowed during the first half of 2007 when net FDI amounted to about 4.1% of GDP.

In March 2007, a concession contract was signed between the government and a foreign consortium to build and maintain a highway between the northern border town of Horgoš and Pozega in western Serbia. This investment is worth 3.2% of GDP. However, it is not clear whether this project is economically viable, as technical and financial details have not been made public. In addition, a major greenfield investment was recorded in 2006, when a foreign

company entered into a joint venture to develop a business park worth 0.5% of GDP. The national investment plan (NIP) envisaged investment in transport infrastructure, mainly national primary roads, worth 1.8% of GDP. However, due to delays in implementation of the NIP, projects have not advanced as quickly as planned. Overall, investment activity has improved markedly which bodes well for raising the productive potential of Serbia.

#### *Sectoral and enterprise structure*

The new government has shown some willingness to accelerate the process of selling state-owned companies. However, restructuring and privatisation have been very slow. The shift of economic activity towards the services sector has continued, with services currently accounting for 41.6% of GDP. Manufacturing and construction now account for 13.6% and 2.9% of GDP respectively, while the share of agriculture has declined slightly but remains at 10.9% of GDP. In terms of employment, 50.2% of the total number of employed persons working in the services sector, 29.3% in industry and 20.5% in agriculture.

SMEs account for 99% of the total number of entities, providing 60% of the total number of jobs, and are involved in 65% of total trade. Their share of gross added value has grown to 54%. Despite improvements in the business environment, obstacles to SMEs remain, such as the low level of liquidity, high indebtedness and little access to long-term financing. Overall, SMEs have grown in importance despite the remaining obstacles.

#### *State influence on competitiveness*

Subsidies from the consolidated state budget accounted for 2.6% of GDP in 2006, down from 3.1% a year earlier. State-controlled monopolistic structures remained in place, such as the import ban on refined petroleum products to protect the domestic refinery industry from foreign competition. Relevant by-laws to the law on state aid control have still not been passed. This is hindering establishment of appropriate monitoring mechanisms, such as the commission for state aid control. Overall, state intervention in the enterprise sector remains substantial.

#### *Economic integration with the EU*

In 2006, exports and imports of goods and services accounted for 27% and 47% of GDP respectively, virtually unchanged from 2005. The EU continued to be Serbia's main trading partner. Exports and imports of goods and services to and from the EU accounted for 53% and 49% of total exports and imports respectively. In the first seven months of 2007, exports to the EU grew by 35% year on year to 58% of total exports, while imports from the EU rose by 31% to 56% of total imports. The accession of Bulgaria and Romania to the EU in January 2007 explains partially these figures. Serbia's other leading trading partners remain other Western Balkan countries, in particular Montenegro and Bosnia and Herzegovina, along with Russia and China. Overall, foreign trade has continued to grow and trade integration with the EU has advanced.

WTO accession negotiations have been a powerful catalyst for agricultural reform. In 2006, FDI from the EU added up to 61% of total FDI inflows into Serbia, compared with 95% a year earlier. This is mainly due to the fact that a non-EU company made a major investment in Serbia in 2006.

Real wages grew by 13%, thus more than average labour productivity (8%), with the result that real unit labour costs rose by 5%. The nominal effective exchange rate of the dinar appreciated by 12% in 2006, largely due to its strong appreciation against the euro and the US dollar. In real effective terms, the dinar appreciated by a higher rate (16.5%), as consumer prices grew faster on the domestic market than abroad. This trend slowed down during the first six months of 2007, when the dinar appreciated by 0.6% and 2.9% in nominal and real terms respectively. Overall, standard indicators suggest no significant deterioration in export price competitiveness.

Average per capita income in 2006 increased to 22% of the EU-27 average in purchasing power standards, from 21% in 2005.

## 4. EUROPEAN STANDARDS

This section examines Serbia's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with a Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Serbia's administrative capacity.

### 4.1. Internal market

#### 4.1.1. *Free movement of goods*

Some progress has been achieved in the areas of standardisation, certification and metrology. Following the dissolution of the State Union of Serbia and Montenegro, all bodies in the field of quality infrastructure have become Serbian bodies and all relevant legislation, including laws on standardisation accreditation, metrology, and technical requirements for products and conformity assessment, has continued to be fully applicable. Under the new government, the Ministry of Economy and Regional Development is responsible for the area of free movement of goods.

In November 2006, a state accreditation body was established as an independent non-profit organisation, and staff members were appointed. In August 2007, the government established the Institute for standardisation of the Republic of Serbia (ISRS). Its statute is not yet approved and staff has not been appointed. In May 2007, the Directorate for measures and precious metals within the Ministry of Economy and Regional Development was established.

A National Council for quality infrastructure has not yet been established and an action plan to strengthen this has not been adopted. The administrative capacity of the Ministry of Economy and Regional Development, in this regard, remains weak.

In the field of **standardisation**, progress can be reported with the publication of national standards in early 2007. A new SRPS designation has been introduced for Serbian standards, replacing the old JUS numbering. The ISRS is a Partner Standardization Body in the European Committee for Standardization (CEN) and an affiliate member of the European Committee for Electrotechnical Standardization (CENELEC). Serbia needs to establish priorities for the transposition of European standards and to intensify its efforts to adopt and to implement these standards.

The area of **accreditation** has been strengthened following recommendations from a peer assessment conducted for the state accreditation body in March 2007. For that purpose, a new

policy of measurement traceability has been adopted and institutional changes have been introduced. There are 244 accredited conformity assessment bodies in Serbia. However, no designation procedure has yet been established by the government in accordance with the Law on Technical Requirements for Products and Conformity Assessment.

Some progress can be reported in the area of **metrology**, mainly on measuring standards and precious metals, but not in the area of legal metrology. Responsibility for metrology has been transferred to the Ministry of Economy and Regional Development, which has clarified the institutional set-up. Serbia played an active role in the re-registration and the work of the European Association of National Metrology Institutes (EURAMET) in 2007.

No progress can be reported in the area of **market surveillance**. There is a need to establish an appropriate market surveillance structure based on adequate product legislation as required by Community legislation and to phase out contradictory pre-market controls.

Serbia is experiencing delays in the transposition of sector specific Community legislation (both old and new approach product legislation). Furthermore, there are no institutionalised mechanisms for internal consultations and notifications for new technical regulations prior to their adoption.

In the area of **consumer protection**, Serbia has registered progress by establishing the Council for Consumer Protection in January 2007. The government adopted a national consumer protection programme, which assesses the current situation and sets objectives for consumer protection policy in the period 2007-2012. However, Serbia is still to improve its regulatory consumer protection framework by adopting a new law on product safety.

Overall, although Serbia's preparations in the field of free movement of goods are advancing, following the transfer of responsibilities from the former State Union, and preparations to meet the SAA requirements are moderately advanced, Serbia needs to further strengthen administrative capacity and the legislative framework, starting with the alignment of the sector specific Community legislation.

#### *4.1.2. Movement of persons, services and right of establishment*

Limited progress can be reported in the areas of movement of persons, services and the right of establishment.

In the area of free **movement of persons**, Serbia signed a social security agreement with Montenegro in December 2006. The agreement regulated a number of issues in the social and health insurance fields, as well as student benefits, which are particularly important for a Montenegrin students studying in Serbia.

There has been limited progress in the area of **movement of services**.

With regard to the **right of establishment** and **company law**, the Serbian Business Registry continued to provide a simplified and rapid registration process which has resulted in an increase in the establishment of new companies (around 1000 new companies are established every month). However, the system still needs to be further developed. There have been lengthy delays due to certain requirements to issue accompanying licences at the municipal level.

While the national bank ensures supervision of the banking and insurance sectors, Serbia needs to ensure the independence of the capital market supervisory authority – the Securities Commission.

Overall, the preparations in the areas of persons, services, the right of establishment and company law are moderately advanced.

#### *4.1.3. Free movement of capital*

Progress in the area of **free movement of capital** has been limited. By changing provisions on urban land ownership in the new constitution, Serbia has made an important step forward in liberalizing its real estate market. However, the implementation laws in this area have not been adopted yet.

Following the entry of force of the Law on foreign exchange operations, a number of by-laws have been adopted and further liberalisation in the field of capital transactions has also been achieved. Residents, legal entities, entrepreneurs and individuals can now invest in foreign equity as well as long-term securities issued in OECD countries.

The law on de-nationalisation, which also deals with urban construction land, has yet to be adopted.

Serbia has not yet reached the level of liberalisation laid down in the SAA. Further efforts are needed to pave the way for establishing national treatment in the purchase of real estate, free movement of short-term credits and portfolio investments.

Overall, preparations in the area of capital movement are moderately advanced.

#### *4.1.4. Customs and taxation*

Serbia continued to make good progress in the area of **customs**. Legislation is largely in line with European standards. A new Customs Tariff Law was adopted which enables the government to fully harmonise the customs tariff nomenclature with the EU Combined Nomenclature and the Harmonised System classification. Further alignment is required, most notably in areas such as transit and security.

The customs administration, which is now also responsible for preliminary checks for radioactivity at border crossings, has procured the relevant equipment and trained around 500 customs officers.

In terms of enforcement, the customs administration started to implement the World Customs Organisation framework of standards in order to secure and facilitate global trade. Measures for the protection of intellectual property rights were implemented at the borders. In this field, staff have started to receive specialised training. In addition, some initial measures were taken in the areas of risk analysis and post-clearance audit, for which separate units have been established. However, a weak institutional setup and administrative capacity has restricted progress. In the area of human resources management, a new Code of Conduct was introduced in the customs administration, establishing a new appraisal system and anti-corruption measures. The internal audit department has initiated a significantly higher number of disciplinary procedures against customs officers in 2007 compared to 2006.

Overall, Serbia is well advanced to meet the SAA requirements and remains committed to reforms in the area of customs and meeting the requirements of the SAA. However, Serbia's enforcement capacities remain limited.

Good progress has been achieved in the area of **taxation**. A new excise Law was adopted, which removes discriminatory elements of the taxation of tobacco products and cigarettes from January 2008. It also establishes a specific and *ad valorem* duty on cigarettes, thus bringing the structure broadly into line with European standards. In the field of VAT, Serbia has increased the registration threshold to around € 50,000.

Alignment with European standards in the field of direct taxation is at an early stage. A review of Serbian legislation has just started with a view to checking the level of compliance with the Code of Conduct on business taxation. Administrative capacity has improved. The tax administration has developed a system for selecting taxpayers for tax audits. This has allowed for a more targeted and effective approach to field audits, particularly on VAT. Tax revenue collection increased in the first half of 2007 as a percentage of the GDP. However, problems of low revenue collection persist. Risk analysis, especially in relation to VAT and excise duties needs to be improved.

Overall, Serbia is well advanced in meeting the requirements of the SAA in the area of taxation. The enforcement capacities of the tax administration need to be further strengthened.

#### *4.1.5. Competition*

There was been limited progress in the area of competition. The Commission for the Protection of Competition (CPC) has been active during its first year of operations, dealing in particular with requirements for approval of mergers. Half of the cases related to merger control, one third to the clarification of certain provisions of the law itself, and 15 percent were related to the abuse of dominant positions. Only 2 percent of the investigations concerned agreements between undertakings. The capacity of the CPC has been strengthened and the transparency of its work increased through more regular press releases and the opening of a website. Mergers could be dealt with more effectively if the notification requirements put the focus on those mergers that are liable to affect competition in Serbia. The administrative capacity of the CPC is not sufficient. It is important that the operational independence of the competition authority is assured.

Little progress has been made in the area of state aid. Monitoring of state aid continues to be weak and administrative capacity insufficient. Serbia has not yet established an operationally independent state aid authority in order to introduce a system of ex-ante control of all state aid measures and prepare the alignment of existing state aid measures with the SAA.

Overall, Serbia is moderately advanced in the area of competition, but its implementation and enforcement capacities remain to be improved. In the area of state aid control, Serbia is lagging behind.

#### *4.1.6. Public procurement*

Little progress has been made in the area of public procurement. The public procurement Law has not been amended and no progress has been made in addressing the gaps in the legal framework, including the definition of contracting entities. Moreover, owing to limited

resources, the public procurement Office (PPO) has not been able to fully fulfil its mandate under the current legislative framework.

The PPO has prepared a strategy for the development of the public procurement system, but its recommendations have not been implemented. Weaknesses in the internal audit system of the public administration, corruption and the absence of a fully functioning supreme audit institution represent further risks to the implementation of an effective, consistent and non-discriminatory public procurement system in Serbia. To a degree, the institutional stalemate has been counterbalanced by the professionalism of those working in public procurement institutions.

Overall, Serbia's public procurement system remains weak and needs to be further strengthened, both in legislative and administrative terms. Substantial efforts are needed in terms of both amending the legislation and strengthening the capacity to implement the requirements of the SAA.

#### *4.1.7. Intellectual property law*

Some progress has been made in the area of **intellectual property rights**. Through the new Law on Ministries, adopted in May 2007, the status of the Intellectual Property Rights Institute has been clarified, following a year-long institutional stalemate resulting from the dissolution of the State Union. The Intellectual Property Rights Institute has become a separate institution, with expanded responsibilities that include dissemination of information and awareness-raising. Concerning **industrial property rights**, the Intellectual Property Rights Institute published a trademarks database on its website, thereby substantially increasing the efficiency of the institute as well as improving cooperation with other state bodies, such as the customs administration.

In line with the Law on the organisation and responsibilities of the state bodies for the fight against high-technology crime, a special prosecutor was appointed and a separate unit of the Belgrade District Court for combating high-technology crime became operational in April 2007. Good progress has been made in the field of enforcement, especially in the customs area, where the customs administration has been more active in the protection of intellectual property.

However, the destruction of seized goods infringing intellectual property rights has still to be addressed. The Intellectual Property Rights Institute has limited human resources and training facilities. Administrative capacity and cooperation between the various state institutions have to be further strengthened.

Overall, Serbia's preparations in the area of intellectual property rights are relatively advanced to meet the requirements of the SAA. However, sustained efforts are needed in order to improve implementation and enforcement.

#### *4.1.8. Employment and social policies*

There has been limited progress in the area of **employment** policies. The implementation of the National Employment Strategy 2005–2010 and the Strategy for Change of the National Employment Agency 2005–2008 has continued. Unemployment, however, remains high, and the National Employment Strategy has yielded limited results. Substantial efforts are still

needed both to reform the labour market and the employment services to allow them to effectively take part in policy development and implementation.

Following the formation of the new government in May 2007, the responsibilities for employment have been transferred to the Ministry of Economy and Regional Development with the aim of boosting job creation through an increase in various credit lines to start or improve business, in particular of SMEs, financial support and counseling services for future entrepreneurs. However, the coordination between the two Ministries responsible for employment and social policy remains to be further improved.

There has been some progress in the area of **social policies**. Work has continued to develop the legal framework in the field of *health and safety at work*. Awareness raising activities and training have been organised. However, the number of fatal accidents in 2006 increased.

There has been limited progress in the area of *social inclusion*. The implementation of the Strategy of Social Welfare Development continued. A number of other strategies have also been developed. There has been some progress in enforcing legislation on the prevention of discrimination of disabled persons, but a support service aimed at inclusion of disabled is still lacking and assistance exists in the form of pilot projects only. Social dialogue takes place mainly at the tripartite level, whereas bipartite social dialogue is still at an early stage. Employers associations are not sufficiently developed and both employers' associations and trade unions need to further improve their technical and administrative capacities. Social statistics and analyses remain weak.

In the area of *social protection*, several new articles of the Law on social (health and pension) insurance entered into force in January 2007. The institutional framework has been strengthened through the development of social protection services.

Overall, Serbia remains moderately advanced in adopting legislation and a strategic framework for reducing unemployment and remains relatively well advanced in the area of social policies. However, the record in effective implementation of employment policies has been weak. Legislative amendments are pending and the overall implementation of social policies remains to be further developed.

#### 4.1.9. *Education and research*

Concerning **education**, little progress can be reported. The process of reform in line with the Bologna declaration requirements has started. However, sustained efforts are needed, in particular to ensure quality and to link the university with the labour market and economic needs. Some progress was made in the endorsement of framework policy documents on vocational education and training (VET). However, further action is needed to implement policies and to strengthen coordination between VET, the other education sectors and the labour market. The development and adoption of a national qualification framework for VET has not advanced. Limited administrative capacities, inadequate definition of competencies and lack of coordination among the responsible institutions are a source of concern, as well as the absence of a clear programme under the new ministry. In the area of culture the UNESCO Convention on cultural diversity has still to be ratified.

Concerning **research**, a new Ministry of Science, separate from the Ministry of Environmental Protection, was created in May 2007. Serbia has not undertaken any action in

the definition of an integrated research policy. Association to the Euratom Programme is currently being negotiated.

Serbia's participation in the 6<sup>th</sup> Research Framework Programme increased, and the country became associated to the 7<sup>th</sup> Research Framework Programme in June 2007.

Overall, Serbia is relatively advanced in the development of legislative framework for education and research. However, substantial efforts are still needed to further develop the two sectors and to link them to the economic context. The pace of reform of the education sector has been slow. An improved institutional framework and a better defined programme are needed to ensure further progress.

#### *4.1.10. WTO issues*

Serbia has made progress towards WTO membership. Its internal preparations to become a WTO member are advancing.

## **4.2. Sectoral Policies**

### *4.2.1. Industry and SMEs*

Serbia has continued to make good progress in the industry and SME area. Serbia is fully committed to the process of the European Charter for Small and Medium-sized Enterprises and has provided good quality input. Serbia has restructured the company registration process, setting up a specialised registration agency which has reduced the delays and bureaucracy involved in registration. It has a good institutional and regulatory framework for SMEs – including a functioning SME Agency. It also has an SME strategy and an action plan. Serbia conducts regulatory impact assessments on legislation and it has a policy targeted at reducing business barriers.

A positive step has been the recent adoption of the national programme 2007-2010 for business incubators and clusters which is aimed at SME support infrastructures. In the context of network incubators, a new incubator in Niš has started to operate. Under the National Investment Plan the government has also approved funds for cluster and incubator development as well as the establishment of industrial zones and parks.

However, there is still a need to improve coordination between the government, the SME Agency and other relevant actors, such as the Serbian Investment and Export Promotion Agency. Serbia has set up an inter-ministerial Council to discuss SME policy between line Ministries; this is a positive step but one which needs to be accompanied by the elaboration of a working programme and tested in practice. The consultative forum established for dialogue with entrepreneurs also needs to start functioning.

Company registration needs to be further modernised by introducing online registration in practice (adoption of implementing legislation and launching technology applications), introducing the principle of 'silence-is-consent' and speeding up the licensing procedures. Greater priority still has to be attached to enhancing SME competitiveness and access to markets, as there is no comprehensive strategy in place for this objective, apart from some pilot programmes. Serbia needs to make further progress in the drafting of a modern industrial policy strategy.

Overall, Serbia is advancing well in implementing the European Partnership priorities in this area and fulfils the relevant SAA requirements.

#### 4.2.2. *Agriculture and fisheries*

Good progress was made in the area of agriculture. Improvements in administrative capacities have been made, allowing Serbia to better manage agricultural policy and continue reforms in the agricultural sector. Serbia has started to draft its rural development policy, which aims to serve as input for the preparation of the National Rural Development Plan. Serbia has started preparations for the establishment of a National Agency for Rural Payments and has begun to align its legislation in the wine sector with European standards.

Serbia has adopted the Law on Agricultural Land and the Law on Organic Production and Organic Products. Also, the Forestry Strategy was adopted, providing the legal framework for the reform of the public forestry administration and service, sustainable management of private forests and the development of entrepreneurial forestry, as well as the implementation of international environment conventions.

With regard to **food safety, veterinary and phytosanitary** issues, Serbia has made some progress in strengthening legislation and controls.

An annual animal health control programme was approximated with the relevant *acquis*, especially in the field of cattle diseases. Moreover, Serbia is building a **veterinary** information management system and has established a high-impact animal diseases management centre responsible for notifiable animal diseases. Serbia has joined the Animal Disease Notification System of the EU on a voluntary basis. Serbia has extended animal identification and registration to an increased number of animal species and has, in parallel, strengthened the field veterinary service through decentralisation measures and continuous training.

Progress has been registered by the establishment of a **laboratory** information management system for veterinary laboratories, which is also due to be integrated with the veterinary information system. Similarly, a laboratory network composed of five regional laboratories has been set up in line with the phytosanitary requirements for plant species.

Serbia has made some progress in the area of **phytosanitary** legislation by adopting legislative measures on seeds, harmful organisms and on marketing of seeds, fruits and grape planting material. On the basis of this legislation, a register of producers, importers and processors has been put in place. However, Serbia is still lacking adequate laws and by-laws on plant health and plant protection products.

Significant progress is still needed regarding the allocation of competencies in the area of food and feed control. Serbia has still to adopt a framework legislation and strategy regulating food safety, and to establish a sustainable food chain system with all relevant regulations and by-laws necessary for implementation. A clear assignment of responsibilities, in particular for the controlling bodies, is necessary.

Overall, Serbia's preparations are relatively well advanced in the area of agriculture. However, efforts need to be maintained and expanded into a number of more specific areas such as food safety, and veterinary and phytosanitary issues.

#### 4.2.3. *Environment*

There has been little progress in the area of environment.

As regards **horizontal legislation** the National Environmental Strategy was approved by the former government and is awaiting adoption by the parliament. The Kyoto Protocol was ratified in September 2007.

There has been no progress in the area of **air quality**.

Strategic plans on **waste management**, both at national and at local level, are still under development. There has been limited progress regarding hazardous waste management.

In the field of **water quality**, some progress can be reported in water supply infrastructures. Limited progress has been achieved on legal approximation. A challenge is the upgrading of the waste water treatment infrastructure throughout the country. The price of water is low and there is little water metering. The sustainability of further investments is a constraining factor. An investment and financing plan for wastewater treatment in one large river basin is under preparation.

There has been little progress in the area of **nature protection**.

Limited progress has been made in implementing legislation on **industrial pollution control and risk management**. Work on plans to achieve compliance of existing installations with the legal requirements has been initiated, on pilot project basis.

As regards **administrative capacity**, the Ministry of Environment was established in May 2007, following the formation of the government. Previously environment had been under the responsibility of the Ministry of Science and Research. The administrative capacity of the new Ministry needs to be strengthened. The Water Directorate within the Ministry of Agriculture, Forests and Water remains understaffed. While execution of some operational tasks, such as fee collection, has improved, overall institutional capacity remains weak. Coordination between the two ministries needs to be improved.

The Environmental Protection Agency continued to carry out a number of tasks particularly in the areas of data collection and cooperation with the European Environment Agency. An integrated cadastre of polluters in Serbia has also been developed. However, the Agency lacks the necessary capacity to fully implement the integrated monitoring strategy.

Institutional capacity at the local level is still insufficient. Planning, monitoring, inspection and project management capacities remain weak. Training activities for inspectors have taken place, but further strengthening of inspection capacity and of effective judiciary follow-up has still to be put in place. Cooperation between the central level and municipal authorities needs to be enhanced. The Fund for Environmental Protection is active in the co-financing of projects, especially in the field of waste management, sanitation and air quality monitoring. Financing plans have still to be developed, especially for water, solid waste and pollution hot spots. The overall budget for environmental protection remains low, at about 0.4% of GDP.

Overall, Serbia is moderately advanced in the area of environment. Little progress has been made in adopting legislation in line with the SAA requirements. Some progress has been made to develop institutions, but their capacity remains insufficient, particularly in the case of the bodies responsible for enforcement of environmental legislation.

#### *4.2.4. Transport policy*

Serbia has made progress in the area of transport.

Serbia has made good progress in the development of the **trans-European networks of transport**. It has continued to participate in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO) and has approved the Second Rolling Five Year Multi-Annual Plan 2007-2011 (MAP). The implementation of the priority projects, the coordination of investments and the annual revisions of the MAP require continued cooperation in the framework of SEETO.

Balanced development of each mode of transport with an increase in support to inland waterways has still to be ensured. Preparations are in general well on track in this area.

As regards **road transport**, limited progress can be reported. Serbia has defined road safety as a priority. On the transport of goods and passengers Serbia has started preparations to comply in particular with the *acquis* on admission to the occupation in road haulage and recognition of diplomas. However, the new law on road safety is not yet adopted and the strengthening and reorganization of the administrative capacity of the Ministry is still outstanding. Preparations in this sector are lagging behind.

Progress has been limited in the field of **rail transport**. Serbia has started to develop a track access charge regime in line with the Railway Law which provides the necessary framework to liberalize the market. However, further amendments to the Law and implementing legislation are required. The whole sector has still to be restructured and further developed. The division of the state-owned railway company into separate entities for managing the infrastructure and operating the services has not yet been defined. Moreover, the independent regulatory agency has not yet been set up and the Public Service Obligations are not determined. The developments in this sector are at an early stage.

In the field of **inland waterways**, there has been some progress. The Directorate for Internal Waterways has been set up but the national strategy drawn up last year has not yet been adopted. The sustainable development of the inland waterway network needs to be prioritised, in particular on the Danube River, so as to support the modal shift in the region. Preparations are advancing moderately in this area.

There is no progress to report on **combined transport** and inter-modality.

Progress can be reported in the sector of **air transport**. The Civil Aviation Directorate is operational, even though its competencies are not yet fully defined. Implementation of the first transitional phase of the Agreement on a European Common Aviation Area (ECAA) is at an advanced stage and the restructuring of the state-owned carrier (JAT) has started. Serbia became a member of the Joint Aviation Authority in December 2006. However, the ECAA agreement remains to be ratified by Serbia and applied in practice. Serbia has not yet adopted a new civil aviation law to further integrate Serbia into the EU internal aviation market in compliance with ECAA. The strengthening of the administrative capacity as regards regulatory tasks, inspections and licensing is still outstanding. Preparations in this area are advancing at a good pace.

Overall, Serbia is relatively advanced but needs to adopt a national strategy for this sector together with a transport master plan. Furthermore, the strengthening of the administrative capacity is at an early stage and reorganisation of the relevant services is required.

#### 4.2.5. *Energy*

There has been some progress in the energy sector. However, progress has been uneven across the different sectors.

There has been little progress regarding **oil stocks and security of supply**.

Some progress has been made in the **internal energy market**. In January 2007, Serbia adopted the Energy Sector Development Strategy along with a programme for implementation for the period 2007-2015. This strategy sets priorities for the entire energy sector. A working group was set up within the Ministry of Mining and Energy to amend the Energy Law. Serbia is a full member of the Energy Community and is therefore required to apply the relevant EU energy legislation, except for the provisions on market opening for which a specific timetable applies. In the electricity sector, the fulfilment of the unbundling requirements is in progress and the theoretical market opening reached 21%. In the gas sector, progress was made in particular with regard to technical regulations and monitoring of security of supplies. In December 2006, the Energy Agency of Serbia adopted a package of methodologies and tariff systems for supply to consumers and access to transmission and distribution systems. This is gradually being implemented. The Energy Agency of Serbia is financed partly by licence fees, and progress has been made in meeting the objective of financial sustainability. However, the financial viability of the Energy Sector Development Strategy has still to be ensured. Preparations in this sector have started.

There has been little progress in the area of **energy efficiency and renewable energy**. The Serbian Energy Efficiency Agency started to implement a number of small-scale projects. However, the legal framework is not yet developed. Preparations in this area are at an early stage.

Limited progress has been made in the area of **nuclear safety and radiation protection**. The dismantling operations and removal of spent fuel from the Vinča research reactor are in progress, but faces numerous difficulties. However, Serbia has not yet acceded to the Convention on Nuclear Safety and to the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management. Serbia has still to adopt a law on ionizing radiation protection and nuclear safety and to set up the appropriate regulatory agency. Preparations in the area of nuclear safety and radiation protection are advanced.

Overall, Serbia is moderately advanced in terms of meeting European standards. The administrative capacity of the Ministry of Mining and Energy requires strengthening. Substantial changes are still needed in order to meet the requirements of the Energy Community Treaty.

#### 4.2.6. *Information society and media*

Limited progress has been made in the area of information society and media.

As regards **electronic communications and information technologies**, a new Ministry for Telecommunication and Information Society was created in May 2007. The telecommunication regulatory authority (RATEL) is now fully operational and active. For the time-being, it deals mostly with technical issues, as it lacks the specific regulatory skills and sufficient institutional capacity to address the issues in the market in a satisfactory and independent manner.

A Strategy for the development of telecommunications in the Republic of Serbia from 2006 to 2010 was adopted by the Government in November 2006. However, the objectives in the Strategy and the Action Plan are not accompanied by any deadlines for their fulfilment. This means that there is still no basis for the entry of alternative operators, since it is unclear when the necessary competitive safeguards will be introduced. The situation, in particular on the fixed market, will therefore remain largely unchanged, which is unfavourable to new entrant operators. In addition, there is no progress to report on tariff rebalancing and the adoption of a universal service policy. For alternative internet service providers it is difficult to make a business case. Internet penetration rates in the country remain low.

There have been positive developments in the mobile telephony market, with the entry of two new operators during the reporting period. Both operators are operational and either have their own network or have concluded a commercial roaming agreement pending the roll-out of the network. However, there is scope for improvement in terms of regulatory conditions and market development. In addition to these outstanding issues that need to be addressed, such as the need for tariff rebalancing and the need to introduce the necessary competitive safeguards, there is also a need to develop cost models in order to set cost-oriented interconnection tariffs.

In general, the implementation of the legislation is still in the early stages and is dependent on the administrative capacity and level of expertise of the relevant authorities, which needs to be strengthened. The administrative capacity for the telecommunications and information society sectors remains weak. The lack of specific expertise and administrative capacity of the regulatory authorities needs to be addressed in order to increase the level of expertise.

In the area of **information society services**, the new Ministry for Telecommunications and Information Society has attached priority to accelerating the legislative agenda. Serbia still has to adopt new laws on information society covering e-government, e-commerce, and protection of personal data. The role of IT in the government's communication and services to citizens (e-government) is currently limited. Serbia is moderately advanced in this area.

In the area of **audiovisual policy** Serbia has not yet signed the European Convention on Transfrontier Television. The situation of the Broadcasting Agency in Serbia remains a cause for concern. The allocation of national frequencies by the Republic Broadcasting Agency in 2006 is still controversial and continues to raise issues of transparency and accountability. A number of decisions have been contested before the courts. Allocation of regional and local frequencies has been ongoing, with a number of appeals pending. A decision taken by the Broadcasting Agency obliging the RTS to extensively broadcast live parliamentary debates raises concerns about interference with the editorial policy of the public service broadcaster.

Preparations in the area of information society and media are at an early stage and further efforts are needed to meet European standards. The capacity of the regulatory bodies remains below strength. There are particular concerns in the audiovisual sector.

#### *4.2.7. Financial control*

There has been little overall progress in the area of financial control. In the field of budget implementation and treasury systems, some progress has been made. However, a comprehensive policy on Public Internal Financial Control (PIFC) has still to be adopted by the government. Serbia has still to fully develop and launch the implementation of harmonised systems of public internal control and internal audit. Accountability mechanisms need to be further developed, along with comprehensive institutional reform and

administrative capacity-building. The new constitution provides that the State Audit Institution shall be independent. In September 2007, members of the State Audit Institution were appointed, however it is not yet fully operational.

Serbia is at the early stages of preparations to re-design its PIFC system and has still to take a number of steps to meet the requirements of the SAA and the European Partnership priorities.

#### 4.2.8. *Statistics*

Serbia has made progress in the area of statistics. As regards **statistical infrastructure**, the Master Plan for the Serbian statistical office for the period 2006-2008 was adopted. A system for measuring time use was introduced at the statistical office. Budgetary constraints have limited the activities of the Statistical Office. A new law on Statistics is still pending.

The statistical business **register** was further developed. A user interface is still needed in order to ensure frequent use and maintenance. As regards **classifications**, compliance with EU and international classifications is limited and there has been no implementation of new or amended classifications.

As regards **sector statistics**, good progress can be reported in the areas of labour market statistics and business statistics, while progress in the area of agriculture statistics is limited due to the lack of an agriculture census. Basic knowledge in statistical methodology has improved and there is a strong willingness to align with EU standards. However, the capacity to deliver is limited.

For macro-economic statistics, the Statistics Office began publishing a monthly Consumer Price Index in January 2007. A survey on capital goods and equipment has been carried out as part of the purchasing power parities programme. The national accounts have been revised for the period 1997-2004. Data on external trade statistics have been reported to Eurostat.

Overall, Serbia is advancing in the area of statistics. There have been small improvements in the statistical infrastructure. Further progress is needed in particular as regards administrative capacity.

### 4.3. **Justice, freedom and security**

#### 4.3.1. *Visa, border, control, asylum and migration*

With regard to **visa** management, good progress can be reported in the negotiations on visa facilitation. The visa facilitation and readmission agreements between Serbia and the European Community were signed in September 2007. The visa obligation for Romanian citizens has been abolished, so there is visa free regime in force for all EU citizens.

The new Law on travel documents has been adopted. Serbia continued to provide consular services to Montenegrin citizens and an agreement between the two countries was signed in February 2007.

However, the visa regime that is currently in place is not in full compliance with European standards. There has been no progress in defining a visa policy. Legislation on foreigners is still not in place. There are safety concerns about the current travel documents, and the delivery of new biometrical passports and identity cards has been postponed to early 2008. Visa-issuing authorities do not have an online connection with the Foreign Ministry and they

are not properly equipped and trained to detect falsified documents. Border crossing points are in some cases better equipped than consular representations, but they may issue visas only in exceptional cases. A visa database is maintained by the Ministry of the Interior, but there is no online access for the visa issuing authorities. Cooperation between relevant agencies in the area of integrated border management does not follow formalised procedures.

Overall, Serbia is moderately advanced in the area of visa policy.

There has been some progress in the area of **border control**. The action plan for implementing the national integrated border management strategy from January 2006 was further elaborated through the adoption of the strategies for joint training of all border services, development of infrastructure, equipment and IT systems and sector strategies. The new organisation of border police is in place. The border police directorate is responsible for the protection of the state border and for border crossing control. Regular contacts and improved cooperation between the competent border agencies on local, regional and central level has resulted in several successful actions against cross-border crime.

In January 2007, the handover of state borders by the Serbian military to the Ministry of Interior was completed. Seven regional centres, 38 border crossing points and 44 police stations for border surveillance have been established. There are currently around 2,500 border police employed, and this number is expected to increase to over 4,000 in the coming years. Training of specialised services continued, although further efforts are still needed in order to ensure an adequate number of fully trained staff.

The law on State borders has not been adopted yet. The equipment and premises of the border police have improved, but there is still a lack of infrastructure and modern equipment at the borders. Border crossing points are not connected to the Interpol system. Conditions at a number of border crossing points, especially those newly established with Montenegro, are inadequate.

Overall, Serbia has started to address the main priorities in the area of border control.

Little progress can be reported in the area of **asylum**. The new Asylum Office was established within the border police directorate and the process of staffing it is underway. The new reception centre for asylum seekers in Banja Koviljaca was finalised in 2006 and handed over to the Ministry of the Interior. It has not yet become operational, but a memorandum of understanding was signed in September 2007, providing for interim management by UNHCR.

However, the existing framework Asylum Law of 2005 has not been followed up by the necessary implementing legislation to fully regulate procedures for reception and protection of asylum seekers. The new structure within the police is not fully operational and asylum applications are still being handled by the UNHCR. Around 45 asylum applications were received in 2006 and 12 in 2007. So far, 28 persons have been placed under UNHCR protection. Cases of deportation without the right to appeal and custody under unsuitable conditions have again been reported. Preparations in the area of asylum are lagging behind.

In the area of **migration**, good progress can be reported in the area of readmission. The readmission agreement with the European Community has been signed. A reception office for returnees at Belgrade airport has continued to operate, albeit at reduced capacity. In 2006, there were around 3,700 applications for readmission, of which 2 900 were accepted. The Agency for human and minority rights established a centre for the integration of returnees,

providing legal assistance in some 100 cases, analysis of integration mechanisms and basic information documents.

Regarding readmission of third country nationals, 489 cases forwarded by Croatia in 2006 concerning mostly citizens of Albania, Moldova and Turkey were approved. Some 157 requests were rejected. In the case of Hungary, some ten requests were accepted and five refused. In the absence of a national strategy and proper legal framework for reintegration of returnees, there is a serious lack of basic financial and social support. Projects for support at local level involving active NGO's are on the drawing board.

Serbia made progress in addressing illegal migration. Efforts to ensure more effective border controls continued. The departments dealing with elimination of illegal migration and trafficking within the border police and the criminal police directorate continued their good cooperation. The number of denied entries fell in 2006 to 15,329. In almost 2,400 cases, nationality was not established and no reason was given for refused entry. There was limited follow-up to the previously reported difficulties with Albanian citizens entering Kosovo through Pristina airport.

Amendments to the Serbian Criminal Code have introduced new offences, namely sanctioning the smuggling of migrants and organizing illegal crossing of the state border. The number of illegal entries into Serbia increased by 20% compared to the previous year, reaching 1,270 in 2006. A total of 113 persons were apprehended for illegally crossing the border. There were 385 overstay cases reported.

In 2006, 37 criminal charges were filed against 84 perpetrators for the offence of trafficking in human beings. By mid 2007, 140 persons suspected of being involved in trafficking of human beings were arrested. Charges have been brought against 79 of them. In 2006, 62 victims of trafficking were offered assistance and 33 were placed in shelter.

#### *4.3.2. Money laundering*

Little progress can be reported in the area of money laundering. There has been limited implementation of the new legislative framework.

The Administration for the prevention of money laundering (APML), and the Financial Intelligence Unit based within the Ministry of Finance continued to provide regular exchange of intelligence data and information through the 'Egmont security' website and with training of relevant agencies. In 2006, 41 criminal charges were filed against 48 persons. Fourteen persons have been indicted so far and 17 are under investigation. Two decisions have been handed down by the courts; one person was acquitted and one convicted. These judgments are currently under appeal.

However, the Laws on prevention of financing terrorism and on a national strategy for prevention of money laundering and financing terrorism, which are intended to align with the Council directive on prevention of the use of financial systems for the purpose of money laundering and financing terrorism, have not been adopted. Current legislation does not provide for the extension of competencies and measures applied by APML and relevant state authorities to cover financing of terrorism. Cooperation among all competent national institutions remains insufficient. There is no independent body in place to manage seized assets. Attorneys, law firms and other legal entities involved in asset management have not fully complied with their legal obligations as regards reporting transactions and have not been

forced to do so. The Serbian administration for the prevention of money laundering has only become fully operational since the appointment of its new director in September 2007.

Preparations for combating money laundering are at an early stage. Money laundering remains a serious problem in Serbia.

#### 4.3.3. *Drugs*

Some progress can be reported in the fight against **drugs** smuggling, but efforts to address the problem of drug abuse in Serbia have had only limited success. Geographically placed as it is on a Balkan transit route, Serbia is a transit point for the transfer of heroin, cocaine, marijuana and synthetic drugs.

Legislation, in line with a number of ratified international conventions, is in place to cover the investigation of drug-related offences, and monitoring of precursor substances. The Central Department for the prevention of smuggling of drugs, within the Criminal Police Directorate, is responsible for coordinating the network of local police units and for direct exchange of data between the police, the judiciary and the customs services.

Improvements in the control and prevention of illicit cross border trade and smuggling of drugs resulted in several successful actions against organised criminal groups, and significant amounts of drugs were seized.

However, the national strategy on preventing drug abuse and reducing supply has not been adopted. Activities in the area of drug abuse prevention have been very limited. Cooperation with international bodies in the drug control fields is not fully developed. There is no electronic data bank on drug seizures and persons involved. Administrative capacity and, in particular, specialised services are limited. Preparations in the area of the fight against drugs are moderately advanced. Drug trafficking remains a serious concern.

#### 4.3.4. *Police*

There has been some progress in the area of policing. Most of the regulations necessary to implement the Law on the police have been adopted, including the code of police ethics and regulations defining the competencies of police. Previous regulations on internal affairs have been abolished and new rulebooks on procedures for police work and rules on the use of force have been adopted. Instructions on reporting have also been adopted along with rules governing basic standards on relations with the media. A decision was taken to establish a criminal-police academy in line with the strategy for the development of police training and education. The police academy started to provide initial training. Additional recruitment took place according to the results of competitions.

The decree regulating the general principles of the internal organisation of the Ministry of Interior was enacted in 2006. Within the Ministry, the Secretariat for the internal control of police and departments for protection, finance, human resources and general affairs were established. Within the police directorate, there are central, regional and local headquarters, in addition to the city of Belgrade police. There are 14 specialised directorates covering various lines of police work. The director of police and the heads of the internal control sector were appointed, following an open competition in line with the new Law on state administration. The department of operational analysis became an independent unit in the criminal police administration as of May 2007. A new sector for internal control has been established. The

commission responsible for monitoring the implementation of the recommendations of the European Convention for the Prevention of Torture finalised a detailed report following the inspection of 108 police detention stations and interviews with 730 police officers.

Between January and August 2007, the internal control sector received 1600 complaints by citizens. It filed criminal charges against 126 police officers as well as some 2500 disciplinary procedures. The largest number of charges filed relates to the abuse of office (30%), bribery and forgery of documents.

In accordance with the new rulebook on internal organisation, a secret surveillance department was established. Current legislation stipulates that special investigative techniques may be used only in cases of organised crime. The new Criminal Procedure Code broadens this to include corruption-related offences and preparatory acts.

However, the code's entry into force has been delayed until December 2008. Both the police and the security information Agency are in charge of applying secret surveillance measures. The new legislation to regulate the division of responsibilities has not yet been adopted. There is a lack of coordination in key sectors, such as war crimes and organised crime. There is still no reform legislation on the security services. There are still concerns about undue political interference in the work of the police and the level of transparency. In spite of improvements in the provision of specialised education and training, the professional capacity of the police is not sufficient. The overall administrative and professional capacity of the police needs to be further strengthened. International cooperation should be further enhanced and a strategic cooperation agreement with Europol signed. Serbia is making moderate advances in the area of policing, although structural problems persist.

#### *4.3.5. Fighting organised crime and terrorism*

There has been some progress in fighting **organised crime**. The Criminal Code regulates offences related to organised crime. Under the new Criminal Procedure Code, special rules will apply to prosecution of organised crime offences, including provisions on temporary seizure of assets, revenues and property and on international cooperation in tracking down and prosecuting perpetrators.

There has been progress in a number of important court cases. The first instance judgement was pronounced in May 2007 in the trial for the assassination of former Prime Minister Djindjic. This was seen as a milestone in judicial practice as the three-year long proceedings came to an end. Several cases of high-profile corruption, abuse of office and bribery were opened, involving state officials, members of the police, judges and prosecutors. The indictments indicate that damage amounting to tens of millions of euros was caused by organised criminal groups operating in the areas of industry, trade, customs, judicial system, high education, trade and services. The important role of witness collaboration was recognised, even though the witness protection system proved to be inadequate.

However, relevant framework legislation is not in place. The short terms of office of the special prosecutor for organised crime and his deputies hamper the continuity and efficiency of work. The entry into force of the new Criminal Procedure Code has been delayed until the end of 2008, with the exception of provisions on the duration of detention in serious cases. The action plan to implement the national strategy for fighting organised crime has not yet been finalised. The capacity of specialised police services to investigate financial crime is not sufficient. International police cooperation is not well enough developed. A common database

on information on organised crime has not been established. Due to a lack of finances, the witness protection system has only limited effect. Current provisions allowing confiscation of the proceeds of crime are not being adequately implemented. The special legislation and the capacity to manage the seized assets are not in place. Overall, preparations in the area of organised crime are only at an early stage, which remains a source of serious concern.

Good progress can be reported in the area of combating **trafficking in human beings**. Serbia has been recognised as a source, transit and destination country. Victims originating from Ukraine, Moldova, Albania, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina and Bulgaria mostly transit to destinations in Western Europe. Increased trafficking of Serbian citizens was recorded in the previous period.

Improved regional police cooperation resulted in several successful actions against organised crime groups that are active in the region. The number of criminal charges increased in 2006. Some 37 charges were filed against 84 offenders. Eleven persons were sentenced to prison terms from 3 to 8 years, but the enforcement of judgments remains problematic. One judgment from 2004 has not yet been enforced. Cases of police officers involved in organised crime and corruption have been reported.

The National Strategy for combating trafficking in human beings was adopted at the end of 2006 and the related criminal legislation is in force. Police and judicial cooperation in this area are facilitated through bilateral agreements. The Section for the Suppression of Human trafficking, which is part of the Organised Crime Service within the Criminal Police Directorate, is responsible for dealing with human trafficking by elements of organised crime. Information and data on trafficking in human beings are exchanged with Interpol. Special police teams for combating trafficking in human beings are operational in 34 local centres and their work is coordinated by the Section for Illegal Migration within the Border police.

Border police filed 79 criminal charges in 2006 for illegal border crossing and the smuggling of 434 illegal migrants. Some 37 criminal charges were filed against 84 offenders for trafficking in human beings, involving 56 persons.

The Agency for the Coordination of Protection of Victims of trafficking organises and coordinates assistance to victims, cooperating with specialised NGOs, the police, the judiciary, social workers and experts. In 2006, 33 victims were placed in shelters and 16 were given temporary accommodation; reintegration was organised for 44 victims. Preventive actions were stepped up in 2006. The Government financed a public awareness campaign and the Anti-Trafficking Team promoted inter-agency cooperation. Serbia is making moderate advances in the fight against trafficking in human beings.

In April 2007, the Ministry of the Interior established a Department for monitoring and investigating terrorist activities within the criminal police administration and with the aim of joining the fight against global **terrorism**. Ratification of international conventions (including the international Convention for the suppression of acts of nuclear terrorism) is pending. There is no specific legislation on suppression and no common data bank on terrorism suspects. Serbia is still at an early stage in developing a comprehensive approach to fighting terrorism.

#### 4.3.6. *Protection of personal data*

No progress can be reported in the area of protection of personal data. There is no adequate legal framework in place. The current Law on Personal Data Protection which dates back to 1998 is not in line with the Data Protection Directive 95/46/EC and the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. Serbia has not yet signed the Additional Protocol to that Convention.

There is no independent data protection supervisory authority in place with sufficient powers over the public and private sectors and sufficient means to effectively implement the law. As a result, the existing data protection rules have not been implemented. Preparations in the area of protection of personal data are not well advanced.

#### **Statistical annex**

## STATISTICAL ANNEX

### STATISTICAL DATA (as of 5 October 2007)

#### Serbia

Basic data	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (thousand)	1)	7 610	7 583	7 553	7 528	7 505	7 502	7 491	7 470	7 456	7 425
Total area of the country (km <sup>2</sup> )		77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474p

National accounts	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product (GDP) (million national currency)	2)	126 411	169 517	210 232	397 656	783 897	1 020 117	1 171 564	1 431 313	1 750 459p	2 139 800e
GDP (million euro)		:	:	17 907	26 440	13 186	16 811	18 007	19 723	21 113p	25 499e
GDP (euro per capita)		:	:	2 371	3 512	1 756	2 241	2 404	2 640	2 832p	3 434e
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-25=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)	3)	:	:	:	4.5	4.8	4.2	2.5	8.4	6.2p	5.7e
SI: Employment growth (national accounts, % change on previous year)	3)	:	:	:	:	-0.2	-0.5	-4.3	1.3	-2.1	:
Labour productivity growth: GDP growth per person employed (% change on previous year)	3)	:	:	:	:	5.1	4.7	7.1	7.0	8.5	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture	2)	16.0	15.3	18.8	19.7	19.7	14.8	13.1	13.7	11.9	:
Industry	2)	22.8	22.6	23.1	25.8	24.4	23.7	22.5	23.5	23.2	:
Construction	2)	4.0	4.3	3.6	3.6	3.2	3.4	4.2	4.7	4.5	:
Services	2)	57.1	57.7	54.4	50.8	52.6	58.1	60.2	58.0	60.3	:
Final consumption expenditure, as a share of GDP (%)	2)	94.8	98.5	96.3	97.3	103.5	103.5	98.9	90.5	88.2	91.0e
Households and NPISH, as a share of GDP (%)	2)	72.3	78.2	78.0	78.4	83.1	81.2	76.4	70.7	70.3	70.1e
General government, as a share of GDP (%)	2)	22.6	20.3	18.3	18.9	20.4	22.3	22.5	19.8	17.9	20.9e
Gross fixed capital formation, as a share of GDP (%)	2)	10.0	9.8	10.8	12.3	10.4	11.8	16.1	17.7	17.3	17.9e
Changes in inventories, as a share of GDP (%)	2)	2.2	-0.6	-0.5	-3.8	5.7	5.5	6.6	20.1	16.1	10.2e
Exports of goods and services, relative to GDP (%)	4)	17.3	21.2	11.1	10.5	21.7	19.9	20.6	22.2	26.0	27.1e
Imports of goods and services, relative to GDP (%)	5)	24.3	29.9	17.8	16.3	41.3	40.7	42.2	50.6	47.6	46.3e

Industry	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industrial production volume index (2000=100)		116.1	120.7	89.8	100.0	100.1	101.9	98.8	105.9	106.7	111.7

Inflation rate	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Consumer price index (CPI), (total, % change on previous year)		21.5	29.9	43.5	79.6	93.3	16.6	9.9	11.4	16.2	11.7

Balance of payments	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Balance of payments: current account total (million euro)	6)	-1 001	- 419	- 427	- 166	- 318	-1 319	-1 255	-2 307	-1 788	-2 912
Balance of payments current account: trade balance (million euro)	6)	-1 546	-1 283	-1 167	-1 713	-2 577	-3 414	-3 555	-5 201	-4 252	-4 962
Balance of payments current account: exports of goods (million euro)	6)	2 302	2 585	1 452	1 781	2 033	2 339	2 934	3 282	3 995	5 166

Balance of payments current account: imports of goods (million euro)	6)	3 847	3 868	2 620	3 494	4 610	5 753	6 489	8 482	8 247	10 127
Balance of payments current account: net services (million euro)	6)	261	271	109	153	272	138	179	141	- 5	- 49
Balance of payments current account: net income (million euro)	6)	21	9	8	- 1	7	- 77	- 120	- 174	- 260	- 315
Balance of payments current account: net current transfers (million euro)	6)	263	583	624	1 396	1 980	2 035	2 241	2 927	2 730	2 414
of which government transfers (million euro)	6)	0	0	0	293	660	525	421	382	264	182
Foreign Direct Investment (FDI) in the reporting economy (million euro)		:	:	:	:	:	:	:	:	:	:

<b>Public finance</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: General government debt, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:

<b>Financial indicators</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	:	:	:	:	:	:	:
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	7)	:	:	1 259	1 797	980	1 546	1 526	1 533	1 748	2 384
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	7)	:	:	1 591	2 187	1 146	1 828	1 920	2 015	2 318	3 374
Money supply: M3 (M2 plus marketable instruments, million euro)	7)	:	:	2 125	4 335	2 110	3 156	3 762	4 449	5 535	7 610
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	:	:	:	:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Euro exchange rates: average of period - 1 euro = ... national currency		:	:	11.740	15.040	59.450	60.680	65.060	72.570	82.910	83.916
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)	6)	762	690	622	964	2 019	3 240	3 921	4 137	5 258	10 064

<b>External trade</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trade balance: all goods, all partners (million euro)	8)	-1 748	-1 575	-1 423	-1 926	-2 862	-3 727	-4 147	-5 792	-4 831	-5 360p
Value of exports: all goods, all partners (million euro)	8)	2 238	2 393	1 270	1 680	1 896	2 192	2 442	2 832	3 608	5 103p
Value of imports: all goods, all partners (million euro)	8)	3 986	3 968	2 694	3 606	4 758	5 919	6 589	8 623	8 439	10 463p
Terms of trade (export price index / import price index, % change on previous year)	8)	96.8	100.0	92.5	100.2	103.1	98.0	101.6	108.4	98.4	104.5p
Share of exports to EU-27 countries in value of total exports (%)	8)	50.0	48.9	50.5	54.3	58.2	59.5	53.9	56.6	58.7	57.7p
Share of imports from EU-27 countries in value of total imports (%)	8)	55.6	56.7	59.9	61.6	57.6	59.6	58.4	58.2	54.7	55.0p

<b>Demography</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	-2.4	-3.1	-4.0	-4.1	-2.8	-3.4	-3.4	-3.6	-4.8	-4.3
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		:	:	:	:	:	:	:	:	:	:
Infant mortality rate: deaths of children under one year of age per 1000 live births	1)	12.0	11.9	11.1	11.0	10.8	10.3	9.1	8.1	7.8	7.4
Life expectancy at birth: male (years)	1)	67.8	69.7	69.7	69.7	69.6	69.7	69.9	69.9	70.0	70.6
Life expectancy at birth: female (years)	1)	74.4	74.7	74.8	74.8	74.8	75.0	75.1	75.4	75.4	75.9

<b>Labour market</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		66.6	67.6	68.2	68.2	68.9	68.4	68.9	66.4	65.2	63.6
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		57.8	58.2	58.3	59.2	59.7	58.5	57.9	53.4	51.0	49.9
Share of male population aged 15-64 that is in employment (%)		66.8	66.3	67.1	68.2	68.6	67.1	67.0	63.1	61.2	59.2

Share of female population aged 15-64 that is in employment (%)		49.1	50.3	49.8	50.4	50.8	50.0	48.7	44.0	40.8	40.6
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		39.6	40.5	42.3	43.3	42.1	42.0	44.3	37.3	35.4	32.6
Employment by main sectors (%)											
Agriculture		:	:	:	:	:	:	:	24.0	23.3	20.5
Industry		:	:	:	:	:	:	:	21.7	21.5	23.2
Construction		:	:	:	:	:	:	:	5.2	6.1	6.1
Services		:	:	:	:	:	:	:	49.1	49.1	50.2
SI: Unemployment rate: share of labour force that is unemployed (%)		13.3	14.0	14.5	13.3	13.3	14.5	16.0	18.7	21.1	21.0
Share of male labour force that is unemployed (%)		11.6	12.3	12.5	11.1	11.5	12.9	15.1	15.3	17.0	18.1
Share of female labour force that is unemployed (%)		15.4	16.0	16.9	15.9	15.7	16.5	17.2	23.1	26.5	24.9
Unemployment rate of persons <25 years: share of labour force aged <25 that is unemployed (%)		46.7	50.6	53.2	50.2	46.4	45.3	44.8	48.1	47.7	47.8
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		9.5	10.0	10.5	9.9	9.0	9.9	11.0	14.5	16.7	17.0

<b>Social cohesion</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Average nominal monthly wages and salaries (national currency)		1 324.0	1 702.0	1 992.0	3 799.0	8 691.0	13 260.0	16 612.0	20 555.0	25 514.0	31 745.0
Index of real wages and salaries: index of nominal wages and salaries divided by CPI (2000=100)		116.7	115.5	94.2	100.0	118.4	154.9	176.5	196.1	209.5	233.3
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	:	:	11.5	11.4	:

<b>Standard of living</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of passenger cars per 1000 population		208.1	230.6	208.2	169.2	184.0	179.2	185.3	194.7	198.6	203.6
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	:	155.1	251.0	322.5	399.3	578.6	700.4	899.6e

<b>Infrastructure</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2
Length of motorways (thousand km)		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

<b>Innovation and research</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Spending on human resources (public expenditure on education) relative to GDP (%)	9)	4.0	3.3	2.7	2.5	2.5	3.0	3.8	3.5e	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	18.5

<b>Environment</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		:	:	:	:	:	:	:	:	:	:
SI: Share of renewable energy in electricity consumption (%)		41.4	32.3	52.2	42.1	43.3	41.2	36.5	44.9	46.9	:
SI: Road freight transport as a share of total inland freight transport (modal split) (%)		42.2	38.8	49.8	:	:	:	:	:	:	:

<b>Energy</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:

Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of hard coal and lignite (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	:	:	:	:
Electricity generation (thousand GWh)		38.0	38.0	31.0	32.0	31.0	31.0	32.0	34.0	36.0	36.0p

<b>Agriculture</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural production volume index of goods and services (producer prices, previous year=100)		106.0	99.0	100.0	87.0	118.0	97.0	93.0	120.0	95.0	100.0
Total utilised agricultural area (thousand hectare)		5091p	5086p	5086p	5074p	5077p	5071p	5079p	5075p	5075p	5066p
Livestock: cattle (thousand heads, end of period)		1280e	1283e	1246e	1162e	1128e	1112e	1102e	1079e	1096e	1106e
Livestock: pigs (thousand heads, end of period)		4057e	4293e	4066e	3615e	3587e	3634e	3439e	3165e	3212e	3999e
Livestock: sheep and goats (thousand heads, end of period)		1906e	1868e	1794e	1670e	1612e	1685e	1741e	1728e	1748e	1718e
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	10)	1546e	1637e	1665e	1585e	1594e	1596e	1590e	1593e	1616e	1602e
Crop production: cereals (including rice) (thousand tonnes, harvested production)	11)	9709p	8104p	8584p	5213p	9001p	8298p	5453p	9867p	9510p	8268p
Crop production: sugar beet (thousand tonnes, harvested production)		2043p	1972p	2428p	1070p	1806p	2098p	1738p	2814p	3101p	3189p
Crop production: vegetables (thousand tonnes, harvested production)		1225p	1274p	1145p	1043p	1283p	1340p	1173p	1340p	1289p	1348p

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

- Source: Eurostat.
- From 1999 onwards, excluding Kosovo and Metohia.
- Excluding Kosovo and Metohia.
- From 1999 onwards, excluding Kosovo and Metohia; 1997-2004: delivery to the other republic data included.
- From 1999 onwards, excluding Kosovo and Metohia; 1997-2004: purchase from the other republic data included.
- Data were originally expressed in million USD and converted into Euro using the annual average exchange rate.
- Data were originally expressed in million CSD and converted into Euro using the annual average exchange rate.
- Break in series: from 2004 onwards the data are not comparable with the previous years because since January 2004 Uniform Customs Document harmonised with EU regulations has been used.
- Data from regular statistical survey regarding budget revenue in educational institutions.
- In million litres; includes cow and sheep milk.
- Without areas under triticale, buckwheat and millet, which are minor; rice production does not exist in Serbia.