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**Serbia 2016 Report**

*Accompanying the document*

**Communication from the Commission to the European Parliament, the Council, the  
European Economic and Social Committee and the Committee of the Regions**

**2016 Communication on EU Enlargement Policy**

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## 1. INTRODUCTION<sup>1</sup>

### 1.1 Context

The European Council granted Serbia the status of candidate country in 2012. The Stabilisation and Association Agreement (SAA) between Serbia and the EU entered into force in September 2013. Accession negotiations were launched in January 2014. The first four negotiating chapters were opened during the reporting period, including chapter 35 dealing with normalisation of relations between Serbia and Kosovo\* and the rule of law chapters 23 and 24.

Serbia remained committed to its strategic goal of EU accession. It continued to implement the SAA, although a certain number of compliance issues remain. It is implementing an ambitious political and economic reform agenda. Serbia played a constructive role in the region. It remained committed to the normalisation of its relations with Kosovo. It has also played a very constructive role in managing mixed migration flows.

### 1.2 Summary of the report

As regards the **political criteria**, the early national elections, held in April together with provincial and local elections, took place in a calm atmosphere. The recommendations of international observers need to be followed up, including those on ensuring that campaign financing and the registration process are transparent. The new government programme included Serbia's EU accession as a priority goal. Involvement of parliament and stakeholders, including civil society, in the accession process, was further enhanced. However, the inclusiveness, transparency and quality of law-making and effective oversight of the executive need to be further enhanced, and the use of urgent procedures limited. Constitutional reforms are needed for alignment with EU standards in some areas. There is scope for improved cooperation between the executive and independent regulatory institutions.

Serbia is moderately prepared in the area of public administration reform. Good progress was achieved with the adoption of the public financial management reform programme, strategies on e-government and on regulatory reform and policy-making, and of new laws on administrative procedures, public salaries and local and provincial civil servants. Serbia needs to implement its reform targets, professionalise and depoliticise the administration and make recruitment and dismissal procedures more transparent, especially for senior management positions.

The judicial system has reached some level of preparation. Some steps were taken to promote a merit-based recruitment system, and harmonise the jurisprudence. Further steps are needed to tackle political influence. The quality and efficiency of the judiciary and access to justice remain undermined by an uneven distribution of workload, a burdensome case backlog and the lack of a free legal aid system.

Serbia has some level of preparation in preventing and fighting corruption. Corruption remains prevalent in many areas and continues to be a serious problem. The anti-corruption effort has yet to yield meaningful results. The institutional setup is not yet functioning as a

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<sup>1</sup> This report covers the period from October 2015 to September 2016. It is based on input from a variety of sources, including contributions from the government of Serbia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

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

credible deterrent for corruptive practices. A track record of effective investigations, prosecutions and convictions in corruption cases is required, including at high level.

Serbia has some level of preparation in the fight against organised crime. Some progress has been made in adopting a new police law, reorganising the Ministry of the Interior and in adopting the first serious and organised crime threat assessment (SOCTA) using Europol methodology. A credible track record in the fight against organised crime still needs to be established.

The legal and institutional framework for the respect of fundamental rights is in place. Consistent implementation across the country needs to be ensured, including as regards protection of minorities. No progress was made to improve conditions for the full exercise of freedom of expression, where Serbia has achieved some level of preparation. Serbia was the first enlargement country to introduce the EU Index of Gender Equality. Further sustained efforts are needed to improve the situation of persons belonging to the most discriminated groups (Roma, lesbian, gay, bisexual, transgender and intersex persons, persons with disabilities, persons with HIV/AIDS and other socially vulnerable groups).

Serbia participated constructively in regional initiatives and worked to improve its bilateral relations in a spirit of reconciliation, good neighbourly relations and establish a climate conducive to addressing open bilateral issues and the legacies of the past. The signature in June of a joint declaration with Croatia tackling certain bilateral issues was a positive development. Such an approach is key for reconciliation, peace and cooperation in the region, and should be pursued consistently.

Regarding the **normalisation of relations with Kosovo**, Serbia remained committed to the implementation of the agreements reached in the EU- facilitated dialogue. Progress was limited, also due to the electoral process in Serbia and the domestic situation in Kosovo. However, momentum was regained in August 2016 with the start of the work on the Mitrovica bridge and freedom of movement. Continued efforts are needed to implement the agreements already reached with Kosovo. The steps taken should have a positive and concrete impact on the everyday life of citizens in both Serbia and Kosovo.

As regards the **economic criteria**, Serbia is moderately prepared in developing a functioning market economy. Good progress was made to address some of the policy weaknesses, in particular with regard to the budget deficit and restructuring of publicly-owned enterprises. Economic reforms have brought clear results in terms of growth prospects and reduction of domestic and external imbalances. In view of the still high level of government debt, fiscal consolidation needs to be sustained. The restructuring of large state-owned utilities is still to be completed. Credit activity is recovering but the high level of non-performing loans remains an issue. Unemployment remains high, particularly among youth. Further expansion of the private sector is hampered by weaknesses in the rule of law.

Serbia is moderately prepared to cope with competitive pressure and market forces within the Union. Public and private investments increased, though the level of investment activity remains below the economy's needs. The quality, equality and relevance of education and training do not match societal needs. **Some progress** was made concerning support to SMEs and entrepreneurship but SMEs face a number of challenges, including an unpredictable business environment, a high level of para-fiscal charges, and difficult and costly access to finance.

As regards its **ability to assume the obligations of membership**, Serbia has continued to align its legislation with the EU *acquis* across the board. Adequate financial and human resources and sound strategic frameworks will be crucial to maintaining the pace of reforms.

Serbia has a good level of preparation in areas such as company law, intellectual property, science and research, education and culture and customs. Serbia needs to further improve investment planning and prioritisation of strategically important and mature infrastructure projects through its Single Project Pipeline and National Investment Committee, notably on energy and transport. In the areas of public procurement, statistics, monetary policy or financial control, Serbia is moderately prepared. Serbia will need to align its foreign and security policy progressively with the European Union's common foreign and security policy in the period up to accession. Serbia needs to address, as a matter of priority, issues of non-compliance with the SAA, in particular on safeguard measures on some agricultural products, State aid control, and fiscal discrimination.

Serbia continued to be affected by the migration crisis. This created a substantial burden on its asylum and migration system. Serbia continued to cooperate with neighbouring countries and Member States, ensured the effective screening of refugees and migrants, and made substantial efforts to provide shelter and humanitarian supplies, with EU support as well as the support of others. It is important that Serbia remains engaged. Serbia should also maintain its efforts to decrease the number of unfounded asylum applications lodged by its nationals in EU Member States.

## **2. POLITICAL CRITERIA**

### **2.1. Democracy**

#### **Elections**

<p>Serbia held elections at national, provincial and local levels on 24 April in a calm atmosphere. The assessment and recommendations of international electoral observers need to be followed up, in particular those on ensuring that campaign financing and the registration process are transparent.</p>
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Following a government decision, early parliamentary elections were held in April, together with provincial elections in Vojvodina and municipal elections. The turnout was 56 %. Seven lists passed the 5 % threshold. The list led by the incumbent Prime Minister maintained a majority, with 131 seats out of 250, and the list of its main coalition partner, the Socialist Party of Serbia (SPS), obtained 29 seats. The opposition is fragmented. The Democratic Party (DS) has 16 seats. The 'That's Enough' party (DJB) of former Minister of Economy Saša Radulović entered parliament for the first time, also with 16 seats. The coalition of the Social Democratic Party (SDS), the Liberal-Democratic Party (LDP) and the League of Social Democrats of Vojvodina (LSV) obtained 13 seats. Parties opposing Serbia's EU integration re-entered parliament: the Serbian Radical Party was in third position, with 22 seats, and the Democratic Party of Serbia (DSS) in coalition with the Dveri movement secured 13 seats. Five parties representing national minorities, which are exempt from the 5 % threshold, obtained 10 seats. Women continue to comprise a third of all MPs. The opposition chairs 2 out of 20 standing committees, including the committee on European integration.

International observers were deployed at the Serbian authorities' invitation. The OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR) and the Council of Europe Parliamentary Assembly found that the elections offered voters a variety of choices, were in general conducted in line with the law, and upheld fundamental freedoms. However, they noted biased media coverage, undue advantage taken by incumbent parties at official events during the electoral campaign, and a blurring of the distinction between state and party

activities. A number of previous recommendations of the OSCE/ODIHR remained unaddressed, in particular those on ensuring that campaign financing and the registration process are transparent. OSCE/ODIHR noted further shortcomings in the legislation concerning the dispute resolution mechanism and the processing of results. Claims of irregularities during elections should be properly investigated.

### **Parliament**

Outside the electoral period, parliament's legislative activity was intensive and reflected increased involvement in the accession negotiation process. Consultation and transparency improved. However, the inclusivity, transparency and quality of law-making and effective oversight of the executive need to be further enhanced, and the use of urgent procedures limited.

Due to early elections in April, parliament's legislative activity was suspended from March. Outside this period, parliament's legislative activity continued to be intensive. Further efforts were made to improve transparency and consultation processes, including through public hearings, the holding of the first ever parliament week in October 2015, the constitution of an Informal Parliamentary Group for an Open Parliament, and regular meetings and consultations with the National Convent on European Integration, which brings together civil society organisations involved in the accession process. However, frequent use of urgent procedures, last-minute changes to the parliamentary agenda, limited support for independent regulatory bodies and a lack of pro-activeness in oversight of the executive, combined with a lack of genuine cross-party debate, undermines parliamentary effectiveness. The adoption of parliament's code of conduct and annual work plan remains pending.

### **Governance**

The new Serbian government programme included Serbia's EU accession as a priority goal. Involvement of parliament and other stakeholders, including civil society, increased further. Understanding and acknowledgement of the remit of independent bodies, including the Ombudsman's Office, needs to be improved. The legal framework for local self-government still needs to be improved and further implemented. Constitutional changes are needed to address issues of importance for the accession negotiations.

Following the early parliamentary elections, the new government of Prime Minister Aleksandar Vučić took office in August, renewing the coalition between the SNS, SPS, their respective junior partners, and the Alliance of Vojvodina Hungarians. Some other minority parties voted in favour of the new government. The government has 20 members, including the Prime Minister and 3 ministers without portfolio, one of them being in charge of European Integration. It comprises 5 women and 8 newcomers. The new government remained committed to reforms, EU integration and to the EU-facilitated dialogue with Kosovo and identified economic recovery and attraction of foreign investments as other key priorities. The core negotiating team and the Serbian administration continued to demonstrate a high level of preparedness and professionalism in the accession negotiations process.

Involvement of parliament and civil society in the accession process was further improved. Greater coordination of sectoral policies and anticipation of their financial implications remain crucial in the negotiations. Further efforts are needed to communicate the benefits of joining the EU to Serbian citizens more effectively.

Public consultations need to be wider and deadlines more realistic to enable all interested parties to provide qualitative input. This is especially needed for draft legislation with major economic and social impact. More effective monitoring of the implementation of enacted

legislation and strategic documents is needed. The welcome practice of regular meetings with the Prime Minister needs to be built upon with a view to improving within the public administration the understanding and acknowledgement of the essential role played by the Ombudsman's Office and other independent authorities and regulatory bodies in ensuring that the executive is accountable. It is important in this respect that all their recommendations, and in particular those related to issues of significant public concern, are responded to, as appropriate.

As regards local self-government, the law on Vojvodina's resources still needs to be adopted as prescribed by the constitution. Implementation of the laws on local self-government and on municipal finance remains limited. A positive step forward was the adoption of the law governing the civil service at provincial and local level. Local administrative capacity is weak and significant disparities between municipalities persist. Responsibilities continue to be borne at local level without proper analysis of the capacity or resources required. Transfers earmarked by line ministries need to be allocated in line with the law on municipal finance. Consultation with local authorities on new legislation with local implications has improved but it remains a discretionary practice.

The constitution has yet to be revised to reflect fully the recommendations of the Venice Commission, particularly on parliament's role in judicial appointments, the political parties' control over the mandate of Members of Parliament, the independence of key institutions and the protection of fundamental rights, including data protection. No outcome was reported on the work of the Parliamentary Action Team established in 2015 to address matters including changes to the constitution.

### **Civil society**

Some progress was made towards establishing an enabling environment for the development and financing of civil society. However, further efforts are needed to ensure systematic inclusion of civil society in policy dialogue and help develop its full potential.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. Civil society organisations (CSOs) and human rights defenders, who play a key role in raising awareness of civil, political and socioeconomic rights, continued to operate in a public and media environment often hostile to criticism.

A new Director of the Government Office for Cooperation with Civil Society was appointed in March, one year after the resignation of his predecessor. The Office continued with initiatives aimed at improving cooperation between the state and the civil sector and at enhancing the legal, financial and institutional framework for the development of civil society. It published the first study of the status of civil society organisations, based on official records and statistics, providing a valuable overview of their operation and functioning, together with data on the institutional and legal framework for cooperation with the public administration.

Cooperation between civil society and parliament in the area of EU negotiations has improved, notably through the National Convent on European Integration, as evidenced in the public consultations on chapters 23 and 24. Guidelines for Cooperation between the core negotiating team, representatives of civil society organisations, the National Convent and the Chamber of Commerce were adopted in April, aiming to improve the level of inclusion of civil society in the negotiations. In March, local civil society organisations presented the initiative 'Vojvodina for the EU', with the aim of representing the interests of Vojvodina's



citizens in the process of EU integration. However, civil society struggles to exert influence on policy-making and faces obstacles from parts of the public administration. At many levels, civil society participation in policy-making is still to a large extent *ad hoc*, which means that the full potential of the sector is not being realised.

The national strategy for an enabling environment for development of CSOs in Serbia 2015-2019 (produced in 2015) has still not been adopted and the Council for Civil Society Cooperation remains to be set up.

Corporate donations to non-profit organisations that are licensed providers of social services are now exempt from VAT (this type of exemption previously applied only to donations to state-owned service providers). The legal framework for volunteering needs to further encourage voluntary work, including as part of co-financing projects.

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

Parliament needs to continue to perform its oversight role. The remit of the Ombudsman's Office in this field needs to be better understood and defended. Serbia's legislative framework needs to be strengthened.

The **parliamentary committee for oversight of the security forces** met only occasionally to review and report on the activities of the Security-Information Agency, the Military Intelligence Services and the Inspector General of the Ministry of Defence. The **Ombudsman's** Office's recommendations on illegal data collection by the Military Intelligence Agency on political parties' activities need to be followed up.

The potential for abuse of interception of communications needs to be addressed. A law on access to state security communications still needs to be adopted.

## **2.2. Public administration reform**

Serbia is **moderately prepared** with the reform of its public administration. **Good progress** has been achieved with adoption of the public financial management reform programme, e-government strategy, a strategy on regulatory reform and policy-making, new laws on general administrative procedures, public salaries and civil servants at provincial and local government level. However, implementation of the public administration reform action plan has been slow in some areas, and no progress was made with amending the legal framework for central government civil servants. In the coming year, Serbia should, in particular:

→ align the National Plan for the Adoption of *Acquis* (NPAA) with the medium-term budget plan, provide costing for actions, and update it with a view to setting a legislative programme that promotes better regulation based on impact assessments and timely inter-institutional and public consultations;

→ amend the civil service law through an inclusive and evidence-based process to guarantee the neutrality and continuity of the public administration and ensure merit-based recruitment, promotion and dismissal procedures, notably by eradicating exceptions and transitional arrangements in appointments;

→ ensure systematic coordination and monitoring and regularly report on the implementation of the public financial management reform programme 2016-20.

### *Policy development and coordination*

The legal basis and the necessary institutions to ensure coherent **policy-making** are in place. Policy coordination continues to focus more on formal, procedural issues than on substance. The adoption of the strategy for regulatory reform and public policy management represents a

positive step forward. However, a consolidated policy planning and monitoring system still needs to be put in place, streamlining the roles and responsibilities of leading institutions in charge of policy making and coordination, linking policy and medium-term fiscal planning, clarifying sources of funding and streamlining overlapping strategies.

As part of the policy-planning system, coordination structures for European integration have been established. The National Plan for the Adoption of the *Acquis* (NPAA) is being implemented. However, there is a consistent backlog in implementing the NPAA commitments, and many laws are adopted by urgent procedure without appropriate public consultations. The NPAA needs to be regularly monitored and a revision for 2016-2018 is expected.

The administration needs to further strengthen its capacity for **inclusive and evidence-based policy and legislative development**, including on the *acquis*. Public and inter-ministerial consultations on proposals are often conducted formalistically and at too late a stage of the process, not enabling all interested parties to provide qualitative input. Decision-makers are not systematically informed about the outcome of public consultations. More effective monitoring of the implementation of enacted legislation and strategic documents is needed. Regulatory impact assessments are usually carried out, but their quality varies considerably. The Ministry of Finance has started to check the quality of compulsory financial impact assessments for all legislation, but further resources need to be devoted to this to ensure appropriate quality.

The government publishes annual monitoring reports on key strategic documents. This enables **public scrutiny of government work**. However, the reports do not measure achievements against objectives. Parliamentary scrutiny is conducted by specialist legislative committees, but their assessment of the implementation of laws and strategies remains limited.

#### *Public financial management*

Serbia made progress with the adoption of a comprehensive **public financial management reform programme** (PFM) 2016-2020 which covers all the relevant PFM sub-systems. A monitoring framework has been set up, but its efficiency still needs to be assessed. The first implementation report due in July 2016 is still to be published. Among the key short-term reform priorities are to improve macroeconomic forecasting, to align the medium-term budgetary framework and annual budget processes with strategic planning, to enhance programme budgeting, to enhance tax collection and voluntary compliance, to improve debt management, and to strengthen public investment and capital project planning. The programme envisages stepping up practical implementation of internal control (*see chapter 32*). The Ministry of Finance is implementing a functional review, which will support the reorganisation of the ministry.

As concerns ongoing PFM reforms, the tax administration is implementing a programme to enhance compliance and reduce the administrative burden of the tax collection process. Courts, public prosecutors and the judiciary are included in the financial management information system for budget execution. The legal framework for public procurement was developed further. External audit is well established and the State Audit Institution has continued to expand audit coverage. The Parliamentary Budgetary Office set up in November 2015 provides professional support to the Members of Parliament on formulation and execution of budget policy.

Serbia is committed to improving **budget transparency**. It has made the executive's budget proposal and the enacted budget more informative. Furthermore, a Citizens' Budget, a

pre-budget statement, and a mid-year report are to be produced and published. The executive's budget proposal and the year-end report should be made more comprehensive. Public participation in the budget process is weak and budget oversight by the legislature needs to be improved.

#### *Public service and human resources management*

Serbia made limited progress with enforcing and amending the current civil service framework to guarantee the neutrality and continuity of the public administration and to ensure **merit-based recruitment, promotion and dismissal procedures** by eradicating exceptions and transitional arrangements in appointments. The merit principle is undermined by the excessive discretion allowed for the political level to choose the final candidates and the lack of clear criteria for organisation of the selection tests and composition of selection committees. Also, exemptions from the normal recruitment procedures are allowed for temporary staff, which makes up around 10 % of the civil service. The legal separation of political and public service positions is not clearly enforced. Political influence plays a key role in filling senior management posts, and more than 60 % of senior civil servants are not appointed in line with legal provisions. Turnover of senior civil servants continues to be an area of particular concern. The legal framework allows room for abusive practices with dismissals. Termination is allowed legally on grounds of 'serious disturbance', but without any formal definition of this provision as well as following the abolishment of the management post during an internal reorganisation. A positive step was the adoption of the law on provincial and local government employees in March 2016. The law extends the existing state civil service framework to the local level and introduces a system of merit-based human resources management.

**Human resources management** is not well developed in the state administration; it focuses mainly on legal compliance. The performance appraisal system remains inefficient, with inflated appraisal grades. The Ministry of Public Administration, responsible for central coordination of human resources management, lacks capacity to coordinate and harmonise the work of human resources units. A separate agency, not directly accountable to the ministry, maintains the human resources management information system, which does not interact with other national databases such as the treasury payroll registry and is not regularly updated.

On the civil service **remuneration system**, a positive step was the adoption of a new law on the salary system in February 2016 based on the principle of equal pay for equal work. The law covers all public sector employees and is expected to enter into force from 2017.

**Professional development** is neither promoted consistently nor monitored properly for any category of civil servants. There is still no link between the provision of training and the performance appraisal system. No progress has been made with the implementation of the national strategy for professional development or the planned establishment of a national training institute for public servants. **Integrity in public service** is promoted by means of the 2015 code of ethics for civil servants. Its impact remains to be assessed.

#### *Accountability of administration*

Rightsizing of the state administration is a key government priority. Since 2015 the number of public employees has been reduced by more than 16,000. The structure of the state administration is, however, a key outstanding issue that the country should address in order to maximise the impact of rightsizing efforts. **Lines of accountability** between agencies and parent institutions are blurred within the current organisation, contributing to overlapping functions, fragmentation and increased politicisation. The political commitment to improve

managerial accountability and ensure more systematic delegation of responsibilities within institutions has not yet delivered results (see *chapter 32 — Financial control*).

**Citizens' right to good administration** is protected through internal and external oversight mechanisms. The Ombudsman's Office plays a key role, and public authorities are obliged to report on implementation of its recommendations (*see under Governance*). The **right to access public information** is regulated in the law on access to public information, which is not fully in line with European standards. Administrative silence is a major issue, as highlighted by the Commissioner for Free Access to Information of Public Importance, who oversees implementation of the law. That office still lacks resources. The law needs to be further strengthened to ensure enforcement of the Commissioner's decisions.

Progress has been made as regards the **right to administrative justice** with the adoption in February 2016 of a new law on general administrative procedures, whose implementation will start in mid-2017. A continuing backlog of administrative disputes to be resolved by the court system undermines public confidence. The **right to seek compensation** is often not enforced, partly due to the lack of a specific law on public liability.

#### *Service delivery to citizens and businesses*

Creating a more **user-oriented administration** is a key government priority. Some progress has been made with the adoption of an e-government strategy and action plan and provision of a certain number of integrated e-services to citizens and businesses through one-stop-shops. Citizen satisfaction with the delivery of public services is still not regularly measured.

Even though an important step towards **simplifying administrative procedures** was taken with the adoption of the law on general administrative procedures, Serbia will still need to address a number of special administrative procedures, regulated in different pieces of legislation, which hinder transparency and legal certainty.

#### *Strategic framework for public administration reform*

Serbia is implementing its **public administration reform strategy (PAR)** and the related action plan for 2015-2017. **Political support** for PAR is ensured through regular meetings of the PAR Council, chaired by the Prime Minister. The first annual monitoring report shows some delays with implementation, especially in the area of public service and human resources management. Some progress has been made with adoption of the PAR sub-sector strategies and three laws governing the civil service at provincial and local level, on general administrative procedures and on the public salaries system. Delays are partly caused due to insufficient resources in the lead ministry. The government needs to better ensure **financial sustainability** and allocate sufficient resources for implementation of the reform in the annual budget and the medium-term expenditure framework.

### **2.3. Rule of law**

#### **Functioning of the judiciary**

Serbia's judicial system has **some level of preparation**. Serbia has partially fulfilled last year's recommendations. **Some progress** has been made in the last year by further promoting a merit-based recruitment system and by pursuing the national programme to reduce the backlog of court cases. Some steps were also taken to harmonise jurisprudence. However, judicial independence is not assured in practice.

The legal framework is not yet in line with European standards thus leaving scope for political influence in the recruitment and appointment of judges and prosecutors. Public comments on investigations and ongoing cases, even at the highest political levels, continue to hamper

judges' independence. Administration of justice remains slow. Serbia has still not adopted a new law on free legal aid. In addressing the shortcomings outlined below in the coming period, Serbia should in particular:

→ urgently adopt a new law on free legal aid and enable its efficient implementation in cooperation with the main stakeholders;

→ amend the constitutional provisions related to the system for recruitment and career management in line with European standards related to the independence of the justice system;

→ further step up measures to reduce the backlog of cases and standardise court practice.

### Strategic documents

The strategic framework is defined by the national judicial reform strategy and action plan (2013-2018) which have been brought into line with the action plan for chapter 23.

### Management bodies

The **High Judicial Council (HJC)** and the **State Prosecutorial Council (SPC)** are responsible for judicial appointments and dismissals and, in part, for management of the judicial budget. They share responsibility for court and prosecution budgets with the Ministry of Justice, the latter being responsible for court staff, expert assistants, infrastructure and investments. This division hampers the efficiency of financial management and creates scope for additional political influence. The HJC and SPC need adequate support to prepare them to take over independent management of the justice system in good time. This is critical to secure judicial independence and improve the functioning of the judiciary in line with the requirements and timeframe of the action plan for chapter 23.

### Independence and impartiality

Despite constitutional guarantees on **independence**, the constitutional and legislative framework still leaves some room for undue political influence over the judiciary. Parliament appoints and dismisses the Supreme Court President and the State Prosecutor, who are also *ex officio* presidents of the High Judicial and State Prosecutorial Councils, together with court presidents and prosecutors. The parliament was involved in the election process of key high prosecutors in December 2015. In addition, the broad discretionary powers of court presidents and heads of prosecution offices over the work of judges and deputy prosecutors respectively create internal pressure which can have a negative impact on their independence. External pressure is exerted on the judiciary by the many public comments made about investigations and ongoing cases, some of them at the highest political levels, and without adequate protective measures being taken by the HJC and SPC.

Court rules of procedure provide for **random assignment of cases**, but in practice not all courts apply this procedure. There is no technology for allocating files randomly in prosecution offices. Rules generally prohibiting **withdrawal of cases** from judges are in place, but in practice the **removal of judges** can be circumvented by recourse to the extensive powers of court presidents to transfer judges internally or to reassign cases.

### Accountability

**Codes of ethics** are in place for judges and prosecutors. **Disciplinary procedures** are in place and operational for both judges and prosecutors. The number of disciplinary sanctions remained relatively small. Disciplinary reports were, however, increasingly filed for inefficiency or missed procedural deadlines. This deserves careful consideration, as it is connected to generally uneven (and in some cases excessive) workload. Judges and

prosecutors have an obligation to **declare their assets** on an annual basis and to report possible **conflicts of interest**.

#### Professionalism and competence

**Appointments, evaluation and dismissals** are in the hands of the HJC and SPC. In the case of judges, appointments continued under the current rules. December 2015 elections for the State Prosecutor and general elections for heads of prosecution offices were organised under the new rules for selecting candidates adopted in 2015. However, shortcomings were noted in the selection process performed by the SPC. Rules for evaluating judicial assistants have been adopted. There is a need to clearly establish a systematic approach to judges' and prosecutors' careers based on performance criteria. The same applies to regular individual **evaluation** of judges and prosecutors.

#### Quality of justice

The Judicial Academy is the institution responsible for initial and continuous **training** of the judiciary. Further reform of the Academy is needed to improve its professional, financial and administrative capacity so it can become a proper independent and compulsory point of entry to the judicial profession. A quality review mechanism to evaluate the effectiveness of judicial training had yet to be established.

In the reporting period the **total budget** for courts was EUR 23.12 per inhabitant, or EUR 164.5 million, representing 0.5 % of the Gross Domestic Product (GDP). Court fees fell further as a number of services have been delegated to notaries and enforcement agents. Frequent changes in legislation and insufficient training make the legal environment challenging for the judiciary, which leads to inconsistency in court practice. There is a strong need for practical in-service training for all categories of staff responsible for the quality of justice.

Serbian courts currently use three non-interoperable applications for electronic case management which are not interoperable, so automated information exchange across the sector is limited; **information and communication technology (ICT)** remains underdeveloped. The statistical methods used need to be reformed for better analysis, management and policy decisions, to improve performance and the quality of justice. A **case weighting system** ensuring a more **even distribution of cases** must be put in place. There is no consistent or easily accessible body of case-law.

A new law on **mediation** has been in force since January 2015 but has had little impact. Awareness of **mediation** and alternative dispute resolution is limited. A formal mediation programme needs to be introduced in all courts, in order to create incentives, inform the public and ensure intensive training among professionals.

#### Efficiency

A national backlog reduction programme is in place but has led to only limited results. The overall **length of proceedings** and the **backlog** of cases remain serious concerns. The law on enforcement and security, which came into force in July 2016, introduces new procedures, gives public enforcement agents a broader range of responsibilities and has had initial positive impact on resolving the backlog. The main challenges relate to inter-institutional coordination, the effects of delayed case migration (up to 12 November 2015) and the shortage of judicial staff. In 2015, the total backlog of court cases increased, with an overall clearance rate, i.e. the ratio of solved cases to newly received cases, of 98 %, compared with 102 % in 2014. As regards **human resources policy**, the planned reduction in the judicial

administration by 1 300 will need to be carefully handled so that it does not further challenge courts' efficiency.

### **The fight against corruption**

Serbia has **some level of preparation** in the fight against corruption. **No progress** was made on meeting last year's recommendations. Corruption remains prevalent in many areas and continues to be a serious problem. There have been limited results from the implementation of adopted legislation. Serbia has still not adopted the new law on the Anti-Corruption Agency nor the amendments to the criminal code in the economic crimes sections. The government still does not take the recommendations of its own advisory body - the Anti-Corruption Council - into account. No progress was made on improving Serbia's track record of convictions or stepping up the implementation of the national anti-corruption strategy. As in 2015, in addressing the shortcomings outlined below in the coming period, Serbia should in particular:

- establish an initial track record on investigations, indictments and final convictions as regards high-level corruption;
- step up the implementation of the national anti-corruption strategy and action plan, including by providing effective coordination and ensuring that all key institutions have adequate capacity and resources to fulfil their remits effectively;
- urgently amend and implement the economic and corruption crimes section of the criminal code (in particular Article 234 on abuse of position of a responsible person) with a view to providing a credible and predictable criminal law framework;
- swiftly adopt a new law on the Anti-Corruption Agency to strengthen its role as a key institution for a more effective fight against corruption.

#### Track record

There is a track record of successful **investigation, prosecution and convictions in corruption cases**. There are still very few final convictions for **high-level corruption**. In order to secure more final convictions, law enforcement bodies need to be more fully empowered to act effectively and impartially when investigating corruption allegations. Public enterprises remain particularly vulnerable to corruption. Independent supervision and capacity for early detection of wrongdoing or conflicts of interest in the management of state-owned companies, in privatisation procedures, public-private partnerships and in relation to strategic investment partnerships are underdeveloped. Internal control departments lack equipment, resources and competent staff.

**Financial investigations** are not being launched systematically in cases of corruption and organised crime. Only in a few corruption cases have assets been effectively **confiscated**.

**Political influence** on the police, judges and prosecutors is illustrated by frequent comments by politicians on ongoing corruption investigations and court rulings. Repeated leaks to the media about ongoing investigations, in breach of the presumption of innocence, continue to be an issue of serious concern. A number of high-profile cases, including some where evidence of alleged wrongdoing has been presented by the media, have still not been seriously investigated.

The Anti-Corruption Agency continued to monitor the **funding of political activities**, and to report on oversight financing of political organisations. It continued to file requests for misdemeanour proceedings relating to the funding of political activities and to **asset**

**declarations and conflicts of interest.** There is some track record of judicial follow-up to the Anti-Corruption Agency's work.

As regards **free access to information**, the legislation has not yet been amended to improve the effectiveness of the work of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection. Analysis of requests refused for access to information shows that they mainly concern issues that have an impact on the budget.

#### Institutional framework

On the **prevention side**, the Anti-Corruption Agency enjoys a large degree of independence in carrying out its mandate, including control of asset and income declarations, conflicts of interest, political party financing and electoral campaigns. However, the Agency faces obstacles to playing its role effectively, in the form of imprecise and unclear provisions of the law on the Anti-Corruption Agency and the lack of legal access to databases and records of other state bodies. The Anti-Corruption Council continued to analyse cases of systemic corruption and to provide the government with policy advice. The Council remains under-resourced and the government does not follow up and act on its recommendations systematically. Laws on access to information are in place, but they still do not ensure that the decisions of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection are followed up. The Commissioner does not have the legal power to monitor outcomes.

As regards **law enforcement**, police and prosecutors are conducting more proactive investigations but continue to lack specialised tools and training. There is still no safe and secure platform for exchanging sensitive information between them, which hampers investigations. Capacity to carry out financial investigations and confiscate assets in corruption cases remains limited.

#### Legal framework

The legal framework for the **fight against corruption is broadly in place**. The excessive recourse to the provision on abuse of office in the private sector in the criminal code is harmful to the business climate and legal certainty. Amendments to the criminal code are still under consideration to provide for a sustainable legal solution in order to prosecute criminal economic offences effectively. There has been a significant delay in amending the law on the Anti-Corruption Agency to enhance its role as a key institution in the fight against corruption.

Serbia has ratified all major international instruments against corruption but more evidence is needed to demonstrate their effective implementation. Procedures for investigating corruption cases, especially cases of high-level corruption, remain lengthy due to an inadequate legal framework for financial investigations and asset recovery.

The law on **access to information** does not ensure adequate enforcement of the decisions of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection. **Lobbying** is not regulated. Laws on conflicts of interest need to be amended.

#### Strategic framework

Serbia is implementing an **anti-corruption strategy and action plan** for 2013-2018 but its effects are so far limited and a number of measures have been delayed. There is limited institutional capacity to steer the coordination of activities. Serbia has adopted a financial investigation strategy, but it still lacks an action plan and credible financial resources to effectively implement it. It has not yet achieved results. The fight against corruption in Serbia lacks both a long-term strategic vision and the political will to boost reforms.



## Fight against organised crime

Serbia has **some level of preparation** in the fight against organised crime. Serbia has partially fulfilled last year's recommendations. **Some progress** has been made in adopting a new police law, reorganising the Ministry of Interior and in adopting the first serious and organised crime threat assessment (SOCTA) using Europol methodology. However, the number of final convictions remains low. Efforts to investigate wider criminal networks and to process money laundering cases still need to be stepped up. Financial investigations and the concept of intelligence-led policing remain underused. Precautionary freezing of assets is rarely applied and the level of assets confiscated is low. Independent and transparent oversight of the police is not yet in place. In addressing the shortcomings outlined below in the coming period, Serbia should in particular:

→ based on the SOCTA, continue stepping up intelligence-led investigations with a view to developing a sustainable track record of final convictions and dismantling networks involved in organised crime, money laundering, people smuggling and trafficking in human beings;

→ establish a secure platform to exchange intelligence between law enforcement agencies, devoting more attention to sharing data on cases with prosecutors and with the asset recovery directorate;

→ ensure coherence between the new law on the organisation of the police and the criminal procedure code;

→ reinforce the functions and independence of the internal control sector of the police.

### Track record

The number of final convictions for organised crime remains low compared to the estimated value of the criminal market in the region. Criminal investigations are often narrow in scope and companies or organisations are very rarely investigated. In many cases, though, there has been no serious effort to investigate wider criminal networks. There was a substantial fall in the number of identified victims of **trafficking in human beings** in 2015 compared with 2014. There is a need to establish a proactive approach to identifying victims, including those among migrants, asylum seekers and unaccompanied foreign minors.

There is no policy of systematically running serious **financial investigations**. The concept of financial investigation does not go beyond the seizure and confiscation of criminal assets of individuals and rarely focuses on tracing money flows. Serbia is not yet in a position to run complex financial (including **money laundering**) investigations alongside criminal investigations. This was confirmed by the Council of Europe's Moneyval evaluation report on Serbia adopted in April 2016. Precautionary **freezing of assets** is rarely applied in investigations. So assets often disappear, which results in a poor track record of confiscating criminal assets on final conviction. **Sanctions** applied by judges are not sufficiently deterrent. There are frequent leaks to the press, violating the secrecy of the investigation.

Serbia continued good international and regional cooperation in the **fight against drugs**. As regards the fight against money laundering, some progress can be noted in terms of the Administration for Prevention of Money Laundering detecting and acting upon suspicious transactions, despite its inadequate resources.

### Institutional and operational capacity

Serbia has 31 951 police officers, or 445 per 100 000 inhabitants. The Ministry of Interior reformed human resources and created a centralised service, but its capacity needs to be reinforced. There is no progress in applying clear and transparent criteria in staff recruitment, promotions, dismissal, career paths and evaluation in the police; they remain vulnerable to politically motivated decisions. Serbia needs to take additional steps to exclude any political influence in police work. **Command structures** continue to be complex, with overlapping responsibilities.

**Specialised units** are in place to combat terrorism, trafficking in human beings, synthetic drugs, and cybercrime and to conduct financial investigations. All these units are in need of further staffing and specialised training. A specialised department in the Criminal Investigations Directorate to prevent and fight domestic violence has been created, but needs to be reinforced. The general level of equipment varies across the ministry.

There was no progress in establishing independent and transparent oversight of the police. The new law on the police does not represent sufficient progress to meet this goal. The internal control section of the police is not independent nor is it able to take special investigative action without recourse to the intelligence agencies.

**The operational capacity of prosecutors and the police** is weakened by the lack of a secure platform for storing and exchanging information. Effective cooperation on operations between the various law enforcement agencies, such as the police and the tax and customs administrations, is hampered by a lack of smooth data exchange. An operational **agreement with Europol** is in place but there is no progress in appointing a liaison officer to The Hague. International cooperation is well established. The **witness protection unit** in the ministry lacks adequate staff, equipment and premises. The level of cooperation between the Serbian Witness Protection Unit and prosecutors needs to be improved. As regards crime statistics, a **DNA database** and profiling capacity are in place. There was no progress towards adopting a comprehensive, multidisciplinary and victim-oriented approach to the fight against human trafficking. Capacity for anti-money laundering action is weak. The lack of proactive financial investigations increases the risk of assets being taken out of the country. The Directorate for the **Management of Seized Assets** in the Ministry of Justice is under-equipped to carry out its remit to seize and confiscate property. The Serbian police's secure database does not allow cases to be classified as international or domestic. It does not provide information received through asset recovery activities.

#### Legal framework

The February 2016 law on the police provides for better separation of tasks between the police and Ministry of Interior. Clear guidance on the implementation of this new law needs to be provided. The law on the confiscation of criminal assets needs to be aligned with EU rules, notably as regards third-party confiscation, extended confiscation and precautionary freezing of assets. Alignment is still required with various EU police cooperation and criminal law instruments. A number of shortcomings in the investigation phase need to be addressed through amendments to the criminal procedure code, notably as regards the timeframe and arrangements for using special investigative measures. The police's dependence on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations are not in line with good practice. Legal amendments are needed to broaden the investigative powers of the border police and customs.

#### Strategic framework

Serbia has national strategies for anti-money laundering activities, financial investigation and combating the financing of terrorism. Serbia adopted its first national serious and organised

crime threat assessment (SOCTA) and should now start using it to set security priorities and roll out the concept of intelligence-led policing, based on a well-developed risk and threat assessment capacity, which still needs to be developed. Serbia needs to adopt strategies on cybercrime and trafficking in human beings.

#### The fight against terrorism

Serbia criminalised, already in 2014, the activity of foreign terrorist fighters in line with UN Security Council resolution 2178 (2014). The national strategy to prevent and fight terrorism was finalised in March 2016; its adoption is pending. It is in line with the ‘prevent, pursue and respond’ model of the 2010 EU counter-terrorism strategy. The role of local authorities and civil society organisations in identifying and preventing extremism and radicalisation should be emphasised. The protection of critical infrastructure needs to be addressed.

Serbia is actively involved in international and regional police and judicial cooperation. The phenomenon of foreign terrorist fighters requires a tailor-made approach from the intelligence and law enforcement community.

For developments in these areas, see *chapter 24 — Justice, freedom and security*.

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

The legislative and institutional framework for observance of international human rights law is in place. Generally, the legal framework to uphold and protect minority and cultural rights is also in place. However, consistent implementation across the whole country is needed. Shortcomings particularly affect the following areas:

- conditions for the full exercise of freedom of expression continue to be lacking. More consistent efforts are needed to ensure full implementation of the media laws;
- strong and visible political support is needed to protect the rights of the groups facing most discrimination, including lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, people with disabilities, people with HIV/AIDS and other vulnerable groups. Investigation, prosecution and penalties for hate-motivated crimes need to be stepped up;
- a comprehensive approach to the integration of national minorities is needed through full implementation of the action plan on national minorities across the country;
- full implementation of the new strategy for Roma inclusion needs to be ensured and the action plan needs to be adopted promptly.

A detailed analysis of freedom of expression as a pilot area follows below. For a detailed analysis of developments on other human rights and the protection of minorities, see *chapter 23 — Judiciary and fundamental rights*. For developments in the areas of trade union rights, anti-discrimination policy and equal opportunities, see also *chapter 19 — Social policy and employment*.

#### **Freedom of expression**

Serbia has achieved **some level of preparation** concerning freedom of expression. However, **no progress** has been made in the last year. The overall environment is not conducive to the full exercise of this right. The legislative package in the media sector still needs to be fully implemented. Privatisation of state media outlets has not led to greater transparency of ownership or funding sources, including state funding. Co-financing of media content to meet public interest obligations needs to be implemented in line with the legislative framework, using transparent and fair procedures, and without interference by the state

administration, especially at local level. Threats, violence and intimidation against journalists remain an issue of concern. Information leaks to media outlets, e.g. about ongoing investigations, threaten the personal safety of journalists and are an invasion of personal privacy. Investigations and final convictions for attacks on and intimidation of journalists are rare.

In addressing the shortcomings outlined here, in the coming period Serbia should in particular:

→ create an enabling environment in which freedom of expression can be exercised without hindrance, while threats, physical assaults, instigation to violence and cases of invasion of privacy against journalists and bloggers are properly followed up by the judicial authorities and publicly condemned;

→ ensure the full implementation of media laws, and make the Regulatory Body for Electronic Media fully operational in order to support editorial independence in the media;

→ ensure adequate funding of public broadcasting services, and editorial independence, to support them in serving the public interest;

→ bring funding from state resources under co-funding for media content serving the public interest into line with the current legislation to ensure transparency and equal opportunities.

### Intimidation of journalists

The number of recorded cases of **threats, intimidation and violence** against journalists remains a concern. Some criminal charges have been filed but final convictions are still rare. Prolonged police protection of several journalists and social media activists continues, with no tangible action taken to remove the reasons for these security measures, which seriously hamper the exercise of their profession. The commission tasked to look into unresolved cases of murdered journalists from 1999 and 2001 has not made further progress with investigating two murders, while the trial for the murder of one media publisher is in progress. Publication of personal data and assumptions that are detrimental to the presumption of innocence remain frequent. There has been no progress in investigating a series of cases of **actions against websites** that occurred from 2014 on. Serious efforts are needed to identify and prosecute those suspected of violating internet freedoms.

### Legislative environment

Media legislation in place since 2014 has not yet been fully implemented. The privatisation of the State-owned media is not yet fully completed, and has not ensured transparency of ownership or an increase in the variety of information available to the public. Co-financing of media content in the public interest should be made more transparent, at national and local level. **Defamation** ceased to be a criminal offence in December 2012. As regards **access to information of public interest from state bodies**, state services often resort to paying fines rather than disclosing the information requested.

### Implementation of legislation/institutions

The **Regulatory Body for Electronic Media (REM)** is incomplete since not all members of its council have been appointed. The appointment procedure for REM council members should be free from political influence. REM's assessment of media compliance with legislative provisions during the election campaign in April 2016 is still awaited. The **Press Council** has stepped up its efforts to record and impose penalties for breaches of professional standards in the print media and has recorded a growing number of breaches of the Journalistic Code, primarily relating to the truthfulness of published information.

### Public service broadcasters

The two public service broadcasters, Radio Television of Serbia (RTS) and Radio Television of Vojvodina (RTV), started being partially financed through a subscription fee in line with the law. Additional funds from the state budget will need to be allocated, according to clear criteria. Public broadcasters are entitled to commercial income, with less airtime devoted to advertising than that allowed for commercial broadcasters by law. The funds available for public broadcasters are insufficient to meet their legal obligations and the temporary nature of their funding model leaves them vulnerable to political influence. Public **broadcasting services in minority languages** need to be strengthened, especially as regards RTS. The way that widespread staff changes were made at RTV in May gave rise to concerns about ensuring the station's commitment to editorial independence.

### Economic factors

Unclear ownership structures and financing from state resources, especially at local level, continue to be a feature of the media environment since the privatisation of the state media. Political and economic influence over the media continues to be a source of concern, while informal pressure on editorial policy is exerted through the distribution of advertising funds.

### Professional organisation / professional conditions

There are three main professional associations in Serbia. Journalists have little job security and the editorial environment, which favours 'tabloidisation' and the publication of unconfirmed and unchecked (or even completely fabricated) information, is not conducive to improving journalistic standards. Low salaries and a lack of job security continue to make media professionals vulnerable to pressure and influence. The overall media environment encourages self-censorship. Journalists' job security should be enhanced and press associations need to strengthen their role in trade union and employment matters.

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

There are no outstanding issues concerning Serbia's respect for the **Dayton / Paris Peace Agreement**. Serbia continues to support the sovereignty and territorial integrity of Bosnia and Herzegovina, while preserving special relations with Republika Srpska, as envisaged by the Dayton Agreement. Serbia also supports Bosnia and Herzegovina's path to joining the EU. (*Analysis on cooperation and on the domestic handling of war crime cases can be found under the relevant heading in chapter 23 – Judiciary and fundamental rights*)

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

Along with Bosnia and Herzegovina, Croatia and Montenegro, Serbia has continued to cooperate closely under the **Sarajevo Declaration Process**, which aims to find sustainable solutions for some 74 000 people who became refugees or displaced persons as a result of the armed conflicts in former Yugoslavia in the 1990s. In Serbia, little progress has been made on implementing the upgraded plan for 4 725 housing units worth EUR 78 million; only 129 have been delivered. The issue of refugees' pensions between Croatia and Serbia is still unresolved.

The unresolved fate of **missing persons** who disappeared in the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. In July 2016, according to the figures of the International Committee of the Red Cross (ICRC), close to 11 000 people were

still missing as a result of the conflicts in the region. Of these, some 6 900 cases are related to the conflict in Bosnia and Herzegovina, 2 100 to the conflict in Croatia and over 1 600 to the conflict in Kosovo. The lack of information on gravesites and difficulties in identifying the human remains exhumed up to now continue to be the key obstacles to solving the remaining cases of missing persons in the region. After a temporary standstill, three sessions of the ICRC-chaired Working Group on Missing Persons in Kosovo have been held since November 2015. This is a welcome development, particularly in view of the fact that the four cases solved in 2015 represented the lowest number since the end of the conflict. The Serbian authorities gave an additional impetus to the process by beginning excavation at a hitherto unknown potential gravesite at Kiževak mine, in the municipality of Raška, in November 2015. A protocol on cooperation in tracing missing persons was signed with Bosnia and Herzegovina. As regards missing persons related to the conflict in Croatia, in October 2015 the Serbian and Croatian State Commissions updated the Book of Missing Persons on the Territory of the Republic of Croatia in line with the June 2015 agreement. Efforts must continue to find information on potential gravesites and clarify the fate and whereabouts of those still unaccounted for.

**Regional cooperation and good neighbourly relations** form an essential part of Serbia's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. Serbia has shown increasingly constructive engagement in regional cooperation initiatives such as the South-East Europe Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement, the Adriatic-Ionian Initiative, the Brdo process, the Western Balkan Six initiative and the Berlin process. In June, Serbia took the annual chair of the Migration, Asylum and Refugees Regional Initiative, and in July the six-month chair of the Organisation of the Black Sea Economic Cooperation. It continued to actively support the Coalition for Reconciliation Commission and Igman initiatives on regional reconciliation.

The impetus given through the **Berlin process** and the Western Balkan Six initiative, notably regarding the connectivity agenda, has continued to foster increased regional cooperation. Building on the results of previous summits, the June 2016 Paris summit saw further advances on the connectivity agenda but also opened cooperation in new areas, notably through the establishment of the Regional Youth Cooperation Office to be established in Tirana. Serbia has participated actively. Serbia needs to implement the connectivity reform measures associated with the **connectivity agenda** such as aligning technical standards, formalising and simplifying border crossing procedures, strengthening road safety and maintenance schemes. The implementation of these connectivity reform measures remains crucial for the functioning of integrated transport and energy networks.

Serbia remained constructively committed to **bilateral relations** with other enlargement countries and neighbouring EU Member States. Serbia needs to conclude bilateral conventions on regional cooperation under Article 15 of the Stabilisation and Association Agreement (SAA) with other partners with an SAA in force. It has concluded one with Montenegro and took steps to conclude similar conventions with Albania and Bosnia and Herzegovina. The demarcation of borders with Bosnia and Herzegovina, Montenegro and Croatia remains pending.

Relations with **Albania**, which had improved overall in the previous year, remained stable. The Serbian and Albanian Ministers of Foreign Affairs took part in two trilateral meetings with their Italian counterpart. The Serbian and Albanian Prime Ministers opened together a business forum in Niš in October 2016. Bilateral ties were also strengthened in the framework of the Berlin process and the common connectivity agenda.

Relations with *Bosnia and Herzegovina* remained overall good. The first joint session of Serbian and Bosnia and Herzegovina governments in November 2015 was a major step forward, followed by the signature of bilateral agreements, including agreements on missing persons, the environment and telecommunications. The Serbian Prime Minister took part in an investment forum in Srebrenica in November 2015. A Bosnia and Herzegovina Presidency member and the Minister of Foreign Affairs visited Belgrade at the end of 2015. In July, the Serbian Speaker paid her first visit to Sarajevo after her re-election.

Relations with *the former Yugoslav Republic of Macedonia* remained good and continued to deepen. The Minister of Foreign Affairs of the former Yugoslav Republic of Macedonia visited Belgrade in November 2015.

Relations with *Montenegro* remained good. A programme of scientific cooperation was signed in September 2015. Cooperation in the defence sector also continued, with the signature in April of an agreement on cession of submarines. The Montenegrin President visited Belgrade in July. There were no developments on issues related to citizenship rights in the two countries.

Relations with *Turkey* remained stable overall. The Turkish Prime Minister visited Serbia in December 2015. The two countries agreed to establish a High Council for Strategic Cooperation.

Relations with *Bulgaria, Hungary and Romania* continued to be good. The Serbian and Bulgarian Ministers of Defence met in March. The Speaker of the Serbian parliament visited Bulgaria in February and Hungary in November 2015. The Hungarian Prime Minister visited Serbia in April and September. The Romanian Minister for the Diaspora visited Serbia in December 2015. Serbian, Bulgarian and Romanian Prime Ministers, on one side, and Foreign Affairs parliamentary committees, on the other side, met in October 2015 in Sofia.

Relations with *Croatia* regained momentum with the signature in June of a joint declaration tackling certain bilateral issues, but continued to be mixed.

### 3. NORMALISATION OF RELATIONS BETWEEN SERBIA AND KOSOVO

Work under the EU-facilitated dialogue has continued throughout the reporting period. Overall progress in the implementation of the 25 August 2015 agreement has been slow. This is partly due to respective internal circumstances, with parliamentary elections followed by a lengthy government formation process in Serbia and domestic situation in Kosovo. During the last high-level dialogue in January 2016, both sides had asked for political space to operate in, address these domestic challenges and consolidate government and governance. EU frequent bilateral contacts and discussions with both sides helped maintain the political engagement at highest level, and re-engage both sides to resume work on the implementation of past agreements.

Since the formation of the Serbian government in August, both sides engaged in acceleration of the implementation of the **25 August 2015 Agreements**. Implementation of the agreement on the **Mitrovica Bridge** commenced in August and works on and around the bridge, including turning the North Mitrovica municipality's main street (King Petar Street) into a pedestrian zone, are to be completed by January 2017. Progress has been made when it comes to bridging different views on the arrangement on **telecoms**, while final implementation is still outstanding. Little progress has been made on **the Association /Community of Serb majority municipalities in Kosovo**. After the official appointment of the management team,

a mandate needs to be given to it by Kosovo to draft the statute of the Association/Community. Serbia needs to register and license the two Serbian energy companies to be established in Kosovo to allow progress in the field of **Energy**.

Further progress has been made on the implementation of the **April 2013 ‘First agreement of principles governing the normalisation of relations’**. Kosovo Serb **police and civil protection** personnel are now fully integrated into the Kosovo system. The dismantling of the Serbian structures on **justice** continues as scheduled and all former Serbian judicial personnel are expected to be into the Kosovo system by autumn 2016. In the context of the **liaison arrangements**, official visits are directly arranged by Liaison Officers in line with the relevant agreement.

Most agreements from the **Technical Dialogue (2011-2012)** are now implemented and functioning. In the field of **cadastre**, the scanning of documents pertaining to Kosovo was completed in June, as scheduled but the documents have not been delivered to the EU Special representative in Kosovo, in line with the agreement on cadastre. Both sides agreed on new modalities for the implementation of the **University Diploma** agreement in April. An agreement was reached in September on the implementation of the **licence plate** related remaining elements of the agreement on freedom of movement. Requests for **Mutual Legal Assistance** are being processed. Serbia needs to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. Serbian official statements have at times interfered with the judicial process led by **EULEX**. Serbia has yet to address the issue of re-located Serbian administrative **customs** structures with Kosovo denomination that operate from within Serbia, and to cease the issuance of documentation or affixing of stamps with denomination that contravenes to the related agreement. On **IBM**, while the interim crossing points are fully operational, there has been no progress in establishing the three permanent crossing points to be hosted by Serbia. Illegal crossing roads/ by-passes, in particular in the north of Kosovo, continue to be regularly used to smuggle substantial amounts of goods. Additional measures need to be taken by Serbia to close illegal crossings.

Overall, Serbia has remained engaged in the dialogue and committed to the implementation of the agreements reached. However, Serbia needs to make further efforts and contribute to the establishment of circumstances conducive to the normalisation of relations with Kosovo. Further progress in this area remains essential for advancing the European future of Serbia.



#### 4. ECONOMIC CRITERIA

Key economic figures	2014	2015
Gross domestic product per capita (% of EU28 in PPS)	37	36
GDP growth (%)	-1.8	0.8
Unemployment rate (female; male) (%)	19.2 (20.3; 18.3)	17.7 (18.8; 16.8)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	68.0	68.1
Current account balance (% of GDP)	-6.0	-4.7
Net Foreign direct investment (FDI) (% of GDP)	3.7	5.4

Source: Eurostat

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

The monitoring of these economic criteria should be seen in the context of the central importance of economic governance in the enlargement process. Each enlargement country prepares an Economic Reform Programme (ERP) annually, which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

##### 4.1. The existence of a functioning market economy

Serbia is **moderately prepared** in developing a functioning market economy. **Good progress** was made to address some of the policy weaknesses, in particular with regard to the budget deficit. Growth prospects have improved and domestic and external imbalances were reduced. Price stability has been preserved. The restructuring of publicly-owned enterprises has advanced.

However, government debt is still very high. Credit activity is recovering but the high level of non-performing loans remains an issue. Unemployment is very high, particularly among youth. The private sector is underdeveloped and hampered by weaknesses in the rule of law.

In line with the ERP recommendations and in order to support long-term growth, in the coming years Serbia should pay particular attention to:

- further lowering the budget deficit and reducing the high public debt level;
- continuing the restructuring and privatisation of state-owned enterprises and addressing the non-performing loans (NPLs);
- improving revenue collection in a systematic and business-friendly way by implementing the tax administration transformation programme and fighting the informal economy.

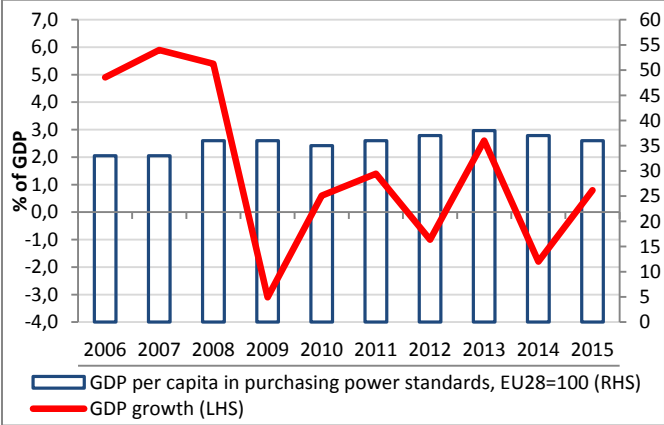
##### Economic governance

**The government remained committed to creating a functioning market economy.** It continued implementing the Stand-By Arrangement with the International Monetary Fund

(IMF). However, the Economic Reform Programme policy guidance has only been partially implemented. Strong fiscal consolidation measures led to a significant reduction of the very high budget deficit and provided room to lower interest rates. The restructuring and resolution of state-owned enterprises and the public administration reform advanced. Financial stability was preserved and the business environment improved.

Macroeconomic stability

**Figure 1 Serbia GDP growth**



**Growth fundamentals and prospects have improved.**

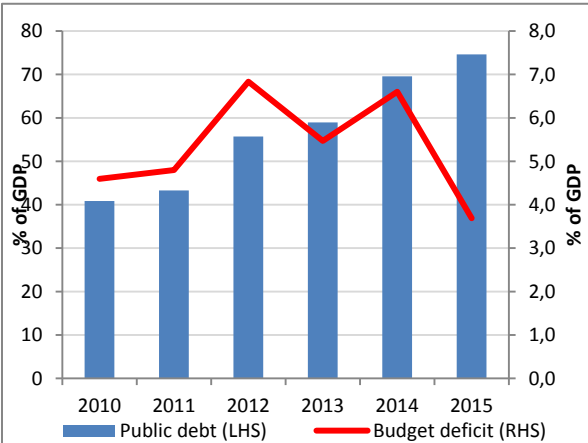
The rebound of economic activity was supported by base effects, low oil prices, and increased confidence as a result of implemented reforms and strong fiscal consolidation. GDP growth was modest in 2015 before accelerating strongly to 2.9 % in the first half of 2016. Although the economy is still close to its pre-crisis level, there is a new growth momentum based on sounder fundamentals. It is driven by a robust and broad-based expansion of

exports and investment. The new investment cycle that started last year should further support the rebalancing of the economy. The income gap with the EU remained broadly unchanged: in 2015, per capita GDP in purchasing power standards stood at 36 % of the EU average.

**Surging exports have reduced external imbalances.** Serbia's solid export performance continued unabated and import coverage of goods and services increased from around two-thirds 5 years ago to close to 90 % in early 2016. As a result, the trade and current account deficits were markedly reduced. In the four quarters to June 2016, the current account deficit fell to around 4 % of GDP, compared with an average of close to 8 % over the last 5 years, and was fully covered by net Foreign Direct Investment (FDI). Moreover, FDI inflows, which picked up already last year, have been broad-based, with a significant share going into manufacturing and tradable sectors. The level of external debt remains high and makes the economy vulnerable to external shocks. The debt ratio has crept up to around 80 % of GDP but, in view of shrinking external imbalances and a favourable term structure, does not raise immediate concerns. Over the last 5 years, the official foreign exchange reserves remained relatively high.

**Monetary policy supported growth.** Inflation has been persistently below the central bank target of 4 % ±1.5 percentage points since February 2014. Price stability has been facilitated by a long period of low inflation in major trading partners and, in particular, by declining commodity prices, weak domestic demand, and a policy of maintaining a generally stable exchange rate. The low inflationary pressure and strong fiscal consolidation helped reduce

**Figure 2 Serbia fiscal developments**



inflation expectations and supported further reductions in the key policy rate of the central bank from 5 % in September 2015 to 4 % in July 2016. In an effort to improve lending conditions and spur credit growth, the central bank also gradually cut the foreign currency reserve requirement ratio.

**Fiscal consolidation has been very strong.** After years of very high budget imbalances, the budget deficit fell from 6.6 % of GDP in 2014 to 3.7 % of GDP in 2015. Public wage and pension cuts, implemented at the end of 2014, and better-than-expected collection of tax revenue contributed to a significant structural adjustment. In addition, the deficit reduction was also supported by one-off revenue. The good budget performance allowed for a partial reversal of wage and pension cuts as well as unplanned one-off payments by the end of last year. The strong revenue growth continued in 2016 and led to a small budget surplus by the end of August, despite a 36 % increase in capital expenditure. In view of this, the restrained spending on wages and pensions, and some one-off receipts, the 2016 budget deficit is, therefore, likely to be significantly lower than the originally planned 4 % of GDP.

**ERP policy guidance:** Further strengthen fiscal consolidation by using any excess revenue and current expenditure savings, and take additional measures, if needed, in order to achieve a primary surplus in 2016 and reduce overall budget deficits in the following years.

**Fiscal consolidation needs to be sustained.** Despite an impressive deficit reduction, fiscal imbalances and risks remain high and fiscally important structural reforms have been only partially implemented. Interest payments are significant and the share of mandatory expenditure is still too large to allow for a sizeable shift towards a more growth-enhancing pattern of spending. In order to put public finances on a sound footing, the consolidation drive has to be supported by maintaining strict control over current expenditure and by further advancing public finance reforms and the restructuring of state-owned enterprises.

**There are ongoing efforts to strengthen the budgetary framework and governance.** As fiscal consolidation advances, the importance of addressing institutional deficiencies is growing. In late 2015, the government adopted a Public Finance Management reform programme and action plan, which should now be implemented. The public administration reform has advanced. Dedicated efforts are also being made to strengthen the tax administration and reform local government finance. The Fiscal Council remained a prominent institution, supporting domestic debates on fiscal policy. However, the fiscal responsibility framework and, in particular the system of fiscal rules, is weak and needs to be strengthened.

**ERP policy guidance:** Support fiscal consolidation by taking steps to find a sustainable resolution of the remaining state-owned enterprises and continuing the organisational and financial restructuring of large utility companies. Advance the reform of the public administration as envisaged. Further improve revenue collection in a systematic and business-friendly way by implementing the tax administration transformation programme.

**The macroeconomic policy mix has been appropriate.** The economy is still facing significant challenges but the authorities' reform-oriented policy stance has begun to bear fruit through improved growth prospects, a better sovereign credit rating and an improved business environment. The combination of restrictive fiscal policy and accommodative monetary policy stance has proven successful. Macroeconomic stability improved as a result and the economy returned to growth earlier than expected.

Functioning of product markets

*Business environment*

**Steps were taken to further facilitate market entry procedures.** The procedure of registering business entities was improved, including by making it possible to apply for

incorporation and VAT registration at the same time. Following the simplification of the process of issuing construction permits last year, a new electronic permitting system became operational at the beginning of 2016.

The system allows for faster processing of applications for construction — in the first half of 2016 the number of building permits issued increased by 12.2 % and the anticipated value of works is 50 % higher in comparison with the same period the year before.

<p><b>ERP policy guidance:</b> Improve the business environment and promote private investment by developing a more transparent and less burdensome system of para-fiscal charges, putting in place a guarantee scheme for loans to SMEs and re-launching the ‘regulatory guillotine’.</p>
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**The institutional and regulatory environment remains weak.** Important laws continue to be adopted by emergency procedure, without proper consultations with interested parties, and there are delays in the adoption of secondary legislation. Courts are burdened with a substantial number of unresolved cases. Property restitution progressed, with about half of all claims being resolved. The informal economy is estimated at around 20-30 % of GDP and leads to losses of budget revenue, a lack of labour protection and, along with corruption, is a major obstacle to fair competition. In December 2015, the government adopted a national programme for countering the shadow economy. The high number of loosely regulated non-tax fiscal and para-fiscal charges, both at state and local government level, represents a costly burden on businesses.

#### *State influence on product markets*

**The State presence in the economy and the level of state aid are high.** The share of administered prices remains broadly unchanged at around 19 % of the consumer price index basket. The State has not issued new guarantees for liquidity support to SOEs or guarantees to companies from the portfolio of the Privatisation Agency. The government also committed itself not to give implicit guarantees in the future. However, in the context of restructuring SOEs, it continued taking over debt of some of these enterprises that were already beneficiaries of previous guarantees. The administrative capacity to manage subsidies at local and central level remains weak. In many cases, State aid continues to be granted to unprofitable public companies or in a non-transparent manner. Investment aid, in particular, is not granted on the basis of predictable criteria in line with the EU and SAA state aid rules. State support should be redirected towards horizontal objectives, such as support to SMEs and research and development.

#### *Privatisation and restructuring*

**Bankruptcy and privatisation challenges persist.** Following amendments to the law on privatisation, the Privatisation Agency ceased to exist in February 2016. Its activities were transferred to other institutions. By September 2016, the status of most of the companies in the portfolio of the Privatisation Agency has been solved through sale or bankruptcy procedures. The protection of companies of strategic importance from forcible collection of debts and bankruptcy was lifted in the beginning of June. With a few exceptions, like the sale of assets of the Smederevo steel mill, the resolution of these companies remains a challenge.

**The restructuring of large public utilities has advanced.** In view of the significant economic and fiscal impact, improving their operational and financial performance remains a priority. In February, the government adopted a financial consolidation plan of Srbijagas. Although the payment discipline of the company’s major clients has improved recently, obligations from past arrears are high and financial restructuring is still due. First steps to reorganise Elektroprivreda Srbije, the state-owned power utility, were taken in 2015. Further

measures, envisaged in its financial restructuring plan, to reduce costs, including staff reduction, and increase revenue have been implemented or are in the pipeline. In October 2015, the government adopted a comprehensive restructuring plan for the Serbian Railways until 2020, focusing on assets, network and staff reorganisation. Major steps were taken towards implementing this plan.

### Functioning of the financial market

#### *Financial stability*

#### **Reducing the high level of non-performing loans remains an important challenge.**

The banking sector maintained a strong liquidity position and capital adequacy ratio. The special diagnostic study conducted by the central bank last year did not identify capital shortfalls for any of the participating banks, representing 88 % of total banking system assets.

However, despite declining in the first half of 2016, non-performing loans (NPLs) stood high, at close to 20 %, and remain a significant burden for banks. Therefore, a continuous implementation of the NPL resolution strategy, adopted in 2015, is much needed. The profitability of the banking sector improved, although some of the small banks recorded losses. Despite increased dinarisation of household loans, the overall deposit and loan euroisation is widespread and represents a key financial stability risk. A privatisation advisor was selected for the second largest bank. Further measures, including also actions on the remaining small state-owned banks and the restructuring of other financial institutions, are needed in order to reduce risks.

**ERP policy guidance:** Continue to address risks to financial stability and the real economy by following-up on the NPL action plans which have been adopted, reinforcing the strategy already in place to promote the use of the local currency ('dinarisation strategy') in the financial system and shedding increased light on the asset quality of smaller banks that were not covered by the special diagnostic studies. Throughout this process, the central bank's monetary policy stance may remain accommodative insofar as both inflation expectations remain anchored and a favourable fiscal consolidation path is maintained.

#### *Access to finance*

#### **Lending activity is picking up but needs to be managed carefully.**

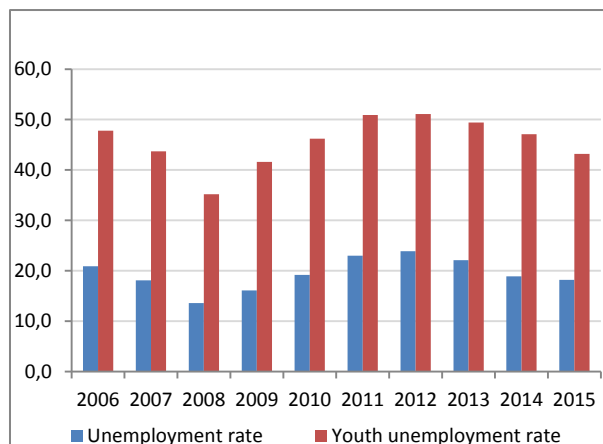
The financial system is dominated by commercial banks, mostly foreign-owned, holding more than 90 % of all assets. State control of key entities in both the banking and insurance sectors remained unchanged. Commercial bank loans were broadly stagnant over the last few years at around 47 % of GDP but started to expand noticeably in 2016. Reduced interest rates and accelerating economic activity have been instrumental in reviving lending activity. Credit to households expanded steadily in the last few years and accelerated further in 2016. After a prolonged period of decline, lending to companies gained momentum as well. However, the credit expansion would need to be managed carefully in order to avoid excesses and accumulation of new vulnerabilities.

### Functioning of the labour market

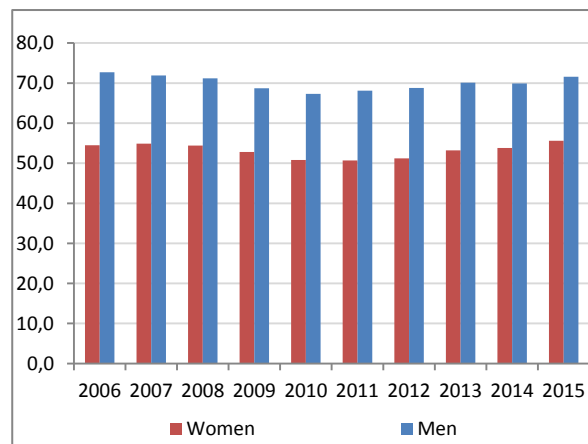
**Labour market conditions improved but unemployment remains very high.** The employment rate increased only marginally in 2015. Registered private sector jobs rose strongly by close to 10 % due to stricter labour inspection, while the public sector shed some 34,000 jobs. The unemployment rate fell to 17.7 %. Labour market indicators improved further in 2016, to a large extent driven by rising informal, in particular agricultural, employment. Although in decline, unemployment is still particularly high among young people — around 40 % of youth has no job and close to one in four is not in employment,

education or training. Women's position in the labour market did not change and is characterised by significantly lower activity and employment rates compared to men.

**Figure 3 Unemployment in Serbia**  
(% of Active population)



**Figure 4 Participation rates in Serbia**  
(% of Labour Force)



**Job creation continued to be impeded by weak labour demand and structural obstacles.**

Labour demand, although on the rise, is far below its pre-crisis levels. Amendments to the labour law, adopted two years ago, increased labour market flexibility.

However, the relatively high social contribution burden, in particular on low incomes, impedes job creation and fuels labour market duality. More than 85 % of all unemployed have a medium or high level of education, pointing to considerable gaps between acquired skills and labour market demand. Brain drain remains a major challenge. The National employment service

**ERP policy guidance:** Step up the provision of targeted active labour market policies to facilitate in particular the reintegration of workers made redundant in the resolution of state-owned enterprises and public administration rightsizing. Increase the capacity of the National Employment Services to roll out such measures to larger numbers of beneficiaries.

is being strengthened and the budget for active labour market policies was increased, with a special focus on young people, redundant workers and the long-term unemployed.

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

Serbia is **moderately prepared** to cope with competitive pressure and market forces within the Union. **Some progress** was made concerning support to SMEs and entrepreneurship. Public and private investments increased.

However, the quality, equality, and relevance of education and training do not fully match societal needs. The level of investment activity is still below the economy's needs. SMEs face a number of challenges, including an unpredictable business environment, a high level of para-fiscal charges, and difficult and costly access to finance.

In line with the ERP recommendations and in order to support long-term growth, in the coming year Serbia should pay particular attention to:

- improving the quality of the education system;

- stimulating private investments and improving prioritisation and management of public infrastructure projects;
- better regulating and reducing the scope of para-fiscal charges, in particular for SMEs.

### Education and innovation

**The worsening demographic situation and weak education outcomes demand increased focus on human capital policies.** Serbia's population is ageing and shrinking by around 0.5 % per year. Public spending on education is comparable to that of EU countries, but outcomes in terms of skills and key competences are weaker. This is manifested by below-average PISA<sup>2</sup> test scores showing that around one-third of the population is functionally illiterate. Serbia ranked below all EU Member States in the 2016 World Economic Forum human capital index, with particularly weak results in the 15-24 age group. Although the country has a relatively good scientific base, the level of investment in research is less than 1 % of GDP and cooperation between the public and private sector is weak and not systematically supported.

**The quality, equality, and relevance of education and training have to be improved in order to better match societal needs.** Both employers and graduates believe that the education institutions do not equip students with key soft skills, such as problem solving, organisational, decision-making. The national strategy and action plan for education development aims to address the outdated curricula and obsolete teaching methods. On the basis of existing qualification frameworks for vocational and higher education, an integrated national qualification framework for lifelong learning has been developed and is under consultation with relevant national bodies. It should be linked with steps for a progressive reform of the education system at all levels, improving the level of basic skills acquired by students. Pre-primary education enrolment is below the EU average at around 60 % for children aged 3 and above and just 17 % for children aged below 3.

### Physical capital and quality of infrastructure

**Investments increased but are still below the economy's needs.** Years of underinvestment have taken their toll and, despite a strong pick-up in both public and private investment activity that started last year, the share of total investment stood at just 18 % of GDP in 2015. Work on major transport corridors intensified but, in view of the poor state of infrastructure,

there is a clear need to further increase government investment. Importantly, foreign direct investment rose markedly to 5.4 % of GDP in 2015 and was largely channelled into tradable sectors like manufacturing, thus improving competitiveness and increasing the production and export base. However, there is still significant room to attract new FDI as Serbia lags behind peer countries in terms of cumulative FDI per capita.

**ERP policy guidance:** Address the under-execution of public capital expenditure by improving its prioritisation and management; as a priority, make significant progress in the preparation of the construction of the Bulgaria-Serbia gas interconnector project and finish road works on Corridor X by end of 2017.

**There is an untapped potential to facilitate investment via connectivity reform measures in the energy and transport sector.** Project planning, preparation and coordination needs to be improved, building upon existing structures like the National Investment Committee and the Single Project Pipeline. Given limited fiscal space, careful consideration should be given to prioritising and implementing projects with clear economic returns. All investment could benefit from

<sup>2</sup> OCED's Programme for International Student Assessment

improving the legal and regulatory framework. The transport and energy sectors require improvements in traffic management, energy efficiency and diversification, maintenance, and road safety.

**The information and communication technology infrastructure has expanded over recent years.** Almost two-thirds of households have internet access at home. Public services offered via e-government are slowly expanding. The number of their active users also continued increasing.

#### Sectoral and enterprise structure

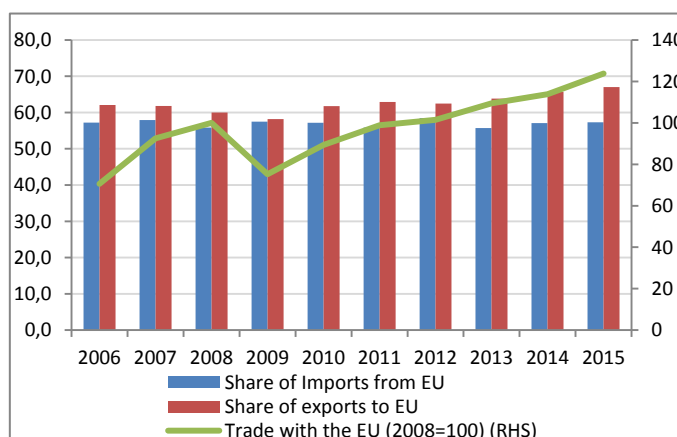
**The structure of the economy remained broadly unchanged.** Services still play a major role with a share close to 50 % of GDP. In 2015, industry and mining have increased slightly their weight, recovering from the floods the year before, and are firmly above 20 % of GDP. In line with the strong investment growth, the construction sector is booming, approaching its pre-crisis levels. Agriculture is the only sector which has seen its share in GDP more or less steadily decline over the last few years. This decline was accompanied by a drop in employment in 2015. Nevertheless, almost one out of every five employed people is still in agriculture. Employment in industry and construction remained broadly stable, while employment in services increased markedly, likely due to better recording and measures taken to reduce the informal economy.

**Small and medium enterprises are the backbone of the economy.** SMEs contribute about half of the value added and account for around 70 % of employment in the ‘non-financial business economy’. Their role is particularly prominent in services like construction, retail and tourism. Although SMEs’ share in manufacturing has been above 40 % in the last few years, they have not been able to recover to their pre-crisis positions. SMEs face a number of challenges, including an unpredictable business environment, a high level of para-fiscal charges, and difficult and costly access to finance, especially when compared with large and state-owned enterprises. The government recently adopted the ‘Year of Entrepreneurship 2016’ programme with the aim to provide financial and non-financial support to businesses.

#### Economic integration with the EU and price competitiveness

**There is a potential to further increase economic integration with the EU market.** Trade openness increased, surpassing 100 % of GDP, but is still below the level of peer economies. The national quality infrastructure still does not fully support trading operators. The EU is the country’s main trading partner by far, accounting for 63.6 % of total exports and 62.3 % of total imports of goods. Serbia’s trade with CEFTA followed with an 11.5 % share in overall trade but was much stronger on the export side, which is three times the size of imports. The EU continued to be the main source of foreign investment too, with a share in net FDI of 82 % in 2015 and more than three-quarters of the cumulative FDI stock. Better services could be offered to support the internationalisation of companies, in particular SMEs, and bring domestic and foreign companies together.

**Figure 5 Serbia trade integration with the EU**





After depreciating slightly in 2014, the dinar real effective exchange rate remained broadly stable. Serbia's non-price competitiveness, however, improved significantly due to reforms to improve the business environment and a marked increase in FDI in the last few years.

## 5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

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

*The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules the principle of the free movement of goods prevents these creating unjustified barriers to trade.*

Serbia is **moderately prepared** for the free movement of goods. **Some progress** was made, mainly in terms of quality infrastructure and transposition of New Approach legislation. In the coming period, Serbia should in particular:

→ further align sectoral legislation and ensure better implementation of technical requirements and standards;

→ reinforce its administrative capacity to perform market surveillance;

→ ensure adequate administrative and surveillance capacities in order to implement the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and the Classification, Labelling and Packaging of substances and mixtures.

#### General principles

The **general principles** of Serbia's framework for the free movement of goods are partly in line with Articles 34-36 of the Treaty on the Functioning of the EU (TFEU). Serbia has not yet adopted an **action plan for compliance with Articles 34-36** to identify (1) outdated technical or other product requirements that are not in line with the *acquis* and (2) individual regulations that lack mutual recognition clauses. Nor does it have a specific strategy and action plan for implementing the *acquis* on this chapter. Administrative structures and the legal bases for technical regulations, standards, accreditation, metrology, conformity assessment, and market surveillance, have been put in place with the aim of aligning to the *acquis*.

#### Non-harmonised area

A strategy and action plan for **compliance with Articles 34-36** of the TFEU still need to be adopted. The December 2015 Regulation on the manner of providing information and notification of technical regulations, Conformity Assessment and Standards regulates mandatory notification towards the Ministry of Economy from the authorities / bodies in the process of producing technical regulations and their **obligation to notify any technical regulations** at the draft stage according to EU regulation and international agreements on technical barriers to trade.

#### Harmonised area: quality infrastructure

In October 2015, Serbia adopted a strategy for development of quality infrastructure for 2015-2020. The strategy is in line with the *acquis* on technical regulations, standards, accreditation, metrology and market surveillance. The conformity assessment legislation is in place, along with the relevant administrative structures. The Institute for **Standardisation** of Serbia (ISS) is an independent body able to implement European and international standards. In the reporting period, the number of full-time ISS employees is 60. In the reporting period the ISS has adopted approximately 1650 of European Standards, out of which 158 were

adopted with full translation and the remaining 1492 were adopted by the 'cover page' translation method. The ISS is an affiliate member of the European Committee for Standardisation (CEN), the European Committee for Electrotechnical Standardisation (CENELEC) and the European Telecommunication Standards Institute (ETSI). In May 2016, the ISS submitted an application for full membership in CEN and CENELEC.

There are 533 **conformity assessment** bodies in Serbia. Of these, 54 have been designated and registered with the Ministry of Economy. The Accreditation Body of Serbia is the sole institution performing **accreditation** in compliance with the law on accreditation. The Directorate for Measures and Precious Metals, supervised by the Ministry of Economy, is the official **metrology** body. A new law on metrology was adopted in February 2016. There are currently 78 bodies authorised to verify measuring instruments (for more than 24 types of measuring instruments in the area of legal metrology).

In **market surveillance**, the law on general product safety remains to be adopted. Administrative and financial capacity for market inspection remains insufficient. A national strategy on market inspection exists within the frame of the 2015-2020 Strategy for Development of quality infrastructure along with its Action Plan. A total of 2570 **product safety** inspections have been performed in the reporting period. 321 dangerous products types were identified and permanently taken off the market.

#### Harmonised area: sectoral legislation

As regards the 'New and Global Approach', a number of pieces of secondary legislation were adopted in the reporting period, aiming to align on the EU *acquis* on machinery safety for pesticides, electromagnetic compatibility and on electrical equipment. Further alignment is needed on lifts, cableways, civil explosives, pyrotechnic articles, eco-design, energy labelling, measuring instruments, medical devices, toy safety and aerosol dispensers.

Although construction is one the largest business sectors in Serbia, alignment with the Construction Products Directive has yet to be achieved. Businesses in the **civil explosives** sector register their transactions with the Ministry of Interior. Measures are in place to detect smuggled explosives.

No progress was made in aligning '**Old Approach**' **product legislation** with the *acquis* on motor vehicles or emissions of pollutants from non-road engines. Further efforts are needed to complete alignment on **classification, labelling and packaging** of substances and mixtures (CLP) and to ensure effective implementation. The adoption of secondary legislation and adequate implementing capacities are also still needed for effective implementation of the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

There is a specific licensing and regulation system for businesses dealing with **drug precursors**. There is an obligation for businesses to report relevant suspicious orders or transactions. Mechanisms are in place to detect smuggling. **Good laboratory practices** legislation is aligned.

On **procedural measures**, in March, Serbia adopted and fully implemented the national control list on dual-use goods in line with the EU and international export control regime. Legislation on the internal production and transfer of arms and military equipment has yet to be adopted. Serbian legislation on pricing of medicinal products and on the return of cultural objects unlawfully removed from the territory of an EU Member State is not yet aligned with the *acquis*.

## 5.2. Chapter 2: Freedom of movement for workers

*Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.*

Serbia is **moderately prepared** in the area of freedom of movement for workers. **Some progress** was made in this chapter, notably by regulating access to the labour market. In the coming period, Serbia should in particular:

→ make further efforts to strengthen its social security institutions.

As regards **access to the labour market**, a rulebook on implementation of the 2014 law on employment of foreigners was adopted in November 2015. The aim is to further regulate procedures for issuance of work permits. The implementation of the new law led to more than 6 000 permits being issued in 2015, compared with around 3 000 in 2014, and a reduced number of complaints.

There has been no progress on **EURES**, the European jobs network.

As regards **coordination of social security systems**, the preparation of new agreements with the Russian Federation and Australia is well advanced. Although finalised, the agreement with Romania has not yet been signed. Electronic exchange of social security data is operational with all countries in the region, except Bosnia and Herzegovina. The capacity of social security institutions needs further strengthening to sufficiently address issues of adequacy, targeting and coverage.

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

*EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.*

Serbia is **moderately prepared** in these fields. There was **no progress** in this area. In the coming period, Serbia should in particular:

→ adopt an umbrella law on services, as a first step towards alignment with the Services Directive;

→ adopt a strategy for alignment with the professional qualifications *acquis*;

→ reinforce the capacity and independence of the postal services inspectors and regulator.

There were no developments on the **right of establishment**. On **freedom to provide cross-border services**, an umbrella law aligning Serbian legislation with the Services Directive is still needed. A strategy on services, detailing the steps to align all sectoral laws with the umbrella law and the Services Directive, has yet to be adopted. The strategy and law on **mutual recognition of professional qualifications** remains to be adopted.

Concerning **postal services**, the legislation further aligning Serbia with the second and third Postal Directives remains to be adopted. The capacity of the postal regulator, whose staff was reduced from 16 to 6, and of the inspection of postal services remains inadequate. The public postal operator has yet to be turned into a corporate company.

## 5.4. Chapter 4: Free movement of capital

*In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.*

Serbia is **moderately prepared** in the area of free movement of capital. There was **no progress** in this area. In the coming period, Serbia should in particular:

→ further liberalise short-term capital movements;

→ upgrade its legislation on anti-money laundering, reinforce supervision and strengthen the Administration for the Prevention of Money Laundering.

There were no developments on **capital movements and payments** as regards restrictions on short-term capital transactions. Acquisition of real estate, especially agricultural land, is still restricted. There were no developments on **payment systems** as Serbia's legal framework is mostly aligned with the *acquis*.

Regarding the **fight against money laundering** and terrorism financing, legislation remains to be aligned with the new EU anti-money laundering Directive. The Administration for the Prevention of Money Laundering is still understaffed and its capacity needs to be strengthened. Cooperation between the various bodies dealing with anti-money laundering needs to improve. The April Moneyval evaluation report on Serbia confirmed that Serbia needs to further reinforce preventative measures, strengthen supervision and establish a track record of investigation of and conviction in money laundering cases.

### 5.5. Chapter 5: Public procurement

*EU rules ensure that the public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.*

Serbia is **moderately prepared** in this area, which is particularly vulnerable to corruption. Further efforts are needed to prevent corruption from occurring during the procurement cycle. **Some progress** has been made in the past year, notably through the adoption of secondary legislation and a further increase in competition in tender procedures. Significant efforts are needed across the board to further improve competition, efficiency and transparency in public tenders. In the coming period, as in 2015, Serbia should in particular:

→ strengthen the capacity of the Public Procurement Office, the Republic Commission for the Protection of Rights in Public Procedures and administrative courts;

→ swiftly implement the public procurement strategy in particular on ensuring further alignment with the EU Directive on concessions.

#### Institutional set-up and legal alignment

The **legal framework** is broadly in line with the *acquis*. The law on public procurement is largely aligned with the *acquis* on classical and utilities procurement. Several implementing by-laws were adopted. The legislation on defence and security procurement still contains more exemptions than the EU Directive. Serbia is yet to ensure that bilateral agreements concluded with non-EU countries do not unduly restrict competition and are fully consistent with the EU *acquis*. The law on public-private partnership was amended in February 2016 to give the Ministry of Finance a greater role in selecting public-private partnership projects. It needs to be aligned with the new Directive on concessions.

In December 2015, the government adopted an action plan to implement the public procurement **strategy** in 2016. It includes measures to further strengthen the capacity of different public procurement stakeholders to fight corruption, to reduce the number of irregularities and to encourage the use of the 'most economically advantageous tender' selection criterion.

The **Public Procurement Office** (PPO) supervises the implementation of the law on public procurement.

#### Implementation and enforcement capacity

Serbia's **public procurement market** further increased as a percentage of GDP to 8.9 % in 2015, from 7.7 % in 2014 and 6.8 % in 2013. The average number of bids per tender rose to 2.9 in 2015, from 2.6 in 2014, which suggests increased competition.

**Monitoring** of the award and implementation of contracts continued to improve. The value of negotiated procedures further fell to 4 % of the total value of public tenders in 2015, from 5 % in 2014 and 17 % in 2013. The share of irregularities in tenders inspected by the State Audit Institution fell from 45.8 % in 2014 to 27.9 % in 2015, which displays a positive tendency in tender implementation.

The **capacity to manage public procurement processes** was further improved through the certification of an additional 958 public procurement officials in 2015. However, the PPO continues to lack significant administrative capacity. Since January 2016, the contracting authorities have been obliged to publish their annual procurement plans, which contributes to increased transparency.

As regards the framework for **integrity and handling conflicts of interest** in November 2015, the PPO updated its model internal plan for preventing corruption in public procurement procedures. High-volume contracting authorities have been gradually adopting plans for curbing corruption based on this model. So far, 96 % have done so.

#### Efficient remedy system

The legislation on the **right to legal remedy** is broadly in line with the *acquis* and is enforced by the Republic Commission for the Protection of Rights in Public Procedures (the Republic Commission), an independent state body.

The Republic Commission took a total of 2 728 decisions in 2015 compared with 2 702 in 2014. Public procurement procedures were partially or fully annulled in 1 193 cases, which is 10.7 % less than in 2014. In 2015, the Republic Commission reviewed the implementation of 1 151 of its decisions, a significant increase compared with the 266 decision reviews in 2014. In 24 cases, it concluded that its decisions had not been properly implemented.

The overall **implementation capacity** of the Republic Commission remains stable. The capacity of the administrative courts to deal with more complex and numerous public procurement cases needs to be strengthened.

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

*The EU has common rules on the formation, registration, and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.*

Serbia has a <b>good level of preparation</b> in company law. There was <b>some progress</b> in this area.
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On **company law**, mandatory electronic submission of financial statements and simpler accounting in financial statements for small companies (micro-entities) were introduced. Serbia needs to align with the EU Directive on cross-border mergers of limited liability companies. Serbia is continuing to develop e-registration for companies to make it easier to do business; the process is not yet fully operational.

Legislation on **corporate accounting** and **auditing** needs to be aligned with the latest EU accounting and auditing *acquis*. With regard to statutory audit, the first disciplinary measures have been taken, revoking audit firms' and auditors' licences.

### 5.7. Chapter 7: Intellectual property law

*The EU has harmonised rules for the legal protection of intellectual property rights (IPRs), as well as rules for the legal protection of copyright and related rights. Rules for the legal protection of IPRs cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.*

Serbia has a **good level of preparation** as concerns alignment of intellectual property rights with the *acquis*. **No progress** was made. In the coming period, just as in 2015, Serbia should in particular:

- further align its law on copyright, topographies of semiconductor products, patents and trademarks with the *acquis*, including with the IPR Enforcement Directive;
- further strengthen formal coordination of different stakeholders on enforcement.

On **copyright and neighbouring rights**, the law on copyright and related rights and the law on the protection of topographies of semiconductor products remains to be fully aligned with the *acquis*.

On **industrial property rights**, the laws on patent and trademarks still need to be further aligned with the *acquis*.

On **enforcement**, the number of counterfeit and pirated goods confiscated by the Customs Administration and Market Inspectorate in 2015 was almost half the number in 2014. The number of software legality checks performed by the tax administration decreased slightly but the share of illegally used software was stable. The number of criminal charges brought by the Ministry of Interior increased slightly, from 90 in 2014 to 105 in 2015.

The IPR legislation still needs to be aligned with the Directive on the Enforcement of Intellectual Property Rights. The permanent coordination body for the enforcement of IPR became largely operational. A revised IPR strategic framework is needed.

### 5.8. Chapter 8: Competition policy

*EU rules protect free competition. They include anti-trust rules against restrictive agreements between companies and abuse of dominant position. EU rules also prevent governments from granting State aid which distorts competition.*

Serbia has **some level of preparation** / is **moderately prepared** in the area of competition policy. **No progress** was made. Serbia is relatively advanced as regards the alignment with the rules on antitrust and mergers, and their enforcement. However, substantial efforts are needed to improve legislative alignment and enforcement of State aid rules. In the coming period, as in 2015, Serbia should in particular:

- make significant progress in the alignment of its legislation and existing state aid schemes with the *acquis*, in line with the obligations of the Stabilisation and Association Agreement;
- take steps to make the Commission for State Aid Control more independent and effective;
- ensure that the aid received by the steel mill Smederevo is compatible with the SAA.

Antitrust and merger

The **legislative framework** is broadly in line with the *acquis* and with the SAA. The law on protection of competition is largely aligned with Articles 101 on restrictive agreements and Article 102 of the TFEU on abuses of dominant position. It also provides for *ex ante* control of the effects on competition of mergers above certain turnover thresholds, in line with the Merger Regulation. Secondary legislation providing further substantive rules and guidance on how competition rules should be applied is largely in place and in line with the relevant regulations and Commission guidelines.

As regards the **institutional framework**, the Commission for Protection of Competition (CPC) is responsible for implementation of the legal framework. The CPC is an operationally independent authority governed by a President and four Council members selected by parliament among legal and economic experts.

The powers of the CPC are broadly comparable to those of the European Commission. It may act upon a complaint, a notification (e.g. for mergers) or on its own initiative. When carrying out an investigation, it may issue requests for information and carry out unannounced inspections at firms' premises. It may impose fines and remedies if competition rules are breached. Serbia has a 'leniency policy' for companies that provide information about cartel cases. The CPC may authorise mergers, with or without conditions, or prohibit them. The CPC may also provide opinions, on its own initiative or upon consultation, on draft pieces of legislation that may affect competition. It can also conduct sector analyses. The CPC's decisions may be appealed before the Administrative Court.

Regarding **enforcement capacity**, with 39 staff members, including 25 case handlers, the number of CPC staff is adequate but its expertise, in particular in economics, remains to be demonstrated further. **Implementation** of the legislative framework is improving. The number of antitrust cases remains stable, with two decisions on restrictive agreements in 2013 and 2015 and three on abuses of dominance in 2014. On-site inspections are increasingly used. However, the overall number and level of fines remains modest (a total EUR 1 600 000 over the period 2013-2015). In the period 2013-2015, the CPC only imposed remedies in four merger cases; it has never prohibited a merger. The CPC needs to strengthen its enforcement record, in particular by imposing more dissuasive fines and promoting its leniency programme more intensively. The CPC's decisions are increasingly upheld by the appeal courts, whose capacity to handle complex competition cases must nonetheless be significantly strengthened. Finally, competition advocacy activities were intensified and in 2015 the CPC issued an increased number of opinions concerning draft legislation affecting competition. It should actively follow up on these opinions and ensure that they are adequately followed up.

### State aid

As regards the **legislative framework**, the law on state aid control is largely aligned with Articles 107 and 108 of the TFEU. State aid is in principle incompatible with the law unless it is found to be compatible under a certain number of general grounds in line with those listed in Article 107(3) of the TFEU. However, the legislative framework is only partially aligned with the EU secondary legislation on certain forms of aid, including sectoral and horizontal aid. The exemption from state aid rules for companies in the process of restructuring and privatisation has not yet been repealed. Serbia still has to draw up a regional aid map.

Concerning the **institutional framework**, the Commission for State Aid Control (CSAC) is responsible for implementing the law on state aid control. The five members of the CSAC are mostly appointed by aid-granting ministries and its secretariat is administratively part of the Ministry of Finance. It is not considered an operationally independent authority, contrary to SAA requirements.

The law on State Aid Control provides that all new state aid measures, including draft legislation constituting grounds for granting state aid, must be notified to the CSAC before being put in place. The CSAC can take a negative decision or authorise aid, with or without conditions. If an aid measure is not notified, the CSAC can investigate it after the event, whether or not a complaint is made, and order its recovery if it is incompatible with the law. The CSAC's decisions may be appealed before the Administrative Court.

The **enforcement capacity** of the CSAC is largely insufficient, with only six full-time staff members in its secretariat; it needs to be significantly strengthened. The effectiveness of the **implementation** of the law remains to be demonstrated. In the period 2013-2015, the CSAC took 53 decisions in *ex post* cases, against 53 decisions in *ex ante* cases, which may demonstrate proactivity. However, the CSAC has not yet taken a decision prohibiting state aid, nor imposing remedies or recovery. There is some indication that not all aid measures granted at central or local level, in particular to large companies, are notified to and investigated by the CSAC. Greater monitoring of cumulative aid is needed. It is not yet clear that the aid granted to the Smederevo steel mill is compatible with protocol 5 of the SAA. In September, the Serbian authorities provided information to the Commission in the context of its investigation on this case. Not all existing aid schemes, particularly the fiscal schemes, have been fully aligned with the *acquis*, although the SAA deadline for their alignment was 1 February 2014. Awareness of State aid rules among stakeholders remains low, as indicated by the very low level of complaints received by the CSAC, and advocacy must be stepped up. The CSAC's decisions have rarely been appealed before the courts.

### Liberalisation

The law on protection of competition and the law on state aid control are applicable to public undertakings and undertakings with special or exclusive rights, except where this would prevent them from carrying out the particular tasks assigned to them for providing services of general economic interest, in line with Article 106 of the TFEU and with the SAA. In particular, the rules on the financing of services of general economic interest are largely aligned with the State aid *acquis*. In 2016, the CPC required the railway infrastructure operator to open access to its network. However, more evidence of the effective enforcement of competition rules on public companies is needed. There are no monopolies of a commercial character within the meaning of Article 37 of the TFEU.

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

*EU rules aim to ensure fair competition between and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on the authorisation, operation and supervision of these institutions.*

Serbia is **moderately prepared** in the area of financial services. There was **some progress** in this area. In the coming period, Serbia should in particular:

→ take additional steps to align Serbia's rules with Basel III standards and the Solvency II Directive.

On **banks and financial conglomerates**, the National Bank of Serbia (NBS) adopted a plan for the implementation of Basel III standards by 2017. The implementation of the strategy and action plan for resolving non-performing loans has been delayed. The administrative capacity of the Banking Supervision Department of the NBS was strengthened. Legislation on financial conglomerates remains to be adopted.



On **insurance and occupational pensions**, the accounting rules applicable to insurance were amended in December. Full alignment with Solvency II and the Directive on Institutions for Occupational Retirement Provision remains to be achieved. The NBS adopted the strategy for implementation of Solvency II in July. There were no developments on **financial market infrastructure**.

On **the securities market and investment services**, the Securities Commission adopted a rulebook on liquidity requirements for broker dealers in April, and a rule book on supervision of financial market participants in June. The administrative capacity of the Securities Commission was increased but remains insufficient.

#### 5.10. Chapter 10: Information society and media

*The EU supports the good functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.*

Serbia is **moderately prepared** in these fields. **Some progress** was made, notably with the adoption of the law on information security. In the coming period, Serbia should in particular:

→ ensure the operational independence of the regulatory body for electronic communications and postal services, RATEL, and strengthen the administrative and inspectorate capacity of the line ministry;

→ ensure comprehensive regulation of advertising.

On **electronic communications and information technology**, the law on electronic communications is yet to be adopted in line with the 2009 EU regulatory framework. Competitive safeguards have not yet been fully implemented. The draft law on emergency services, introducing permanent financing of the emergency number 112 remains to be adopted. Serbia auctioned the 800 MHz radio-frequency band in November 2015, granting individual licences to three mobile operators in Serbia. RATEL's operational and financial independence remains to be ensured, and its administrative capacity strengthened. The administrative and inspection capacity of the line ministry remains weak. The prices for regional roaming services further decreased on 1 July 2016 following the 2014 agreement with Bosnia and Herzegovina, Montenegro and the former Yugoslav Republic of Macedonia.

In the field of **information society** the law on information security, establishing competent authorities for information security and a national cyber emergency response team, was adopted in January, as was an e-government strategy tasking the Ministry of Public Administration and Local Self Government with coordination of various ministries and other institutions at central and local government level in this area.

On **audiovisual policy**, amendments to the law on public service media and the law on the temporary regulation of the collection of the fee for the public service media were adopted in December 2015. The amendments extended partial funding from the State budget to 2016 together with a monthly subscription fee, to be collected through electricity bills. This temporary solution causes uncertainty about the editorial independence and stable financing of RTS and RTV. Public service media introduced separate bookkeeping of accounts for public and commercial activities and prepared consolidated records of licence fee payers in line with the law. The law on public information and media, the law on electronic media and the law on public service media have not yet been fully implemented. The legal situation of the news agency Tanjug and its financing need to be clarified and brought in line with the existing legislation.

The Council of the Regulatory Body for Electronic Media, REM, operates with only six out of nine members. Parliament needs to approve its new statutes in line with the law on electronic media. The regulator continued to lack independence in monitoring broadcasters to ensure they meet their programming obligations. Frequent interruption of retransmitted audiovisual media content by local advertisements prevents broadcasting from meeting the Audiovisual Media Services Directive requirements. This affects overall media advertising revenues and creates distortions in the media services market. The media continue to depend primarily on public advertising.

### 5.11. Chapter 11: Agriculture and rural development

*The common agricultural policy (CAP) supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.*

Serbia has **some level of preparation** in agriculture and rural development. **Some progress** was made towards aligning national legislation with the CAP and the development of an action plan on *acquis* alignment has advanced. In the coming period, Serbia should in particular:

→ take all necessary steps to fulfil the requirement in order to be entrusted with budget implementation tasks for the IPARD II programme, including allocating adequate resources and strengthening the capacity of all IPARD bodies and improving implementation procedures;

→ adopt and proceed with implementation of the action plan for *acquis* alignment in agriculture and rural development.

As regards **horizontal issues**, the action plan for alignment with the *acquis* in agriculture and rural development and the national programmes for agriculture and rural development for the period 2016-2020 remain to be adopted. The national programme of measures and classification of expenditure has been further aligned with the two-pillar concept of the CAP. Further alignment with EU policies requires further harmonisation of direct payments. A working group on the Farm Accountancy Data Network (FADN) has been established, but Serbia has yet to designate formal institutional responsibilities for the FADN and adopt a rulebook in line with the FADN legislation. Serbia still needs to start developing an Integrated Administration and Control System (IACS) to prepare for the management and control of agricultural payments. Work should centre on establishing the legal base, clarifying stakeholders' responsibilities and developing the Land Parcel Identification System (LPIS) and the farm register.

In the **common market organisation**, in the wine sector, the registration of vineyards stands at 25 % of the national vineyard. By-laws transposing EU standards for oenological practices and procedures and methods for organoleptic testing of wine have been adopted. Serbia should continue alignment in the sector, in particular by strengthening market controls on movements of wine products and boosting administrative capacity. A law on spirit drinks was adopted in November 2015; however, an issue concerning a definition remains to be fully aligned.

On **rural development**, the request for entrustment of budget implementation tasks for the IPARD programme 2014-2020 was submitted in December 2015. However, several key issues, including staffing, remain to be addressed before entrustment can proceed. Serbia urgently needs to address outstanding issues so as to be in a position to move ahead with implementation of the IPARD II programme.

Progress is slow in the area of **quality policy**. As regards **organic farming**, the national action plan for the development of the organic sector has yet to be adopted. The area under organic production increased and stands at present at 15,000 ha equivalent to 0.4 % of the utilised agricultural area.

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

*EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.*

Serbia is **moderately prepared** in the area of food safety, veterinary and phytosanitary policy. There has been **no progress** in the past year. In the coming period, Serbia should in particular:

- develop a comprehensive strategy for transposition, implementation and enforcement of the *acquis* for the food safety, veterinary and phytosanitary policy;
- review the capacity of the veterinary, phytosanitary and national reference laboratories directorates and adopt an action plan to strengthen them.

In the area of **general food safety**, Serbia has yet to define a legal approach for full transposition of the *acquis*. The public consultation process for drafting laws should be improved. Implementation of current food hygiene legislation should be checked more strictly at the same time that it is being aligned with the *acquis*. On **food safety rules and specific rules for feed**, the permitted level of aflatoxins in milk has been increased fivefold and is no longer aligned with the *acquis*. The milk testing laboratory in the National Reference Laboratories Directorate has yet to be put into operation and fully staffed.

On **veterinary policy**, annual programmes of animal health protection measures and monitoring of pharmacologically active substances for 2016 were adopted or notified to the European Commission. No new cases of classical swine fever were reported. Vaccination of the national cattle herd in response to the lumpy skin disease outbreak is underway. Implementation of the multiannual programme to eradicate rabies in wildlife continued and the number of confirmed cases of rabies in animals is at a historic low. The use of TRACES system increased. The veterinary directorate is seriously understaffed, with many staff members approaching retirement age. Enforcement of national legislation on animal welfare, in particularly on slaughter, needs to be stepped up.

In relation to the **placing of food, feed and animal by-products on the market**, Serbia has not yet adopted a programme for upgrading agri-food establishments. Implementation of the legislation on animal by-products management needs to be substantially improved, and a national strategy for management of animal by-products should be adopted and implemented. A national monitoring and control programme for food and feed safety is still to be adopted. Clearer procedures should be developed for risk-based control of imported consignments.

In the area of **phytosanitary policy** annual programmes of plant health measures and residue monitoring were adopted. A legal framework for the sustainable use of pesticides should be adopted, as should the national action plan to reduce the risks and impact of pesticide use. There was no progress on aligning the law on **genetically modified organisms** with the *acquis*, which is a prerequisite for Serbia's accession to the World Trade Organisation (WTO).

### 5.13. Chapter 13: Fisheries

*The common fisheries policy lays down rules for management of fisheries, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for markets and aquaculture as well as support for fisheries and coastal communities.*

Serbia is **moderately prepared** in the area of fisheries. **Some progress** was made through adoption of changes to the law on animal husbandry, establishing the legal base for a national catch certification scheme. In the coming period, Serbia should in particular:

→ establish an operational national catch certification scheme and a system for collecting market data.

Serbia does not have any **structural actions** in place for small-scale fisheries or inland fisheries. As regards **market policy**, the capacity of the administration managing and controlling imports and exports of fisheries products needs to be upgraded and brought into line with the *acquis*. The law on animal husbandry was amended, requiring catch certifications for imports and exports of fishery products.

### 5.14. Chapter 14: Transport policy

*The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.*

Serbia is **moderately prepared/has a good level of preparation** in transport policy. **Good progress** was made on aligning with the *acquis* on road, rail and inland waterways, notably on social legislation for commercial road transport, opening of the rail market, mercantile shipping and transport accident investigation. Serbia addressed last years' recommendations in rail transport. In the coming period, Serbia should in particular:

→ further improve road safety by taking measures to reduce fatalities and adopt legislation on Intelligent Transport Systems;

→ continue its focus on reforming the railways.

As regards the **general transport *acquis***, key strategic documents for the transport sector are in place and are being updated, with air and road strategies yet to complete the strategic framework. Serbia's legislation is fully aligned with the *acquis* on summertime arrangements, while further efforts are needed to complete alignment on public service obligations. Overall administrative capacity should be reinforced through streamlined organisational structures and greater staff competencies. The law on air, railway and waterborne transport accident investigations is in place, with relevant by-laws having been adopted in 2016. A single independent accident investigation body covering air, rail and waterborne transport has been established. It needs increased resources and staffing to become fully operational.

On **road transport**, the legal framework has achieved a reasonable level of alignment. Legislation on transport of dangerous goods has been in place since 2010 but further alignment with the *acquis* is needed. The legal entities responsible for conformity assessment of existing equipment under the law on carriage of dangerous goods have been appointed. Laws on road freight and passenger traffic are in place, allowing market access for goods and passenger transport for both national and international operations. Further harmonisation, including on issuing transport licences, is needed.

There has been progress in social legislation and road safety, including through the adoption of a law on working times for vehicle crews and tachographs in November 2015. Further progress is needed regarding driver licensing, professional drivers' training and qualification and infrastructure safety management. The trend of falling numbers of fatal road traffic accidents is reversing. Reinforced efforts are, therefore, needed to reduce traffic fatalities, notably regarding implementation and enforcement of legislation, awareness-raising and measures to make roads, vehicles and road users safer. Regarding the enforcement of social legislation, improvements need to continue on roadside checks and enforcement capacity of inspection officers. Legislation on clean and energy-efficient road transport vehicles, on the deployment of infrastructure for alternative fuel and on intelligent transport systems needs to be developed. Open issues regarding road charges need to be clarified.

Regarding the **rail transport *acquis***, Serbia has restructured its state railways into a holding company with infrastructure management, passenger and freight operations assigned to three separate daughter companies. The rail regulatory body operates independently and is increasingly handling complaints and issuing decisions. In 2015 Serbia empowered the regulatory body to impose penalties to enforce its decisions. In 2016, for the first time, the infrastructure manager published a network statement setting out track access charges and access conditions to the network. A track access contract was signed with a private railway undertaking in June 2016. Serbia should now ensure timely publication of yearly network statements, including information on railway facilities. Public service obligation contracts were signed.

Railway safety legislation has been adopted but further alignment is needed, particularly with a view to improving training capacity, examination methods and licensing procedures. Legislation on interoperability is in place but needs to be further improved to avoid unnecessary barriers to access for rolling stock. Serbia transposed a first set of technical specifications but publication of the remaining ones is needed to allow full implementation. There has been significant progress in the implementation of the railway border crossing agreement between Serbia and the former Yugoslav Republic of Macedonia.

In **maritime transport**, Serbia has achieved a good level of alignment with the *acquis* but has yet to develop adequate implementation capacity. Its law on maritime navigation is compliant with the relevant directives for landlocked countries related to the Community vessel traffic monitoring and information system. In the area of **satellite navigation**, Serbian participation in the Galileo programme has yet to start.

In the area of **inland waterway transport**, Serbia has reached a high level of alignment with the relevant *acquis*, in particular with the adoption of the merchant shipping law in November 2015. The river information services system is operational and highly interoperable with systems in EU countries. An authority responsible for inland waterways has been set up in the line ministry. Serbia actively participates in the EU strategy for the development of the Danube Region (EUSDR) and has signed the main international agreements on inland waterways and bilateral agreements with neighbouring countries, including Romania, Hungary, Croatia and Bosnia and Herzegovina. Administrative capacity for international cooperation and other relevant matters needs to be strengthened.

Serbia has achieved a good level of alignment with the *acquis* on **aviation** and has made considerable progress with implementing the first transitional phase of the European Common Aviation Agreement (ECAA). On Single European Sky (SES) legislation for airspace coordination, Serbia has completed transposition and local implementation of SES I and SES II on air traffic. Serbia's legislation is aligned with EU legislation on aviation safety as listed in Annex 1 of the ECAA. In August 2015, Serbia adopted the law on accident investigation.

Working arrangements with the European Aviation Safety Agency cover all aspects of the *acquis* in civil aviation safety and environmental protection of products, organisations and personnel. The suspension of articles on licensing of air carriers and access to air routes should be lifted before the entry into force of the second transitional period of the ECAA.

As regards **combined transport**, specific legislation has yet to be fully developed. This mode is covered in the existing general transport master plan and transport strategy. The construction of the first modern intermodal terminal in Belgrade has yet to start.

### 5.15. Chapter 15: Energy

*EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety and radiation protection.*

Serbia is **moderately prepared** in the field of energy. **Some progress** was made in the internal energy market and security of supply. No progress has been made in addressing most of last year's recommendations. In the coming period, Serbia should therefore in particular:

- take measures to fully unbundle Srbijagas and develop competition in the gas market;
- fully implement the connectivity reform measures in the energy sector as agreed;
- improve alignment with the *acquis*, strengthen capacity and promote investment in energy efficiency and renewable energy as well as achieve cost-reflective electricity tariffs.

Serbia has achieved a high level of alignment on **security of supply**. The December 2015 energy sector development strategy focuses on security of supply. The legal framework for **oil stocks** is in place and secondary legislation was further strengthened in October 2015. Serbia has established a central stockholding body. Serbia has drafted an action plan for implementing the Directive on minimum oil stocks. Oil stocks currently correspond to 14 days of consumption. Security of electricity supply was re-established after the 2014 floods: coal production has recovered to its previous level following significant investment. Serbia is developing a new **electricity interconnector** with Romania, Montenegro and Bosnia and Herzegovina as part of the Trans-Balkan corridor. Preparations for building a **gas interconnector** between Serbia and Bulgaria have started but need to accelerate.

Serbia has shown some progress in implementing the connectivity reform measures in the energy sector. To develop **a power market with its neighbours**, Serbia set up the South Eastern European Power Exchange in February 2016. This is a step forward in the creation of a regional power trading platform for south-eastern Europe. However, Serbia has still to implement the Framework and Inter-TSO Agreement between its transmission system operator EMS and the Kosovan operator KOSTT, and ensure EMS's participation in the region's Coordinated Auction Office in Podgorica.

As regards the **internal energy market**, Serbia's primary legislation is compliant with the EU's third energy package but secondary legislation in the gas sector has yet to be completed and implemented. Serbia's state-owned public power utility EPS is unbundled from the TSO in line with the third energy package as is the distribution system operator from EPS, but managerial separation has yet to be completed. Serbia has legally unbundled its gas utility Srbijagas but this separation is not yet operational, in breach of Serbia's obligations under the Energy Community Treaty. The transfer of staff and assets has not started. Both the electricity and natural gas markets are open in Serbia, with all customers having the right to choose their suppliers. 39.65 % of total end-user electricity consumption in Serbia was delivered to the non-regulated market in 2015. In both sectors, households and small customers have the right

to be supplied under regulated prices, in line with the *acquis*. Increased efforts are needed to move towards cost-reflective electricity tariffs including all externalities. The rules on third-party access to gas pipelines are not in conformity with the *acquis*.

The Serbian Energy Agency is legally distinct and functionally independent from any other public entity. However, restrictive employment and salary policies for the public sector reduce its capacity, which is insufficient to take on all the regulatory tasks set under the third energy package. Staff levels should gradually increase from the current 36 staff members to 56 over the next three years.

In **hydrocarbons**, Serbia has not aligned its law with the hydrocarbon licensing Directive, especially regarding conditions for granting and using authorisations for prospection, exploration and production.

Serbia's law on energy is in line with the **renewable energy** Directive but further by-laws need to be passed to allow full implementation. Serbia's national renewables target for 2020 is set at 27 % of gross final consumption of energy. In 2014 Serbia achieved a 23.1 % share of energy from renewable sources. There are no major investment projects in the renewable energy sector; large scale investment has so far been hampered by difficulties in obtaining bankable power purchase agreements. In June 2016, Serbia adopted a new model for power purchase agreements to address the issue, together with a new feed-in tariff system valid until 2018 and legislation on the procedure for acquiring privileged producer status and on incentives for renewable energy production. The main contribution from renewables under feed-in tariffs comes from small hydropower plants with approximately 60 MW of installed power. Any further development of hydropower should be in line with EU environmental legislation.

Serbia needed to adopt its third **energy efficiency** action plan by June 2016; however, adoption is still pending. The headline target is to save 9 % in final energy consumption in 2018. The current law on efficient use of energy and legislation on the energy performance of buildings is partly in line with the energy efficiency and energy performance of buildings Directives. Serbia continued to implement the energy efficiency *acquis*. Capacity needs to be considerably strengthened, in particular in the Ministry of Mining's department for energy efficiency and in the building inspectorate. An energy efficiency fund has been set up as a Ministry budget line; its current endowment of around EUR 1.2 million for 2016 is seriously insufficient to meet demands.

On **nuclear energy, nuclear security and radiation protection**, Serbia's legislation is partially in line with the *acquis*. Further alignment is needed on radioactive waste management, radiation protection, spent fuel, nuclear safety and security. Serbia is a signatory of a number of key conventions, treaties and agreements including on non-proliferation, protection of nuclear material and notification of nuclear accidents. Serbia made some progress in taking on board amendments to the Convention on the Physical Protection of Nuclear Material, which entered into force in March 2016. Serbia has one nuclear site with two research nuclear reactors (of which one is still in operation) and radioactive waste storage, plus one abandoned uranium mine. None of the facilities are licensed except for one newly built radioactive waste storage. An action plan has yet to be drafted for decommissioning research reactor A at the Vinca site. The radiological and security situation at the Vinca site and the abandoned Kalna uranium mine need to be improved. The Radiation Protection and Nuclear Safety Agency is insufficiently staffed to perform its duties. In December 2015, the number of permanent staff posts was reduced from 35 to 24. Inspection functions have not yet been transferred to the Agency. The Agency's budget is insufficient to ensure its proper functioning and operational independence.

## 5.16. Chapter 16: Taxation

*EU rules on taxation cover value added tax and excise duties as well as aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.*

Serbia is **moderately prepared** in the area of taxation. **Some progress** was made in aligning legislation with the *acquis* and in implementing the reform of the tax administration. In the coming period, Serbia should in particular:

- remove discrimination in the application of excise duties on imported spirits and coffee;
- continue to implement the programme to transform the tax administration, especially by simplifying tax procedures and allocating sufficient human and IT resources, in order to improve tax collection and fight the informal economy.

On **indirect taxation**, limited steps were taken in aligning the law on Value Added Tax (VAT) and the law on excise tax with the *acquis*. The discriminatory application of excise stamps on imported alcohol was removed. However, excise duty continues to be applied in a discriminatory manner to imported spirits and coffee. With regard to **direct taxation**, a withholding tax was introduced on income from services provided by non-residents in Serbia.

There was no progress on **administrative cooperation and mutual assistance**.

On **operational capacity and computerisation** of the tax administration, electronic filing has been further extended and now covers 95 % of total tax revenues. A strategy for reducing the informal economy was adopted in December. The tax administration adopted programmes and new tools to stimulate better tax compliance, notably on VAT. There were sustained efforts to fight tax evasion, notably on VAT and excise duties. Further progress in implementing the programme to transform the tax administration is needed. It is still understaffed, and suffers from its inability to compete with salaries from the private sector. Its IT division needs strengthening. Further efforts to improve the predictability of tax decisions and services to tax payers are needed.

## 5.17. Chapter 17: Economic and monetary policy

*EU rules require the independence of central banks and prohibit them from directly financing the public sector. Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.*

Serbia is **moderately prepared** in the area of economic and monetary policy. **Good progress** was made as regards alignment with the *acquis*, notably through better preparation of the economic reform programme. In the coming period, Serbia should in particular:

- improve capacity for economic planning, coordination and implementation of the existing reform agenda;
- consider strengthening the system of fiscal rules, while making them more binding;
- submit fiscal notifications and the economic reform programme (ERP) by the set deadlines.

On **monetary policy**, alignment of the legal framework is well advanced. Further alignment is needed to ensure the central bank's functional and institutional independence. As regards **economic policy**, further alignment with the Directive on requirements for budgetary frameworks is needed. Some initial steps were taken to start aligning fiscal reporting with the European System of National and Regional Accounts. However, Serbia's budget system law is not yet aligned with the Directive and budget calendars are not followed. Programme



budgeting has to be strengthened, and administrative and IT capacity reinforced. Further efforts are needed to ensure that fiscal planning, fiscal rules and forecasts are comprehensive in coverage across sub-sectors of general government as required. The fiscal rules are not adhered to and there are no sanctions in place for non-compliance. The Fiscal Council remained a prominent institution, supporting domestic debates on fiscal policy. The statistical coverage and definition of the general government sector should be improved.

Further efforts are needed on inter-ministerial policy coordination in order to improve preparation and implementation of structural reforms. Serbia submitted its economic reform programme (ERP) 2016-2018 to the European Commission with a slight delay. The identification of obstacles to growth could be improved.

### 5.18. Chapter 18: Statistics

*EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.*

Serbia is **moderately prepared** in statistics. **Good progress** was made in the past year, notably in further aligning sectoral statistics with the EU *acquis*. In the coming period, Serbia should in particular:

→ improve macroeconomic statistics in line with the European System of Accounts (ESA) 2010;

→ continue to improve coordination of producers of official statistics in the area of macroeconomics (Statistical Office, Ministry of Finance, National Bank);

→ align its legislative framework on territorial units for statistics (NUTS) with the NUTS regulation, in line with its SAA obligations.

On **statistical infrastructure**, the legal framework is largely in line with the European statistics Code of Practice, while the upcoming revision of the law on statistics is expected to increase the professional independence of the Statistical Office of the Republic of Serbia (SORS). The capacity of the Statistical Office needs to be further strengthened in terms of human resources, notably by increasing its staff and their qualifications for the implementation of the five-year Programme of Official Statistics. Cooperation with the administrative data owners is established, and SORS is further broadening and developing it. A system of regular data transmission to **Eurostat** has been put in place, but data coverage needs to be increased.

Serbia has so far failed to notify its classification of territorial units in line with the EU regulation on a nomenclature of territorial units for statistics (NUTS), which is an obligation of the SAA due since 2014. The absence of an agreed nomenclature prevents deeper cooperation with the Commission across many policy areas.

Regarding **macroeconomic statistics**, SORS continued to compile quarterly and annual GDP in current and constant prices. Quarterly sector accounts have not yet been compiled. Supply-use and input-output tables are not compiled. SORS transmits monthly data on trade in goods in the required breakdown by mandatory partner country and in good quality. The National Bank of Serbia compiles monthly balance of payments (BOP), quarterly BOP and quarterly IIP data (International Investment Position) in compliance with the BPM6 (Balance of Payments and International Investment Position Manual) and transmits annual data on Trade in Services in accordance with the BoP Vademecum. SORS provided, for the first time in 2016, the notification tables for the Excessive Deficit Procedure (EDP) to Eurostat.

Continued efforts are needed to produce all data required by the ESA 2010 transmission programme.

With regard to structural **business statistics** data coverage is not yet in line with the EU *acquis* as a number of data are not collected. Harmonization with the EU *acquis* on short term statistics is progressing. Data on national tourism are not collected. For transport, road, railway, inland waterways and air transport data are collected but need to be further harmonised with the EU *acquis*. In the area of statistics on research and development (R&D), SORS has made significant progress, including the transmission of government budget appropriations or outlays for R&D data for 2014 and 2015. The Community innovation survey is conducted every two years and data are sent to Eurostat. Biennial surveys on information and communication technology (ICT) in compliance with EU standards are carried out regularly. The last survey in 2015 covered the period 2012-2014 and data were sent to Eurostat in March 2016.

On **social statistics**, Serbia is partially in line with the EU *acquis*. SORS carries out the Survey on Income and Living Conditions regularly, and data for 2013 and 2014 were published. Data from the 2015 survey are under preparation. The European System of Integrated Social Protection Statistics is implemented in line with the EU *acquis*. Labour market statistics are produced broadly in line with the EU *acquis*. However, statistics on the structure of earnings and job vacancies still need to be produced. The labour cost data and labour cost index are produced in line with the EU *acquis*. Public health statistics in line with the EU *acquis* are not yet available. Statistics on external migration and asylum are collected by the Ministry of Interior and are only partly harmonised with the relevant EU statistics. Crime statistics are collected but need to be aligned with EU standards.

Regarding **agriculture statistics**, vineyards and orchard surveys need to be introduced. Supply balance sheets are produced for certain agriculture products as well as agricultural price statistics but are only partially harmonised with the EU *acquis*. A Farm Structure Survey is planned for 2017/2018. The revision of economic agricultural accounts data for the period 2007-2014 was completed and results were presented in the Study “Economic Accounts for Agriculture in the Republic of Serbia 2007-2014” published in December 2015.

Regarding energy statistics, annual **energy statistics** are produced for all relevant energy sources and are submitted to Eurostat. Short-term energy data are not produced. **Waste and water statistics** are collected but need to be extended. **Environment statistics** are partially produced.

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

*EU rules in the social field include minimum standards for labour law, equality, health and safety at work and non-discrimination. They also promote social dialogue at European level.*

Serbia is **moderately prepared** in social policy and employment. **Some progress** was made on employment policy, Roma inclusion, non-discrimination and equality between women and men. The adoption of Serbia’s first employment and social reform programme has marked an important step in addressing policy challenges in the employment and social areas, which continue to be affected by scarce public finances and limited institutional capacity. In the coming period, Serbia should in particular:

- ensure financial and institutional resources for employment and social policies to more systematically target young and long-term unemployed persons;
- increase the efficiency of social benefits for people below the poverty threshold;

→ significantly strengthen bipartite and tripartite social dialogue at all levels, including consultations on draft legislation.

In the field of **labour law**, the law on conditions of posting of employees abroad was adopted in November 2015 and entered into force in January 2016. This law, however, does not fully transpose Directive 96/71/EC on Posting of Workers and labour law more generally is not fully aligned with the *acquis*. The November 2015 amendments to the law on **health and safety at work**, and the adoption in December of eight by-laws and a rulebook on electromagnetic radiation, contribute to further alignment with the *acquis*. Labour inspection activities have been intensified especially in relation to combating undeclared work and shown first positive results. The Labour Inspectorate's administrative capacity needs to be further strengthened, in order to support the implementation of the national programme for fighting the grey economy. Root causes of informal employment should however be addressed in a more comprehensive approach.

In **social dialogue**, bipartite dialogue has remained weak, new collective agreements have been concluded almost exclusively in the public sector, and those which expired following the introduction of the new labour law have not been renewed except for some in the public sector (health, social protection, culture, police, and in state-owned enterprises). Collective bargaining needs to be promoted further through adapting the legal framework (representativeness of social partners and extension of agreements) and strengthening the capacity of social partners. Tripartite dialogue has shown some progress with more frequent meetings of the Economic and Social Council at national level; however the Council is not systematically consulted on all relevant draft legislation. There are 29 local economic and social councils operational across the country; their sustainability is hampered by a lack of capacity and funding. Social partners reached a common agreement on the adaptation of the minimum hourly wage in the second half of 2016.

In **employment policy**, the overall labour market performance in 2015 improved slightly compared to 2014. The employment rate for the 15-64 years old increased from 50.7 % to 52 %. Unemployment went down from 19.2 % to 17.7 %. Specific pressure on the labour market results from fiscal consolidation measures and the restructuring of state-owned enterprises. Labour market integration of workers who have become redundant and the long-term unemployed remains a key challenge, as well as of young people whose unemployment rate is still very high (43.2 % in 2015). Allocations for active labour market policies have remained at the same level in 2016 as in 2015. While all regions showed improvements in labour market indicators, regional imbalances continue to persist. Roma, especially women, are the most discriminated against on the labour market; other vulnerable groups include persons with disabilities, and people with low qualifications who are long-term unemployed. The adoption of the employment and social reform programme in June constitutes a significant step forward in terms of evidence-based policy development. The revision of the national employment strategy 2010-2020 is being completed. While authorised private employment agencies are already active in the labour market, it is important to advance with the development of a specific legislative framework in line with the EU *acquis* in this area.

There were no developments as regards preparations for the **European Social Fund**. Administrative capacity is under pressure as a result of a high turnover of staff within the unit responsible in the Ministry of Labour, Employment, Veterans and Social Affairs. (See also *chapter 22 — Regional policy and coordination of structural instruments*)

In the area of **social inclusion and protection**, the adoption of amendments to the social welfare law, the family law and the draft law on financial support for families with children

are still pending. In 2015, only 18.5 % of registered unemployed Roma were included in active labour market measures.

The Survey on Income and Living Conditions was conducted for the third time in 2015. The at-risk-of-poverty rate in Serbia decreased slightly to 25.4 % with the highest rates among young people aged 18-24 and those under 18, unemployed persons, and households with two adults and three or more dependent children. The current system of social benefits does not effectively help to reduce poverty. The pension system continues to show a high deficit. The ratio of insured persons to pensioners is low and undermines the long-term sustainability of the system.

The system of social services, including those for elderly and socially disadvantaged persons, is still largely institutionalised. The findings of the ongoing mapping exercise of social services at the local level undertaken by the Social Inclusion and Poverty Reduction Unit (SIPRU) in cooperation with the Republic Institute for Social Protection should contribute to developing non-institutional forms of care, developing a range of service providers and integrated social services, and improving service accessibility, efficiency and quality.

In the field of **non-discrimination in employment and social policy**, women are particularly exposed to discrimination on the labour market, while the Roma population is exposed to discrimination in almost all areas of life. The majority of complaints (36.3 %) filed with the Commissioner for Protection of Equality pertain to discrimination in the area of labour and employment. (See also *chapter 23 — Judiciary and fundamental rights*)

In the area of **equality between women and men in employment and social policy**, the employment rate of men is 14 % higher and their activity rate is 16 % higher compared to women. In 2016, SIPRU and the Statistical Office introduced the Index of Gender Equality, in line with EU methodology.

## 5.20. Chapter 20: Enterprise and industrial policy

*EU enterprise and industrial policy enhances competitiveness, facilitates structural change and encourages an enterprise-friendly environment that stimulates small and medium-sized enterprises (SMEs).*

Serbia is **moderately prepared** in enterprise and industrial policy. **Some progress** was made with government programmes to improve financing of SMEs. In the coming period, Serbia should in particular:

→ make efforts to improve the predictability of the business environment and SME support schemes, with emphasis on reducing the cost of access to finance.

On **enterprise and industrial policy**, the strategy to support the development of SMEs, entrepreneurship and competitiveness for 2015-2020 is being implemented and 2016 has been declared the year of entrepreneurship in Serbia. The Serbian Development Agency has been set up, replacing the National Agency for Regional Development and the Serbian Investment and Export Promotion Agency. Serbia joined the EU's competitiveness and SME programme (COSME) in January 2016. A new law on investment, aimed at improving the institutional framework for investment promotion and support, was adopted in October 2015. It sets criteria for State support to investors, but contains a number of exemption clauses. The Small Business Act assessment for Serbia recognises that improvements have been made in the environment for SMEs; however, it calls for a monitoring system for SME instruments which would track the measures taken. In particular, the decline in research output and financial support for innovation needs to be taken into account, as this negatively impacts competitiveness of the private sector.

On **enterprise and industrial instruments**, the government increased budget financing in 2016 to 33 different assistance programmes for SMEs. . However, access to finance remains problematic and is a key obstacle to development of the sector. Parafiscal charges continue to put a heavy burden on SMEs' operations. The process of reviewing and simplifying existing laws — 'the regulatory guillotine' — has stalled. Predictability and overall control of charges at different government levels could be strengthened.

In **sectoral policies**, the strategy for industrial development 2011-2020 should be reviewed to establish proper sectoral prioritisation, with appropriate supporting instruments.

### 5.21. Chapter 21: Trans-European networks

*The EU promotes trans-European networks in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.*

Serbia is **moderately prepared** for trans-European networks. **Some progress** was made regarding last year's recommendation and on the extension of Orient East-Med corridor both for road and rail. In the coming period, Serbia should in particular:

→ continue and accelerate its preparatory work for the gas interconnector with Bulgaria.

On **transport networks**, Serbia played an active role in the Western Balkan 6 connectivity agenda, including achieving good progress on the connectivity reform measures for transport agreed at the Vienna summit in August 2015. In 2015, together with Austria, Bulgaria, Croatia and Slovenia, Serbia initiated the founding of the Alpine-Western Balkans freight corridor which will extend from Salzburg to the Bulgarian-Turkish border. In November 2015, Serbia further aligned its legislation on interoperability. Serbia should ensure alignment with the TEN-T Regulation in the implementation of planned transport network projects including the Budapest-Belgrade railway. An action plan for achieving "good navigation status" in all relevant Serbian waterways should be envisaged.

On the road infrastructure for the Orient East-Med corridor South and East branches, the parts Grabovnice to Grdelice and Vladičin Han to Donji Neradovac were completed, as was Crvena Reka to Čiflik-Staničenje. Some parts of the Belgrade bypass were completed, including Batajnica to Dobanovci and Orlovača to Avalski. Work on the railway for the Orient East-Med core corridor is ongoing.

On trans-European **energy networks**, Serbia actively participated in the Central and South Eastern Europe Gas Connectivity initiative. Preparations for building a gas interconnector between Serbia and Bulgaria need to continue and accelerate to enable timely implementation. Construction of the Resita-Pancevo electricity interconnection between Romania and Serbia is advancing, and it is planned to be operational by the end of 2017. Project pipelines for transport and energy were updated in 2016 and investment preparations continue.

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

*Regional policy is the EU's main investment policy for sustainable and inclusive economic growth. Member States bear responsibility for its implementation, which requires adequate administrative capacity and sound financial management of project design and execution.*

Serbia is **moderately prepared** in regional policy and coordination of structural instruments. **Some progress** was made in gaining experience in managing EU funds under indirect management. In the coming period, Serbia should in particular:

→ adopt and start implementing an action plan setting out clear objectives and timeframes in order to meet requirements deriving from EU cohesion policy;

→ ensure adequate administrative and financial capacity to implement decentralised/indirect management programmes.

The **legislative framework** supporting the implementation of regional policy is not yet fully in line with the *acquis*. The ability of the budgetary system and resources to provide adequate financing capacity at aggregate level remains to be tested. On the **institutional framework**, Serbia is partly managing EU funds under decentralised / indirect management. Work continued to align the structures for programming and implementing national development policy and strategic planning with those of EU regional policy, so that Serbia can increase its ability to absorb EU funds and co-finance EU-funded programmes. Regarding **administrative capacity**, persistent weaknesses in the key institutions managing EU funds have been partially addressed in 2016 through improvements in the staffing situation. However, a staff retention policy still needs to be developed and implemented.

Progress has been made in **programming**, with the introduction of a sector approach under the Instrument for Pre-accession Assistance (IPA). The ‘single project pipeline’ was updated and revised in March 2016 by the national investment committee, enabling selection of strategically important and mature infrastructure projects.

On **monitoring and evaluation**, the monitoring committees under indirect management meet regularly. The evaluation plan for decentralised IPA funds was prepared. However, a management and information system for monitoring and evaluation under IPA needs to be developed.

On **financial management, control and audit**, Serbia’s financial management and control systems were further developed to comply with the requirements for indirect management of IPA funds. The recruitment of a Head of the Audit Authority with the appropriate competence, knowledge and the experience in the field of audit remains an issue of concern which needs to be addressed immediately.

### 5.23. Chapter 23: Judiciary and fundamental rights

*The EU’s founding values include the rule of law and respect for human rights. A properly functioning judicial system and effective fight against corruption are of paramount importance, as is respect for fundamental rights in law and in practice.*

Serbia has achieved **some level of preparation** for the *acquis* and European standards in this area. **Some progress** was made by partially addressing last year’s recommendations, and in particular in standardising court practice. Elections for new members of the High Judicial Council (HJC) and the State Prosecutorial Council (SPC) in December 2015 were a positive step towards improving their credibility. However, developments over the reporting period underlined the need for further implementation and consolidation of reforms in this area. There is still scope for political influence over judicial appointments. This remains to be addressed.

The national anti-corruption strategy has so far not yielded the expected results. Corruption remains prevalent in many areas and continues to be a serious problem. Conditions for the full exercise of freedom of expression are still not in place. Anti-discrimination legislation and legislation to protect minorities is in place but needs to be consistently implemented. Activities to promote equality and ensure integration of persons belonging to the most discriminated groups (Roma, LGBTI, persons with disabilities, persons with HIV/AIDS and other socially vulnerable groups) need to be effectively carried out.

In the coming year, Serbia should in particular:

- implement and consolidate the ongoing justice reform process, tackling issues related to the independence, accountability and effectiveness of the judicial system;
- establish an initial track record of investigation, prosecution and final convictions in corruption cases, particularly in high-level ones;
- ensure conditions for the full exercise of freedom of expression.

As part of the ‘new approach’ to the rule of law, and in line with the negotiating framework, this chapter was opened in July 2016 after Serbia adopted a detailed action plan.

## **Functioning of the judiciary**

### Strategic documents

The national judicial reform strategy was revised and brought into line with the chapter 23 action plan. The Commission overseeing its implementation met regularly, but did not manage to ensure correct and timely implementation of all activities. It failed to solve problems in the judiciary and to address over-ambitious deadlines for activities that were delayed in 2015. The action plan required to open chapter 23 was adopted by the government in April 2016 and implementation started.

### Management bodies

The election of new members to the HJC and SPC has created a new opportunity to improve their legitimacy and reputation. In December 2015 the laws on the HJC and SPC were amended to make their work more transparent. They should become more visible and proactive in protecting the independence of judges and prosecutors. The transfer of full responsibility for the judicial budget to the Councils has been delayed to January 2017. Intensive preparation is needed for the transfer, which is important for the independence of the judiciary. Further efforts are needed for the Councils to implement a fully coherent and efficient judicial administration.

### Independence and impartiality

In the selection process for prosecutors in autumn 2015, the SPC selected only 55 candidates for 85 posts. The candidates’ ranking did not reflect their professional merits. The government submitted the list of candidate prosecutors to the National Assembly for appointment. Under Article 156 of the constitution, the prosecution service is an independent body. Selection and promotion of judges and prosecutors should therefore be independent of the executive and the legislature, and should be based on pre-established, objective, merit-based, and uniform criteria. The SPC’s role as appointing authority should therefore be respected. The role of the National Assembly in high-level judicial appointments should be eliminated from the constitution.

Political comments on ongoing investigations and cases continue to call judicial independence into question. Court rules of procedure provide for random allocation of cases, but this is not applied in all courts, especially smaller courts outside the bigger cities. This leaves scope for interference by court staff and court presidents. There is no mechanism for random allocation in prosecution offices.

### Accountability

In 2015, 18 disciplinary proceedings were brought before the Disciplinary Commission; the HJC took decisions in 13 appeal cases (seven were won and six were lost) and one dismissal procedure was started against a judge. That year, 250 disciplinary reports were filed with the Disciplinary Prosecutor. However, they led to only eight disciplinary proceedings.

### Professionalism and competence

The HJC tested its criteria and guidelines for evaluating the work of judges in several courts. Overall implementation started in July 2016. Thorough judicial education is needed across the board. Serbia needs to amend the constitutional provisions on the system for recruitment and career management in line with European standards for the independence of the justice system. All these points would contribute to a more transparent and predictable judicial career system and a more consistent approach to judges' and prosecutors' career development.

### Quality of justice

In December 2015, the law on the Judicial Academy was amended to include training of public notaries and public enforcement agents. Laws on judges and the public prosecution service provided for the HJC and SPC respectively to hold examinations for first-time election to judicial functions. Judicial Academy graduates will be exempt from the examination and evaluated on the grade they receive from the Academy. The expertise of the Judicial Academy needs to be reinforced. Training programmes should follow a curriculum owned by the HJC/SPC to address students' needs. The first comprehensive in-service training programme covering substantive topics and practical skills has yet to be fully implemented.

Some steps, such as regular meetings between courts of same instances, were taken to standardise court practice. However, poor quality legislation continues to lead to contradictory rulings. The Supreme Court of Cassation worked more closely with all four courts of appeal, but there is still no effective mechanism for this. Judges need access to a consolidated database of key court decisions.

There are still significant differences in workload across the country. Judges and prosecutors are appointed to specific offices and cannot transfer voluntarily to tackle peaks in workload. This may hinder better management of workload. Significant differences in workload and working conditions need to be addressed. The lowest-level basic courts and prosecution offices continued to be overburdened, especially in Belgrade, where the courts deal with the vast majority of all court cases. Courts there still lack IT equipment and space.

The HJC's budget proposal reflected falling revenue due to lower collection of court fees at all levels. The SPC's budget also fell. Specific resource challenges for the prosecution service stemming from a new prosecutor-led investigation model have not been solved. Further efforts are needed to ensure that budget planning and resource allocation match service delivery needs.

The national association of mediators actively promoted alternative dispute resolution (ADR) but without significantly reducing civil cases. In April 2016, there were 324 registered mediators. There is a need to actively promote ADR and to put in place an effective system for transferring court cases. In-service training of all stakeholders is needed for mediation to become a useful tool.

### Efficiency

In 2015, there were 1.1 million pending cases, compared to about 900 000 in 2014. This increase in the number of pending cases in 2015 results in part from an increased inflow of new cases. The overall clearance rate, i.e. ratio of solved cases to newly received cases, was 98 % in 2015, compared with 102 % in 2014. The overall length of proceedings and the recorded backlog of old cases remain a serious concern. A law on the right to be tried within a reasonable time entered into force in January 2016. The new law on enforcement and security entered into force in July 2016, giving creditors a deadline to pursue enforcement of final court decisions and a choice of enforcement mechanism (and the option to appeal). It is



essential to adopt all relevant by-laws promptly and to ensure the law is successfully implemented. Court staff should be given access to the relevant electronic database and trained as a matter of priority. Enforcement agents need adequate resources and their Chamber should exercise appropriate supervision over the quality of service and the legality of their action.

Under the adversarial system introduced in the criminal procedure, the options of cancelling criminal prosecution and plea bargaining have significantly reduced the volume of criminal cases reaching the courts. However, the application of the system is uneven. The roles of preliminary and trial judges need to be further clarified and streamlined. Appropriate training and awareness-raising on the prosecution-led method of investigation among police officers and prosecutors is crucial.

Automated information exchange on court practice and access to services needs to be further developed. The judiciary relies on a variety of unlinked ICT systems to process and manage cases and documents. The system's performance is difficult to measure as data are scattered and based on manual collection. There is neither centralised strategic planning nor any regular needs analysis. Case-law and consolidated legislation should be easily accessible online.

#### Domestic handling of war crime cases

The International Criminal Tribunal for the former Yugoslavia (ICTY) Prosecutor reported in June that while Serbia's technical cooperation on requests for assistance remains satisfactory, Serbia had turned away from the path of full cooperation with the ICTY; this is an issue of serious concern. It relates in particular to Serbia's non-handover of three Serbian nationals charged with contempt of court. Serbia needs to implement ICTY's rulings and decisions fully. Serbia's commitment to working towards regional cooperation and reconciliation should include preparedness to face its recent past and to do all it can to establish an atmosphere conducive to deal with all war crimes.

The adoption in February 2016 of a national strategy for the investigation and prosecution of war crimes, following broad consultations, is an important step forward. Serbia needs now to step up implementation of this strategy and adopt an operational prosecutorial strategy.

In line with the bilateral agreements between the prosecutors' offices, the War Crime Prosecutor's Office has continued its cooperation with other countries in the region as showed by the steady increase of items of evidence and information exchanged. The most significant developments concern the number of cases referred to prosecution services in Bosnia and Herzegovina (16 cases) and Croatia (44 cases). The Office did not however participate in the Brijuni regional conference of war crime prosecutors held in September 2016. A liaison officer programme is operational with Bosnia and Herzegovina, but remains pending with Croatia. A more precise database needs to be established to improve the timely exchange of information. It is important that these regional cooperation efforts continue to be strengthened. Only two new indictments were filed in 2015 and there was no progress on investigating high-profile cases.

The mandate of the former War Crimes Prosecutor expired in December 2015 and his successor has yet to be appointed; this is a matter of serious concern. To maintain the quality of trials, measures should be put in place to preserve the extensive judicial experience acquired in processing these complex cases. The War Crimes Prosecutor's Office needs to be sufficiently trained, staffed and supported to continue performing its tasks professionally.

Only a few victims of war crimes have access to effective compensation under the current legal framework. No concrete steps have been taken to address the serious weaknesses in the witness protection system. It is of the utmost importance that Serbia's domestic handling of

war crimes is in line with international standards and ICTY case-law, with a view to ensuring efficient, deterrent and impartial treatment of war crimes.

## **Anti-corruption policy**

### Track record

Serbia's initial **track record of investigation, prosecution and convictions** in cases which are not considered 'high-level' corruption has been sustained. The basic and higher prosecutor's offices and the specialist prosecution office for organised crime and corruption received 8 460 crime reports of corruption-related offences during 2015. There were decisions to investigate 816 persons in 2015. Public prosecutor's offices brought charges against 1 546 people (1 044 in 2014) and there were 1 246 convictions. Investigations - particularly into high-level corruption - often take a long time because prosecutors' offices lack capacity. Also, shortcomings in the legal framework prevent effective and systematic financial investigations and asset confiscation. While the criminal code provides for sentences of between 6 months and 12 years, in reality, sanctions continue to be more lenient. Appeal courts in Belgrade in charge of high-level and severe corruption cases pronounced first-instance judgments against 87 persons for corruption-related offences in 2015.

**Leaks to the media about ongoing investigations** continued to occur frequently. Such practices hamper investigations and are a breach of the presumption of innocence. Investigations in such cases should be prioritised, the source of the leaks identified and deterrent sanctions imposed on perpetrators.

There is some track record of judicial follow-up to official requests from the Anti-Corruption Agency for in-depth checks of **party funding, conflicts of interest and asset declarations**. The Agency filed only 22 requests for misdemeanour proceedings in 2015 (compared with 68 in 2014 and 58 in 2013). The Agency received fewer requests related to **conflicts of interest** in 2015 (1 358, compared with 1 481 in 2014). This resulted in 30 first-instance judgments, most of which were reprimands and fines (compared with 43 in 2014). 39 appeals by public officials against the decisions of the Agency Board on conflict of interest cases were made to the Administrative Court, which issued 12 judgments, ten of which confirmed the Board's decision.

The Agency submitted fewer requests for misdemeanour proceedings relating to **asset declarations** in 2015 (123, as against 168 in 2014). 121 cases were for failure to submit reports on time. Based on the Agency's work in previous years, misdemeanour courts issued 94 convictions in 2015 (compared with 85 in 2014). The Agency filed 15 **criminal charges** in 2015 based on a reasonable suspicion that a public official had not reported assets or had given false information about assets with the intention of concealing the facts (compared with 14 in 2014). Based on this work, one final judgment convicting one public official to six months' imprisonment (or one year probation) was issued. Proceedings are under way in 26 cases; in seven cases the criminal charge was dismissed and there was one acquittal.

The Agency has stepped up its checks on the **funding of political activities and elections**, and submitted 217 requests for misdemeanour proceedings for breaches of the law on financing political activities in 2015 (compared with 33 in 2014). The largest number of proceedings were initiated due to the lack of transmission of annual financial reports by political entities (115 cases or 53 % of the total number of requests of proceedings) and expenditure reports in connection with electoral campaigns (73 cases of 34 % of the total). The Agency faces difficulties in this field because of a lack of harmonisation between different laws, difficulties in collecting data. In 2015 the Agency published 27 decisions

denying political entities the right to use public funds for their regular work in 2016 (compared with 31 in 2014).

### Institutional framework

#### *Prevention measures*

Serbia's institutions for preventing corruption broadly meet international standards and continue to show good potential. However, human resources capacity and the level of inter-agency cooperation need to be stepped up. A revised law enabling the **Anti-Corruption Agency** to expand its role as the leading institution in the fight against corruption has been pending for many months and needs to be adopted urgently. The Agency continued to perform its mandate, despite limited resources and both legal and institutional obstacles. The Agency needs to increase its ability to collect and analyse data and its access to relevant databases. Overall, it must receive and maintain the capacity, tools and financial resources needed to carry out its mandate. The law on **public procurement** and the national anti-corruption strategy and action plan have yet to be fully implemented. Healthcare, education, construction and spatial planning, infrastructure projects and the privatisation of public enterprises still remain particularly vulnerable to corruption. Independent supervision and capacity for early detection of wrongdoing and conflicts of interest need to be further developed and the legislation in force needs to be implemented. There should be greater accountability and transparency in the management of public enterprises. Attention needs to be given to the implementation of codes of ethics and follow-up to integrity plans in the judiciary and in the public administration.

The **Anti-Corruption Council** remained active in exposing and analysing cases of systemic corruption, in its advisory role to the government. However, the government still does not follow up on its recommendations. The Council remains under-resourced and the appointment of new Council members has been pending since 2013.

The institutional capacity of the **Commissioner for Free Access to Information of Public Importance and Personal Data Protection** needs to be increased further to ensure effective monitoring and adequate follow-up to the increasing number of requests for access to public information. Requests for access to information that were refused mainly concerned procedures which have an impact on the budget.

#### *Law enforcement*

Judges, prosecutors and investigators specialised in financial crime, including corruption, have received further training, but a more sustainable approach to specialist training at all levels is needed. The **specialist prosecution service for organised crime and corruption** has continued to initiate investigations and raise indictments in cases of high-level corruption. Appropriate training and awareness-raising about the prosecution-led method of investigation among police officers and prosecutors is crucial.

**Inter-institutional cooperation**, between law enforcement agencies and with the prosecution service, has improved to a certain extent but requires further strengthening. The new financial investigation strategy includes plans to reorganise the law enforcement authorities, increase their level of specialisation, and recruit forensic accountants. However, an action plan with a credible budget has yet to be adopted.

There is no secure platform for **electronic data exchange** or communication between the prosecution service, the police, tax and other authorities. There is still no system allowing **statistical monitoring** of criminal proceedings. Internal control departments continue to lack **equipment, resources and human capacity**. Reform of the inspection services was begun

with the aim of increasing their accountability. Effective supervision and deterrent sanctions in cases of wrongdoing need to be applied. The independence and accountability of all investigative and judicial bodies dealing with corruption need to be strengthened to ensure efficiency.

The human resources policy in the public administration requires reform to ensure that calls recruitment and promotion are based on merit and professional skills. Attention needs to be given to the implementation of codes of ethics and follow-up of integrity plans in the judiciary and in the public administration. Preventing corruption in local administration requires more attention.

#### Legal framework

The legal framework for the **fight against corruption is broadly** in place but shortcomings in the criminal code remain an issue. The continued excessive recourse to the provision on abuse of position of a responsible person in the private sector (Article 234 of the criminal code) is harmful to the business climate and legal certainty. The law on civil servants includes provisions on a **code of conduct for civil servants** and monitoring mechanisms. Preventing corruption in local government requires greater attention. The provisions in the current law on the Anti-Corruption Agency on **preventing conflicts of interest** and declaring and checking on the **assets of public officials** should be amended to ensure its enforcement and to provide for deterrent sanctions in cases of proven infringements. A law on **financing political activities** is in place. OSCE/ODIHR recommendations on financing electoral campaigns have not yet been addressed. Implementation of the law on **whistle-blower protection** started and a training programme for the judiciary was introduced.

#### Strategic framework

The action plan required for to open the rule of law chapter 23 was adopted by the government in April 2016 and implementation started. Several important measures in the **anti-corruption strategy and action plan for 2013-2018** are behind schedule, e.g. setting up efficient coordination and monitoring mechanisms. Both documents have been aligned with deadlines and actions in the national action plan. The latter was not subject to any consultation process. Adequate resources and human capacity to implement the strategy and action plan have not yet been allocated. The **inter-ministerial coordination group** chaired by the Prime Minister met only once in 2015. There is an urgent need to ensure better working arrangements between the Ministry of Justice and other institutions and bodies involved in combating corruption. The **strategy for financial investigations** has yet to produce results in investigating the ‘money trail’ of crime alongside criminal investigations. Adequate resources have yet to be allocated and no action plan has been adopted. The action plan for the **public administration reform strategy** includes measures to increase accountability and transparency in the public sector with a view to combating corruption, but the reform process needs to be implemented.

#### **Fundamental rights**

Serbia has ratified all of the main **international human rights instruments**. However, their implementation needs to be improved and made more consistent.

Since September 2015, the **European Court of Human Rights** (ECtHR) has found at least one violation of the European Convention on Human Rights (ECHR) in seventeen judgments relating mainly to the right to a fair trial and protection of property. A total of 1362 new applications were allocated to a decision-making body, bringing the number of pending applications to 1226. Lack of proper execution of ECtHR judgments continues to be of great concern.

In relation to the **promotion and enforcement of human rights**, relevant state bodies, parliamentary committees, the Ombudsman and civil society organisations have carried out awareness-raising activities on human rights, tolerance and non-discrimination and enforcement mechanisms. Implementation of the action plan for the anti-discrimination strategy has started. The Equality Protection Commissioner's Office has established an annual media award for the best media report promoting tolerance and equality.

As regards the **prevention of torture and ill-treatment**, staffing of the Ombudsman's Office, which acts as the national preventive mechanism, was increased. Implementing legislation on the treatment of persons detained in police custody is still lacking. Penalties for ill-treatment and torture remain inadequate. Proper legal safeguards to prevent torture and abuse in social institutions have yet to be adopted. A large number of people with mental and psychosocial disabilities, including elderly people, are involuntarily confined in psychiatric institutions and no progress has been made towards de-institutionalisation. There are concerns about reports of the use of coercive treatment. Overcrowding, poor living conditions, difficult access to specialist treatment programmes and inadequate access to healthcare in prisons are still a matter of concern. An effective internal non-judicial mechanism for reviewing detainees' complaints has yet to be set up. Allegations of ill-treatment should be promptly and properly investigated. Poor conditions in some police facilities, especially in smaller towns and rural areas, remain problematic.

Concerning the **prison system**, a system of judicial protection and supervision of prisoners' and detainees' exercise of their rights is in place. Pilot projects on cooperation with local self-governments and civil society on alternative sanctions and reintegration continued and proved successful. As regard the probation service, secondary legislation has been adopted and the number of executed alternative sanctions and measures increased in 2015.

A new law on **personal data protection** in line with EU standards needs to be adopted urgently. Processing and protection of sensitive personal data, biometrics and video surveillance, security of data on the internet and direct marketing remain inadequately regulated, leaving significant scope for abuse. There is a need to strengthen the capacity and secure adequate resources for the Office of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection.

**Freedom of thought, conscience and religion** is guaranteed by the constitution and generally respected. The decrease in religiously motivated incidents has continued. Lack of transparency and consistency in the registration process continues to be one of the obstacles preventing some religious groups from exercising their rights. The rights of persons belonging to a national minority to establish and register religious institutions, build and use places of worship need to be fully guaranteed in practice, and there are difficulties in access to worship in some minority languages.

As regards **freedom of expression**, the situation has not improved. There is a need to maintain and foster space for political dialogue, critical discussion and debate and expression of differing opinions both in mainstream media and in social networks. In relation to the election campaign, biased media coverage, undue advantage taken by the incumbent parties and a blurring of the distinction between state and party activities caused distortions in the reporting of the campaign. Political control over the media sector resulted in widespread self-censorship, while an effective mechanism for monitoring media conduct during the campaign was lacking.

Hate speech is often tolerated in the media and is rarely tackled by regulatory authorities or prosecutors. Statements by state officials in relation to the investigative work of journalists have not been conducive to creating an environment in which freedom of expression can be

exercised without hindrance. The commission tasked with looking into unresolved cases of murdered journalists from 1999 and 2001 has not made progress in the investigation of these two cases.

The independence of the Regulatory Body for Electronic Media (REM) needs to be strengthened to help it to react appropriately to programme changes eroding the editorial content and programme composition as foreseen in the frequency licence. The self-regulating Press Council has been more active and recorded an increase in breaches of professional journalistic standards and the Journalistic Code. Media reporting based on anonymous or leaked sources, giving details of investigations or announcing arrests, continue to undermine trust in judicial institutions, breach personal data protection standards and challenge the presumption of innocence. More generally, media owners and top editorial staff should pay more attention to respecting professional standards, with support from the Press Council.

Online, freedom of expression is also exposed to threats, especially in view of increased pressure and attacks against online journalists and bloggers. There has been no substantial progress in investigations into hacking attacks against websites which occurred in 2014 and since. More efforts are needed to identify and prosecute those suspected of breaches of internet freedoms, including cases that have been filed with the Prosecution for Cyber Crime.

**Freedom of assembly and association** is generally respected. A new law on public gatherings was adopted in January 2016 to fill the legal vacuum after the previous law was declared unconstitutional, introducing some improvements (legal remedies) and aiming to align with the Serbian constitution. However, the first cases of application of the law indicated that shortcomings still exist. By-laws necessary for full implementation of the law have not yet been adopted.

**Property rights** continued to be broadly respected. On restitution, the Agency for Restitution continued to fulfil its mandate by adopting about 39 300 opinions and first-instance decisions on return of confiscated properties (out of about 76 000 claims) by the end of June. The vast majority of decisions were thereafter approved by the Ministry of Finance as the second-instance decision body. In February 2016, parliament adopted a law on restitution of the properties of Jews with no heirs.

Serbia's **non-discrimination** legislation is generally in line with European standards, nevertheless amendments to bring it fully in line with the *acquis* remain to be adopted. The Commissioner for Protection of Equality worked on 1 040 cases, which represents a 20 % increase compared to 2014. The Office continued its awareness-raising activities. In order to improve its work and clearly define priorities, the Commissioner has adopted a new development strategy for the Office. The capacity of the Office has been increased with the hiring of 12 new staff. The coordination body for monitoring the implementation of the action plan for the anti-discrimination strategy regularly reports on developments. Roma, LGBTI persons, persons with disabilities and persons with HIV/AIDS remain the groups most discriminated against. Inciting national, racial and religious hatred and intolerance is prohibited in the criminal code. It remains essential to set up a data collection system and properly investigate, prosecute and sanction all hate-motivated offences.

Concerning **equality between women and men**, the new national strategy for gender equality 2016-2020 and an action plan for 2016-2018 were adopted in January. A sustainable institutional set-up for promoting gender equality (with adequate resources) is needed. Serbia is the first country outside the European Union to introduce the EU Index of Gender Equality. Budgetary reform includes gender equality considerations and the budget system law adopted in 2015 introduced gender-responsive budgeting as mandatory for all budget users at national, provincial and local level, to be introduced gradually by 2020. Cases of women killed by their

partners are a serious concern. The Council of Europe Istanbul Convention needs to be properly implemented and national legislation harmonised. Emergency protection orders are not issued promptly, the number of shelters is insufficient and there is no state-run centre for victims of sexual violence or national helpline. The protection of women against all forms of violence needs to be strengthened and mechanisms for coordinating the collection and sharing of data between all relevant actors in the system enhanced.

On **rights of the child**, the national plan of action for children expired in 2015. The National Council on the Rights of the Child remained inactive. Ensuring more effective coordination of the child protection system should be prioritised and efforts made to ensure uniform implementation of policy. Administrative data are still not disaggregated to enable monitoring of vulnerable groups, particularly Roma and children with disabilities. There is a need to organise assistance to children living and/or working on the street on a local level. Violence against children remains a serious concern. A new national strategy for the prevention of and protection of children from violence still need to be developed. There is a need to align the legal framework and statistics with international standards on child abuse. Children with disabilities in large institutions face particular difficulties as regards access to education. Additional mechanisms need to be put in place to secure full implementation of the legislation regulating juvenile offenders and child victims in criminal proceedings. Prevention programmes and programmes for reintegrating juvenile offenders into the community are only available in large cities and are funded on a project basis. Better protection for child victims who testify in criminal proceedings should be ensured through the provision of units for child victim protection.

Concerning the **rights of persons with disabilities**, the situation remains very difficult, in particular as regards access to services. The law on prevention of discrimination against persons with disabilities was amended in February 2016 to guarantee the right of blind or visually impaired persons to use personal facsimile stamps to sign legal documents. Efforts are needed to increase the participation of persons with disabilities in education, and to implement a comprehensive plan on access to facilities for persons with disabilities, elderly people and social vulnerable people. Placement and treatment in social institutions of people with psychosocial and intellectual disabilities is still not regulated in accordance with international standards. Procedures for depriving people of their legal capacity and for assigning guardianship should be aligned with international standards. (*see also chapter 19 — Social policy and employment*)

Some activities have been conducted with the aim of promoting the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI) persons**. The new government includes for the first time a Minister who is openly homosexual. Premises for the first ‘drop in’ centre for LGBTI persons who are seeking support have been provided by the City of Belgrade authorities. The Pride Parade took place on 18 September without incidents. Despite these developments, the situation has not progressed much and LGBTI persons and activists continue to be subjected to hate speech, threats and sometimes even physical violence. There is no centralised official data record on the number of crimes motivated by homophobia and transphobia. Serbia has no procedures for legal gender recognition in place, even in cases of gender reassignment. School textbooks containing discriminatory content still need to be revised. Stronger political commitment is needed to promote a culture of respect for LGBTI persons and to ensure non-discrimination at work, in the health sector and the education system. The level of public prejudice against the LGBTI population is still relatively high and needs to be addressed.

Issues of **labour and trade union rights** are covered in chapter 19.

No progress can be reported on **procedural rights**. The support and protection offered to victims of crime is not in line with the EU *acquis*, and effective mechanisms for protecting victims' rights are lacking. The law on free legal aid has still not been adopted and the implementation of procedural safeguards has not been fully assessed to ensure an effective protection system, supported by adequate staff, training and infrastructure. The system for compensatory damages through civil proceedings does not work. The performance of *ex officio* lawyers assigned to detained persons is a matter of concern. As regards access to justice, the law on notaries and related laws were amended in December 2015 to address practical challenges. There are currently 157 notaries, overseen by the Chamber of Notaries, while the planned number is 370 (1 per 25 000 inhabitants). Serious disparities in workload at courts and prosecution offices, the long average duration of proceedings, the sizeable backlog, the lack of an efficient free legal aid system, poor enforcement of final judgments and indemnity claims all hinder access to justice. Access to justice in minority languages and for persons with disabilities is not fully ensured in practice. There is not yet a comprehensive national crime victim and witness support system. No changes were made to the legislative framework with a view to improving the procedural safeguards for the most socially vulnerable groups of people.

The legal framework for respect for and protection of **minorities** and cultural rights is in place and generally upheld, in line with the Framework Convention on National Minorities, to which Serbia is party. Nonetheless, there is scope for further improvements in its implementation throughout Serbia, applying it more consistently and tackling regional differences, particularly in education, the use of languages, access to media and religious services in minority languages.

A specific action plan for the realisation of the rights of national minorities was adopted in March. This forms an integral part of the Action Plan on chapter 23 and addresses issues relevant to the promotion and protection of minority rights in a number of areas. It needs to be implemented in an inclusive way. A decree establishing a Fund for National Minorities was adopted in March 2016. It aims to support projects on culture, education, information and official use of languages of national minorities.

Changes are still pending to the law on National Minority Councils to align it with the Constitutional Court decision and should be swiftly finalised and adopted to avoid legal uncertainties and harmonise the law with sectoral laws on media, culture and education. The re-established Republican National Minority Council and local councils for inter-ethnic relations will need to play an active role in implementing and monitoring policy. A comprehensive approach to integration and fostering inter-ethnic relations is needed. Agreements on printing textbooks in minority languages were reached with representatives of eight national minorities (Bosniak, Bulgarian, Croatian, Hungarian, Romanian, Ruthenian, Slovak and Albanian). The procedure for approving textbooks in minority languages should be facilitated and the teaching of Serbian as a non-mother tongue better developed. The financial viability of media content in minority languages needs to be guaranteed and the role of public service broadcasters in this area increased. Representation of national minorities in the public administration needs to be further improved.

The **Autonomous Province of Vojvodina** maintained a high degree of protection for minorities and the inter-ethnic situation remained good. Representatives of the Provincial Administration were involved in drafting the action plan on National Minorities, under chapter 23. Regular provincial elections were held peacefully.

Municipal elections in **Presevo, Bujanovac and Medvedja** were held in a calm atmosphere. The government's coordinating body worked efficiently and increased funding for



infrastructure development. For the first time, an ethnic Albanian was appointed police chief in Bujanovac. The political dialogue between the central authorities and local ethnic Albanian leaders on a comprehensive programme of integration and economic recovery has still not resumed. The region remains underdeveloped and the ethnic Albanian population continues to be underrepresented in public administration.

The situation in the **Sandzak** area was mostly stable and municipal elections peaceful. Court interpreters for the Bosnian language were appointed. The Bosniak community continues to be underrepresented in the local administration and the police. The area remains among the most underdeveloped with a high unemployment rate.

The new **Roma** social inclusion strategy 2016-2025 adopted in March covers education, health, housing and employment. Its action plan has yet to be adopted. Rules of procedure have been amended to detail the use of affirmative measures in education for Roma. The Office for Human and Minority Rights ran training courses for local authorities to monitor the use of the affirmative measures. Legislative changes led to a significant drop in the number of Roma at risk of statelessness. New guidelines on immediate registration at birth of children whose parents lack personal documents were adopted.

The government adopted the first report of the Council for the implementation of the action plan for chapter 23 containing operational conclusions from the Roma inclusion seminar held in June 2015. Nevertheless, separate reporting on operational conclusions with detailed information and level of implementation is still pending.

Health mediators are not systematically used in the Ministry of Health. Roma continue to face difficult living conditions and face discrimination in access to social protection, health, employment and adequate housing. Most Roma, especially those living in informal settlements, lack adequate access to fresh water and electricity. Problems with forced evictions continued. Serbia has yet to develop guidelines on evictions in line with international standards, and to train local and national institutions on procedures to be followed before, during and after evictions. School drop-out rates for Roma children remain high and they remain over-represented in care institutions. Roma women and children are frequently subjected to violence in the family, which often remains unreported.

According to the UNHCR, there are 35 295 **refugees** and 203 140 **internally displaced persons** (IDPs) in Serbia. The nine collective centres are gradually being closed down (hosting 185 refugees and 375 IDPs). The programme to support municipalities adopting local action plans to improve the situation of refugees and IDPs has continued, and the housing situation for displaced persons has improved slightly. Local Councils for Migration Management and Durable Solutions have been set up and local action plans have been adopted. Living conditions for many refugees and IDPs are still difficult. The law on permanent and temporary residence, which allows IDPs to apply for residence at social welfare centres, needs to be implemented more consistently. The Serbian government has adopted a strategy for the resolution of the problems of refugees and IDPs. A significant number of Roma IDPs living in informal settlements cannot register their current place of residence, as they have a registered address in their place of origin (Kosovo), limiting their access to basic rights. Serbia is engaged in regional dialogue on durable solutions for displaced persons from Kosovo (the 'Skopje process') with representatives of Kosovo, Montenegro and the former Yugoslav Republic of Macedonia.

#### **5.24. Chapter 24: Justice, freedom and security**

*The EU has common rules for border control, visas, external migration and asylum. Schengen cooperation entails the lifting of border controls inside the EU. There is also cooperation in*

*the fight against organised crime and terrorism, and judicial, police and customs cooperation.*

Serbia has made **some level of preparation** to implement the *acquis* on justice, freedom and security. **Some progress** was made in areas such as reform of the police, border controls and organised crime with the adoption in December 2015 of the first serious and organised crime threat assessment (SOCTA) in line with Europol requirements. Serbia has been affected by the refugee and migration crisis, during which it has played an active and constructive role and cooperated with neighbouring countries and Member States while managing mixed migration flows. Serbia has been actively involved in international and regional police as well as in judicial cooperation.

In the coming period, Serbia should in particular:

→ establish an initial track record of investigation, prosecution, final conviction as well as seizure and confiscation in organised crime cases, including money laundering, human trafficking and human/migrant smuggling;

→ adopt the integrated border management strategy and implementing action plan, including databases throughout the country;

→ adopt and implement the new asylum law, with a specific focus on vulnerable groups and integration measures for people in need of international protection;

→ further address the phenomenon of unfounded asylum applications lodged by Serbia's nationals in EU Member States by sustaining the decreasing trend of asylum seekers from Serbia to the EU.

*(See also specific recommendations on the fight against organised crime in section 2.3).*

As part of the 'new approach' to the rule of law, and in line with the negotiating framework, this chapter was opened in July 2016 after Serbia adopted a detailed action plan.

## **Legal and irregular migration**

### Institutional set-up and legal alignment

Serbia's **legal framework** is partially in line with the *acquis*. To reduce irregular migration, Serbia still has to amend its law on foreigners and the criminal code and to align the law on employment of foreigners with minimum standards for sanctions and measures against employers of illegal third country nationals. Legislation on the return of unsuccessful asylum seekers and apprehended irregular migrants, transposing the Return Directive, remains to be adopted. Serbia has partially aligned the legal framework on family reunification and the status of third country nationals migrating for studies, research and seasonal work. The national legislation is not yet in line with the *acquis* on the blue card or on the single residence and work permit.

A new **strategy** and action plan to counter irregular migration for 2016-2020 remains to be adopted. A robust return mechanism, in line with EU requirements, still needs to be put in place. While being faced with increased mixed migratory flows and large but volatile numbers of stranded migrants, Serbia continued to make substantial efforts to ensure that third country nationals receive shelter and humanitarian supplies with EU and international support. Building on this experience, Serbia should adopt a comprehensive early warning, preparedness and crisis management strategy.

Responsibilities for **migration management** are divided between various state authorities: Ministry of the Interior, the Commissariat for Refugees and Migration, the Ministry of

Foreign Affairs, the Ministry of Justice and the Ministry of Labour, Employment, Veteran and Social Policy. A specialised unit composed of 35 officers in the Border Police Directorate deals with the fight against irregular migration. In the Criminal Police Directorate, a specialised section — composed of nine officers — deals with smuggling of migrants under the Department for General Organised Crime. Better coordination of all the institutions involved in tackling irregular migration is needed. Overall institutional structures and infrastructure require substantial strengthening.

#### Implementation and enforcement capacity

The overall **staffing** situation in the area of migration remains critical, in particular against the background of the migration crisis.

Serbia has 144 places to accommodate **irregular migrants** in the only permanent reception centre of Padinska Skela where basic facilities are in place (with 35 police officers). Additional facilities for irregular migrants need to be maintained or extended in accordance with the needs. Further equipment and refurbishment are needed to accommodate vulnerable categories, such as women with children and unaccompanied minors. The adequacy of accommodation capacity needs to be monitored through flexible mechanisms to anticipate and cope with sudden increases in the number of migrants. Sufficient and adequately trained staff is needed to operate the centre. Better coordination of all institutions involved in tackling irregular migration is needed. In 2015, 36 598 persons were intercepted at the borders and 759 criminal charges were filed for **human smuggling** against 1 127 perpetrators who tried to smuggle 8 068 persons. In the first half of 2016, the number of people intercepted at the border fell; 112 criminal charges were filed against 132 perpetrators trying to smuggle 1 309 persons. At the end of August 2016, 4550 migrants were estimated to be stranded in Serbia. Around 80 % of them were hosted in accommodation centres.

The number of people effectively **returned** to their country of origin remains low so far, though Serbia benefits from a programme for Assisted Voluntary Returns run by the International Organisation for Migration. 40 people had agreed to return voluntarily by the end of August 2016. Serbia needs to set up a robust return mechanism for people who have received a final decision rejecting their asylum application.

The **readmission agreement** with the EU is being implemented satisfactorily. There are 19 implementing protocols signed with the EU. The procedure to conclude the protocol between Serbia and Croatia has begun. Bilateral readmission agreements have been signed with 13 countries. However, Serbia still needs to conclude readmission agreements with a number of source countries for irregular migration, such as Morocco, Bangladesh and Pakistan. Negotiations to conclude a readmission agreement with Turkey and Ukraine are under way. According to the country's statistics, 4 869 Serbian nationals and 4 726 third country nationals returned to Serbia under readmission agreements in 2015; up to the end of May 2016, 2 633 Serbian nationals and 13 third country nationals had returned to Serbia under readmission agreements.

### **Asylum**

#### Institutional set-up and legal alignment

Serbia is party to the Geneva Refugee Convention. Asylum law is being amended to align the **legal framework** with the *acquis*. The new law should foresee effective access to the asylum procedure, independent of the applicant's nationality, through correct and timely treatment of asylum applications. The criteria for designating countries as safe countries of origin or as safe third countries and the procedure for the review of such designations have yet to be fully

aligned with the *acquis*. In September 2015 Serbia adopted an emergency response plan to cope with a sudden large influx of migrants which was revised in July 2016.

Serbia has the necessary **institutions** to handle asylum applications. The Asylum Office, a separate unit in the Border Police Directorate of the Ministry of the Interior, is an asylum determining authority. Appeals against its decisions can be submitted to the Asylum Commission and, following this, to the Administrative Court of Appeal. The appeal system has yet to be aligned with the *acquis*, especially with regard to the composition of the board of the Asylum Commission and the suspensive effect of appeals.

#### Implementation and enforcement capacity

The Asylum Office is only partially **staffed** (17 persons out of planned 29). New case handlers in the Asylum Office need to receive further training.

In the **asylum procedure**, capacity to assess the merits of applications is still weak, and more training is needed, notably on countries of origin and interviewing techniques. There is an urgent need for short-term measures to improve the processing of applications, including the establishment of a protective-sensitive screening within the asylum procedure (aimed at distinguishing between persons in need of international protection and others). Interpretation capacity is insufficient. Efforts to integrate beneficiaries of international protection need to be backed up by a credible budget. Serbia needs to continue close cooperation with EU Member States and neighbouring countries with a view of ensuring effective access to international protection while discouraging the irregular movement of migrants.

In 2014 Serbia set up an electronic biometric database with fingerprints and photos operated by the Asylum Office. However, border crossing points are not connected to the system, and asylum seekers have to be accompanied to the Asylum Office to apply.

In 2015, 579 518 people expressed an intention to seek asylum, but only one in 1 000 (586 persons) lodged an application: 16 received refugee status, 14 received subsidiary protection, and there were 40 negative decisions. In most cases the procedure was suspended because the applicant was no longer available. From January to August 2016, 538 people applied for asylum, 11 received refugee status, 13 received subsidiary protection and 63 people received a negative decision, while in most cases (205 cases representing 356 persons) the procedure was suspended because the applicant disappeared before it ended. There are five **permanent reception centres** with an overall capacity of 1 000 beds with a possibility to extend the capacity of temporary accommodation facilities, in peak periods, to 5 340 beds. There are three centres hosting unaccompanied minors with a capacity of 30 beds. All reception centres are open facilities, susceptible to infiltration by people smugglers and other criminal activities. The Minister of the Interior began a formal exchange of letters with the European Asylum support Office (**EASO**) to set out the broader framework for cooperation and EASO's support to Serbia.

#### **Visa policy**

The visa regime is partially in line with the EU positive list and the negative list of third countries. The visa issuing system is partially in line with the Visa Code. Interconnection of the integrated Serbian Visa Information System with all diplomatic and consular missions and other relevant databases is not complete. Efforts to further reduce the number of visas issued at borders continued.

To implement the visa-free regime with the EU, Serbia continued to take measures to address the phenomenon of unfounded asylum applications lodged by Serbian nationals in EU Member States and Schengen associated countries. The total figure for those from Serbia

seeking asylum in the EU was around 12 200 for July-December 2015, 38 % fewer than in the same period in 2014. The numbers continued to fall in the first five months of 2016. In June 2016, Serbian nationals accounted for 14 % of all return decisions issued. The capacity and resources to allow returnees to reintegrate remain limited.

Border controls and surveillance continued and 19 criminal charges were brought against 23 people for facilitating the abuse of the right to asylum in a foreign country in 2015, while 4 charges against 4 people were filed between January and May 2016. Serbia continues to cooperate in enacting measures to reduce the number of unfounded asylum claims, both through awareness-raising campaigns and checks on tourist agencies and transport companies (as well as border control and surveillance and intensive operational cooperation with Member States). Efforts to improve the socioeconomic situation of people most likely to migrate, in particular Roma, so far had limited impact and need to be stepped up and more systematically funded.

## **Schengen and external borders**

### Institutional set-up and legal alignment

Serbia's **legislative framework** for the management of external borders is in line with the *acquis* since the finalisation of a revised integrated border management (IBM) **strategy** reflecting the 2006 EU plan for IBM. Both the strategy and a dedicated action plan remain to be adopted. With a view to adopting a Schengen action plan, Serbia needs to assess the legal, technical, infrastructural and human resource requirements for this.

The border police is a specialised **civilian body** under the Ministry of the Interior. It has eight regional centres (one for each bordering country except Romania, which has two due to the length of the state border) and 47 local stations responsible for border surveillance as well as 40 stations for border control at the 94 border crossing points. Serbia should create a single coordination centre for the exchange of police information, with a view to preparing at a later stage to set up a SIRENE office (for accession to the Schengen area). The border police concluded a cooperation agreement with the customs and phytosanitary control authorities.

### Implementation and enforcement capacity

The border police has a total of 3 500 **staff**. As part of the overall reorganisation of the Ministry of the Interior, the border police has been supported by a new risk analysis unit since 2015. The unit is currently fully staffed. The development of a national risk analysis model in compliance with CIRAM v2.0 has been postponed. Staff received basic and some specialised training as well as through an agreement concluded with Frontex. This now needs to be accompanied by **training** tailored for the border police, through a unified 'train the trainers' system.

The **integrated border management** strategy, in line with the EU concept, has yet to be adopted as well as its implementing action plan. Cooperation between border police, customs and veterinary/phytosanitary authorities needs to be improved. Border crossing procedures, investment in consulates, measures in cooperation with Serbia's neighbours and measures at borders, including ongoing substantial modernisation of smaller border crossing points (BCPs), need to be ensured. Serbia is a transit country for irregular migration and smuggling of drugs, weapons and other commodities. All major BCPs are technically equipped (passport scanners, licence plates cameras, video surveillance and fingerprint scanners) but need further modernisation of equipment, connection to the Interpol database and more training of staff.

Substantial investments in border surveillance and **infrastructure** have been made in the past three years along the green (land) border, at the major border posts and at some smaller border

posts. However, more resources need to be devoted to modernising border infrastructure and to surveillance of the green border. Further investments in border management are to be reflected in the Schengen action plan. There should be a special focus on prioritising those parts of green borders and border posts most exposed to irregular migration flows.

**Inter-agency cooperation** between border police, customs and Ministry of the Interior bodies needs to be improved, including mutual access to databases throughout the country. This is a particular problem for smaller BCPs. Detection of false or fraudulent documents needs to be improved. The border police can make arrests. However, it has yet to establish a track record of detection, investigation and prosecution of cross-border crime in coordination with other law enforcement authorities. Detection of more complex crimes such as human smuggling and trafficking and weapons and drug trafficking would benefit from greater investigative powers for the border police.

**Cooperation with the country's neighbours** continues to be good, particularly at technical level. Serbia concluded border agreements on conducting joint patrols with Montenegro, Bulgaria, the former Yugoslav Republic of Macedonia and Bosnia and Herzegovina. Agreements with Romania and Croatia are being finalised. In December 2015 an initiative on opening a Joint Contact Centre at the border with Romania was launched, based on a protocol signed earlier. Border police officers are regularly seconded to a joint trilateral contact centre (Serbia, Bosnia and Herzegovina and Montenegro) in Trebinje. The establishment of a joint working group for unauthorised border crossing points (with border sections with Bosnia and Herzegovina and Montenegro) is a good step forward in mapping alternative roads and locations which need to be blocked. However, no agreement on blocking such border crossing points has been reached yet. Bilateral cooperation with Croatia and the Former Yugoslav Republic of Macedonia has been constructive, in spite of the sharp increase in the flow of migrants. The working arrangement with Frontex is being implemented smoothly. Joint operations organised by Frontex took place at Serbian-Croatian and Serbian-Hungarian borders.

Interim IBM crossing points with Kosovo continue to be fully operational. However, there has been no progress in establishing the permanent IBM crossing points with Kosovo, and in establishing the additional interim common crossing points in Kapi and Izvor.

Serbia has adopted measures to detect **corruption at the borders**, including rotation of border officers between border posts, green border checks and surveillance. A case of corruption involving 28 officers was uncovered and charges brought against those responsible. There is a need to extend the video surveillance system in real time to all BCPs. In the past three years, nearly 1 000 border police officers have received ethics training. In November 2015 a risk assessment on corrupt behaviour by the staff of institutions involved in the integrated border management system was completed. An interdepartmental working group is being set up with the task of approving special reports on corrupt behaviour risk assessment made by each of the relevant institutions involved in IBM.

### **Judicial cooperation in civil and criminal matters**

Serbia needs to step up measures to allow direct cooperation between Serbian and foreign courts and centralise receipt of requests to courts for international judicial cooperation. The necessary infrastructure and database should be put in place for replying promptly to requests for mutual legal assistance and ensuring better statistics on their monitoring, as well as applying the mutual recognition principle. In order to improve efficiency, greater capacity and expertise are needed, including language skills. An impact assessment (normative part) on the alignment with the *acquis* on criminal matters was finalised. As regards **judicial cooperation**

**in civil and criminal matters**, Serbia acceded to the 1996 Hague Convention on Child Protection in January 2016 on civil matters.

As regards cooperation with Eurojust on criminal matters, Serbia was involved in 86 cases. The main crime types were swindling and fraud, followed by involvement in an organised crime group and crimes against life, limb and personal freedom. Serbia was involved in 11 coordination meetings and four joint investigation teams. Serbia has not yet concluded an operational agreement with Eurojust because it needs first to update its legal framework on data protection.

### **Fight against organised crime**

#### *Institutional set-up and legal alignment*

The **legal framework** for police cooperation needs to be further aligned with the *acquis*. Consistency between the criminal procedure code and the law on police should be ensured to allow the Public Prosecutor to lead both pre-investigation and investigation effectively. This also applies to arrangements for using special investigative measures.

In December 2015 Serbia adopted its first strategic analysis of the organised crime situation on its territory based on Europol's methodology for serious and organised crime threat assessment (**SOCTA**). Intelligence-led policing based on SOCTA crime mapping and systematic use of threat assessment needs to be developed. The SOCTA needs to go deeper into the importance of corruption and the extent to which it is conducive to organised crime. A working arrangement with the European Police College (CEPOL) is under preparation.

The Ministry of the Interior has continued to reform its human resources system, setting up a department for human resources. This should help limit the exposure of police to politically motivated decisions on recruitment, careers and promotion. A new head of the police remains to be appointed. In February 2016 the new law on the police entered into force. It also sets out the principle of operational independence. Clear guidance on implementing this law is needed to ensure consistency with implementation of the criminal procedure code. This would ensure that prosecutors lead criminal investigations effectively and provide for a clear distinction between police powers with regard to crime prevention and crime-fighting. Sufficient resources and overall political support from government, parliament and police leadership should be ensured throughout the implementation of the new law.

The effective implementation of Serbia's financial investigation strategy for the period 2015 – 2016 remains subject to the adoption of the draft law on organization and authority of government bodies in combating organized crime, corruption and other particularly grave criminal offences. Serbia has no long-term strategy on how to address **cybercrime**. The draft **anti-trafficking strategy** and action plan are still pending adoption. While Serbia has a coordinator for operational cooperation in the Ministry of the Interior, it has yet to appoint a national rapporteur or equivalent mechanism on combating human trafficking in line with the *acquis*.

#### *Implementation and enforcement capacity*

The police's **dependence on the security and intelligence agencies** to carry out certain special investigative measures in criminal investigations continued to be a matter of serious concern. The investigative powers of the border police and customs administration remain limited.

**Operational cooperation** at bilateral and regional level continued. Operational and administrative capacity for police cooperation needs strengthening. Three specialised units (for crime analysis; terrorism and extremism; and drug prevention, addiction and repression)

need to be adequately staffed, trained and equipped. Some progress has been made in the reorganisation of the Ministry of the Interior. However, further efforts are needed, especially to modernise human resource management of the police, in particular by fostering a merit-based recruitment and career path.

The level of **inter-agency cooperation**, information flow and exchange between law enforcement agencies needs to be further improved. A central criminal intelligence system and harmonised statistics have yet to be set up. Cooperation between the police and the Special Prosecutor's Office for Cybercrime is improving. However, the High-Tech Crime Unit is still understaffed, especially considering the wide range of complex criminal activity it is expected to investigate.

Very few cases of **trafficking in human beings** have been successfully investigated, although Serbia is a source, transit and destination country for trafficked people and is facing increased migratory pressure. There is a need to further enhance identification, protection and support for victims of trafficking and to avoid re-victimisation during any investigation and trial. The Centre for Protection of Victims of Human Trafficking needs to strengthen its capacity. No state-run emergency shelter is available for the victims of trafficking and there is no appropriate centre for child victims. Adequate funding needs to be earmarked for assisting victims of human trafficking. A comprehensive, multidisciplinary and victim-oriented approach to human trafficking has yet to be developed. Victims of trafficking should be offered all forms of necessary protection, in line with the *acquis*. It is essential to foster a more proactive attitude on the part of investigative authorities so as to avoid that they primarily rely on victim statements for starting investigations.

On **money laundering**, Serbia's anti-money laundering system was evaluated in April 2016 by Moneyval, the Council of Europe committee of experts. Its capacity to run complex financial investigations alongside criminal investigations needs to be stepped up in order to trace money flows and lead to the seizure and confiscation of criminal assets. Serbia also needs to further reinforce preventive measures and strengthen supervision as well as cooperation and coordination between the Administration for Prevention of Money Laundering, police, prosecutors, reporting entities and supervisory authorities. Law enforcement agencies and prosecution services do not have access to relevant databases in line with data protection rules and inter-agency cooperation; this makes the handling of financial crime involving money laundering less effective. The directorate which manages seized assets lacks staff and capacity, including storage capacity. A new law on asset seizure has not been adopted. An asset recovery office still needs to be set up in line with the *acquis*. The law on confiscation of criminal assets needs to be aligned with the *acquis*.

No progress has been made on precautionary **freezing of assets** at an early stage of an investigation. As a result, assets often disappear, which leads to a poor track record for confiscating criminal assets at the time of final conviction. While there were several operations leading to arrests on charges of financial crime and corruption, the outcome in terms of indictments and final convictions remains to be seen. The number of **final convictions** for organised crime activities remains low compared to the estimated scale of the regional and domestic criminal market. This hampers the dismantling of criminal organisations. A track record of proactive investigation has yet to be established. There is a need to clarify the role of the intelligence services in criminal investigation procedures and to put in place robust oversight to prevent abuse and political influence. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.



## **Fight against terrorism**

### Institutional set-up and legal alignment

Serbia's **legal framework** is largely in line with the *acquis* and international instruments on anti-terrorism. The criminal code was amended twice: in 2012 to criminalise a broader range of terrorist activities, including recruitment and training of future terrorists, and in 2014 to criminalise the activity of foreign terrorist fighters in line with UN Security Council resolution 2178(2014).

The national **strategy** and action plan to prevent and fight terrorism remain to be adopted. There is a need to step up preparedness and response capacity for dealing with chemical, biological, radiological and nuclear threats. The February 2016 law on international restrictive measures further contributes to preventing terrorism.

The **main institutions** involved in combating terrorism are the Ministry of the Interior, the intelligence services, the Ministry of Justice, the Ministry of Foreign Affairs and the Ministry of Defence. Serbia does not yet have a national body to coordinate implementation of the anti-terrorist strategy.

### Implementation and enforcement capacity

Cooperation between the special police service for combating terrorism and extremism and Europol has intensified for the purpose of preventing and combating criminal offences related to the terrorist activities of individuals, groups, networks and organisations who justify their activities on religious grounds and exchanging information on the movement of terrorists.

More work is needed to expand prevention and anti-radicalisation activities involving local religious leaders, local authorities and civil society. In December 2014, Serbia conducted a national terrorism financing risk assessment. Serbia should focus on expanding capacity to detect and interrupt financial flows supporting terrorism, including through specialised training for the Financial Intelligence Unit.

In February 2016 the Prosecutor's Office for Organised Crime charged two people with the criminal offence of terrorist association in respect of crimes of terrorism, recruitment and training for the commission of terrorist acts and financing of terrorism. A single national database, more efficient procedures for data exchange and better operational inter-agency cooperation are still needed.

Serbia has been affected to some extent by the phenomenon of foreign terrorist fighters and radicalisation. The authorities have evidence of around 40 Serbian nationals fighting in Syria since the beginning of the conflict, of whom 11 have reportedly died in the past three years. The number of returnees is also very low.

### **Cooperation in the fight against drugs**

The December 2015 SOCTA identifies the production and trafficking of controlled psychoactive substances in Serbia as the most dominant and profitable form of organised crime. Good international and regional cooperation continued on drugs, in particular with the dismantling of an international drug smuggling chain which led to the seizure of 16 kilos of heroin at the border with Bulgaria in December.

In March 2016, the national focal point for cooperation with the European Monitoring Centre for Drugs and Drug Addiction was moved from the Institute of Public Health to the Ministry of Health. It is important to also ensure adequate transfer of know-how. An inter-ministerial coordination office for drugs was set up and its director appointed. However, the office is not yet fully operational. As part of the national drugs strategy, a clear definition is needed of the

responsibilities and powers of the various institutions involved in inter-agency cooperation.

The establishment of an early warning system is pending. Proper staffing (including training), sufficient funding and quality management as well as smooth exchange of data between the various bodies and departments active in this area, including at local level, need to be ensured. The lack of secure storage of seized drugs and precursors prior to destruction remains an issue of concern. An appropriate process for the destruction of precursors has yet to be set up. Overall, the policy towards reducing drugs supply and demand would benefit from a more pro-active and holistic approach.

### **Customs cooperation**

Regional and international customs cooperation continued, including through joint actions (*see also chapter 29 — Customs union*). Serbia needs to ensure that the IT strategy for the customs administration is fully aligned with EU legislation on the use of technology for customs purposes and smoother information exchange at the borders. The investigative powers of customs officers and their ability to exchange data with other agencies at the border need to be broadened and customs posts fully staffed. Training is needed on the implementation of the Naples II Convention, in particular on hot pursuit, cross-border surveillance and controlled delivery.

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

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

*The EU provides significant support for research and innovation. All Member States can benefit from the EU's research programmes, especially where there is specific excellence and solid investment in research.*

Serbia has a **good level of preparation** in the area of science and research. **Some progress** was made with the adoption of the strategy for scientific and technological development.

In the coming period, Serbia should in particular:

→ adopt the action plan to implement the strategy, and the science and research infrastructure road-map;

→ foster cooperation between industry and academia and increase the level of investment in research.

The main priorities of the **European Research Area** roadmap were incorporated in the new strategy for scientific and technological development in March 2016. At the same time, several amendments were adopted to the law on scientific research, enabling a more targeted approach to public funding of research institutions. So far, the strategy has not yet been actively implemented.

Serbia continues to be active in the European Research Area Committee and in the EUREKA, COST and NATO Science and Peace for Security programmes. The level of investment in research remains below 1 % of GDP. Since the start of participation in Horizon 2020, 1309 applicants from Serbia have taken part in 1 006 projects and 91 of them have been selected for financing.

Concerning measures for the **Innovation Union**, the Serbian Innovation Fund continues to be active, with additional budget contributions from the Ministry pledged for co-financing the EU-funded projects.

## 5.26. Chapter 26: Education and culture

*The EU supports cooperation in education and culture through funding programmes and through the open method of coordination. Member States must also prevent discrimination and facilitate the education of children of EU migrant workers.*

Serbia is at a **good level of preparation** in the area of education and culture. **Some progress** was made in curriculum development. In the coming period, Serbia should in particular:

- continue implementing the action plan of education reforms according to schedule;
- establish the national Erasmus+ agency.

In **education, training and youth**, the implementation of the education action plan is progressing, however with delays. Additional investment in education is most needed at pre-school and basic education levels. Only about 52 % of children under 6 years receive preschool education, whereas the EU target for 2020 is 95 %. Reforms for the training of primary and secondary school teachers are planned and should focus on improving basic and transversal skills of pupils.

There has been progress in curriculum development in vocational education and training to better meet the needs of the labour market. The plans for reducing VET enrolment should continue. The national qualifications framework needs to be finalised and cross-referenced with the European Qualifications Framework; the relevant law is being drafted.

The ongoing reform of higher education needs to put particular emphasis on the relevance of its study programmes. The unemployment rate for graduates with tertiary education (up to 24 years of age) stood at 43.5 % in 2015. Emigration by young, skilled people remains high. An Office for the Recognition of Foreign Diplomas was opened in October 2015. So far, 500 foreign diplomas were recognised, contributing to graduates' employment opportunities. Education remains a high risk sector for corruption, especially in higher education.

Serbia continues to successfully participate in the international dimension of the Erasmus+ programme. In March, a government decision was adopted to nominate the existing Tempus Foundation as the national agency in charge of fully participating in Erasmus+, on equal footing with Member States.

On **culture**, Serbia adopted a new set of laws on cultural heritage. As of December 2015, Serbia started participating in the Media sub-programme of Creative Europe. Serbia also participated in the evaluation of the impact of the UNESCO 2005 Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

## 5.27. Chapter 27: Environment and climate change

*The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.*

Serbia has achieved **some level of preparation** in this area. **Some progress** has been made in further aligning policies and legislation with the *acquis*, including in waste, nature protection and climate change. Serbia improved its strategic planning and set up a Green Fund, both key recommendations in 2015. In the coming period, Serbia should in particular:

- enhance administrative and financial capacity by strengthening the environmental protection agency's monitoring and reporting, adequately resourcing the new environmental

finance facility (Green Fund) and improving inter-institutional coordination at both central and local level;

→ intensify efforts regarding implementation and enforcement including closing non-compliant landfills, investing in waste separation and recycling, reinforcing air quality monitoring and advancing on river basin management;

→ ratify the Paris Agreement and start implementing it, including by developing a comprehensive strategy for climate change that is consistent with the EU 2030 framework for climate and energy policies and well integrated in all relevant sectors.

## Environment

In the area of **horizontal legislation**, Serbia adopted a transposition and implementation plan in 2015. In March 2016, Serbia set up a new financing facility (Green Fund) in the ministry which should become operational on 1 January 2017. Serbia has achieved a high level of alignment with the *acquis*. Further progress has been made in transposing EU directives on public access to environmental information and public participation in environmental decision-making. Amongst others, Serbia has opened a fifth Aarhus centre in December 2015 in Belgrade. Additional efforts are required to further increase the effectiveness of public consultations. The environmental impact assessment process has improved but needs further strengthening especially for projects in the hydropower and mining sectors, partly through capacity-building at all levels. Strategic environmental assessments need to be expanded to cover all relevant plans and programmes. Further progress is needed on transposing and implementing the remaining horizontal components of environmental directives.

In the field of **air quality**, Serbia has a good level of alignment with the *acquis*. Serbia needs to adopt a national air protection strategy. Serbia has two air quality plans, one for Bor (2013) and one for Belgrade (2016). Air quality plans for other areas where the level of pollutants exceeds limit values remain to be adopted. The national air quality monitoring network requires considerable reinforcement. Further work is needed to finish transposing and to implement EU directive on volatile organic compound emissions and to comply with EU requirements on sulphur content in liquid fuels.

Regarding **waste management**, there is a good level of alignment with the EU's principal waste directives, with recent progress made regarding the waste framework, landfill and industrial emissions directives. Implementation remains at an early stage, with some progress noted in increased rates of municipal waste collection and sanitary landfilling. The national waste management strategy and municipal waste management plans need to be updated to reflect the new legal provisions on e.g. waste minimisation and waste separation at source, and to include quantitative targets for waste recovery and recycling. Increased efforts are needed to close Serbia's non-compliant landfills more quickly and invest in waste separation and recycling. A national integrated waste management plan and additional economic instruments for special waste streams need to be developed.

On **water quality**, the level of alignment is moderate. A national strategy and action plan on water protection have yet to be adopted. Untreated sewage remains the main source of pollution. Monitoring of surface water and ground water has improved but needs further strengthening. Preparatory work on river basin management plans is ongoing. Some progress has been made towards adopting a water management strategy and a water management plan for the Danube river basin. Serbia needs to make significant efforts to further align its legislation with the *acquis*, to implement it and to strengthen administrative capacity, in particular for enforcement and inter-institutional coordination. The code of good agricultural practice needs to be adopted and implemented.

Alignment with the *acquis* in the field of **nature protection**, in particular the Habitats and Birds Directive, is moderate. Gaps in transposition include allowing hunting of non-huntable birds. Systematic assessment and collection of data for the designation of future Natura 2000 sites has started. The institutional framework for Natura 2000 needs to be streamlined and adequately resourced. EU standards on prohibited means of capturing and killing wild animals have been included in amendments to the law on nature protection but need to be cross-referenced in legislation on hunting to be effective. Implementation of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) improved as responsibilities of competent bodies in the area of wildlife trade control were clarified. Overall, national and local administrative capacity needs to be substantially strengthened, in particular with a view to enforcement. Investments in hydropower need to comply with nature protection obligations.

As regards **industrial pollution and risk management**, alignment with most EU directives and regulations is at an early stage. Capacity constraints hamper progress in implementation across the sector. Serbia needs to address the *acquis* requirement for either a fully integrated permitting process covering all areas or formal consultation between permitting authorities.

Serbia has achieved a high level of alignment with the *acquis* on **chemicals**; it has an implementation and control structure in place. Additional work is required regarding REACH and CLP and alignment is pending for the legislation on animal experiments, asbestos and biocides. Serbia needs to enhance administrative capacity for implementation in these areas, and ensure proper monitoring of POPs.

As regards **noise**, Serbia has achieved a good level of alignment but implementation is at an early stage. Serbia needs to build administrative capacity for drafting strategic noise maps and action plans.

Serbia is moderately prepared as regards **civil protection**. A strategic framework for civil protection remains to be developed. As an active member in the EU Civil Protection Mechanism, Serbia now needs to build up capacity for disaster prevention, disaster risk reduction and disaster management and to connect with the mechanism's common emergency communication and information system CECIS. Serbia needs to ensure that the Niš Humanitarian Centre does not duplicate the role of the EU Civil Protection Mechanism in the region. Capacity at all levels needs to be enhanced to put effective flood risk management in place.

### **Climate change**

Serbia has achieved some level of preparation but implementation is at a very early stage. A national strategy on climate change, consistent with the EU 2030 framework on climate and energy policies, remains to be developed. A National Climate Change Committee has been established but should do more to integrate climate action into other sectors. In February 2016, Serbia submitted its First Biennial Update Report on greenhouse gases to the UNFCCC and preparations for the second report have started. The process for ratification of the Paris Agreement has already started. Serbia's environmental protection agency continues improving greenhouse gas inventories, but needs to reinforce its administrative and technical capability to fully align with the Monitoring Mechanism Regulation. Legislation on greenhouse gas emissions monitoring, reporting and verification for aligning with the EU emissions trading system has been drafted. During the reporting period, Serbia advanced on implementing a number of *acquis* provisions on ozone depleting substances, fluorinated greenhouse gases and fuel quality. Considerable strengthening of administrative capacity is needed, together with awareness raising activities.

## 5.28. Chapter 28: Consumer and health protection

*EU rules protect consumers in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, patients' rights and communicable diseases.*

Serbia is **moderately prepared** in consumer and health protection. **Some progress** was made, notably with the adoption of the laws on advertising and on communicable diseases. In the coming period, Serbia should in particular:

- strengthen the administrative capacity of relevant authorities for consumer protection;
- strengthen the overall financial sustainability of the public health system, and in particular the public health insurance fund.

On **consumer protection**, the Consumer Council only meets sporadically and the national consumer complaint register is still not publicly accessible. The number of complaints filed by consumers has increased but only a limited number has been resolved. Cooperation between the line ministries and consumer organisations needs to improve, as does cooperation between consumer protection organisations. The administrative capacity of the authorities for consumer protection and market surveillance needs to be further strengthened.

On **product safety-related issues**, the law on safety items of general use needs to be amended. The Product Safety Council was re-established and the first meeting held in February 2016. The Strategy of Development of Quality Infrastructure 2015-2020, notably covering Market Surveillance, was adopted in October 2015. On **non-safety-related issues**, the new law on advertising, which aims to further alignment with the *acquis* on misleading and comparative advertising, was adopted in January 2016 and entered into force in May.

In the area of **public health**, the **e-Health** Unit in the Ministry of Health is not operational and the EU-funded centralised electronic health record system is not integrated. Sector sustainability is endangered by the poor financial situation of the public health fund, which was aggravated by lowering the health insurance contribution in 2014 (check if more recent figure). Shortages of medical staff in primary healthcare remain problematic. Greater organisational capacity is needed and the national plan for human resources in the health sector needs to be implemented. New programmes for specialisation and professional development should be developed. No progress has been made towards the preparation of a new strategy on **tobacco control**.

On **communicable diseases**, surveillance and response capacity remains limited and requires modernisation. A new law to protect the population from communicable diseases was adopted in March 2016, ensuring further alignment with the *acquis*. A centralised health information and communication system remains to be developed. More attention needs to be given to effective, sustainable financing of disease-specific strategies, including the national HIV/AIDS strategy and awareness-raising, notably on the importance of child vaccination. Additional work is needed on surveillance of antimicrobial resistance and inter-sectoral cooperation.

No progress was made in aligning with the *acquis* on **blood, tissues, cells and organs**. Formal strengthening of the overall administrative and technical capacity of the Directorate for Biomedicine to perform oversight of the sector remains to be completed. Overall, EU-level quality, safety standards and inspection services for the sector need to be developed.

On **drug abuse prevention**, the monitoring centre for drugs and drug addiction was established in March 2016.

### 5.29. Chapter 29: Customs union

*All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.*

Serbia is at a **good level of preparation** in the area of customs union. **Good progress** was made on transit, which included launching common transit operations with support of the New Computerised Transit System (NCTS). In the coming period, as in 2015, Serbia should in particular:

- upgrade the customs declaration processing system and integrate risk management;
- further improve and modernise management of the customs administration.

As regards **customs legislation**, the customs tariff nomenclature has been aligned with the 2016 EU Combined Nomenclature. Legislation on cash controls and cultural goods still needs to be aligned with the *acquis*. Legislation on customs administration and customs-related security initiatives have yet to be implemented.

The customs administration continued to strengthen its **administrative and operational capacity**. In 2014, a 4.5 % increase in customs duty collection was achieved. Serbia acceded to the Convention on the Simplification of Formalities in Trade in Goods and the Convention on a Common Transit Procedure in February 2016. After the successful introduction of the national NCTS, Serbia launched common transit operations in February 2016. A contract for outsourced NCTS maintenance support has been concluded. A new centralised system for the management of bank guarantees is operational. The law on the customs administration has not yet been adopted and the business strategy of the customs administration needs to be renewed. Strategic and modern management techniques, including quality assurance and change management, are lacking, and the IT strategy needs to be updated. Work on setting up a functional, interconnected IT system progressed, but the IT division continues to lose competent staff. The risk management system needs to be strengthened. The customs laboratory needs to be further equipped.

### 5.30. Chapter 30: External relations

*The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.*

Serbia is **moderately prepared** in the area of external relations. **Some progress** was made by activating the EU civil protection mechanism in order to help with the influx of refugees and migrants. In the coming period, Serbia should in particular:

- stop applying safeguards on selected agriculture products, which are not justified under the Stabilisation and Association Agreement and which point to weaknesses in administrative capacity to implement trade policy;
- strengthen implementing capacity for export controls on dual-use goods.

On the **common commercial policy**, no progress was made on Serbia's accession to the World Trade Organisation (WTO). WTO membership remains dependent on the adoption of a WTO and EU *acquis*-compliant law on genetically modified organisms and on the completion of market access negotiations with a number of WTO members.

Since 2015, Serbia has applied safeguard measures on imports of EU milk, cheese, butter and pork. Consultations with the authorities on the justification for these measures were not

supported with relevant data and thus inconclusive. Serbia should discontinue the safeguard measures without delay and avoid applying such measures unless fully justified. The **administrative capacity** of relevant government services to collect market statistics and consult stakeholders remains weak.

Serbia aligned its national control list of **dual-use goods** with the latest EU regime of exports, transfer, brokering and transit of dual-use items in March. Serbia needs to continue its efforts to join the Wassenaar Arrangement, which could facilitate preparations to implement the *acquis* for export controls on dual-use items.

As concerns **bilateral agreements with non-EU countries**, Serbia is still negotiating a free trade agreement with Ukraine.

Some progress has been made on **development policy** and **humanitarian aid**. Serbia activated the EU civil protection mechanism in order to help with the influx of refugees and migrants in the country.

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

*Member States must be able to conduct political dialogue in the framework of the foreign, security and defence policy, to align with EU statements, to take part in EU actions and to apply agreed sanctions and restrictive measures.*

Serbia is **moderately prepared** in foreign, security and defence policy. Serbia has partially fulfilled last year's recommendations. **Some progress** was made as Serbia adopted a law on restrictive measures and continued to participate in civil and military crisis management missions. In the coming period, Serbia should in particular:

- review its national security and defence strategies so that Serbia's EU orientation in these areas is fully reflected;
- implement its law for the implementation of international sanctions, including EU restrictive measures;
- improve alignment with EU declarations and Council decisions.

Regular **political dialogue** between the EU and Serbia on foreign and security policy continued.

On the **common foreign and security policy** (CFSP), in February Serbia adopted a law for the implementation of international sanctions, including EU restrictive measures.

In line with Serbia's consistent practice over the last years, Serbia continued to support the territorial integrity and sovereignty of Ukraine, including Crimea. Serbia did not align with Council Decisions including EU **restrictive measures** related to Russia or issues where Russia's interests are at stake, as well as Council decisions on China, Bosnia and Herzegovina, Moldova and Zimbabwe. As a result, Serbia aligned itself, when invited, with 24 out of 41 EU declarations and Council decisions, representing an alignment rate of around 59 %. In September and October 2016, Serbia also aligned itself with EU decisions on South Sudan, Syria and Burundi.

High-level contacts with Russia continued with regular bilateral visits. Four Serbian political parties, among them the Serbian Prime Minister's SNS, signed a declaration on cooperation with the United Russia party at the latter's June congress in Moscow. Military technical cooperation between Serbia and Russia continued, with the signing of a new annual plan for bilateral military cooperation in April and a visit to Serbia by the General Secretary of the Collective Security Treaty Organisation.



Bilateral relations with the US continued to be good, with a number of high-level visits, including the one of the US Vice-President to Serbia in August.

Serbia also further strengthened its economic relations with China. In June, the Chinese President paid a three-day visit to Serbia, during which agreements on business infrastructure, health, culture and education were signed. Serbia needs to ensure that those agreements are compatible with the EU standards on matters including State aid, public procurement, rail safety and interoperability.

As regards **non-proliferation**, Serbia ratified the Amendment to the Convention on the Physical Protection of Nuclear Material in March. The process for collecting and destroying illegally possessed weapons and ammunition needs to be finalised and the new strategy on the control of small arms and light weapons adopted. Serbia's ratification of the Additional Protocol to the Nuclear Non-Proliferation Treaty is still pending. Serbia's 2008 application to join the Wassenaar Arrangement continues to be dependent on the adoption of a new law on the production and transfer of arms and military equipment.

Serbia's **national security and defence strategies**, dating from 2009, need to be reviewed in order to update Serbia's risk assessment of regional security threats and to determine consistent implementation of its strategic EU orientation in the conduct of the country's foreign, security and defence policy. Given Serbia's strategic objective of joining the EU, the country needs to clarify its national strategies in the area of foreign, security and defence policy, and so move towards a policy in this area based on the EU's common foreign, security and defence policy.

Serbia continued to actively engage in **cooperation with international organisations**. Serbia concluded its chair of the Organisation for Security and Cooperation in Europe in December 2015. Cooperation with NATO continued, with the first visit of the NATO Secretary-General to Serbia in November 2015 and the ratification of technical agreements on logistical support cooperation in January.

Serbia continued to participate in civil and military crisis management missions under the **common security and defence policy** (CSDP), in particular in the EU NAVFOR-Atalanta operation, EUTM Somalia operation, EUTM Mali operation and EUMAM RCA operation. Serbia is actively preparing for its participation in the EU Battle Group concept.

### 5.32. Chapter 32: Financial control

*Based on international standards, the EU promotes the reform of national governance systems to enhance managerial accountability and sound financial management of income and expenditure. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.*

Serbia is **moderately prepared** in this chapter. **Some progress** was made in external audit, protection of the EU's financial interests and protection of the euro against counterfeiting. With regard to Public Internal Financial Control (PIFC), neither the Commission's recommendations in the 2015 report, nor the PIFC measures in the public administration reform action plan have been implemented. The State Audit Institution's audit findings confirm continued weaknesses in internal control throughout the public administration. This also has an impact on external audit, which focuses mainly on compliance and detection of irregularities. Significant efforts are needed to implement managerial accountability and internal control at all levels of the administration and in state-owned enterprises. In the coming year, Serbia should in particular:

- adopt and start implementing the overdue PIFC strategy and set up a formal coordination, monitoring and reporting mechanism for the strategy;
- refocus activities of the Central Harmonisation Unit (CHU) so that it becomes more proactive in providing methodological guidance and reviewing the quality of PIFC implementation;
- ensure that the overall findings of the State Audit Institution are reflected in the annual report on implementation of PIFC and systematically ensure implementation of the government's recommendations from this report.

### Public internal financial control

Serbia has not had a formal **strategy** and **action plan** in place to guide PIFC implementation since the previous action plan ended at the end of 2014. The new strategy is under preparation and it needs to be coordinated and sequenced with other related reforms especially the public financial management programme and the action plan for public administration reform. A mechanism should be established for effective coordination, monitoring and reporting of the implementation of these related reforms.

**The Central Harmonisation Unit (CHU)** is still not acting as a strategic driver for PIFC reforms. Due to focus on training activities the CHU has not been proactive in providing methodological guidance to public sector organisations on implementation of PIFC. So far the CHU annual report on the state of implementation of PIFC has neither analysed systemic weaknesses nor proposed corrective measures. Future reporting would benefit from a regular assessment of implementation of the proposed new PIFC strategy and the State Audit Institution's findings, which reveal that internal control implementation is not progressing as well as suggested by the institutions' replies to the self-assessment questionnaires. In February, a new head of the CHU was appointed.

The legal framework for **financial management and control** is regulated in line with the internal control framework of the Committee of Sponsoring Organisations and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). The implementing legislation still needs to be strengthened with regard to managerial accountability and the management of irregularities. The extent of implementation of internal control varies but most institutions focus only on the legality and regularity of financial transactions and do not address economy, efficiency and effectiveness of their operations. Decision-making powers and budgets are not delegated to operational managers. Risk management is not applied systematically and needs to be further developed. The **centralised financial inspection** function still needs to be regulated, taking account of compatibility with PIFC requirements.

**Internal audit** in the public sector is still being developed as a profession. Further efforts are required to ensure that senior management understands and actively supports internal audit. The situation across the public sector is diverse in terms of staffing, functional independence, audit planning, management acceptance and types of engagement undertaken. Most of the central institutions have an audit charter and they perform audit activity according to strategic and annual audit plans. Many auditors are still asked to perform additional and non-audit duties that therefore jeopardise their professional independence. The lack of fully developed managerial accountability and internal control systems in organisations limits the type and scope of internal audit engagements that can be performed. The CHU should develop methodological guidance on internal audit quality assurance.

## External audit

The **constitutional and legal framework** is in line with INTOSAI standards. The independence of the State Audit Institution (SAI) is anchored in the constitution. The SAI law provides for a comprehensive audit remit and guarantees its functional, organisational and financial independence.

On **institutional capacity**, the SAI is governed by a Council, which has five members nominated by parliament. The SAI has been allocated 431 posts. Currently 272 posts are filled, of which 233 are audit staff. An upgrade of the SAI's premises in 2016 will enable further recruitment. The SAI continues to detect errors and file misdemeanour, economic offence and criminal charges against individuals with the competent authorities. This requirement under the SAI law continues to constrain the SAI's limited audit resources. The SAI is implementing its 2016-2020 strategic development plan. The SAI has an internal audit unit with one internal auditor.

To improve the **quality of audit work**, the SAI has trained all auditors in the use of financial and performance audit manuals adopted in 2015. Performance audit work is gradually expanding. The sector for audit methodology and quality control has been strengthened.

In order to increase the **impact of audit work**, the SAI has set up internal procedures to ensure systematic follow-up to audit recommendations. Parliamentary follow-up is still limited, although the SAI's annual audit report is discussed in the Committee for Finance, the Budget and Control of Public Funds. Parliament's capacity to ensure effective scrutiny and follow-up to SAI reports and audit findings needs to be improved. The SAI continued to proactively improve its cooperation with stakeholders and increase its communication with the media.

## Protection of the EU's financial interests

As regards **acquis alignment**, national legislation incorporates the main components of the Convention on the Protection of the EU's Financial Interests and its three protocols, and lays down the obligation to safeguard evidence. The **national anti-fraud coordination service (AFCOS)** is an independent unit under the Minister of Finance, with a legal basis in the budget system law and the Ministry of Finance Systematisation Act. An AFCOS network, involving other relevant institutions, was set up in September 2015 and it meets bi-monthly. Although AFCOS has no investigative powers, it ensures efficient coordination and cooperation with those entities that have investigative powers. In 2015 AFCOS actively assisted the Commission during an investigative activity. A national anti-fraud strategy is currently under preparation. To ensure **cooperation with the European Commission**, Serbia has set up basic procedures for reporting of irregularities and suspected fraud cases. Online reporting has also been established through the Irregularity Management System and 11 cases of irregularities have been reported through the system since 2012, including 5 cases over the past year. A solid track record on investigations and reporting still needs to be established.

## Protection of the euro against counterfeiting

The national legislation is **aligned** with the **acquis**, except for authentication of euro coins and the handling of euro coins unfit for circulation. Serbia ratified the 1929 International Convention for the Suppression of Counterfeiting Currency in April 2016. **Technical analysis** of counterfeit money, including euro banknotes and coins, is performed by the National Bank, which has a dedicated department with 13 staff. Employees are regularly trained. The National Bank concluded formal **cooperation agreements** with the European Commission on coins in 2013 and with the European Central Bank on banknotes in 2014. Cooperation has started with neighbouring countries. At national level, there is official cooperation between

the National Bank and the Ministry of Interior on transfer of suspected counterfeit money. Serbia participates in the Pericles 2020 programme and the regional Balkan Network for Euro Protection initiative.

### 5.33. Chapter 33: Financial and budgetary provisions

*Rules for funding the EU budget provide for contributions from custom duties and value added tax, together with a contribution based on gross national income.*

Serbia is at an **early stage of preparation** with regard to financial and budgetary provisions. **Some progress** was made across the board as regards the underlying policy areas effecting the good function on the OR system. In the coming year, Serbia should in particular:

→ take further steps to boost administrative capacity and establish the institutional body that will coordinate various institutions involved in the own resources system.

There was some progress in the underlying policy areas affecting indirectly the **own resources system** (for progress in underlying areas, see: *chapter 16 — Taxation, chapter 18 — Statistics, chapter 29 — Customs Union, chapter 32 — Financial control*). There is little progress in to meet the specific OR administrative conditions in the OR legislation (traditional own resources, the value added tax-based resource and gross national income-base resource).

Regarding **traditional own resources**, improvement in the functioning of the customs administration has led to higher collection of customs duties. As regards the **value added tax-based resource**, the reform of the tax administration has led to increased collection of VAT. As regards **gross national income-based resource**, national accounts have improved. The country will need to make considerable efforts to ensure the exhaustiveness of the national accounts and GNI calculations by also taking into account the informal economy. Instruments to fight and reduce tax evasion, fraud and the informal economy need to be further strengthened.

Regarding **administrative infrastructure**, the capacity of the institutions in charge in the relevant policy areas needs to be further strengthened and developed. Additional training is needed for the institutions, including customs and tax administrations. A coordinating agency tasked with ensuring correct calculation, accounting, forecasting, collection, payment, control and reporting to the EU on the implementation of the EU's own resources rules still needs to be set up (although some first steps have been made to start recruiting staff dealing with this task).

## ANNEX I – RELATIONS BETWEEN THE EU AND SERBIA

Within the framework of the **accession negotiations**, four chapters had been opened (chapters 32 on financial control and 35 on other issues – "normalisation of relations between Serbia and Kosovo" in December 2015 and chapters 23 and 24 on the rule of law in July). Serbia tabled its negotiating positions on chapter 5 and in addition to chapters 13, 20, 25 and 26. Serbia was also invited to table its negotiating positions on chapters 2, 4, 6, 7, 9, 14, 17, 21, 29, 30 and 33.

Serbia is participating in the **Stabilisation and Association Process**. Serbia has continued to build a track record in implementing the obligations of the Stabilisation and Association Agreement (SAA). A number of issues of compliance with the SAA remain. In late July, Serbia informed of their decision to extend the duration of safeguard measures on imports from the EU of dairy and pig-meat products by a further 6 months until end 2016. Consultations with the Serbian authorities on the justification for such measures were inconclusive. Serbia should discontinue the safeguard measures as soon as possible and should avoid applying safeguards unless the circumstances can be fully justified. Further efforts are needed in particular in the area of state aid, especially to ensure the operational independence of the Serbian Commission for State Aid Control, to repeal the exemption of enterprises under privatisation from state aid rules, to align existing aid schemes with the *acquis* and to demonstrate the compatibility of the aid given to the steel mill Smederevo with Protocol 5 of the SAA. Other issues of compliance with the SAA include the discriminatory application of excise duties on alcohol and coffee should be removed. Regular political and economic dialogue between the EU and Serbia has continued. A meeting of the Stabilisation and Association (SA) Committee took place in April. Sub-committee meetings were held, together with a meeting of a special group on public administration reform. The SA Parliamentary Committee met in September. Serbia continues to participate in the multilateral economic dialogue with the Commission and EU Member States to prepare for participation in multilateral surveillance and EU economic policy coordination. As part of the new approach to economic governance, Serbia adopted its second economic reform programme and has taken important steps to start implementing reforms recommended by the Economic and Financial Affairs Council.

**Visa liberalisation** for citizens of Serbia travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The monitoring mechanism also includes an alert mechanism to prevent abuses, coordinated by Frontex. The Commission has regularly submitted its post-visa liberalisation monitoring reports to the European Parliament and the Council. A **readmission agreement** between the European Union and Serbia has been in force since 2008.

Under IPA II, Serbia continues to benefit from **pre-accession assistance** with a total indicative allocation of EUR 1.5 billion for the period 2014-2020. The IPA National Programme 2015 amounts to EUR 216 million overall, with most of the funding supporting public administration reform, justice and home affairs, competitiveness, education and energy. Following the increase flow of migrants crossing the country as of July 2015, Serbia received ad hoc support, in addition to the assistance already implemented and programmed through IPA since 2007 in the area of borders/migration (EUR 45.6 million). In addition to the Commission's October 2015 special measure of an amount of EUR 10 million, focusing primarily on Serbia and the former Yugoslav Republic of Macedonia, an action has been approved by the Board of the EU Trust Fund in March in response to the Syria Crisis to

support Serbia in responding to the needs of the migrants present in Serbia, covering in particular costs incurred in the running of accommodation centres and related services, and voluntary return scheme. In August 2016, EUR 1 million was allocated to improve border management, by supporting accommodation and running costs of 50 guest border guards and increasing Serbian capacity. In addition, Serbia is benefiting from the European Instrument for Democracy and Human Rights (EIDHR).

Serbia continues to actively participate in EU programmes, including Horizon 2020; COSME; Customs and Fiscalis 2020; Erasmus+ and Creative Europe; Employment and Social Innovation.

## ANNEX II - STATISTICAL ANNEX

### STATISTICAL DATA (as of 5.10.2016)

#### Serbia

<b>Basic data</b>	Note	2003	2011	2012	2013	2014	2015
Population (thousand)	1)	7 491	7 254be	7 219e	7 184e	7 149e	7 114
Total area of the country (km <sup>2</sup> )		77 474	77 474	77 474	77 474	77 474	77 474

<b>National accounts</b>	Note	2003	2011	2012	2013	2014	2015
Gross domestic product (GDP) (million national currency)		1220 160	3 407 563	3 584 236	3 876 403	3 908 470	4 043 468
Gross domestic product (GDP) (million euro)		18 738	33 424	31 683	34 263	33 319	33 491
GDP (euro per capita)		2 500	4 600	4 400	4 800	4 700	4 700
GDP (in Purchasing Power Standards (PPS) per capita)		:	9 500	9 800	10 100	10 200	10 300
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)		:	36	37	38	37	36
Real GDP growth rate: change on previous year of GDP volume (%)		4.4	1.4	-1.0	2.6	-1.8	0.8
Employment growth (national accounts data), relative to the previous year (%)		-4.4	:	:	:	:	:
Labour productivity growth: growth in GDP (constant prices) per person employed, relative to the previous year (%)		7.1	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2005 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-27 = 100)		:	:	:	:	:	:
<b>Gross value added by main sectors</b>							
Agriculture, forestry and fisheries (%)		13.4	10.7	9.0	9.4	9.3	8.2
Industry (%)		26.1	23.5	24.9	26.6	25.1	25.9
Construction (%)		5.7	6.0	5.4	5.1	5.1	5.5
Services (%)		54.8	59.8	60.7	58.9	60.5	60.4
Final consumption expenditure, as a share of GDP (%)		95.5	95.3	95.7	93.1	93.4	90.9
Gross fixed capital formation, as a share of GDP (%)		18.3	18.4	21.2	17.2	16.7	17.7
Changes in inventories, as a share of GDP (%)		3.8	1.7	-0.2	0.4	0.8	1.2
Exports of goods and services, relative to GDP (%)		22.0	34.0	36.9	41.2	43.4	46.7
Imports of goods and services, relative to GDP (%)		39.6	49.4	53.6	51.9	54.2	56.4
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

<b>Business</b>	Note	2003	2011	2012	2013	2014	2015
Industrial production volume index (2010 = 100)	2)	95.8	102.5	100.2	105.6	98.8	107.1
Number of active enterprises (number)		:	:	:	:	:	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)	3)	8.4	9.3b	:	:	:	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)	3)	5.7	10.3b	:	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	:	:	:	:	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
Total value added (in the non-financial business economy) (EUR million)		:	:	:	:	:	:

<b>Inflation rate and house prices</b>	Note	2003	2011	2012	2013	2014	2015
Consumer price index (CPI), change relative to the previous year (%)		9.9	11.0	7.8	7.8	2.9	1.9
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

<b>Balance of payments</b>	Note	2003	2011	2012	2013	2014	2015
Balance of payments: current account total (million euro)	4)	-1 345	-2 870	-3 176	-1 585	-1 985	-1 577
Balance of payments current account: trade balance (million euro)	4)	-3 538	-5 318	-5 480	-3 978	-4 111	-3 993
Balance of payments current account: net services (million euro)	4)	179	163	156	334	465	725
Balance of payments current account: net income (million euro)	4)	-119	-758	-799	-1 095	-1 343	-1 658
Balance of payments current account: net current transfers (million euro)	4)	2 131	3 043	2 947	3 153	3 003	3 349
of which government transfers (million euro)	4)	423	206	151	131	89	161
***3 year backward moving average of the current account balance relative to GDP (%)	4)	-3.0	-7.1	-8.3	-7.7	-6.9	-5.1
**Five year change in share of world exports of goods and services (%)	4)	-12.1	21.3	-2.4	9.2	14.6	22.5
Net inward foreign direct investment (FDI) (million euro)	4)	1 194.4	1 826.9	241.9	768.5	1 236.3	1 803.8
Foreign direct investment (FDI) abroad (million euro)	4)	105.4	122.0	42.3	10.0	264.2	310.4
of which FDI of the reporting economy in the EU-28 countries (million euro)	4)	1.3	100.2	22.3	19.8	35.4	49.7
Foreign direct investment (FDI) in the reporting economy (million euro)	4)	1 299.8	1 948.9	284.1	778.5	1 500.4	2 114.2
of which FDI of the EU-28 countries in the reporting economy (million euro)	4)	861.2	1 710.3	96.4	575.9	1 109.3	1 530.1
**Net international investment position, relative to GDP (%)	4)	:	81.3	95.1	89.9	98.4	105.3
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	4)	:	-13.0	-6.0	11.0	-8.8	9.7

<b>Public finance</b>	Note	2003	2011	2012	2013	2014	2015
***General government deficit / surplus, relative to GDP (%)		:	-4.8	-6.8	-5.5	-6.7	-3.8
***General government gross debt relative to GDP (%)		63.8	47.0	58.1	61.1	72.4	76.4
Total government revenues, as a percentage of GDP (%)		:	40.0	41.1	39.7	41.8	42.7
Total government expenditure, as a percentage of GDP (%)		:	44.8	47.9	45.1	48.4	46.4

<b>Financial indicators</b>	Note	2003	2011	2012	2013	2014	2015
Gross foreign debt of the whole economy, relative to GDP (%)		53.3	72.2e	80.9	74.8	77.1	80.1
Gross foreign debt of the whole economy, relative to total exports (%)		259.4	216.5	223.6	184.0	177.7	168.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	5)	1 454	2 807	2 715	3 387	3 543	4 148
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	6)	1 828	4 663	4 227	4 776	5 047	5 776
Money supply: M3 (M2 plus marketable instruments, million euro)	7)	3 583	14 339	14 438	14 976	15 196	16 193
Total credit by monetary financial institutions to residents (consolidated) (million euro)		3 949	18 995	19 783	19 261	19 708	20 719
**Annual change in financial sector liabilities (%)	8)	:	:	:	0.2	1.8	4.1



**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	8.46	9.81	7.04	9.45	2.61
Lending interest rate (one year), per annum (%)		14.40	12.25	13.75	12.00	10.50	6.50
Deposit interest rate (one year), per annum (%)		3.15	7.25	8.75	7.00	5.50	2.50
Euro exchange rates: average of period (1 euro = ... national currency)	9)	65.117	101.950	113.128	113.137	117.306	120.733
Trade-weighted effective exchange rate index (2005 = 100)	10)	100.9	127.1	118.3	126.4	123.7	117.3
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		2 836	12 058	10 915	11 189	9 907	10 378

<b>External trade in goods</b>	Note	2003	2011	2012	2013	2014	2015
Value of imports: all goods, all partners (million euro)		:	13 706	13 522	13 345	13 512	14 430
Value of exports: all goods, all partners (million euro)		:	8 058	8 251	10 413	10 562	11 446
Trade balance: all goods, all partners (million euro)		:	-5 648	-5 271	-2 933	-2 950	-2 985
Terms of trade (export price index / import price index * 100) (number)		103	119	122	122	122	125
Share of exports to EU-28 countries in value of total exports (%)		:	62.9	62.5	63.8	65.7	67.0
Share of imports from EU-28 countries in value of total imports (%)		:	55.9	58.5	55.7	57.1	57.3

<b>Demography</b>	Note	2003	2011	2012	2013	2014	2015
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		-3.3	-5.2b	-4.9	-4.8	-4.9	-5.4
Infant mortality rate deaths of children under one year of age (per thousand live births)		9.0	6.3	6.2	6.3	5.7	:
Life expectancy at birth: male (years)		69.9	72.0b	72.3	72.6	72.8	:
Life expectancy at birth: female (years)		75.1	77.2b	77.5	77.9	78.0	:

<b>Labour market</b>	Note	2003	2011	2012	2013	2014	2015
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	64.1	64.5	66.1	68.0b	68.1
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	49.3	49.0	51.3	54.8b	56.0
Male employment rate for persons aged 20–64 (%)		:	56.9	56.9	59.6	62.5b	63.7
Female employment rate for persons aged 20–64 (%)		:	41.7	41.2	43.2	47.2b	48.3
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		44.3	31.4	31.6	34.3	36.7b	37.3
<b>Employment by main sectors</b>							
Agriculture, forestry and fisheries (%)		:	21.2	21.0	21.3	19.9b	19.4
Industry (%)		:	21.5	21.3	21.1	20.2b	19.9
Construction (%)		:	5.3	5.2	4.7	4.5b	4.5
Services (%)		:	51.9	52.5	52.8	55.4b	56.1
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	31.5	32.6	32.7	31.4b	29.7
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	68.5	67.4	67.3	68.6b	70.3
Unemployment rate: proportion of the labour force that is unemployed (%)		16.0	22.9	23.9	22.1	19.2b	17.6
Male unemployment rate (%)		15.1	22.3	23.2	20.9	18.3b	16.8
Female unemployment rate (%)		17.2	23.7	24.9	23.7	20.3b	18.7

Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		44.8	50.7	51.2	49.4	47.4b	43.2
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		11.0	16.9	18.7	16.8	12.8b	11.3
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	21.6	23.3	21.2	18.6b	15.8
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)		:	14.9	15.9	17.2	14.5b	14.4

<b>Social cohesion</b>	Note	2003	2011	2012	2013	2014	2015
Average nominal monthly wages and salaries (national currency)	11)	16 612	52 733b	57 430	60 708	61 426	61 145
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)	11)	176.5	277.9b	280.4	275.0	271.0	264.2
GINI coefficient		:	:	:	38.0	38.7	38.2
Poverty gap (%)		:	:	:	36.6	40.3	37.6
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)		:	8.5	8.1	8.9	8.5	7.5

<b>Standard of living</b>	Note	2003	2011	2012	2013	2014	2015
Number of passenger cars relative to population size (number per thousand population)		185.3	231.3	239.2	246.4	251.4	257.7
Number of mobile phone subscriptions relative to population size (number per thousand population)		399.3	1 399.4	1 261.9	1 280.9	1 307.6	:
Mobile broadband penetration (per 100 inhabitants)		:	:	:	:	:	:
Fixed broadband penetration (per 100 inhabitants)		:	:	:	:	:	:

<b>Infrastructure</b>	Note	2003	2011	2012	2013	2014	2015
Density of railway network (lines in operation per thousand km <sup>2</sup> )		49.2	49.3	49.3	49.3	49.3	48.6s
Length of motorways (kilometres)		370	595	607	607	607	693

<b>Innovation and research</b>	Note	2003	2011	2012	2013	2014	2015
Public expenditure on education relative to GDP (%)		4.3	4.5	4.5	4.3	4.2	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.34	0.72	0.91	0.73	0.78	:
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	0.45	0.45	0.42	0.43	:
Percentage of households who have internet access at home (%)		:	41.2	47.5	55.8	62.8	63.8

<b>Environment</b>	Note	2003	2011	2012	2013	2014	2015
*Index of greenhouse gas emissions, CO <sub>2</sub> equivalent (1990 = 100)		:	81.4	73.0	74.9	:	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		723.8	536.6	486.9	487.4	441.9	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	22.6	24.8	32.1	36.2	:
Road share of inland freight transport (based on tonne-km) (%)		11.7	30.5	44.8	43.1	44.1	42.0

<b>Energy</b>	Note	2003	2011	2012	2013	2014	2015
Primary production of all energy products (thousand TOE)		11 885	10 504	10 105	11 447	9 534	:
Primary production of crude oil (thousand TOE)		726	1 111	1 224	1 263	1 208	:
Primary production of hard coal and lignite (thousand TOE)		9 114	7 822	7 276	7 668	5 711	:

Primary production of natural gas (thousand TOE)		295	449	472	470	493	:
Net imports of all energy products (thousand TOE)		5 104	5 048	4 179	3 760	3 846	:
Gross inland energy consumption (thousand TOE)		16 414	15 749	13 997	15 172	13 574	:
Electricity generation (thousand GWh)		35.4	38.6	36.8	39.9	34.1	:

<b>Agriculture</b>	Note	2003	2011	2012	2013	2014	2015
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		93.0	96.4	80.5	121.8	102.1	92.4
Utilised agricultural area (thousand hectares)	13)	5 079	3 528b	3 462	3 491	3 507	3 469
Livestock numbers: live bovine animals (thousand heads, end of period)	14)	1 102	937b	921e	913	920	916
Livestock numbers: live swine (thousand heads, end of period)	14)	3 439	3 287b	3 139e	3 144	3 236	3 284
Livestock numbers: live sheep and live goats (thousand heads, end of period)	15)	1 741	1 699b	1 867e	1 841	1 967	1 992
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)	16)	1 638	1 547b	1 554e	1 548	1 596	1 611
Harvested crop production: cereals (including rice) (thousand tonnes)	17) 18)	5 453	9 538b	6 355	9 091	10 840	8 429
Harvested crop production: sugar beet (thousand tonnes)	18)	1 738	3 004b	2 483	3 180	3 507	2 183
Harvested crop production: vegetables (thousand tonnes)	18)	1 172	1 024b	936	1 062	965	1 108

: = not available

b = break in series

e = estimate

\* = Europe 2020 indicator

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

\*\*\* = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

#### Footnotes

- 1) Break due to the introduction of a new estimation method.
- 2) Gross index.
- 3) 2003: includes all entities in administrative registers (legal units).
- 4) 2014 and 2015: based on balance of payments manual edition 6 (BPM6).
- 5) The money supply M1 consists of currency in circulation and funds in giro, current and other accounts belonging to the owners of money balances in banks' liabilities, including money balances in the accounts of local government bodies, i.e. accounts from which payments can be made without any restrictions.
- 6) The money supply M2, in addition to M1, includes other dinar deposits, both short-and long-term.
- 7) The money supply M3, in addition to M2, includes short-and long term foreign currency deposits (without the so-called frozen foreign currency savings).
- 8) The total financial sector liabilities are the sum of all liabilities of the following sectors: Central Bank, Banks, Other financial intermediaries' which include leasing companies, factoring/forfeiting companies. Insurance companies include insurance companies, agency for deposits insurance and national mortgage insurance corporations.
- 9) Arithmetic mean of official middle exchange rates of the dinar against the euro on working days.
- 10) Index of nominal effective exchange rate adjusted for the ratio of domestic consumer price index to the weighted sum of indices of consumer prices in the euro area and the United States. Calculation based on a geometric average.
- 11) 2003: wages and salaries paid to employees of legal entities. 2011–15: wages and salaries paid to employees of legal entities and of unincorporated enterprises.
- 12) Based on GDP at 2010 constant prices.
- 13) In 2014, a new method of data collection including sample surveys was set up. Time series have been revised back to 2007.
- 14) Break in series caused by change of reference date from 15 January to 1 December.
- 15) Break in series caused by change of reference date from 15 January to 1 December and by revision of time series of data on number of goats (back to 2006) on the basis of the 2012 agricultural census.
- 16) 2003: excluding milk from goats.
- 17) 2003: excluding triticale.
- 18) Break in series caused by a change in source.