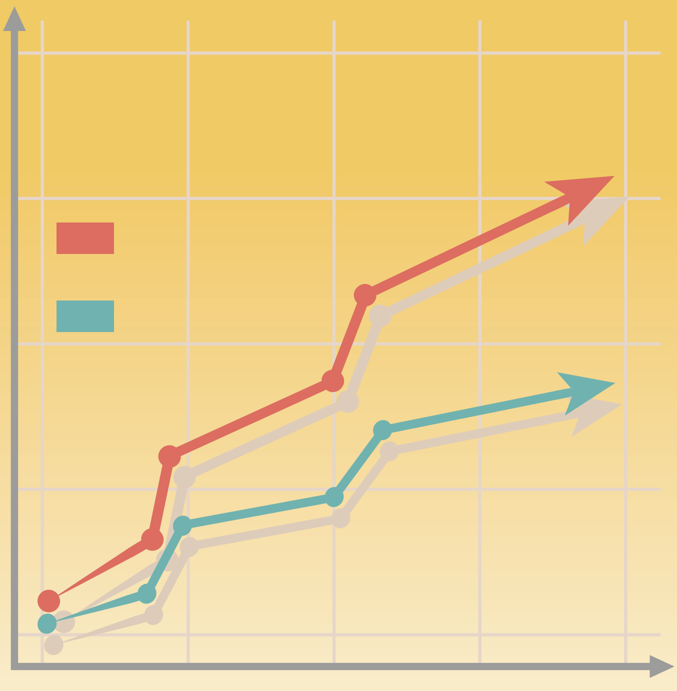
GOVERNMENT OF THE REPUBLIC OF SERBIA

ECONOMIC REFORM PROGRAMME

2016-2018



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Government of the Republic of Serbia

Economic Reform Programme 2016-2018

CONTENTS

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I. GENERAL FRAMEWORK AND MAIN GOALS AND GUIDELINES OF THE ECONOMIC POLICY

The Government is strategically oriented towards the European integration process in order to gain EU membership as soon as possible. The first chapters in the EU accession negotiation process have been opened. In the budget planning process, the Republic of Serbia will take into account the financial aspects of the accession negotiations, as well as commitments made during the negotiations. The general framework of the economic policy for the period from 2016 to 2018 is set in the Government's key strategic policies, such as: the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the Republic of Serbia, of the other part (hereinafter referred to as the SAA), the National Programme for the Adoption of the EU *Acquis* (2014-2018), general and sectoral development strategies and the Fiscal Strategy for 2016 with Projections for 2017 and 2018. Key economic and political criteria for EU membership to are: the strengthening of administrative capacity and stability of the institutions guaranteeing democracy, rule of law, respect for human rights and protection of minorities, developing the market economy and strengthening its capacity to respond to the pressure of competition and market forces of the EU and creating a stable macroeconomic environment. The medium-term economic policy for the coming years has been shaped in line with this strategic development framework.

In the previous period, the Government initiated and adopted measures to stabilize public finances and the macroeconomic environment. Its credible fiscal consolidation programme was reaffirmed by the conclusion of a precautionary arrangement with the International Monetary Fund (hereinafter referred to as the IMF) in early 2015. A strong turnaround in pursuing fiscal policy was made with results exceeding expectations, already in the first year of programme implementation.

Consistent application of fiscal consolidation measures with the ambitious structural reform programme restored macroeconomic stability. Economic activity is on a path of accelerated recovery and fiscal deficit has been sharply reduced. The improved fiscal position of the country lessened the need for borrowing and reduced the costs of debt servicing. At the same time, the improvement of the business and investment climate created a basis for reviving investment activity.

The main goals of the Government's economic and fiscal policy in the following three-year period are the following:

- to maintain macroeconomic stability
- to prevent further growth of debt and set a downward trend
- to continue implementing structural reforms, particularly with regard to public enterprises, as well as to improve public sector efficiency

In the following medium-term period, the Government will continue pursuing a responsible economic policy focused on creating a stable and predictable business environment. The reduction of red tape and unnecessary costs will ensure further increase of investment activity to boost economic growth and employment. At the same time, the goal is preserving the level of social protection of the most vulnerable segments of society. Fiscal policy and continued comprehensive reforms play a key role in this process.

Special attention will be given to further improvement of the business environment conducive to the growth of the private sector. Remaining economic reforms will be accelerated in order to improve the business environment, particularly by strengthening the rule of law and removing already identified structural obstacles to economic growth.

Results of the successful fiscal policy achieved this year have made it possible to slightly relax the fiscal policy without jeopardising the achievement of the goal related to the slowing of public debt growth and its gradual reduction from 2017 onwards. Fiscal policy priorities will be: further strengthening of taxpayer compliance, increased tax collection efficiency and the fight against informal economy. The aim is to put in place a stimulating tax policy that encourages economic activity and hiring, but has zero tolerance for violations of the law, crime and corruption through institutional reforms. This will be the way to simultaneously provide for the improvement of overall conditions for doing business, create a level playing field, and reduce the overall fiscal deficit.

The Economic Reform Programme (hereinafter referred to as ERP) will move forward the process of restructuring the Serbian economy, particularly the public sector, aimed at curbing unreasonable public consumption and increasing efficiency coupled with a better quality of services. Public sector efficiency improvements will be achieved by eliminating unproductive job positions and overall streamlining of operations. On the basis of a comprehensive needs assessment, streamlining will be carried out with the aim of increasing the quality of services provided by the state through various functions (education, healthcare, public administration, local self-government, etc.).

The plans for the ensuing period include the completion of the processes of privatisation and restructuring of companies from the former Privatisation Agency portfolio, as well as further reorganisation and restructuring of large public enterprises; introducing responsible corporate governance in the companies that will remain under state control, coupled with shifting the social policy away from public enterprises and into the social welfare system; as well as gradual and responsible reduction of the state's share in the economy.

The National Bank of Serbia (hereinafter referred to as the NBS), by fulfilling its goals stipulated in the law (such as maintenance of low and stable inflation and preservation of financial system stability) continues to provide its full contribution to macroeconomic stability and creation of a favourable and predictive business and investment environment. Owing to further easing of the monetary policy, borrowing costs of the government and private sector have significantly decreased, and the banks' credit activities are picking up. Special diagnostic studies of banks' assets confirmed high capitalization and stability of the banking sector, while further implementation of activities under the Non-Performing Loans Resolution Strategy will create conditions for their more efficient resolution. In coordination with other macroeconomic policies, the NBS will continue contributing to the boosting of economic growth.

The preparation of the ERP for the period 2016-2018 started on 21 September 2015, with the meeting of national ERP coordinators at the Organisation for Economic Co-operation and Development (hereinafter referred to as the OECD) headquarters in Paris, organised jointly by the European Commission (hereinafter referred to as the EC) and the OECD. The preparation of the ERP proceeded in accordance with the principles of broad consultations, both between the Ministry of finance and other relevant institutions, as well as with representatives of the EC and OECD. Work was performed in the form of contribution exchange and discussions at individual meetings. In addition, a round table and two full day workshops were organized and attended by all members of the ERP working group and OECD consultants. During the development stage, representatives of the EU Delegation and DG NEAR were invited to review drafts of the document.

For the purpose of broad external consultations with the civil sector, the proposed priority reforms were published on the Ministry of Finance (hereinafter referred to as the MoF) website with an invitation for comments. In addition, in cooperation with the National Convention on the EU, on 22 January 2016, the MoF organised a public consultation meeting with civil sector organisations, representatives of regional and local authorities, and other stakeholders. This meeting was attended by over 150 participants, whose comments were to a large extent incorporated into the text prior to its adoption by the Government. A detailed overview of the institutional framework and public consultation process is given in Section 6.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

1. The International Economic Environment

The economic activity in the euro area continues to recover at a somewhat slower pace than previously expected. The favourable business environment within the euro area will support the initiated recovery, while the slowdown of major trading partners of the EU will have the opposite effect. The weakening of global trade in 2015 results from the slowing of emerging market economies, particularly in China, and sizeable drop of domestic demand in Russia and Brazil. In the following period, moderate acceleration of global trade is predicted, with growth (excluding the euro area) in 2016 and 2017 reaching 2.9% and 3.8% respectively.

Table 1 International environment – basic technical assumptions

	2015	2016	2017
Real GDP growth [1], %	3,1	3,6	3,9
Global trade growth [2],%	0,5	2,9	3,8
Three-month EURIBOR	0,0	-0,2	-0,1
Ten-year government bond yields of the euro area members	1,2	1,4	1,7
Price of oil ($/barrel)	53,8	52,2	57,5
Prices of non-energy commodity prices in USD	-18,7	-5,2	4,1
USD/EUR exchange rate, end of period	1,11	1,09	1,09
Prices of grain, in US dollars, annual change[3]	-19,6	-5,9	3,4
Price of metal, in US dollars, annual change [4]	-22,3	-9,4	0,7
Price of iron ore, in US dollars[5]	55,8	44,8	42,9

[1] Global GDP excluding the euro area
[2] Global trade growth, excluding the euro area
[3] The price of grains as weighted average of the prices of wheat, corn, soy, rice and barley
[4] The price of metals as weighted average of the prices of copper, aluminum, iron ore, tin, nickel, lead and uranium
[5] The price of iron ore (with 62% iron content) for the import to China, port of Tian Jan, in US dollars per metric ton
Source: IMF, World Economic Outlook, October 2015; Eurosystem Staff Macroeconomic Projections, ECB, December 2015

Disinflationary pressures in the euro area led the European Central Bank (hereinafter referred to as the ECB) to start implementing the quantitative easing program in March 2015, and to reduce the interest rate on bank deposits from -0.20% to -0.30% in December, and to extend the programme duration until March 2017 (60 billion euro a month). On the other hand, the growth of economic activity in the United States in 2015, owing to the increase in disposable household income, real estate prices and increased investments, had an impact on the US Federal Reserves' (hereinafter referred to as the FED) decision to increase the key policy rate (from 0.25% to 0.50%) and in this way reduce the expansiveness of the monetary policy.

Metal and energy price developments in the international markets in 2015 had a positive impact on the economic activity of the countries that are net importers of energy. According to December projections of the ECB, the price of Brent oil is expected to be 53.8 $/barrel in 2015, and 52.2 $/barrel and 57.5 $/barrel in 2016 and 2017, respectively. Due to weakening demand in China, the price of metals exhibited a cumulative fall of 20.3% in the first eleven months of 2015. Such trends will also continue in 2016 (drop by 9.4%). At the same time, further decline of iron ore import prices is expected in China (60% share of consumption, and 50% share of production of steel), from 55.8 $/metric ton in 2015 to 44.8 $/metric ton in 2016, according to IMF estimates.

For 2016, the ECB forecasts a three-month euro deposit rate of -0.2%, while the projected rate for 2017 is -0.1%. It estimates that the ten-year government bond yields will gradually rise, from 1.2% in 2015 to 1.7% in 2017.

In November 2015, the European Commission revised the economic growth figures of the EU and euro area up from the March projection. Euro depreciation, low price of oil, and accommodative monetary policy of the ECB are some of the factors that contributed to the upward revision of growth. However, the impact of these positive impulses is temporary and is gradually disappearing under the pressure of slowing emerging market economies and global trade. In the following period, trends in the international economic environment are not expected to significantly destabilise the initiated recovery, which will be supported by improved conditions on the labour market, larger disposable household income, more favourable credit conditions, and higher investments. The growth forecasts for 2016 and 2017 are 1.8% and 1.9%, respectively. Growth projections are based on the recovery of domestic demand, primarily private consumption (estimated favourable developments on the labour market against the backdrop of low inflation) and investments (whose growth will be boosted by better operating and credit conditions for businesses, and increasing consumer optimism). Household consumption will remain one of the main drivers of recovery due to real disposable income growth. In the medium-term period, wages and compensation of employees are expected to increase in the circumstances of stable employment growth. Moreover, low costs and easier financing conditions, with the expansionary measures of the ECB should additionally boost private consumption.

Global demand trends and acceleration of investment growth will be reflected in moderate export growth of the EU, while stronger private consumption will contribute to import growth. The euro area economies were resilient to the receding global trade flows in the previous period, due to the depreciation of the euro and falling oil prices. Despite poor prospects for foreign trade growth, the effects of the previous depreciation of the euro's effective exchange rate and low interest rates will boost investment activity, while favourable trends in the labour market and lower energy prices will contribute to consumption. A lower intensity of external demand, in the circumstances of revised global growth and lower elasticity of global trade compared to growth, will slightly slow export growth, down to 4.3% in 2016 and 5% in 2017. The export trend will also be uneven: from 4.8% in 2016 it will accelerate to 5.7% in 2017. Current account balance is expected to slightly deteriorate in the ensuing period and surplus to decrease from 3.7% of GDP in 2015 to 3.4% of GDP in 2017. Business activity strengthening, improving business confidence, and moderate wage growth will contribute to a mild improvement of the situation on the labour market (lower unemployment rates from 11% in 2015 to 10.6% in 2016). Due to the somewhat more favourable cyclical position, the fiscal deficit will continue to decline throughout the euro area, abided by further decrease of interest rates.

The low inflation trend in the euro area countries also continued in 2015 on the back of low energy and food prices, and inflation was 0.2%. In the following period, expectations are that energy prices will rise, but also that domestic demand growth will be more robust and that the output gap will narrow will contribute to inflation picking up (to 1% in 2016 and 1.6% in 2017).

In the circumstances of reduced demand in developing countries, economic growth of Germany in 2015 (1.7%) was based on domestic demand increase, owing to favourable trends on the labour market and better credit conditions. In the following period, macroeconomic indicators are expected to improve. The initiated recovery of Italy's economy during 2015, prompted by low oil prices and strengthening of private consumption, should accelerate in 2016 and 2017 (from 0.9% in 2015 to 1.5%, and 1.4%, respectively). Although growth forecasts have been improved for most countries, growth will not be even and sufficient to drive stronger convergence between the EU member countries. The Euro area economy will be burdened by underinvestment and structural weaknesses of the economy, which narrow the room for stronger employment growth. On the other hand, high level of private and public debt will require additional fiscal efforts, particularly in the light of global economy uncertainties in 2016.

Risks to the global economic recovery are closely connected with declining global demand due to the slowdown of the Chinese economy, which contributes to the increase in currency risks, deterioration of the banks' balance sheets, and redirection of capital flows away from developing countries. The uncertainty in the international environment is also linked with the pace of normalisation of US monetary policy. Market expectations with regards to the short-term interest rates in the USA, which are the basic technical assumption in projections, currently indicate a very gradual rise of short-term interest rates. Abrupt changes in capital flows to developing countries increase uncertainty in the international environment and loss of investor trust. The rise in long-term interest rates in the USA could cause an outflow of capital from developing countries, tightening of financing conditions, and thus, lead to the deceleration of global growth.

In the case external shocks materialise, the growth of investment and business activity in Europe may be jeopardised. On the other hand, the effects of the structural reforms carried out earlier and the implementation of the Investment Plan for Europe, coupled with the acceleration of global trade, may give an additional impetus to the growth of economic and export activity.

2. Current Economic Developments and Outlook for 2015

Macroeconomic trends in the Republic of Serbia in 2014 were, for the most part, determined by devastating May floods. The destruction of production plants in the mining and energy sector led to a sharp downturn in manufacturing, which contributed mostly to the negative growth rate for the overall economy of 1.8%.

The recovery of economic activity with strong fiscal adjustment and a low inflation rate were the dominant economic characteristics in the first eleven months of 2015. The recovery of flood stricken industries is evident, while agriculture recorded a significant drop due to severe drought. With year-on-year growth of 10.1% in the third quarter, the investments are the fastest growing component of GDP, generating capacity for future growth of manufacturing and export. Moreover, despite the relatively slow recovery of Serbia's trading partners, lower car exports and fall of grain and metal prices, export recorded a year-on-year growth of 8.4% (in euro terms, January-November), the source of which can be found in a wide range of goods. The labour market is characterised with increased employment in the circumstances of higher participation as well as the decrease of real net wages, due to the decrease of wages in the public sector. Low prices of primary commodities in the global market, low inflation in the international environment, progress in fiscal consolidation, favourable external finance conditions and stabilized inflationary expectations, are the factors that made it possible to ease the monetary policy.

According to the Statistics Office of the Republic of Serbia, after the fall of GDP in the first quarter by 1.8%, the second quarter saw it rise by 0.9%, while in the third quarter the year-on-year growth was 2.2%. The seasonally adjusted drop of 0.4% in the third quarter compared to the previous one should be viewed in the context of an exceptionally high seasonally adjusted growth of 2.0% in the second quarter, which resulted from an unusually high output of the mining and power generation sectors in May and June, after the flooded coal pits were dried. In this context, such a drop can be considered temporary. Positive trends in the manufacturing industry, coupled with the recovery of mining and energy sectors, led to a strong industrial output growth of 7.9% in the January-November period. Furthermore, the intensifying public investment in transport infrastructure, as well as the recovery of building construction, after the introduction of a faster building permitting process, led to a visible growth in the construction sector reflected in the real GVA growth in the construction industry of 18.3% (y-o-y Q3), and 10.4% in the first three quarters of 2015. Agriculture had an adverse impact on growth, owing to the lower yields of corn and industrial crops, and a year-on-year GVA decline of 6.4%. The production of these crops was down by one third compared to 2014. Continued favourable trends in industry and construction, together with the recovery of certain services sectors, should lead to an accelerated GDP growth, which according to the revised estimate will be about 0.8% in 2015.

The desired structure of the initiated economic recovery is confirmed by a solid growth in the tradable goods industry and construction - a good indicator of overall investment trends. After a 6.5% decline in 2014, industrial output strongly recovered (7.9% growth, y-o-y) in the first eleven months of 2015, which was followed by rising investments in production capacity and employment, and increased sales of industrial products in foreign markets (11.8% in the first eleven months of 2015). Strong industrial output growth was achieved on the back of the energy sector recovery (15.1% growth, y-o-y, after last year's floods), but also of output growth in export oriented industries (pharmaceutical and tobacco industry and base metal production), which had a decisive share in manufacturing industry growth of 5.8% from the beginning of the year. In the same period, the activation of production capacities in parts of the chemical industry complex contributed to the chemical industry output growth of 2.7%, while the 65.2% increase in the production of tobacco products was caused by the increase in capacity utilization in the tobacco industry, as well as export growth, which contributed to the output growth for non-durable goods by 6.3%. The 4.7% output growth for intermediate products was caused by increased production of the Smederevo Steel Mill (Železara Smederevo), achieved by increased capacity utilization. Machine industry has recorded a 27.2% growth y-o-y since the beginning of the year, which contributed to the 4% growth of capital goods output in the period under observation. On the other hand, due to a weaker agricultural season, there is a noticeable downward trend in the food processing industry after the summer droughts. Several months of lower output in the production of computers, electronic and optical products was substituted by significant imports of these products. Together with lower production of motor vehicles and other means of transport, due to the weakening global demand for cars and market saturation with existing products, this has negatively contributed to industrial output.

Fiscal consolidation effects were reflected in the economic activity of the services sector (public administration, education, healthcare and social welfare sectors) which recorded a fall in gross value added (hereinafter: GVA) of 1.9% in the first three quarters. However, positive trends were seen in individual parts of the services sector (slightly higher turnover in retail trade, larger physical volume of transportation services and more overnight tourist stays). Owing to strong intensification of construction works on transport infrastructure (cumulative growth of 25.8% in the first three quarters, y-o-y) a real increase in value of completed works of 19.7% was registered in the first three quarters compared to the same period last year. Changes in legislation made obtaining a construction permit easier, resulting in an increased number of issued permits by 20% in the first ten months. This impetus for the construction companies led to a year-on-year increase in the value of completed works on buildings of 4.8% and 21.9% on other structures.

The current account deficit in the period from January to November 2015 amounted to EUR 1.3 billion, which is 21.2% less than in the same period of 2014. The fall in global oil prices, gradual economic recovery of our main trading partners (euro area countries and CEFTA), as well as reduced imports due to fiscal consolidation measures, despite its increase based on investment growth, had a favourable effect on the foreign trade deficit, which was reduced in the above period by 3.4% y-o-y. The result was achieved through the increase of trade volumes both in export (6.9% y-o-y) and import of goods (4.1% y-o-y). Export growth in this period was achieved on the account of export of base metals, agricultural products, and machinery and equipment. The resumption of production in the Smederevo Steel Mill contributed to the increase of exports and partially substituted the imports of iron and steel. On the other hand, the export of motor vehicles declined due to lower external demand. A significantly lower price of oil in the global market during 2015 had a positive impact on foreign trade developments, since Serbia is a net importer of oil, while the recovery of the energy sector from last year's floods contributed to the rise in electric power export (38.2% y-o-y). In the first eleven months of 2015, import prices in dinar terms exhibited a year-on-year decline of 4.1%, while export prices rose by 0.9% y-o-y, which contributed to a better trade balance. The import trend in this period was characterised by an increase in the import of electrical machines, computers and electronic products, as well as metal ores, due to increased production of base metals. The exports of base metals, oil and gas, agricultural products, tobacco products, and rubber and plastic products were the biggest contributors to the reduction of the foreign trade deficit. The coverage of imports with exports in euro terms in the first eleven months was 74.1%. The main trading partner in the period January - November 2015 were the EU countries, accounting for 66.0% of total exports and 62.6% of total imports. Almost half of the total exports in this period went to the markets of five countries: Italy, Germany, Bosnia and Herzegovina, Romania and the Russian Federation. Imports from Germany, Italy, the Russian Federation, China, and Hungary accounted for 46% of total imports. Trade with Bosnia and Herzegovina, Montenegro, Macedonia, Italy, Romania and Bulgaria generated a surplus of about 1.8 billion euro.

The surplus in the services trade with foreign countries was by about 50% higher than in the same period last year, with exports and imports of services up by 12.4% and 6.5%, respectively. In addition, surplus in the secondary income account balance was up by 10.9% y-o-y, as a result of higher remittance inflows, which amounted to 2.4 billion euro in this period. On the other hand, deficit increase in the primary income account resulted from higher net expenditures on direct investments and portfolio investments (by 20.9% y-o-y, and 32.2% y-o-y, respectively), while the outflows for interest on other investments went down by 3.4%. The capital and financial transactions account (excluding the change in foreign exchange reserves), saw a significantly higher net inflow of capital in the period January-November 2015 compared to the same period of the previous year. Net inflow from FDIs (EUR 1.6 billion) was up by 46.1% y-o-y and, for the first time, more than sufficient to cover the current account deficit. In the same period, there was a net outflow from portfolio investments (EUR 194.3 million). Favourable balance of payment trends resulted in the increase of foreign exchange reserves of the NBS by EUR 367.7 million.

The recovery of external demand, primarily by our major trading partners will have a positive impact on our exports. However, the investment growth causes higher imports, mostly of capital equipment, since we are an import dependent economy, so the contribution of net exports in 2015 is expected to be mildly positive. The total current account deficit in 2015 is expected to amount to about EUR1.6 billion, or 4.6% of GDP, which is down by 1.4 pp relative to 2014, with full coverage by FDI. Further implementation of structural reforms, aimed at improving the business environment, preserving the macroeconomic stability and consolidating public finances, should provide for further foreign direct investments into the tradable goods sectors, which will, over the medium and long term, improve potential output and ensure sustainable growth.

The situation on the labour market is characterised by employment growth in the circumstances of increased participation. Fiscal consolidation measures contributed to the real net wage decline, due to a decline in public sector wages in real terms. Labour market indicators from the Labour Force Survey show continued fall in unemployment, which is supported by the data of the National Employment Service. According to the Labour Force Survey, the situation on the labour market was better in the third quarter of 2015 than in the same period of the previous year, owing to increased employment in the industrial sector and, to a lesser extent, the services sector. The unemployment rate decreased by 1.4 pp to 16.7%, while the employment rate increased by 0.4 pp, with a concurrent reduction in the informal employment rate by 2.1 pp to 20.4%. The average net wage paid in the period January-November 2015, compared to the same period in 2014 was 1.9% lower in real terms. Fiscal consolidation measures contributed to the fall of total real net wages, as well as real wages in the public sector, which were cut by 7.5%. The greatest contributors to the average wage drop were healthcare, education and public administration, while the manufacturing industry gave a positive contribution to the overall wage trend. In 2016, the passing of a new law regulating the system of remuneration in the public sector is expected, which should ensure a uniform and transparent manner of determining wages and a more effective control of the wages and salaries of public sector employees. In 2015, the competitiveness of the economy further improved, amidst strong growth of industrial output and fall in unit labour costs.

Year-on-year inflation in 2015 was still below the lower end of the tolerance band (4±1.5%) and was 1.5% in December, while the average inflation in 2015 was 1.9%. Low inflationary pressures are a consequence of the decline in the global price of oil and primary agricultural products, but also of low core inflation (1.6% y-o-y in December), to which the greatest contributors were low domestic demand, restrictive fiscal policy, stability of the exchange rate and inflation expectations, and a very low inflation in the international environment. Regulated prices, year-on-year, were falling in the first seven month, but ultimately their contribution to the year-on-year inflation became positive after the electrical energy price increase, although still significantly below previous years.

Owing to the monetary policy easing and consequential fall in interest rates on dinar loans to a historic low, as well as lower interest rates in the international money market, the banks' lending activity was recovering during 2015, despite the fact that about 80% of RSD 136 billion subsidised loans to businesses granted in 2014 became due. Loans to households continued to grow at a similar rate as in the previous year, while the growth of loans to businesses, started in June, was maintained in the following months. In November, excluding the effect of exchange rate change, total domestic loans exhibited a year-on-year growth, at the rate of 1.7% for loans to businesses, and 2.8% for loans to households. The acceleration of credit activity may be expected in 2016, thanks to the effects of the previous monetary policy easing that has taken place so far, but also due to the acceleration of economic activity. In financing their credit activity, banks still relied mostly on domestic sources of funding, primarily dinar and foreign currency savings deposits of businesses and households. As a result, the real growth of dinar money supply in the first eleven months of this year (M1 by 7.9% and M2 by 3.7%) resulted primarily from the growth of dinar demand deposits. Household dinar savings deposits started rising in April to peak in November at RSD 44.2 billion, due to low and stable inflation, higher interest rates, and more favourable tax treatment than for foreign exchange savings deposits. The increasing foreign exchange deposits of businesses, which are partly due to higher exports and the increasing foreign currency savings deposits of households contributed to the increase in the broadest monetary aggregate, M3, in the first eleven months of 2015 by 1.7% in real terms. Year-on-year M1 growth in 2015 accelerated to 13.8% in November, while the growth of broader monetary aggregates slowed down – M2 to 8.1%, and M3 to 4.1%.

During 2015, the dinar nominally weakened against the euro by 0.5%. The beginning of the year witnessed some depreciation pressures, mostly due to increased foreign exchange demand of domestic companies (mainly importers of fuels) and diminished investment in government securities due to the instability in the international financial market. However, as of February, owing to the favourable perception of risk of investing in Serbia, appreciation pressures strengthened. Contributing factors included the achieved results in the implementation of fiscal consolidation, a more robust balance of the payment position of the country, reaffirmed by the successful implementation of the IMF arrangement, and increased liquidity in the international financial market based on the ECB measures. Towards the end of November and throughout December, depreciation pressures prevailed, mostly owing to the seasonally higher corporate demand for foreign exchange, above all in the energy sector and higher foreign exchange purchases by non-residents before the beginning of the FED interest rate increase cycle. To mitigate excessive short-term volatility of the dinar exchange rate in 2015, the NBS intervened in the interbank foreign exchange market by buying EUR 970 million and selling EUR 450 million.

3. The Medium-Term Macroeconomic Scenario

The projections of main macroeconomic aggregates and indicators for the Republic of Serbia in the period from 2016 to 2018 were based on the current macroeconomic trends and prospects in Serbia and the international environment, taking into consideration the planned economic policies and the precautionary arrangement concluded with the IMF.

Successfully implemented fiscal policy measures and improved conditions in the business and investment environment in the course of 2015 created a foundation for stable and sustainable growth in the following years. The implementation of harsh fiscal consolidation measures against the backdrop of favourable economic developments in the international environment has not caused a significant drop in domestic demand, as previously estimated. GDP projections and related indicators have been adjusted upwards for the following medium-term period. The systemic strengthening of the business environment will enable the growth of foreign and domestic investment, while the accelerated restructuring of the economy will create conditions for new jobs, increased productivity and a better competitive position of the country. GDP growth in 2016, revised upwards from 1.5% to 1.8% will be driven by the rise in investment consumption. In addition, a modest rise in the standard of living is also expected. The fiscal space, created by the strong structural adjustment, made it possible for government consumption to be revised mildly upwards in 2016.

Compared to the previous Economic Reform Programme, the macroeconomic projections for the period from 2016 to 2018 indicate a more favourable recovery path. The projected cumulative growth rate of real GDP in the next three years of 7.7% is based on the growth of domestic demand, primarily the recovery of investment activity and increase of the households' standard of living. The investment cycle initiated in 2015 will also be the leading development factor, which, together with economy restructuring, will enable further reduction of internal and external imbalances. Continuing implementation of public sector reform and improvement of the business and investment environment will create a basis for growth acceleration.

Medium-term macroeconomic projections anticipate average real GDP growth at 2.5%. Investment and private consumption are expected to grow at an average annual real rate of 6.7% and 1.0%, respectively, with the average annual real growth of exports and imports of goods and services at7.2% and 4.9%, respectively. Continuing implementation of a credible fiscal consolidation plan will have a downward effect on government consumption (-0.6% on average per year). The structural adjustment of the economy under the adopted plans will continue to curb unreasonable spending, bureaucracy and unnecessary costs in the public sector and, in parallel, improve the investment climate. At the same time, the protection of the most socially vulnerable segments of society will be provided for.

The recovery path of the country will make it possible to ensure a 3 pp increase of the share of investments in GDP, bring down government consumption from 17.7% in 2014 to 15.1% of GDP and increase the share of exports of goods and services in GDP to over 50%, all by 2018. A net inflow of foreign investments of about EUR 1.5 billion per year is required, with a change of the investment structure in favour of tradable goods. To provide for the sustainability of external debt, external liquidity and solvency, the balance of payments financing includes concurrent reduction of the goods and services deficit and the current transaction deficit as share of GDP to 7.9% and 4.1%, respectively, at the end of 2018.

Table 2. Projections of Main Macroeconomic Indicators for the Republic of Serbia

	Estimate	Projection		
	2015	*2016*	*2017*	*2018*
GDP at current prices, RSD billion	3,995.5	4,170.2	4,400.5	4,723.0
Real GDP growth	0.8	1.8	2.2	3.5
GDP deflator	1.5	2.6	3.2	3.7
Real growth of individual components of GDP, %				
Private consumption	-0.6	0.2	0.8	1.9
Government consumption	-1.2	0.8	-2.9	0.3
Investments	7.5	7.0	7.0	6.2
Exports of goods and services	8.0	7.7	7.0	6.7
Imports of goods and services	6.0	5.8	4.4	4.3
Balance of goods and services, in EUR, % of GDP	-9.7	-8.9	-8.5	-7.9
Current account balance, in % of GDP	-4.6	-4.5	-4.1	-4.1
Inflation, period average, in %	1.9	2.8	4.0	4.0

Source: MoF

Real sector. The medium-term outlook for the real sector makes it possible to analyse the cyclical position of the economy and evaluate the expected sources of real GDP growth in terms of changing the factors of production and aggregate demand.

The current movements indicate that the macroeconomic outlook of the country has improved, and that the recovery of economic activity has intensified. The 2015 GDP growth rate has been revised up by 1.25 pp relative to the last year's Economic Reform Programme and 0.25 pp relative to the August estimate, due to the favourable effect of the international environment on investment and export activity. Moreover, consistent fiscal adjustments, coupled with the implementation of structural reforms, resulted in higher investments and exports, while the negative contribution to GDP in 2015 will have come from household and government consumption because of fiscal consolidation implementation. Lower prices of petroleum products in the global market had an impact on disposable household income and low and stable inflation, so the real fall in household consumption is lower than expected. Investment growth resulted in higher imports, since Serbia is an import-dependent country, so the contribution of net imports this year will be mildly positive. On the output side, fiscal consolidation will adversely affect the activity of service sectors. In addition, agriculture will also negatively contribute to GDP. On the other hand, industrial output contribution will be positive, coming both from the manufacturing industry and the recovery of the energy sector. After many years of weak results, the construction activity is expected to exhibit robust growth in 2015.

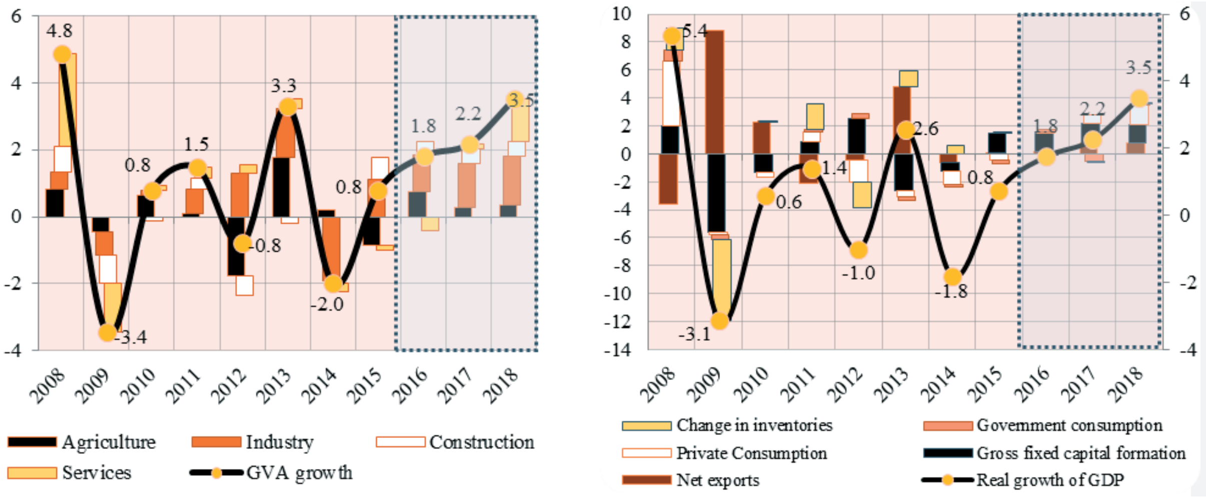
Economic trends and the outlook for Serbia in 2016 will, to a large extent, depend on the developments in the international economic environment, as well as on further implementation of real and public sector reforms. The results of the reforms undertaken so far will provide for the growth in investment activity in 2016 (contribution to GDP growth of 1.4 pp). However, as the Serbian economy is import dependent, it is expected that the imports, primarily of investment goods, will go up, which will result in the contribution of net export growth to GDP being only mildly positive.

After seven years of stagnation and fall of household consumption in real terms, a modest rise in private consumption is expected in 2016 (0.2%). The fiscal space, created by strong structural adjustment of 2.5% of GDP in 2015, will enable government consumption to mildly increase, by 0.8% in 2016. Better fiscal results than planned will partly be used for targeted wage and pensions increases and narrowing of the wage gap in the government sector. Ending public debt growth remains the main goal of the fiscal policy, involving continued implementation of fiscal consolidation measures in 2016 and 2017. The necessary adjustment in 2016 relative to 2015 means further fiscal adjustment of 0.75% of GDP. Fiscal consolidation measures in the next two years will affect domestic demand, primarily government consumption (reduction of public sector wages by 3% , downsizing and maintaining the 5:1 attrition rule, meaning that for each five vacated permanent job positions one person may be employed in the government sector). The planned downsizing in the public sector by 5% in 2017 will be reflected in lower public consumption and its real fall of 2.9%.

Figure 1 Real GDP growth: actual and projected rate and long-term trend, in %

The output gap, which measures cyclicality of the economic activity, was positive in the period of economic boom during 2007 and 2008 (1.4% and 3.8%, respectively), driven primarily by high domestic demand. In 2009, the decline in economic activity caused by the financial crisis led to a deepening of the negative output gap that lasted up to 2013. Positive movements of the cyclical component during 2013 were caused by the activation of new capacities in the car and oil industries. However, recessionary tendencies in the economy were again recorded in 2014. The consequences of floods had a significant effect on the GDP outlook, due to damage and downtime of the public and economic infrastructure facilities, so the potential output of the economy was significantly reduced. The downward trend of potential output growth of the economy in the previous ten-year period was, first of all, a consequence of low investment in production capacity, difficulties with financing the current production activity, and negative labour market developments. The current estimate of potential growth is based on accelerated economic recovery, where the output gap is expected to close at the end of the projection period, after many years of having a negative relationship between the actual and potential GDP growth rate. It is estimated that the potential GDP growth in the following years will be positively affected by the boost of investment activity and favourable developments in the labour market. Better financing conditions and more robust investment activities in the transport, energy and agriculture sectors will increase the potential of the economy. The expected rise in unemployment due to the public sector downsizing and completion of the restructuring process in state controlled companies will be mitigated by the increase in net employment in the private sector. Considering the current cyclical position of the Republic of Serbia and structural distortions inherited from the previous period, as well as the degree of existing unutilized capacities, finding ways to increase the total productivity factor and to improve investment efficiency will be of particular importance. To that end, it is necessary to continue with the reforms that will permanently increase the potential output of the country.

Figure 2 Contribution to the Growth of GVA and GDP by Activity, pp



On the output side, in the 2016 - 2018 period the greatest contribution to GDP growth is expected from the increase of industrial output and recovery of the construction sector (annual average contribution of 1.3 and 0.4 pp). Continued implementation of the austerity measures in the government sector will adversely affect the services sector in 2016, after which gradual growth is expected (average annual contribution of 0.7 pp in 2017 and 2018). The main driver of growth in 2016 will be industrial production, but also agriculture, as a result of recovery from the 2015 drought.

On the expenditure side of GDP, in the 2016 - 2018 time period, the greatest contribution is expected from investment consumption (average annual contribution of 1.4 pp). Government consumption will contribute to the GDP growth in 2016 due to a slight wage increase in parts of the public sector. Further structural adjustment of the government budget in 2017 will result in a decline in public consumption. Private consumption of households will positively affect GDP movements throughout the projection period. Consumption growth will be driven by the recovery on the labour market, primarily by the accelerated growth of wages and employment in the private sector and increased credit activity of banks directed towards households.

GDP growth in the next three years will also be supported by net exports, although at a slower pace than expected (contribution of 0.1 pp in 2016, 0.8 pp in 2017, and 0.8 pp in 2018). The high growth of exports results from the recovery of major trading partners of the Republic of Serbia, while the movements of imports (4.9% average annual growth) will be determined by the recovery of domestic demand.

Macroeconomic projections anticipate a real investment growth of 7% in 2016 and 2017, which will be generated by the launching of a new investment cycle. The growth of private investments is of crucial importance, considering that the decline of economic activity in the previous time of crisis contributed to the reduction of potential GDP through the loss of economic capacity and significant deterioration of labour market conditions.

The provided development scenario shows the strategic orientation of the Government towards structural adjustment of the economy to ensure a sustainable growth trajectory, based, above all, on the increase of the overall investment activity by encouraging private sector investment and exports, as the key factors for achieving macroeconomic stability.

Employment and wages. Overall employment is expected to rise in 2016, driven by employment growth in the private sector. The medium-term employment projection is based on the projected GDP growth and increased investments. Owing to the improvements in employment related legislation, it can be expected that positive trends in the labour market will continue, despite the announced downsizing in the public sector and restructuring process in state owned companies. At the same time, an upward employment rate trend is expected to form owing to the improvements of legislation regulating employment relations. The amendments to the Labour Law eliminated the obstacles to hiring, increased the flexibility of the labour market and created the basis for curbing informal employment. In the ensuing period, the growth of real net wages in the private sector is expected to follow the rise in productivity in the economy.

Monetary policy, exchange rate and inflation. Since 2009, the NBS has been in the inflation targeting regime. The target inflation rate until the end of 2018 was set at 4%, with a tolerance band of ±1.5 percentage points. The main instrument for achieving the inflation target is the interest rate applied in reverse repo operations with one week transaction maturity, while other monetary policy instruments (open market operations, credit and deposit facilities, required reserve, intervention on the foreign exchange market) have a supporting role. Temporary deviations from the inflation target are allowed if it is believed that the required monetary policy change could cause macroeconomic instability. This particularly refers to the cases of abrupt changes of primary commodity prices on the global market or changes in the prices that are under direct or indirect influence of Government decisions.

The monetary policy has been in the relaxation phase in the last two and a half years. The key policy rate is down from 11.75% in May 2013 to 4. 5% in October 2015, which is the lowest recorded. The fastest reduction took place in 2015 (3.5 pp), owing to consistent implementation of fiscal consolidation and successful implementation of the IMF arrangement with significant overachievement of targets, improved macroeconomic performance of the country. This, in turn, meant lower risk premiums, as well as maintaining high liquidity in international financial markets. Since the 2016 projections indicate continued low inflation and economic growth below potential, monetary policy should remain expansive and directed towards contributing to the economic growth through the increase in credit activity. However, it will be expansive to the extent allowed by the movements of current economic indicators and risks in the international environment, primarily the developments in international financial and commodity markets.

In line with the chosen monetary strategy, the NBS will continue to pursue the managed floating exchange rate regime. That means interventions on the foreign exchange market in three cases: to reduce excessive short-term oscillations of the foreign exchange rate, preserve the stability of the financial system and maintain an adequate level of foreign exchange reserves. Considering a more than adequate level of foreign exchange reserves and improved macroeconomic performance of the country, the interventions in the following period should also be focused only on the mitigation of excessive daily oscillations of the exchange rate. Exchange rate oscillations are possible in the short term because of different characters of leading central banks' monetary policies, which could reflect on the liquidity in the international financial market and movements of capital towards emerging market economies, including Serbia. However, the reduction of internal and external imbalances contributes to the increase of resilience of the domestic economy to external shocks and the stability of the dinar exchange rate over medium term.

The required reserve policy was developed in such a manner as to encourage longer term and dinar sources of bank funding through differentiation of the required reserve rate depending on the term and currency of liabilities. After bringing down required reserve ratios in January 2015 by 1.0 pp each (to 19% for liabilities with maturity over two years and 26% for liabilities with maturities of up to 2 years), the NBS continued relaxing its required reserve policy in September. The required reserve ratio is envisaged to be reduced on a monthly basis by 1.0 pp, so that in February 2016 it will be 13% for liabilities with maturities of over two years and 20% for liabilities with maturities of up to two years. In this manner, by releasing the credit potential and reducing the costs of financing for the banks, it provides support to the credit activity, and thus to economic activity.

Medium-term inflation projections. Year-on year inflation will remain low until mid- 2016, around the lower end of the target band. It is expected to gradually come closer to the 4.0% target in the second half of 2016, after which it should continue moving within the target band.

Over medium term, the year-on-year inflation increase will be affected by the anticipated rise in the price of primary products (oil and primary agricultural products), which will lead to a certain increase of prices for petroleum products and food. As from the second half of 2016, a slight acceleration of prices for non-food products and services can be expected due to the currently open depreciation gap of the real exchange rate. However, neither the food or non-food price inflation should exceed the targeted 4.0% y-o-y in 2016.

After recording negative y-o-y growth rates for the most part of 2015, regulated prices should be in the positive zone in the following period. Among these prices, the greatest contribution to inflation in 2016 is expected from the prices of electricity and cigarettes, on the basis of previously set excise tax increase. However, the rise in regulated prices in the projection period should remain significantly lower than the previous years' average, at about 5.0% per year. On the other hand, aggregate demand and low inflation in the international environment will continue to have a disinflationary effect, but to a lesser and lesser extent considering the expected recovery of economic activity in Serbia and gradually rising inflation in the euro area.

The uncertainty regarding the achievement of inflation projection relates primarily to the movements of global prices for primary commodities (oil and primary agricultural products), as well as to international economic developments, above all the deceleration of the Chinese economic growth. With regard to food prices, which used to be characterised by marked oscillations, after the phasing out of customs duties on the import of most agricultural products from the EU in the previous six-year period (2008-2014), the volatility of such prices has been reduced and should no longer be a significant source of headline inflation volatility.

External sector and its medium-term sustainability. The balance of payments data indicate that in the previous part of 2015, the country's foreign trade and balance of payments exhibited a more favourable trend as a result of favourable impulses from the international environment (fall of oil prices and the recovery of the major foreign trade partners), greater inflow of remittances from abroad and positive effects of fiscal consolidation on the balance of payments position. The estimated current account deficit in 2015 of 4.6% of GDP was lower than last year and completely covered with net inflow of foreign direct investments, which had a favourable effect on the external position of the country. Progress in the European integrations process, better economic performance of the euro area economies, the IMF arrangement, and creation of a more stimulating business environment owing to the implementation of structural reforms, should create conditions for a more substantial FDI inflow over the medium term.

The product structure of exports improved in the previous period, owing to FDI inflow to certain export oriented sectors, which should, over the medium term, contribute to a further growth of exports and reduction of external imbalances of Serbia. After a successfully completed investment in the manufacturing of cars, parts and accessories for motor vehicles, the export of intermediate goods in 2016, reached 36% of total Serbian exports (33% in the period January-October 2015), despite a slight drop in exports because of reduced demand for the current car model produced in Serbia. The next most important export products, with a share of 25% in total exports, are resource based products (food, tobacco and rubber products). The share of upstream products went down after the fall in global demand and withdrawal of US Steel from Serbia, with the export picking up once the production in the Smederevo Steel Mill resumed. Thus, upstream products in the period from January to October 2015 accounted for 20% of total exports. In the same period, primary products accounted for 14%, and high-tech products accounted for 5% of total exports.

In terms of geography, the goods from Serbia are sold mostly on the EU market. The share of exports to this group of countries went up from 57% in 2010 to 65% in 2014, and 66% in the January-November period of 2015. Italy and Germany are the most important destinations with growing exports of cars[1], parts, electrical machinery, equipment and devices. Exports to Russia doubled in the period from 2010 to 2013 (over 7% of total exports), only to fall from 2014 onwards, which in turn reduced their share in total exports to about 5% in the period from January to November 2015.

External competitiveness of Serbia improved in 2015 in all three aspects (price, cost. structural). The nominal dinar depreciation (-6.7% y-o-y in the period January-November 2015) contributed to the improvement of price competitiveness, measured by real effective exchange rate[2]. In addition, the real effective exchange rate of the dinar against the currencies of 35 major trading partners[3] of Serbia depreciated by about 4% y-o-y in the first eleven months of 2015.

The improvement in the cost competitiveness of Serbia is also reflected in the depreciation of the real exchange rate calculated on the basis of unit labour costs[4], from 5.0% y-o-y in the period from January to September 2015. This was very much aided by the nominal depreciation of dinar against the euro (-3.7%), additionally supported by the fall in domestic unit labour costs (-1.3%), while the unit labour costs in the euro area stagnated. The reduction of domestic unit labour costs is for the most part a consequence of the wage decrease in the public sector. Furthermore, productivity also increased owing to the growth of production following the recovery from last year's floods, and acceleration of growth in our major trading partners in 2015. The expected acceleration of the domestic economy and further implementation of fiscal consolidation and structural reforms should contribute to the improvement of cost competitiveness of Serbia in the following period as well.

Structural competitiveness also improved in 2015 owing to a more favourable macroeconomic environment and reforms undertaken to improve the business and investment environment. This is confirmed by the higher ranking in the World Bank Doing Business Report for 2016, achieved

1 Exports of Fiat to the European markets goes through Italy

2 The currency and price basket comprises the euro and US dollar, and consumer price indices in the euro area and the USA in the 80:20 ratio

3 In this case, the average share of euro is 47.6% and the average share of the US dollar is 3.7%

4 Calculated as a multiple of nominal exchange rate of the dinar against the euro and the ratio of unit labour costs of the total Serbian Economy and the euro area

primarily due to improvements in construction permits and payment of taxes. In addition, in the latest World Economic Forum Report, Serbia made progress within the macroeconomic environment column, and further progress can be expected next year, bearing in mind the developments in macroeconomic indicators in 2015 (low inflation, reduced fiscal deficit). The expected high ranking on international competitiveness lists should be aided by new labour, pension and investment legislation adopted in 2014, the full effects of whose implementation are expected in the following period.

The current account deficit should continue to come down in the following years, primarily as a result of recovery of external demand, namely euro area, as well as the reduction of the share of consumption in GDP due to fiscal consolidation measures despite the expected growth of investment asset imports. Export growth will be improved, in the short term, by more favourable financial conditions partially supported by low oil prices and, in the medium term, by initiated structural reforms. The projected path of real growth of goods and services exports is based on increasing external demand for domestic products, which will enable a growth of market share in export markets, with strengthened cost and price competitiveness. Faster growth of exports than imports will allow a reduction of the visible trade deficit from 12.3% of GDP in 2014 to 10.5% of GDP in 2018, whereas the goods and services deficit, owing to the expected increase in service account surplus, should decrease from around 11% in 2014 to 7.9% of GDP in 2018. Moreover, the service account balance will be positive and is estimated at 2.6% of GDP, which is an increase of 1.2 pp of GDP relative to the 2014 surplus. The reduction of negative net exports of goods and services, primarily as a result of change in the structure of the domestic economy, will contribute to a reduction of external imbalance and sustainability risk related to foreign debt and external liquidity.

The current account balance will be negative in the 2016 – 2018 period, averaging at 4.3% of GDP. At the same time, the structure of capital inflows will be dominated by the share of foreign direct investments, which will be the main source of financing the current account deficit. In the period from 2017 to 2018 the real growth of goods and services exports is expected to continue (6.9% a year on average) to outpace the growth of goods and services imports of 4.4% a year on average. For the purpose of promoting investment activity, most of exports will be focused on capital goods and intermediates. The real growth of goods and services exports is expected to reach about 7% a year on average in the following three years, bringing its share in GDP up to 50.8% in 2018 (from 32% in 2010 and 47% in 2015). After the rapid growth in 2013, the share of goods and services exports in global exports continued to rise, albeit more slowly, with an expectation that it would reach 0.09% in 2016. Medium-term and long-term sustainability of current account balance will depend on the implementation of structural reforms and increase in competitiveness of goods and services exports, but also on interest expenses, which, in the case of drastic deterioration of financing terms in external markets, would exert powerful pressure on current account deficit growth. A major role in that respect is played by sustainable fiscal position and internal macroeconomic imbalance reduction. Continued fiscal consolidation measures, entailing government consumption cuts, are also expected to result in a gradual current account deficit reduction.

In the following three-year period, an inflow into the balance-of-payments current account is expected from current transfers, as well as an outflow from factor payments. Inflows into the current transfer account are expected to remain stable. In the following period the secondary income account expects a stable inflow of remittances of around 9-10% of GDP. The most important component in current transfers is remittance income, while factor payments are dominated by outflows for interest payments on foreign loans. It is estimated that net current transfers with non-interest factor income in the 2016 - 2018 period will amount to EUR 2.5 billion a year on average. Foreign direct investment increase will result in total profit from this source being a significant expense item in the primary income account. Furthermore, a greater outflow from interest on portfolio investment will be partially offset by a lower outflow from interest on loans, due to private sector deleveraging and slower public sector borrowing. In 2018 negative net interest payments will reach EUR 1 billion. The net effect of current transfers and net factor payments in the following three-year period will be positive and stable and is estimated at around EUR 1.5 billion a year on average.

From the point of view of international investment position (IIP), Serbia is a net debtor. At the end of September 2015 the negative IIP amounted to EUR 34.3 billion (105.2% of GDP), which presents a 4.1% increase in the share relative to the end of 2014. In the period under observation, all sectors except for the NBS increased their negative international investment position, mostly resulting from foreign direct investment inflow (around EUR 1.5 billion) and intercurrency movements (around EUR 0.7 billion). On the other side, the positive position of the NBS improved by around EUR 0.7 billion, primarily owing to the reduction of debt to the IMF and foreign reserve increase.

Debt instruments, including debts to related parties (accounting for 19.0% of total debt) present around 60% of IIP liabilities. Half of external debt is the public sector debt (53.7%), which is mostly long-term (over 90%). Public external debt is dominated by three currencies – the dollar, euro and dinar with a 44.2%, 34.1% and 13.6% share, respectively. At the same time, the share of the euro and dollar in foreign reserves is 56.6% and 33.8%, respectively, so the euro debt is fully covered by euro-denominated foreign reserves, while the part of foreign reserves denominated in dollars covers around half of the debt in that currency. On the other hand, almost two thirds of public debt is contracted at a fixed interest rate, so the foreign exchange risk significantly outweighs the interest rate risk. Private sector debt accounts for 46.3% of total external debt, most of which refers to corporate debt (77.9%). Around 90% of corporate debt is euro-denominated; however, it is worth noting that most of collection for exports is in euros, contributing to lowering the foreign exchange risk on corporate external debt. In terms of remaining maturity, around 85% of corporate debt is long-term. The external debt of commercial banks accounts for 22.1% of the private sector debt, with around 90% of the bank debt contracted at a floating interest rate and euro-denominated. In terms of remaining maturity, around 76% of the external debt of the banking sector (excluding deposits) is long-term.

As a result of further reduction of external imbalances and inflow of capital providing current account deficit coverage, in the following years foreign reserves are expected to increase and remain at an appropriate level. At the same time, negative IIP is expected to rise, in particular in the part of direct investment. Greater investment inflow, despite domestic consumption decrease, will also lead to imports growth (primarily of equipment) and a reduction of coverage of average monthly imports with foreign reserves, from the current 7 months to around 6 months, which points to foreign reserves continuing to provide the protection of the domestic economy against external shocks. At the same time, it is estimated that the coverage of short-term debt (observed by remaining maturity) with foreign reserves will increase in the following three years from 306.2% at the end of September 2015 to around 375% in 2018.

Financial sector. During 2015 there were no major changes in the structure of Serbia's financial system, i.e. the banking sector still presents the dominant form of financial intermediation.

As of 31 October 2015, 30 banks operated in Serbia's banking sector, of which 23 in majority foreign ownership (members of banking groups from 13 economies), five banks are majority-owned by the Republic of Serbia and two banks are majority-owned by domestic legal persons. Banks in majority foreign ownership dominate the market and account for 76.2% of total balance-sheet assets, 82.2% of total loans and 73.6% of total deposits of Serbia's banking sector. In terms of the individual share of banks, the banking sector of Serbia is fragmented in all relevant market categories, pointing to a high degree of competition among banks.

The banks' total assets and capital amounted to RSD 3,029 billion (EUR 25.1 billion) and RSD 646 billion (EUR 5.4 billion) at the end of October 2015. During ten months of 2015, as well as throughout 2014, the level of the banking sector's capital was stable, with a moderate growth trend. The most positive effects came from the capital increase of certain banks (EUR 296 million in 2014 and EUR 20.0 million in ten months of 2015). At the end of September 2015 the capital adequacy ratio was 21.2%, which is significantly above the regulatory threshold in Serbia (12%), as well as the Basle threshold (8%). The growth rate of own funds was sufficient to enable the preservation of share in total liabilities at the level of 21.3% at the end of October 2015.

The banks in Serbia operate at a high liquidity level; as much as 35.1% of total bank assets are liquid assets. The basic liquidity ratios and asset maturity structure are at very satisfactory levels. The average monthly current ratio for the banking sector was 2.06 in October 2015 (regulatory threshold is 1.0), i.e. it was above 2 during most of 2014 and during 2015. The monthly quick ratio was 1.66 in October 2015 (the regulatory minimum is 0.7). As of 31 October 2015, liquid assets accounted for 35.1% of total balance-sheet assets and 53.8% of total short-term assets.

The banking sector's profitability in the first ten months of 2015 was 174% higher than in the same period of 2014 and total net pre-tax profit amounted to RSD 28.4 billion (EUR 235.2 million). At the end of October 2015, 19 banks operated at a profit in the total amount of RSD 36.5 billion, whereas 11 banks operated at a loss in the total amount of RSD 8.1 billion. At the end of October 2015, the ROA and ROE ratios were at 1.14% and 5.40%, respectively.

The key risk for Serbia's banking sector is the high level of non-performing loans (NPLs), which as of October 2015 amounted to RSD 425.1 billion (EUR 3.5 billion), or 21,9% of total loans. The corporate sector is still the largest contributor to the total level of non-performing loans (NPLs), with a share of 46.1% in total NPLs and a high NPL ratio of 24.4%. The highest NPL ratio in the corporate sector (42.5%) was recorded in the construction sector, which accounts for 15.0% of total corporate NPLs. The share of non-financial entities under bankruptcy in total NPLs is increasing and at the end of October 2015 reached 24.6%.

Household's non-performing loans account for 17.3% of all NPLs. The household's NPL ratio exceeded 10% for the first time in May 2014 and has been increasing moderately since then, so at the end of October 2015 it amounted to 11.0%, which is still below the average for all sectors. The main factor of retail NPL ratio growth is the deterioration of collectability of housing loans, which dominate total household's NPLs (37.2% at the end of October 2015), bearing in mind that the NPL ratio of these loans is among the lowest (9.6% at the end of October 2015).

Despite the high share of NPLs in the total loans of Serbia's banking sector, they are, to a high degree, covered both by allowances for impairment of total loans in line with the international accounting standards (at the end of October 2015, 61.8% NPLs were covered by these allowances) and by regulatory provisions (115.0% at the end of October 2015). Nevertheless, non-performing loans remain the main challenge in Serbia's banking sector.

For the purpose of resolving the issue of the high level of NPLs, on 13 August 2015, in cooperation with the NBS, the Government of the Republic of Serbia adopted the NPL Resolution Strategy of Serbia. The implementation of the key goals of the strategy initiated in 2015 is conducted through the realisation of the steps spelled out in the Government Action Plan and the NBS Action Plan in order to respect the central bank's institutional independence.

The key areas of the Government Action Plan are strengthening banks' capacities to deal with non-performing loans, creating the prerequisites for the development of a non-performing loan market, improving and promoting out-of-court debt restructuring and improving the framework for judicial debt settlement and mortgage resolution. In that respect, the activities undertaken by the end of 2015 include:

- Developing a Law Regulating the Real Estate Appraisal Profession, together with National Standards, Code of Ethics and Rules of Professional Conduct for licensed appraisers and the pertinent bylaws;
- Amending the Law on Corporate Income Tax and the Law on Personal Income Tax;
- Conducting a comprehensive analysis of tax-related, legal and other (potential and actual) barriers in the context of sale of non-performing loans;
- Activities geared towards improving the Deposit Insurance Agency's capacities for more efficient resolution of the non-performing loan portfolio managed by the Deposit Insurance Agency;
- Developing a Law on Consensual Financial Restructuring;
- Developing amendments to the Bankruptcy Law;
- Developing a Law Amending the Law on the Bankruptcy Supervision Agency;
- Developing amendments to the Court Rules of Procedure;
- Developing a Law on Enforcement and Security;
- Amending the Mortgage Law;

Developing a Law Amending the Law on State Survey and Cadastre.

The key efforts of the NBS under the Action Plan are aimed at strengthening the banks' capacity to resolve a high level of non-performing loans, as well as contributing to the promotion of the non-performing loan market in Serbia. The steps undertaken include the following:

- Conducting asset quality reviews of the banks;
- Improving the NBS system for reporting on non-performing loans in Serbia's banking system;
- Establishing a data base on the appraisals of property used as collateral for bank loans;
- Identifying obstacles to more efficient functioning of the NPL market;
- Improving the process of managing bad assets in banks;
- Improving supervisory requirements relating to the treatment of property the banks take as collateral;
- Improving the regulatory framework for the treatment of resolved receivables;
- Building the NBS capacity for the implementation of the international accounting standards;
- Drafting guidelines on supervisory expectations concerning the modality of determining the amount of provisions for receivables in banks' financial statements in conformity

with IAS39, including supervisory expectations concerning receivable write-offs and NPL interest recognition;
- Increasing bank operation transparency regarding bank asset quality.

As part of the attempts of the NBS as the regulator of Serbia's banking system to harmonise the regulatory framework to the highest degree possible with the EU acquis and the best international practice and standards, during 2015 intensive efforts continued on the drafting of the regulatory framework in line with the Basle III standards and the provisions of the CRR Regulation and CRDIV Directive of the EU on capital requirements for credit institutions. Following the preparatory phase which encompassed a gap analysis and a quantitative impact assessment of effects on capital and liquidity, the NBS will release draft amendments to the regulatory framework in the first half of 2016, after which these amendments will be finalised and the time frame of implementation of the new regulatory requirements will be set.

As of 1 October 2015, based on the start of the implementation of the Law on Payment Services, the NBS issued the first two licenses for the provision of payment services, initiating the process of development of payment services provision and electronic money issuance in Serbia.

4. Alternative Scenario and Risks

The realisation of the macroeconomic scenario is exposed to certain external and internal risks.

Risks related to the recovery of the global and European economy are greatly aggravated by the uncertainty in the international capital market related to the continued easing off of the Fed's monetary policy and the uncertainty related to the effects of the ECB measures. The global economic recovery is slowing down, with significant differences in growth rates between various groups of countries. One of the risks for economic growth of the euro area, which is our largest foreign trade partner, relates to the slowdown in growth in the emerging countries, primarily China. Turbulence in the Chinese financial market and its spill over to the real economy may result in a slowdown in the global foreign trade. Lower demand from China will affect its largest foreign trade partners and may jeopardise the nascent recovery of the EU economy, by reducing demand for its exports. Apart from the expectations related to economic growth, the US dollar exchange rate is one of the factors the investors monitor when assessing the country risk. Any strengthening of the dollar could make debt servicing more difficult for many countries. Also, the key external risk for the projection is related to a further deterioration of geopolitical tensions and their stronger impact on financial, foreign trade and energy flows.

Downside risks are also related to the developments in steel prices in the global market, since any further price reduction may jeopardise the performance of the domestic steel industry. On the other hand, the maintenance of low oil and gas prices would stimulate economic activity, through higher consumption and more favourable financial position of the economy (petrochemical complex, etc). The domestic economy's resilience to the previously mentioned external risks is under the influence of the effects of fiscal consolidation measures, better-than-expected economic growth prospects, external imbalance reduction and consistent implementation of the IMF arrangement.

Internal risks for the projection are relatively lower than the risks identified in the previous Economic Reform Programme, bearing in mind that the structural fiscal adjustment planned for 2016 is at a significantly lower level.

The baseline development scenario for the following three years is based on an increase in the share of fixed investment in GDP, a reduction of the share of public expenditure in GDP, an increase in the share of goods and services exports in GDP, with a reduction of the current account deficit share in GDP.

The key prerequisites for the realisation of the medium-term scenario are the following: further implementation of the measures of fiscal consolidation and restructuring of the economy, in particular the public sector reform, maintenance of EU approximation pace, public debt stabilisation and external debt sustainability.

Any deviation from the stated prerequisites presents a risk for the realisation of the medium-term macroeconomic projection. A lack of investment or comprehensive structural measures, ensuring an enabling economic environment would result in a deterioration of the country's macroeconomic position. Such trends would aggravate the macroeconomic imbalances through the foreign exchange market instability, foreign reserve depletion and debt repayment issues. Apart from that, there would be a slowdown and interruption of vital foreign capital inflow.

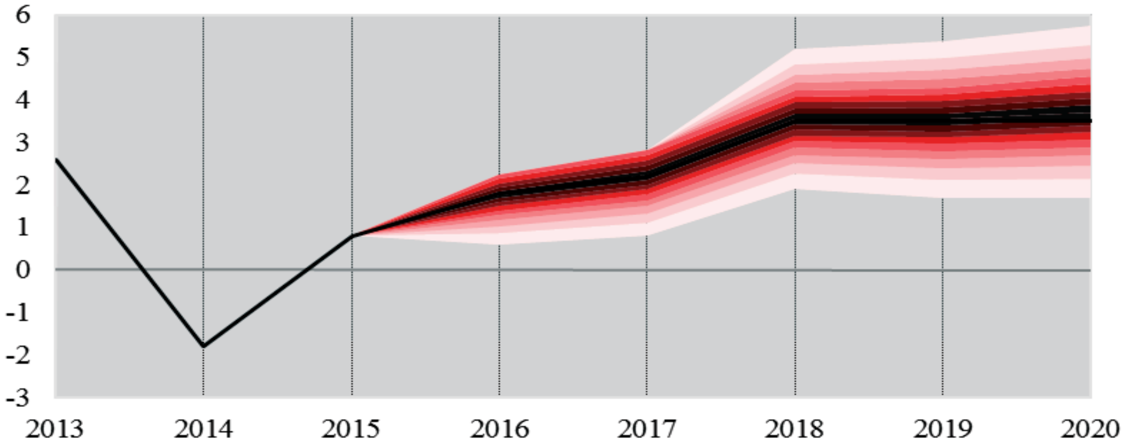
Bearing in mind primarily the pronounced risk for the macroeconomic projection for 2016 and the following two years, an alternative scenario has been prepared with lower economic growth in the following medium-term period relative to the baseline scenario with moderate economic growth.

The alternative scenario proceeds from the key assumption that in the following three years there is a risk of slower growth of domestic demand, in particular investment consumption as an engine of economic activity, as well as personal consumption. An internal risk should be added to this, related to slower implementation of structural reforms planned for the following medium-term period, due to which significant effects of reforms on the stabilisation of public finance and economic growth acceleration would be missing. Economic activity would also be adversely affected by the external risk related to slower recovery of the EU 28 economy and the countries in the region, which would significantly reduce export demand and capital inflows as the main growth engines.

Proceeding from the above assumptions on which the alternative scenario is based, the average annual real GDP growth rate in the 2016 - 2018 period of 1.1% was projected. The slow path of Serbia's economic recovery entails a significantly lower cumulative real GDP growth rate of 3.3%.

The projected average and cumulative real GDP growth is based on the real growth of goods and services exports at an average annual rate of 5.7% and on the real growth of fixed investment at an average annual rate of 3.5%. At the same time, personal and government consumption would decrease in real terms, with the main contributor to GDP growth in the following three years being net exports (0.7 pp).

Chart 3. GDP growth scenarios GDP



According to the alternative scenario, in 2016 the service sector would continue to give a negative contribution to GDP, while the industry and construction sector would post a moderate growth (a 0.8 and 0.3 pp contribution, respectively). Moreover, in the event of agricultural production recovery to the 2014 level failing to materialise, the contribution of agriculture to GDP growth in 2016 would be neutral.

The projected weaker economic recovery in 2016 and low growth rates in 2017 and 2018 are based on the assumed slowdown in investment spending and lower foreign capital inflow, relative to the baseline growth scenario, which presents the biggest risk for the baseline.

In the structure of GDP use due to investment targeting as a growth driver, there is no scope for the growth of personal or government consumption. With regards to final demand, for the following three years a further decline of personal and government consumption is projected, which will adversely affect economic activity and public revenue.

The economic recovery of the Republic of Serbia greatly depends on the speed of recovery of the euro area and economies in the region and the related increase in foreign demand and foreign capital inflow, foreign interest rate movement, movement of import prices, food prices and oil product prices. The moderate foreign trade deterioration in the alternative scenario is a result of less favourable industrial production performance and lower rates of real goods and services exports growth (5.7% a year on average). Weaker investment activity would lead to lower imports, which would not result in a major deterioration of the foreign trade balance or current account deficit relative to the baseline scenario.

Foreign debt sustainability and external liquidity present a risk for sustainability of both the baseline and the alternative development scenario. The main risk point in financing the balance of payment and remaining investment is the high debt service ratio in the alternative scenario. Moreover, a lower inflow of net direct foreign investment is projected than in the baseline scenario, which will negatively affect the balance of payment financing.

Lower real GDP growth rates provided for in the alternative scenario would lead to an increase in the unemployment rate in 2016 to over 17%, which would be followed by its modest decline in 2017 and 2018. The projected trend of economic activity and investment in the following three years, under the alternative scenario, does not create possibilities for employment increase, in particular in 2016 and 2017, primarily due to downsizing in the restructuring process in the companies from the Privatisation Agency portfolio, as well as the restructuring of public enterprises and rightsizing in the government sector.

The inflation projected in the alternative scenario is lower (3.5%, a year on average in the following three years), bearing in mind the low aggregate demand, fiscal consolidation that has a disinflationary effect, lower cost pressures on food prices, relative exchange rate stability and lower prices in the external environment.

III. FISCAL FRAMEWORK FOR THE PERIOD FROM 2016 TO 2018

1. Medium-term Fiscal Policy Goals

The medium-term fiscal policy goal is to interrupt the growth of the government sector's public debt and its relative reduction in the long term, i.e. a reduction of the debt-to-GDP ratio to 45%, in line with the general fiscal rule.

The general government's public debt doubled during the previous few years andestimated to reach around 76.0% of GDP at the end of 2015. The fiscal policy is focused on interrupting the upward trend, stabilising and reducing the share of public debt by 2018. The increase in debt stock is a consequence of years of high deficits, but also of soaring guaranteed debt repayment and financial system stabilisation costs. Further delays in debt growth restriction jeopardises the sustainability of public finance, namely the ability to finance expenditure, in particular entitlements such as wages, pensions and social benefits amounting for more than 60% of total public expenditure, as well as further debt servicing.

Significant fiscal consolidation measures were adopted with the budget revision back in 2012, with the implementation of measures continuing in the 2013 budget. The measures were, first of all, on the revenue side, amending a large number of tax rates and eliminating a number of quasi-fiscal levies. On the expenditure side, the most significant measure was the restriction of public wage and pension growth. During 2014 the main fiscal consolidation instruments included the public wage reduction for employees with income exceeding RSD 60,000 net and the ban on new employment. Fiscal consolidation measures yielded varied results. Restrictive fiscal policy affected certain macroeconomic aggregates, so during 2013 and 2014 personal, government and investment consumption posted a decrease, while the illegal market, in particular of tobacco products strengthened. In the second half of 2014 there were the first signs of progress when the effects of measures undertaken kicked in at last in the form of fiscal deficit reduction relative to the same period of the previous year. At the same time, economic activity is turning a corner. Also, current expenditure growth is slowing down, while revenue is stabilising and increasing, but the growth of interest, guaranteed debt repayment expenditure and covering losses of public enterprises and state banks at the end of the year led to a new deficit and debt increase.

In 2015 the implementation of fiscal consolidation measures continued in view of the existing untenable position and burden of the high deficit, debt level and funds needed for its servicing in the future for the households and the economy. The IMF arrangement additionally reinforced the credibility of the policy implemented by the Government in the area of public finance and provided a more favourable status and investor perception at the international financial market. In order to avoid additional burden on the economy in the form of tax increase, the deficit reduction is mostly based on adjustment on the expenditure side. The main fiscal consolidation measures include public wage and pension reduction and public sector rightsizing, while simultaneously resolving and reorganising the large business systems owned by the government, primarily through the enhancement and corporatisation of business operation. On the revenue side, combating the informal economy presents a priority, where during 2015 inroads were made, in particular regarding the collection of income tax and contributions and supervision of excise product trade and trade in general.

In 2015 the stated measures led to a robust structural adjustment of 2.5% of GDP.

The expenditure policy was, through the wage and pension reduction measures, primarily focused on the compliance with special fiscal rules referring to wage and pension indexation, in line with the latest amendments to the Budget System Law, but also on further relative reduction of current expenditure, in particular expenditure for subsidies, called guarantees and budget loans to companies, related to the expected completion of the restructuring process and privatisation of state-owned enterprises and improvement of public enterprise efficiency.

The medium-term fiscal framework with proposed fiscal consolidation measures provides for a significant general government deficit cut to 1.8% of GDP by 2018. The nominal deficit cut by 2018 corresponds to an additional structural adjustment of 2.3% of GDP in the period from 2016 to 2018. As a consequence of structural adjustment and deficit reduction, the public debt will stabilise at a level of 78.6% of GDP in 2017, and decrease further to 75.7% of GDP in 2018.

2. Fiscal Trends in 2015

The economic reform programme initiated in late 2014 was complemented by the conclusion of a three-year stand-by arrangement with the IMF in February 2015. The 2015 budget was adopted in line with the efforts to provide foundations for sound economic growth, macroeconomic stability and sustainable fiscal system. Fiscal consolidation measures whose implementation started in late 2014 continued to yield effects during 2015 as well.

A structural fiscal adjustment of 4% is planned for the three-year period, with the largest portion of 2.5% implemented already by the end of 2015. The measures are mostly implemented on the expenditure side – through the reduction of wages and pensions, as well as the reduction of financial aid to state-owned enterprises, in the form of subsidies and debt takeover or ban on the issuance of new guarantees for liquidity purposes. The measure of linear reduction of 10% of the amount of net public sector wages exceeding RSD 25,000 encompassed the entire public sector, including all budget beneficiaries, pubic enterprises, local administration and other entities within the public sector. The effects of this measure may be seen both on the expenditure side, due to lower wages paid from the republic budget, and on the revenue side, because the revenue from wage reduction at other government levels is recorded as non-tax budget revenue. At the same time, a progressive pension reduction was introduced for all pensioners receiving over RSD 25,000. Pensions ranging between RSD 25,000 and 40,000 were reduced by 22% on the amount over RSD 25,000, whereas all pensions exceeding RSD 40,000 were additionally reduced by 25% on the amount over RSD 40,000. Apart from that, a rightsizing process is under way (a 5:1 principle relating to the ratio of attrition and new recruitment), as well as the suspension of public sector wage and pension indexation. Also, as part of the public administration reform, legislation will be adopted regulating the government wage system, pay grade system, public sector employee register improvement, job catalogue, employee ceiling setting and the plan for rightsizing and optimisation of the government sector employee structure. On the revenue side, the fee for access to the natural gas transport system was increased, providing funds for Srbijagas Public Enterprise in the amount of EUR 60 million a year, by which amount budget allocations will be reduced, an excise duty was introduced on final consumption of electricity, which is paid *ad valorem* in the amount of 7.5%, as well as an excise duty on e-liquid for electric cigarettes. Furthermore, a fee on mandatory oil and oil product reserves was introduced and is payable per litre or kilogram of oil products and belongs to non-tax revenue.

Table 3. Revenue, expenditure and result of the government sector in 2015 – budget and estimate, in billion RSD

	Budget	Estimate (November 2015)
PUBLIC REVENUE	1.598.7	1.672.6
Current revenue	1.589.5	1.662.8
Tax revenue	1.399.9	1.451.6
Personal income tax	141.3	143.6
Corporate income tax	76.0	63.0
Value added tax	399.4	412.0
Excise duties	215.7	230.3
Customs duties	29.2	33.0
Other tax revenue	54.3	65.0
Contributions	484.1	504.8
Non-tax revenue	189.6	211.3
Grants	9.2	9.7
PUBLIC EXPENDITURE	1.830.8	1.834.7
Current expenditure	1.674.6	1.701.0
Personnel expenditure	423.7	423.7
Goods and services	255.9	253.1
Interest repayment	137.5	134.3
Subsidies	104.2	136.4
Social benefits and transfers	706.0	709.9
Of which pensions	*491.4*	*491.6*
Other current expenditure	47.3	43.6
Capital expenditure	122.9	103.2
Net lending	2.6	2.5
Called guarantees	30.7	28.0
Result	-232.1	-162.2
Result in % of GDP	-5.8	-4.1

Source: MoF

At the end of the third quarter of 2015, the general government deficit was RSD 51.1 billion, which is far below the planned ceiling of RSD 143.6 billion set by the IMF programme and is a result both of conservative planning and of revenue overperformance (80%), on the one hand, and expenditure underperformance (20%), primarily of capital expenditure. The general government deficit is planned at the level of up to RSD 162.2 billion at the end of 2015, i.e. 4.1% of GDP, which is significantly below the deficit of RSD 232.1 billion, i.e. 5.8% of GDP, provided for by the 2015 budget. The reasons for this can be found both on the revenue and the expenditure side. Preliminary estimates for 2015 point to the general government deficit between 3.6% and 3.8% of GDP.

Among the tax revenue, the most significant overperformance was posted by the VAT, excise duties and contributions. The VAT collection in 2015 will somewhat higher than originally planned, partly due to better collection at the end of 2014, which is used as the base. The other reasons include the lack of expected decline of economic activity and the growth of public sector wages, slower-than-planned pace of rightsizing, increased inflow of remittances from abroad, intensified bank lending activities and intensified measures aimed at combating the informal economy, in particular in the area of excise products. Excise duties on oil products are overperforming due to higher consumption, better trade control owing to product marking, as well as a change in the domestic production structure (domestic and imports component), which led to a decrease in excise refunds to domestic producers. The increase in the amount of specific excise duty and the recorded growth of legal trade in tobacco products did not have the same effects on the growth of tobacco excise duties. This can be explained partly by the price policy used by the producers to offset the excise increase and partly by the consumers turning to cheaper cigarettes. There is a certain upside risk for the 2015 projection, but because of the possibility at the end of the year for the producers' inventory policy to affect the payment schedules, the collection from this source is estimated conservatively. The personal income tax (dominated by the wage tax) and contributions are overperforming, partly due to private sector recovery and employment growth, and partly due to successful labour market supervision measures. The corporate income tax underperformed throughout 2015 due to the general drop in profitability in 2014, when the real GDP decrease of 1.8% was recorded (to a great extent, also as a consequence of the May floods), as well as unfavourable foreign exchange rate movement and influence of oil prices on the operation of domestic oil processing industry. Other tax revenue is overperforming mostly due to higher property tax collection, due to a change in the method of tax base calculation, as well as more efficient collection of this tax.

Non-tax revenue is significantly overperforming relative to the budget mostly due to extraordinary non-tax revenue composed of the payment of profits of public enterprises and agencies, budget dividend, proceeds from the collected receivables of the Deposit Insurance Agency, issue premium, proceeds from the sale of the 4G licence, etc. These revenues are, by their nature, mostly one-off, to a certain extent uncertain both with regard to their amount and the time of payment.

On the expenditure side, the largest deviation is posted by subsidies. Subsidies exceed the budgeted amount because of the takeover of Srbijagas debt from the previous years in the amount of RSD 23.4 billion and because of higher agricultural subsidies in the amount of RSD 9.6 billion. This is a consequence of regulatory and administrative issues because of which the savings planned for this year related to the elimination of agricultural subsidies for land over 20 hectares and for the leased land owned by the Republic, did not materialise. Legal amendments will ensure that the implementation of the planned measures produces the full savings effect during 2016.

In late 2015 the government also took over the debt to military pensioners, caused by the lack of military pension adjustment in 2008. The estimated liability integrated into the public debt on this basis amounts to RSD 10 billion.

Capital expenditure still underperforms relative to the budget allocation, which has been a problem for many years and an obstacle to potential growth. Regulations are being drafted that would enable better and more efficient public investment management.

Part of the fiscal consolidation measures have not been implemented or are implemented at a slower pace, so part of expenditure planned for their implementation was not executed. This predominantly refers to the payment of severance pays within the public sector rightsizing process and partly the restructuring process. More funds were also planned for unemployment benefits. According to the execution estimates, by the end of the year there will be no major deviations in personnel expenditure, although the structure of executed expenditure will differ to a degree from the planned (lower severance pays related to rightsizing are offset by somewhat higher wage expenditure precisely because of the lack of the planned volume of rightsizing). No significant deviations are expected in social benefits either, but their structure is expected to differ from the plan. Lower execution is expected in severance pays for companies under restructuring and in unemployment benefits, which is offset by unplanned expenditure for the settlement of debt to military pensioners.

The 2015 deficit was estimated in cooperation with the IMF within the third review of the arrangement. Fiscal trends in November and expectations for December point to the general government deficit being lower than the budgeted level and amounting to 3.6%-3.8% of GDP.

3. Fiscal Projections in the Period from 2016 to 2018

In the following medium-term period the fiscal consolidation process will continue. The medium-term fiscal framework with proposed fiscal consolidation measures provides for a significant general government deficit reduction to 1.8% of GDP by 2018, with a stabilisation of the public debt level and a reversal of its trend (75.7% of GDP in 2018). This implies a nominal deficit reduction of 5% of GDP in the period from 2014 to 2018 and structural adjustment of around 4.8% of GDP.

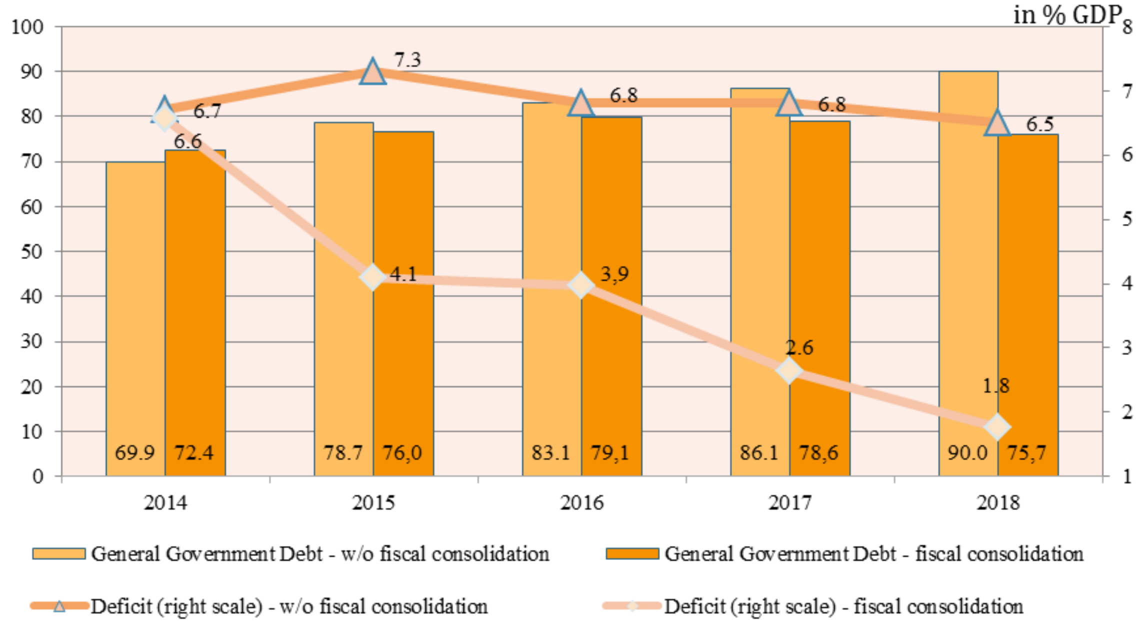
Table 4. Fiscal aggregates in the 2015–2018 period, in % of GDP

	Estimate	Projection		
	2015	2016	2017	2018
Public revenue	41.9	41.1	40.1	39.0
Public expenditure	46.0	45.0	42.7	40.8
Consolidated fiscal result	-4.1	-3.9	-2.6	-1.8
Primary consolidated result	-0.7	-0.4	0.9	1.6
Government sector debt	76.0	79.1	78.6	75.7
Real GDP growth rate	0.8%	1.8%	2.2%	3.5%

Source: MoF

The targeted deficit in 2018 is 1.8% of GDP. After the vigorous deficit reduction in 2015 of around 2.6% of GDP, in the remaining three years the cumulative deficit reduction is expected to reach around 2.3%. Fiscal aggregate projections in the period from 2016 to 2018 are based on macroeconomic indicator projections for the stated period, planned tax policy which implies further alignment with the EU legislation and directives and corresponding measures on the revenue and expenditure side, including the reforms of large public enterprises. The primary result, as the difference between the fiscal result and net interest repayment, is exhibiting an upward trend and a primary surplus is expected already in 2017.

Chart 4. Public debt and deficit in % of GDP



The following table contains the structural fiscal consolidation measures implemented as of 2014 with their effects on the fiscal outcome.

Table 5. Measures and effects on general government results

measure	effect on result, in % of GDP					
	2014	2015	2016	2017	2018	total
increase in the lower VAT rate	0.6	0.0	0.0	0.0	0.0	**0.6**
wage reduction - general government	0.1	0.9	0.0	0.0	0.0	**1.0**
revenue from the solidarity tax (in 2014) and public sector wage reduction	0.3	0.2	0.0	0.0	0.0	**0.5**
pension reduction	0.1	0.6	0.0	0.0	0.0	**0.6**
wage and pension freeze	0.3	0.4	0.4	0.5	0.4	**1.9**
public sector rightsizing	0.0	0.0	0.2	0.3	0.1	**0.6**
streamlining the use of goods and services	0.0	0.1	0.1	0.1	0.1	**0.2**
subsidy reduction, of which	0.0	0.1	0.3	0.0	0.0	**0.4**
agriculture	*0.0*	*0.0*	*0.2*	*0.0*	*0.0*	***0.2***
public services	*0.0*	*0.1*	*0.1*	*0.0*	*0.0*	***0.2***
railways	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	***0.0***
introduction of the gas transit fee	0.0	0.2	0.0	0.0	0.0	**0.2**
introduction of the electricity excise duty	0.0	0.1	0.3	0.0	0.0	**0.3**
increase in excise duties on oil products	0.0	0.0	0.1	0.0	0.0	**0.1**
amendment to local government financing regulations	0.0	0.0	0.0	0.2	0.0	**0.2**
total	**1.3**	**2.5**	**1.3**	**1.0**	**0.6**	**6.7**

Source: MoF

The effects of fiscal policy measures are presented in net amounts, that is, in the amounts by which they directly affect the result. For example, the effect of wage reduction was adjusted by the loss of corresponding taxes and contributions. The measures are presented in such a manner that in each year only the additional permanent effect of a certain measures is seen. Transferred effects are taken into account in the following year as a permanent increase or decrease in the base.

In terms of its share in GDP, the total revenue of the government sector, without indirect beneficiaries, has a downward trend, since the growth of nominal GDP outpaces that of revenue. The reason behind such a trend lies in the fact that tax revenue predominantly depends on the movement of private consumption, which in the period under observation, increases more slowly than the nominal GDP. In the period from 2016 to 2018 GDP growth will be mostly determined by the modest recovery of private consumption and more robust growth of investment, which does not produce significant revenue increase in short term. In the event of higher growth rates in a longer period of time, more dynamic adjustment and development of employment and wages can be anticipated, which would lead to a more significant consumption growth. Apart from that, revenue trend will also depend on the success in combating the informal economy and tax evasion.

Table 6. Total revenue and grants in the 2015–2018 period, in % of GDP

	estimate	projection		
	2015	2016	2017	2018
PUBLIC REVENUE	41.9	41.1	40.1	39.0
Current revenue	41.6	40.7	39.8	38.7
Tax revenue	36.3	36.3	35.5	34.7
Personal income tax	3.6	3.6	3.5	3.4
Corporate income tax	1.6	1.6	1.6	1.5
Value added tax	10.3	10.2	10.0	9.8
Excise duties	5.8	6.1	6.0	5.8
Customs duties	0.8	0.8	0.8	0.8
Other tax revenue	1.6	1.6	1.5	1.5
Contributions	12.6	12.4	12.1	11.9
Non-tax revenue	5.3	4.4	4.3	4.1
Grants	0.2	0.3	0.3	0.3

Source: MoF

The revenue projection for the period from 2016 to 2018 is composed based on:

- projections of development of the key macroeconomic indicators: GDP and its components, inflation, foreign exchange rate, foreign trade development, estimates of employment and wage trends in that period;
- estimated further effects of fiscal consolidation measures, indirectly, through the impact on the macroeconomic framework, and directly, through the impact on the movement of certain revenue categories due to tax policy changes.

The combination of employment measures and the nominal amount of public sector wages determines the wage bill development. For certain employee categories, an increase in the nominal amount of wages relative to 2015 is planned. On the other hand, a continuation and acceleration of the rightsizing process in the public sector is needed so the projected wage bill comes down during the entire period under observation. Finally, in the course of the rightsizing process, severance pay is planned for the terminated staff. These three parallel processes affect the wage bill and the movement of income of public sector employees. The development of private sector employment and wages as a result of the expected acceleration of economic growth will have a moderate positive effect on the development of the real level of private consumption:

- The projected inflation, together with the movement of the real private consumption level, leads to the nominal level of consumption, as the determining factor of indirect tax collection, posting moderate growth;
- The movement of public sector wages (without severance pays) directly affects the movement of direct taxes, such as the wage tax and social contributions. Wage movement in the parts of the public sector that are not financed directly from the Republican budget (local government and public enterprises) will affect the revenue side since the expected savings will be recorded on the revenue side as part of non-tax revenue;
- The consumption of excise products is assumed to be inelastic with regard to revenue and demand development to be autonomous, to a certain extent, from the general consumption level. On the other hand, the movement of prices of these products directly and greatly affects the size of the informal market. For some excise products, such as oil products, the excise policy is planned to change, the revenue projection now also includes excise revenue on electricity, while the change in excise duties on tobacco products is implemented according to the schedule provided by the current regulations;
- Profitability trends in some parts of the public sector affect the payment of profit of public enterprises in the following period. The projection of the total level of this revenue was based on the principle of caution and standpoint that the projection of revenue from this source should include only the structural and permanent part of this revenue. In 2015 a new category of earmarked revenue was introduced, a fee for mandatory strategic oils stockpiles, which, in line with oil product consumption, affects the amount of total non-tax revenue.

The 2015 revenue projection, both in terms of amount and in terms of structure, provides a basis for revenue projection in the following years. At this moment, except for oil product excise duties, no significant changes in other tax rates or in tax policy in general have been envisaged. This, on the one side, ensures better reliability in revenue estimation, but it always takes a certain time for new rates to yield full effect and for the tax system players to adjust their conduct. An important aspect of the revenue projection process is the assessment of quality and sustainability of the collection rate, as well as taking into account only the structural types and parts of revenue. In order to continue with structural adjustment provided for under the IMF arrangement, as part of its third review, additional measures were agreed upon on the revenue and the expenditure side. Additional funds that must be collected through amendments to tax policy on the revenue side were set in the amount of RSD 6 billion. Additional revenue will be provided by increasing the excise duty on oil products up to RSD 3, depending on the type of oil product, relative to the amounts that would be in force if regular indexation were applied. The reasons behind the decision to perform structural adjustment by raising the excise duties on oil products are the following: (1) greater certainty of collection relative to other excise products, (2) current and expected favourable trends in the global oil market regarding future prices and (3) lower impact of this measure on poorer sections of the population, relative to the alternative solution – VAT rate increase. On the other hand, a certain level of risk will exist due to the uncertainty in estimating full effects of continued fiscal consolidation on the development of private consumption and real growth, as well as further changes in the size of the informal market and efficiency of measures aimed at its combating.

Personal income tax. The personal income tax is projected at around 3.4% of GDP at the end of the period. The reason for the gradual decrease in the share of this tax type is a reduction of wage bill and rightsizing in the public sector. The projected amounts are in line with the amended public sector wage policy, the planned level of rightsizing in public fund beneficiaries and positive expected development of employment and average wages in the private sector, in line with the projected recovery of economic activity. The predominant type of the personal income tax is the wage tax, so the wage bill and employment trend are the main factors affecting the personal income tax trend. The other part of total personal income tax consists of other tax types such as the dividend tax, interest income tax, annual personal income tax. In the past couple of periods, a decline or stagnation of certain categories of this tax type was recorded, but in the second half of 2014 there was a stabilisation of trend and a moderate recovery of revenue from this source. One of the reasons for the reduction of this category are lower interest income tax revenues caused by a general decline in interest rates and subsequent decline of revenue from savings. The revenue from dividends and other types of personal income tax follow the trend of overall economic activity and wages. Thus, a very moderate growth of this group of taxes is planned for 2016. A certain level of risk in the collection of this revenue exists if a nominal private sector wage growth fails to materialise or if it is lower than projected.

Mandatory social insurance contributions. MSI contributions present the largest individual type of public revenue. The share of contributions in the GDP is 12.7% in 2014 and is estimated to drop to 11.8% at the end of the period. The trend of this revenue's share in GDP follows a similar path as the trend of the wage tax's share since the same assumptions on wage and employment trends in the following medium-term period were used in their projections. The only difference lies in contributions collected on the insurance of farmers and sole traders. Contributions are the tax category with the lowest level of tax compliance and the largest taxpayers' debt. In the previous period there were significant changes in the rates at which social contributions are calculated and collected and revenues from this tax type are projected. During 2013 the PDI contribution rate was raised from 22% to 24%, with a reduction of the wage tax rate from 12% to 10%. In 2014 the PDI contribution rate was increased from 24% to 26%, while at the same time the health insurance contribution rate was reduced from 12.3% to 10.3%. In the following period no further rate changes have been envisaged. The future reform of the wage taxation system both with regard to the structure and the level will mostly rely on changes in the rates of contributions and wage tax.

Corporate profit tax. With the amendments to the Law on Corporate Income Tax, in 2013 the corporate income tax rate was raised from 10% to 15%, so full effects of the rate increase were felt for the first time in 2014. After excellent performance in the collection of this tax in 2014, which was a consequence of the stated changes in rates and favourable trends in corporate profitability (a real GDP growth of 2.6% in 2013), during 2015 this inflow posted a major decline. The factors that resulted in such a trend are the following: general profitability decline as a consequence of real GDP decrease by 1.8% (to a significant degree as a consequence of May floods), unfavourable exchange rate trend, as well as the impact of price on the domestic oil processing companies. The 2013 amendments to the regulations governing the corporate income tax collection provide for a significant reduction of tax benefits, with the largest additional positive effect from that source planned for 2015. Nevertheless, there was a decline in the collection of the corporate income tax, demonstrating the power of the mentioned negative influences. In the following period no major nominal growth of this tax type is envisaged, due to great uncertainty arising in designing this tax type. The share in GDP drops moderately at the end of the period due to the robust nominal GDP growth in 2018. After that, this growth should also have a positive effect on the increased profitability of companies and collection of the corresponding tax.

Value added tax. The VAT revenue trend is characterised by a moderate decline of the share in GDP, since private consumption is projected to grow more slowly than nominal GDP. The trend of investment activity and exports acts in the same direction. The key factor determining the VAT trend is domestic demand driven by disposable household income. Disposable income as a factor determining consumption depends on the movement of public wages, pensions, social benefits, private sector wage bill and other types of income, including remittances, as well as on the level of bank credit activity. The reasons for better-than-expected VAT collection in the previous period include the lack of expected decrease in economic activity and wage growth in the private sector, rightsizing delays, intensified inflow of remittances, increased bank credit activity and intensified measures aimed at combating the informal economy, in particular in the area of excise products. The easing of fiscal consolidation measures in the field of public sector wages and pensions will contribute to an increase in disposable household income, but on the other hand, the completion of public sector restructuring and rightsizing process, reducing these effects, is under way. On the other hand, higher allocations through different forms of social care at the general government level, moderate nominal growth of private sector wages and employment due to anticipated acceleration of economic activity, trends in remittances and credit activity ultimately result in the nominal growth of private consumption in the following year.

VAT rates were raised on two occasions: the higher rate in 2012, and then the lower rate in 2014. Each change of tax rates introduces certain distortion both in the structure and the level of consumption, and in the size of the informal market, thus affecting the efficiency of collection of all types of consumption taxes. In the initial period the collection rate usually deteriorates and new rates do not yield full effect, but after a certain period of time balance is restored and consumption and collection stabilise. The results of more efficient collection and audit of taxpayers are present and this trend is expected to continue in the following year, with the effects of combating the informal economy not being explicitly given in the projected values for the sake of caution. The projected exports growth in the following period also leads to higher VAT refunds, so a major increase in export demand may affect the total level of collected VAT. The risks for the VAT projection in the projected period are similar to those for the personal income tax and relate to the trend in private sector wages, overall economic growth, as well as the prevalence of the informal economy and efficiency of its combating.

Excise duties. The share of excise duties in GDP will increase in 2016 relative to the previous year due to changes in excise policy and will afterwards decrease slowly as no further changes have been envisaged after 2016. The projection of excise revenue is prepared based on changes in excise policy, projected consumption of excise products (oil products, tobacco products, alcohol, coffee and electricity) and regular adjustment of the nominal amount of excise duties on some products. As part of the fiscal consolidation measures and attainment of the necessary level of structural fiscal adjustment, excise duties on oil products are planned to be raised above the level prescribed by the current regulations. As regards excise policy for tobacco products, in the following medium-term period a gradual alignment with EU directives is envisaged. This implies the adoption of a medium-term plan for gradual increase in excise burden. For cigarettes, it will be reflected in a gradual increase in excise duties, so that within an acceptable period of time the EU minimum of EUR 1.8 per pack would be reached. These changes need to be carefully designed in order to avoid changes in the structure and volume of consumption which would jeopardise budget revenue, but also in order to ensure that they are not contrary to public health policy goals.

The legal tobacco product market (of cigarette packs) fell, in volume terms, by 20% in 2013, and by 15% in 2014 relative to 2013. In the second half of 2014, there was a recovery which partially compensated for the total value of drop in legal market sales from the start of the year. Measures aimed at combating illegal trade in this type of excise products started to yield results at the end of 2014 and during 2015. According to available data, at the end of the first half of 2015, sales rose by around 17.8%, which presents the first example of legal market growth in the past few years. This growth, however, did not yield the same effects when it comes to excise revenue growth. Namely, despite the increase in the specific excise duty per pack by over RSD 4, the growth of revenue was either the same or lower than the growth of sales volume during the year. This points to a conclusion that the producers of tobacco products used their price policy to offset the growth of excise duties and that, at the same time, consumers turned to cheaper cigarette types. There is a certain upside risk for the projection in 2015, but because of the possibility at the end of the year for the producers' inventory policy to affect the payment schedules, the estimate is more conservative. For the following three-year period, no regulatory amendments have been envisaged, so the last adjusted amounts of excise duties for 2016, provided for by the law, are adjusted with the 2015 inflation rate. It is worth noting that before 2013 the average annual consumption decrease was fairly even, amounting to 2 – 4%, and can be attributed to a "natural" consumption decline due to the upward trend of tobacco product prices and global anti-smoking campaign. Apart from the volume, it is a thankless task to attempt to predict the legal market structure, price reaction of producers and other factors. In the following period, for the purposes of excise revenue projection, for the sake of caution, a further decline of the legal market of tobacco products is projected at 3% a year on average. In the event of continued improvement of conditions in the tobacco product market and reduction of the informal economy, there is a certain upside risk relating to the collection of this revenue type.

Unlike tobacco products, the situation in the oil product market is significantly less volatile. After a number of years, in 2014 and 2015 the downward trend of legal motor gasoline market volume was interrupted and reversed. There are multiple reasons for that: better control and effects of marking oil products, weakening of effects of gasoline substitution with LPG and bringing motor gasoline prices to the level of prices in the region. Diesel oil consumption is growing continuously, which is, inter alia, contributed to by measures aimed at combating illegal trade and introduction of different substitutes for this fuel in agriculture into the excise product category. On the other hand, LPG consumption is mostly stagnant, after reaching in the previous period the level of motor gasoline consumption. In 2015 the collection results were better than initially projected partly due to better results at the end of 2014 and partly due to the change in the structure of domestic production (domestic and import component), which led to a decline in the level of excise duty refunds to domestic producers. In the following years, for the sake of caution, no continuation of increase in motor gasoline and diesel consumption is assumed; instead, in the projection, the expected consumption amounts for 2015 were used. Private consumption growth and accelerated economic activity can, nevertheless, be expected to contribute to consumption growth. In line with the decision that, as part of continued fiscal consolidation measures, the nominal amount of excise duties would be increased in 2016, the following amounts per oil product unit are proposed: RSD 54 per litre on gas oils (diesel) and RSD 52.5 per litre on motor gasoline. It is estimated that this measure will provide an effect amounting to the requested RSD 6 billion relative to the previous solution and an increase of RSD 9 billion relative to 2015. In this case as well, there is an upside risk when it comes to revenue collection, if the trend of oil product market growth continues.

The revenue from excise duties on alcoholic beverages and coffee is projected in line with the existing consumption structure, while the current nominal amounts of excise duties are harmonised with the expected levels of inflation rate in the medium-term period. During 2015 the *ad-valorem* excise duty of 7.5% on electricity consumption expressed in monetary terms was introduced. For 2016 revenue from this excise duty is planned in the amount of RSD 14 billion, taking into account the current annual consumption and current prices.

Customs duties. The main determinants used to project customs duty revenues are import and exchange rate developments. In the previous period, however, customs revenues have been nominally falling every year since 2009 because of the implementation of the Stabilisation and Association Agreement with the EU, the Free Trade Agreement with EFTA and the Free Trade Agreement with Turkey, as well as gradual reduction and elimination of certain tariff rates. The tariff rate harmonisation was completed in 2014. For that reason, a nominal increase in customs revenues was recorded for the first time in 2015, in line with movements in the level of imports and their structure. It is possible to assume that the very structure and origin of goods imported from areas with lower tariff burdens are still changing. Customs revenues in 2016 will account for 0.8% of GDP and they can be expected to remain at this level in the future, after several years of decline.

Other tax revenues. These revenues, in which property taxes account for the largest share, and which also include taxes on use, possession and carrying of goods, other forms of taxes at the local level, etc., have been projected based on movements in inflation, since the inflation component is built into a considerable part of these tax types. The level of these revenues is relatively stable and reactions to the economic downturn have not been so pronounced. For that reason, in periods of major crises and slower growth in other tax revenues, the share of this category goes up to a certain extent. In the upcoming medium term, the share of other tax revenues will stabilize. These tax revenues increased significantly in 2014 due to changes in regulations related to property taxes, in the segment of taxation of legal persons' property, i.e., the consolidation of the land use fee into the property tax. Local self-governments should be expected to improve the collection of the property tax, which is one of the most important revenues which they autonomously dispose of.

Non-tax revenues. The share of non-tax revenues in GDP will be falling over the medium term, after a surge in 2015. This surge is a result of the expected payment related to the public sector salary cuts (public enterprises and local self-governments), higher revenues from dividends and profits from public enterprises, as well as the introduction of a fee for mandatory oil reserves. The reasons for the decline in the projected share in the upcoming period include the exclusion from the base year (2015) of all those revenues that are not considered structural, i.e., recurring. This primarily refers to extraordinary non-tax revenues, and the level that has been taken is the one that proved to be stable in the last few years. Non-tax revenues are a very heterogeneous category with different developments by individual type. Certain non-tax revenues are indexed to actual inflation in the previous year, others are linked to changes in the value of the bases to which they are applied and hence they are adjusted for inflation projections, while a portion is related to one-off payments into the budget (extraordinary non-tax revenues). Recurring non-tax revenues include various fees, charges, fines, revenues of state bodies and organizations and all other revenues collected according to the standard schedule over the year, in more or less similar amounts on a monthly basis with some seasonal variations. Extraordinary non-tax revenues include mainly one-off revenues, which are uncertain to a certain degree, both in terms of their amount and in terms of the timing of payments. Payments of profits of public enterprises and agencies, dividends belonging to the budget, revenues from receivables collected by the Deposit Insurance Agency, share premiums, etc., account for the bulk of these revenues.

Grants. As the country's EU membership process progresses, the amount of available IPA funds is going up, so these funds make up the predominant portion of grant revenue. In addition, annual payments over three years, totalling EUR 55 million, are envisaged within the EU sector budget support.

Table 7. Total Expenditure in the 2015–2018 Period, in % of GDP

	estimate	projection		
	2015	2016	2017	2018
PUBLIC EXPENDITURE	46.0	45.0	42.7	40.8
Current expenditure	42.6	41.2	39.0	37.2
Expenditure for employees	10.6	10.4	9.2	8.3
Purchases of goods and services	6.3	6.5	6.3	6.3
Interest payment	3.4	3.5	3.5	3.4
Subsidies	3.4	2.7	2.5	2.4
Social assistance and transfers	17.8	17.2	16.5	15.9
of which pensions	*12.3*	*12.2*	*11.7*	*11.2*
Other current expenditures	1.1	1.1	0.9	0.9
Capital expenditure	2.6	2.9	2.9	3.1
Net lending	0.1	0.1	0.1	0.1
Called guarantees	0.7	0.8	0.7	0.4

Source: MoF

Fiscal adjustment on the general government's expenditure side over the observed period is 5.2% of GDP. After including 2014, the adjustment is 7.6% of GDP. Most of the adjustment is related to expenditures for employees and pension benefits since these two items account for more than 50% of total expenditure. Furthermore, the completion of the restructuring process of socially-owned enterprises, the dealing with inefficient public enterprises and the financial sector stabilization are supposed to contribute to the lowering of expenditures. On the expenditure side, investment in infrastructure will be the priority for the coming period; hence, if additional fiscal room was created, available funds would be channelled into that direction.

Expenditure for employees. The fiscal policy objective in the medium term is to cut expenditure for employees to a sustainable level of 7% of GDP, as defined by the Budget System Law. The wage bill is reduced on two bases. On the one hand, salaries of all public sector employees higher than 25,000 dinars were cut by 10%, while on the other hand, the rightsizing process has been initiated. Moreover, pursuant to the new fiscal rule on indexation, no indexation has been envisaged for individual wages/salaries. In 2016, the relative decrease will be lower bearing in mind that salaries of part of general government employees will go up. Employees in primary and secondary schools will get a pay rise of 4%, employees in health and social protection institutions - 3%, salaries of employees in higher education institutions will go up by 2%, and the wage bills in the army and the police will be increased by 1%. The effect of this measure on the increase in the deficit is slightly more than 0.1% of GDP.

Public sector reform is an essential condition for the consolidation of public finances and establishment of a healthy economic environment. Redundancies and an unfavourable employee structure are problems causing inefficiencies in the public sector and place a burden on the entire economy. In 2015, comprehensive analyses were carried out of redundancies in each of the public sector segments. Apart from the ban on new employment and attrition, there were no layoffs so the anticipated targets were not reached. At end-January 2016, the number of general government employees is envisaged to be lower by 14,000 compared to December 2014. The wage bill will be lower by 3% in 2016 against 2015, while the plan for 2017 is to reduce the number of employees by another 5%.

For 2018, no further staff reductions are envisaged, but there will be carry over effects of the 2017 rightsizing exercise. In 2018, no funds for severance payments have been provided, either, which is a difference compared to previous years, so this is another reason for the nominal employee expenditure decline. The paid wage bill in general government has been reduced from 10% of GDP in 2014 to 9.1% of GDP in 2015. As the rightsizing process was delayed, compared to the planned schedule for 2015, this reduction in the share of wages in GDP can be attributed almost entirely to the nominal wage cuts and freezes.

The next task is to reform the general government salary system with a view to mitigating pay inequalities, that is, ensuring fairness through the introduction of the equal pay for equal work principle, strengthening budget controls and establishing the wage bill manageability, as well as increasing the transparency of the system[5]. The Law on the Register of Persons Employed, Elected, Nominated, Appointed and Hired by Public Fund Beneficiaries, which was adopted in late July 2015, has created a legal basis to determine the exact number of employees in the broader public sector to which the law applies. Determining the exact number of employees against the backdrop of the different public sector coverage is an indispensable starting point to determine the optimal number of employees in individual sectors in the next step. The Law on the Method for Determining the Maximum Number of Public Sector Employees, which was adopted in July 2015, constitutes a legal basis for determining the maximum annual number of employees for the period 2015-2018 by individual institution, in line with the expected improvement in their productivity, which is supposed to happen after the reorganization. The adoption of the new Law on the Salary System for Public Sector Employees is the beginning of a comprehensive reform of the public sector salary system. Salaries in different segments of the public sector are governed by different regulations and that prevents comparability, control and manageability of the salary system in the public sector. The umbrella law on salaries of public sector employees, whose adoption is planned for early 2016, will create a legal basis for equalizing the bases, cutting the number of coefficients and their simplification, which should ultimately result in equal pay for equal work, regardless of the public sector segment in which an employee works. The overall objectives of the public sector salary system reform are to reduce pay inequalities and ensure fairness through the introduction of the equal pay for equal work principle, to strengthen budget controls and the wage bill manageability, and increase the transparency of the system. In addition, the broader objective of the public administration reform, with salary reform being situated in its context, is to strengthen the performance and effectiveness of the public administration. Data in the Employee Register will be supplemented by the titles and job descriptions from the catalogue of staff positions and job titles in the public sector (by field). Catalogues constitute a list, classification and evaluation of jobs, which is one of the most important steps in the implementation of the salary system reform.

Purchases of goods and services. A relatively stable share in GDP by 2017 is projected for this category of expenditure. In 2017, a new local government finance law will come into force, which is expected to bring the biggest savings precisely on this expenditure item.

5 The Draft Law on the Salary System for Public Sector Employees – a Guide.

Interest payment. As a consequence of an extremely high public debt level and high fiscal deficits, interest has become one of the most important expenditure items, and definitely the fastest growing item. The rise in interest payments is expected to peak in 2017 and after that they should decline as share in GDP. Good results in 2015 have enabled a dramatic deceleration in interest payment growth as the original estimate for 2017 was that the interest-to-GDP ratio would stand at 4.0%, while the current projection is 3.5%.

Social assistance and transfers to households. Pension benefits constitute the biggest category within transfers to households. Cuts in the amounts of pension benefits and pension system reform are making a significant contribution to the lowering of the pension expenditure-to-GDP ratio. Their share in GDP should fall from 13.1% in 2014 to 11.2% in 2018. In addition to the nominal pension cuts, the absence of indexation in accordance with the new rule, and amendments to the pension system adopted in 2014 also contribute to such a trend. The pension increase by 1.25% in 2016 and a rise in the number of new pensioners, due to the restructuring and rightsizing, will lessen the effects of the measures applied. Other forms of social benefits and transfers to households in the coming period will be adjusted by applying the prescribed indexation, current and planned policy changes in this area, and to the projected number of beneficiaries. Moreover, funds required for certain types of social assistance are expected to increase, due to the tough fiscal consolidation measures in the coming period. This implies more funding for severance payments and unemployment benefits. The share of expenditure on social benefits has been falling from 18.1% of GDP in 2014 to 15.9% in 2018.

Subsidies. Fiscal adjustment in the observed period will be implemented for the most part by cutting back on subsidies. The most important measure in this regard is the elimination of subsidies for land areas covering more than 20 hectares, as well as state-owned land that has been leased, which is expected in 2016. Cuts in subsidies to *JSC Serbian Railways* (Železnice Srbije a.d.) and public broadcasting services have also been envisaged on account of reductions in their operational costs, and bearing in mind the restructuring process, subsidies will also be reduced on this basis. Subsidies to public broadcasting services will be reduced to RSD 4 billion with the introduction of a compulsory TV license fee.

Other current expenditures. This category includes miscellaneous outlays, such as grants to NGOs, political parties, religious and sports organizations, penalties, compensation of damages, etc. In the previous period, the level of this category was around 1% of GDP, and only in 2014 the share of these expenditures in GDP increased to 1.6% due to compensation for damages caused by catastrophic floods. The effects of the Local Government Finance Law should be felt to a larger extent in this expenditure category, too.

Capital expenditure. Capital investments constitute the priority area on the expenditure side. By reducing general government current consumption, room is created for maintaining the level of public investment at around 3% of GDP in the upcoming medium term. Bearing in mind the limited resources, special significance in the medium term investment planning will be attached to nationally important investments (Corridors X and XI). To increase the share of capital expenditure more substantially, against the backdrop of fiscal adjustment, a stronger and more dynamic economic growth is necessary.

Net lending. Loans from the budget constitute funds provided for the purpose of ensuring liquidity and recapitalization of state-owned enterprises and banks. These expenditures were particularly strong around 2012, when several state-owned banks found themselves in difficulties because of inadequate lending policies. The assumption of the JAT air carrier's debt and the provision of liquidity to *PE Serbiagas* (Srbijagas) should also be added here. Since no new problems are expected in the banking sector and given that one of the priorities in the upcoming period is the reform of public enterprises, these expenditures are expected to stabilize at 0.05% of GDP.

Called guarantees. Called guarantees and payment of guarantees for commercial transactions are obligations arising from debts of public enterprises, which have been assumed by the central budget, since these companies were not able to honour them on their own. The largest outlays on this basis refer to *PE Serbiagas*, *Serbian Railways jsc*., the *Smederevo Steel Mill, JAT* and *Galenika*. A note should be made here that significant payments on this basis are also made for *PE Roads of Serbia* (Putevi Srbije), but these outlays are classified as classical debt repayment bearing in mind that this company constitutes part of general government. As in the case of net lending, these expenditures will also be reduced if the problems of inefficiencies in public enterprises are resolved in an appropriate manner.

Reforms Aimed at Decreasing Various Forms of Budget Support

Cuts in budget support to public and state-owned enterprises imply: a) constraints on direct and indirect subsidies, b) strict restriction on the issuance of guarantees for new loans, and c) strengthening of accountability and transparency in the operation of these companies.

Reforms have been initiated that relate to two large groups of public and state-owned enterprises. The first group of companies includes companies in the portfolio of the Privatisation Agency, whose status will be resolved either through bankruptcy or privatisation. In early February 2015, an action plan was adopted for bankruptcy proceedings in 188 companies. Until October 2015, bankruptcies were instituted against 160 companies whose prospects for privatisation had been assessed as weak, while public calls for privatization were published for 160 companies. For a group of 17 companies in this category the deadline for final status resolution has been extended to May 2016, with the final solutions for seven companies being expected by the end of this year.

The second group of companies comprises public and state-owned enterprises in the sectors of energy, rail transport and road infrastructure. In the course of 2015, in cooperation with international financial institutions, the process of their restructuring was opened up, namely in: *PE Serbian Electric Power Industry* (Elektroprivreda Srbije), *Serbian Railways jsc.*, *PE Serbiagas* and *PE Roads of Serbia*. This process will be continued in 2016 as well.

1) *PE Serbian Electric Power Industry.* In November 2014, the PE Serbian Electric Power Industry (PE EPS) Reorganisation Plan was adopted; it is aimed at improving management within the existing organisational structure and more efficient corporate governance, implementation of status changes and organisational consolidation, continuation of the activities towards establishment of ownership rights on property in respect of which PE EPS is registered as the holder of rights of use, possessor or factual user, and change of the legal form to joint-stock company. In June 2015, the Financial Consolidation Plan, prepared in cooperation with the World Bank and the European Bank for Reconstruction and Development (EBRD), was adopted. The goal of financial consolidation is to create a profitable company capable of responding to market challenges in terms of both quality and price, by streamlining its operations,

making new investments and solving financial problems. The main elements of the plan include: to increase revenues through improved collection and to cut costs by boosting efficiency, optimizing the procurement process and reducing the number of employees.

2) *PE Serbiagas.* The foundations for PE Serbiagas restructuring were adopted in December 2014. The document defines the key goals of restructuring this company, to be implemented in two phases. The first phase, amongst other things, foresees legal and functional unbundling of transport or distribution system operators, as appropriate, and the second phase – alignment of the operation organisation of the transport system operator with the provisions of the third energy package. Accordingly, the companies Transportgas Srbija doo Novi Sad and Distribucijagas Srbija doo Novi Sad were established in 2015. A very important aspect of Serbiagas reorganisation is its financial consolidation. In accordance with the Republic of Serbia's commitments to the IMF, in cooperation with the World Bank, a financial consolidation plan for the enterprise is being developed and is expected to be adopted in the first half of 2016 with a view to attaining long-term financial sustainability and competitiveness, discontinuing further deterioration of the financial position of PE Serbiagas and eliminating the need for additional state aid in line with the fiscal programme.
3) *Serbian Railways JS*C. The plan for corporate and financial reorganization, which was launched in 2015, implies organizational and status-related changes. The company has been divided, in line with the experiences from the EU countries, into a company providing passenger transport, a company providing cargo transportation, a company dealing with infrastructure. The changes will also be accompanied by the reorganization of the management. The restructuring plan includes changes related to asset management, the traffic network and the rightsizing. The cargo traffic division will not receive subsidies from the budget and will operate on market principles as of January 2018, in accordance with the World Bank recommendations. In January 2016, a fee for the use of railway infrastructure will be introduced, as part of the opening of the rail transport market.
4) *PE Roads of Serbia.* The amounts of tolls will be revisited, and work will also be done on improving road maintenance contracts and removing administrative obstacles. The objective is to make savings and boost the efficiency of the system thus reducing the need for subsidies from the budget. Options will be considered for the construction and maintenance of roads through concessions.

Given the amount of the payments for called guarantees and their impact on the deficit, the government has limited the issuance of new guarantees to state-owned enterprises since the beginning of 2015. Issuing guarantees for liquidity loans has been suspended entirely. The option to issue guarantees was only kept for capital project loans, while adhering to the limit set by the public debt sustainability objective.

4. Cyclically Adjusted Fiscal Balance

The cyclically adjusted fiscal balance is the fiscal balance from which the isolated impact of the business cycle has been removed, and the baseline identity is the following[6]:

6 A detailed description of the used methodology and the results can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or at http://www.mfin.gov.rs/UserFiles/File/dokumenti/2012/Fiskalna%20strategija%20za%20 2013_%20godinu%20sa%20projekcijama%20za%202014_%20i%202015_%20godinu.pdf

B = CB + CAB

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

The OECD approach was used to estimate the cyclically adjusted deficit, namely the disaggregated approach, which implies the estimate of elasticity of individual cyclically sensitive revenue and expenditure categories. Unlike previous analyses of the cyclical balance, the estimate of the structural primary balance has now been added, which is obtained by correcting the cyclically adjusted primary balance for revenue and expenditure assessed as one-off and non-structural.[7] The sensitivity of the fiscal balance to the output gap has been estimated at 0.386. The obtained results and their interpretation depend a lot on the length of the time series used in the econometric estimate of elasticity, on the reliability of statistical data, the existence of structural breaks in the series, changes in the methodology and coverage.

Table 8. Fiscal Balance and Components for Calculation of the Cyclically Adjusted Balance in the Period 2005–2018, in % of GDP*

	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component of the fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural primary fiscal balance **	Fiscal policy nature - fiscal impulse
2005	0.2	1.1	2.0	0.1	1.0	1.9	2.2	
2006	-0.2	-1.5	-0.2	-0.1	-1.4	-0.1	0.6	2.0
2007	1.4	-1.9	-1.3	0.5	-2.5	-1.9	-1.5	1.8
2008	3.9	-2.6	-2.1	1.5	-4.1	-3.5	-3.6	1.7
2009	-0.9	-4.4	-3.8	-0.4	-4.0	-3.4	-3.5	-0.1
2010	-1.1	-4.6	-3.6	-0.4	-4.2	-3.2	-3.3	-0.2
2011	0.1	-4.8	-3.6	0.0	-4.8	-3.6	-3.8	0.4
2012	-1.0	-6.8	-5.0	-0.4	-6.4	-4.6	-4.6	1.0
2013	1.4	-5.5	-3.1	0.5	-6.0	-3.7	-3.4	-1.0
2014	-0.9	-6.6	-3.7	-0.3	-6.3	-3.3	-2.4	-0.3
2015	-1.0	-4.1	-0.7	-0.4	-3.7	-0.3	0.4	-3.0
2016	-0.8	-3.9	-0.4	-0.3	-3.6	-0.1	0.4	-0.2
2017	-0.9	-2.6	0.9	-0.3	-2.3	1.2	1.5	-1.4
2018	-0.3	-1.8	1.6	-0.1	-1.7	1.7	1.7	-0.4

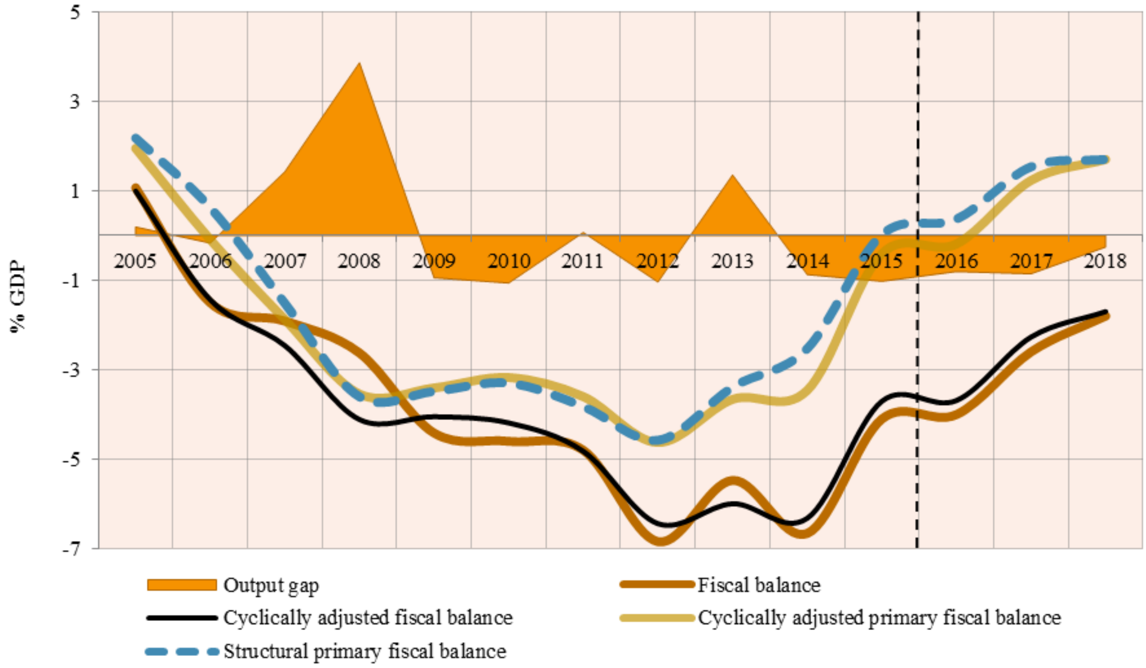
* For the period 2015 - 2018 the table presents projected values.
** The structural primary balance has been obtained by excluding the estimated one-off revenues and expenditures; however, for these purposes the structural sustainability of increases in the collection of recurring tax revenues has not been analysed.

The next graph shows the actual fiscal and the cyclically adjusted fiscal balance, as well as the output gap in the period 2005-2014 with projections for 2015-2018. By observing the last few

7 This method of analysis is still in its infancy and in cooperation with relevant national and international institutions the estimate of levels of one-off revenues and expenditures will certainly be modified.

years, we can see the positive effect of the cycle in 2007, 2008 and 2013, where we also have positive output gaps. The effect of the cycle is such that it leads to a fiscal deficit that is lower than it would have been had the economy been on the path of potential growth. Conversely, in the period of the most severe crisis, from 2009 to 2012, the impact of the cycle was negative, the output gap reached negative values, and the actual fiscal deficit was higher than the cyclically adjusted one. In 2015, due to the projected decline, the output gap reached high negative values, to be subsequently reduced and closed in 2018.

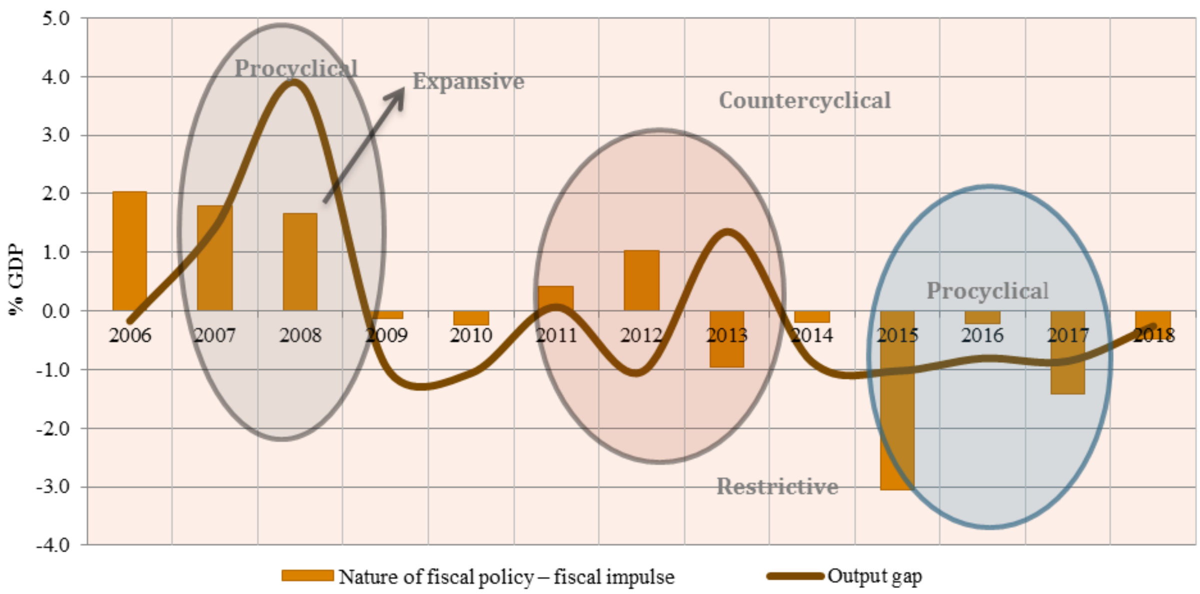
Graph 5. Actual, Cyclically Adjusted, Structural and Cyclically Adjusted Primary Fiscal Balance in the Period 2005 - 2018, in % of GDP



Significant structural changes can be observed from the movements of the cyclically adjusted, structural, and especially movements of the cyclically adjusted primary balance. Although the impact of the cycle, in all likelihood, has not been fully removed, a certain change in the trend can still be observed. From 2012, stagnation can be observed, followed by a decline in the cyclically adjusted primary balance over the projected period after 2015. This primarily means that certain structural changes in the tax and expenditure systems have started to produce results, and that the fiscal consolidation process has effectively begun. This mostly relates to the revenue measures taken in 2012 and 2013, and particularly to the expenditure measures implemented in 2015. Full effects of earlier measures started to materialise in 2014, when a dramatic drop in the share of public revenues in GDP decelerated. Developments of expenditures for salaries and pension benefits were largely limited even before the decision on their lowering, thus contributing to the stabilization of the primary balance. After their nominal reduction, conditions were created for the implementation of significant fiscal consolidation, which is reflected in the reduction of all aggregates expressing the fiscal result. On the other hand, a much shaper decline in the primary deficit can be observed, and its contraction is the prerequisite for an interest rate cut. After including into the analysis the structural primary balance it is possible to identify, first and foremost, one-off effects on the expenditure side. The thus assessed structural primary balance is an efficient tool for a final assessment of the fiscal position; especially for 2014 it is evident that the fiscal position is, in no small measure, better than suggested by initial results. Implementation of consolidation measures requires a certain level of one-off expenditures in the form of severance payments to employees, so it will only be possible to determine the full effect on the deficit in the later period.

The movements of the cyclically adjusted primary balance are also used as an indicator of the fiscal policy nature (the fiscal impulse). It is presented as a difference between the cyclically adjusted primary balances in the current year and in the previous year. Furthermore, a positive (plus) sign denotes an expansionary fiscal stance and a negative (minus) sign denotes a restrictive fiscal stance. Periods of expansionary and restrictive fiscal policy, and the size of the impulse as such, can be graphically presented. The fiscal impulse is the relative change in the balance, and is aimed at analysing the effects of fiscal policy on the output gap developments though the operation of a fiscal multiplier. The primary fiscal balance has been taken into account because it excludes interest expenses as a form of unproductive expenditure without any effect on the trends in the real sector. The size of interest expense in practice often has a countercyclical effect due to the crowding out effect on the private sector. When the output gap is included in the analysis, an assessment can be made of the fiscal policy effects in terms of its pro-cyclicality or counter-cyclicality.

Graph 6. Nature and Effects of Fiscal Policy in the Period 2006–2018



Countercyclical policy was pursued in 2011 and 2012, during the crisis, bearing in mind the relatively expansionary fiscal policy against the backdrop of a high negative output gap and vice versa in 2013[8]. The favourable trends in 2013 created an opportunity for a more serious beginning of the tax system reform and stabilization of public finances. At first sight, the economic logic causes such behaviour, no matter whether it is conscious or is a consequence of the structure of the tax and public expenditures systems, i.e. influenced by the operation of automatic stabilizers. Nevertheless, if expansionary policy fails to result in growth acceleration, and when fiscal policy measures alone cannot eliminate structural reasons for the existence of a negative output gap, both the actual and the cyclically adjusted balance deepen and public debt enters a stage of expansion.

8 In 2013, growth was higher than the potential one, primarily as a result of the opening of new capacities in the automotive and oil industries. That year was also characterized by the intention to make bigger savings on the expenditure side, due to underperformance on the revenue side, so the actual and the primary deficit narrowed.

The graph above shows that relatively significant structural adjustment took place in 2013, due to changes in tax policy in late 2012. Full effects of the measures were not manifested in 2013; instead, part of the effects was carried over to the following period, thus giving a certain impulse to fiscal policy restrictiveness. In 2014, the fiscal consolidation impulse was not interrupted, but this is not reflected in the presented figures, due to a substantial amount allocated for the rehabilitation of the financial sector, and to certain companies in the real sector. The measures adopted in the previous period, as well as the fiscal consolidation measures relating to the period (primarily the nominal cuts in pension benefits and public sector salaries), constitute structural changes in public finances. They were vigorously continued in 2015, with a certain relaxation of wage and pension policies in 2016. The negative fiscal impulse in 2016 is also further mitigated by the planned payouts of substantial amounts for severance pay in the process of public administration rightsizing. Following that, the effect of the negative impulse will be intensified on a one-off basis, due to the lower amount of these funds. A combination of measures set forth in the fiscal consolidation programme for 2015-2018 should produce the biggest structural effects in 2015. In the period from 2016 to 2018, the effects of the public sector reform, the completion of the restructuring process and the elimination of certain subsidies will begin to yield results in terms of savings on the expenditure side, thereby prolonging the effects of fiscal consolidation. In the period from 2015 to 2018, fiscal policy is pro-cyclical in terms of its nature, mostly due to fiscal consolidation, and to the negative output gap to a smaller degree. Still, the effects of such policy weaken over time after their strongest impact in 2015, primarily due to the fact that additional consolidation measures are not expected, and that gradual closing of the output gap as a result of higher real GDP growth rates, is also projected.

In the 2016 - 2018 period, certain effects on fiscal adjustment and on the contribution to fiscal policy restrictiveness will also be exerted by the statutory increase in the amounts of excises on tobacco products and petroleum products, as well as a certain degree of improvement in the efficiency of revenue collection at central and local levels.

The convergence of actual growth rates to the potential level mitigates the need for restrictive fiscal policy to a certain degree. In the context of stabilization of the public debt level, the effects of austerity measures in the observed period lead to its stagnation and a slight decrease, but for a serious reduction in the public debt-to-GDP ratio, it is necessary to continue the implementation of the fiscal consolidation measures even beyond 2018. Real GDP growth above the potential one over the longer term would facilitate the process.

5. Public Debt Management

In line with international practice and under the Law on Public Debt (*RS Official Gazette*, nos. 61/05, 107/09, 78/11 and 68/15), the Ministry of Finance of the Republic of Serbia - Public Debt Administration prepares a Public Debt Management Strategy for the upcoming medium term. The public debt management strategy should be supported, and consistent with, the overall medium-term macroeconomic framework of the Government, and it constitutes an integral part of the adopted fiscal strategy.

The Public Debt Management Strategy is based on the principles defining the need for a transparent and predictable borrowing process, while constantly developing the market for government securities, and an acceptable level of exposure to financial risks.

At end-November 2015, the stock of total general government public debt was RSD 3,046.9 billion, or 76.9% of GDP. Out of this amount, direct liabilities amounted to RSD 2,967.8 billion, indirect liabilities to RSD 296.3 billion, RSD 51.3 billion was related to non-guaranteed debt of local self-government units, and RSD 1.5 billion to non-guaranteed debt of *PE Roads of Serbia*. Domestic direct liabilities amounted to RSD 1,058.8 billion, while external direct liabilities were RSD 1,639.0 billion. As for indirect liabilities, the domestic debt was RSD 77.3 billion, while external debt amounted to RSD 219.0 billion. When the central government total public debt is divided into internal and external public debt, their amounts were RSD 1,136.1 billion and RSD 1,858.0 billion, respectively.

According to the data of 30 November 2015, the bulk of the Republic of Serbia's public debt is still denominated in euro, which accounts for 39.4%. The next prevalent currency in the structure of public debt is the US dollar with a share of 33.9%, followed by the dinar with a share of 21.5%. The rest of the debt is denominated in special drawing rights - 4.0% and other currencies - 1.2%. The interest rate on the largest portion of the Republic of Serbia's public debt of 77.1% is fixed, while the variable interest rate is applicable to 22.9% of total public debt. Most of the public debt at variable interest rates is linked to Euribor and Libor, on the euro, and this type of debt accounts for 64.0% of the total public debt at variable interest rates; liabilities linked to the reference interest rate of the National Bank of Serbia account for 11.2%; liabilities linked to Libor on the US dollar account for 12.5%, while other liabilities linked to other types of variable interest rates account for 12.3% (for the most part, to the variable interest rate on SDRs).

Having in mind the projected primary deficit of the Republic of Serbia's budget for 2015-2018, including the amount of project financing loan proceeds to be withdrawn, the effects of changes in the exchange rate of the dinar against the euro and the US dollar in the baseline macroeconomic scenario, the stock of central government debt should stand at 74.3% of GDP at end-2018, while the stock of general government debt should amount to 75.7% of GDP.

Table 9. Baseline Projection of the General Government Public Debt Stock by 2018

in billions of RSD

	2015p	2016p	2017p	2018p
GDP	3,995.5	4,170.2	4,400.5	4,723.0
Primary deficit (central government)	33.0	23.0	-35.9	-77.4
Interest (central government)	128.0	139.6	151.6	157.0
Public debt (central government)	2,980.1	3,239.0	3,396.1	3,510.5
Central government debt, in % of GDP	74.6%	77.7%	77.2%	74.3%
Non-guaranteed debt of local government, in % of GDP	1.4%	1.4%	1.4%	1.4%
General government debt, in % of GDP	76.0%	79.1%	78.6%	75.7%

Source: MoF and the Public Debt Administration

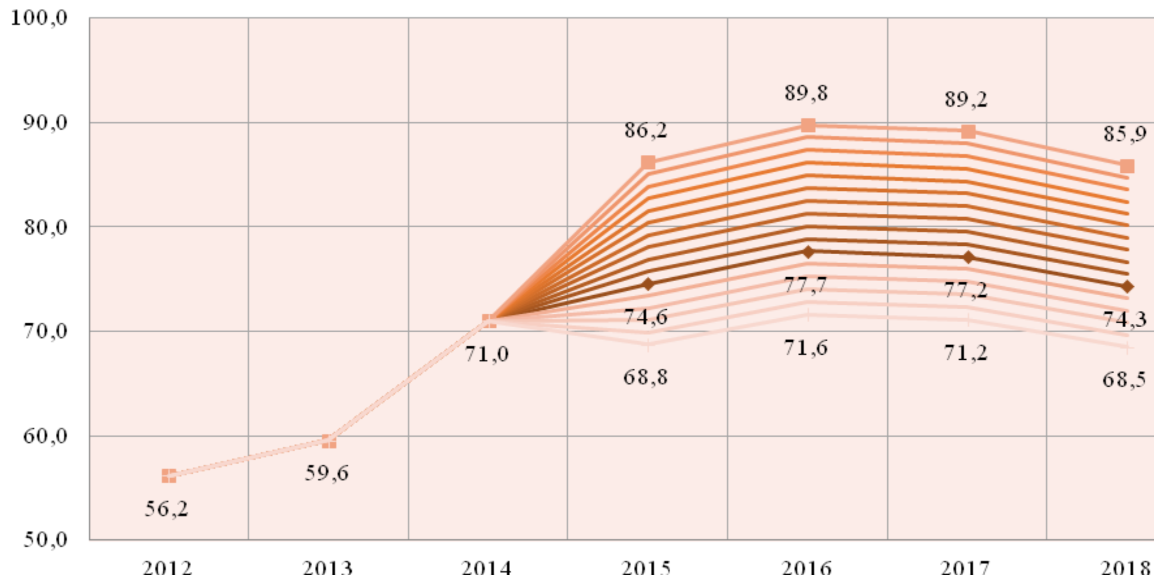
As regards local government debt, it is predicted to remain at the relative level of around 2.1% of GDP in the coming period. The stock of general government public debt expressed according to the Maastricht criteria should be at the level of 72.0% of GDP at the end of 2018.

In cooperation with World Bank experts, the Public Debt Administration has prepared an analysis of the costs and risks of alternative borrowing strategies, by using the World Bank model (Medium Term Debt Strategy Model – MTDS), with a view to optimizing the portfolio and improving the efficiency of public debt management. By using the MTDS model, the baseline scenario and three alternative scenarios have been analysed (four analysed strategies), while also taking into account shocks on the interest rate side and the exchange rate side (sensitivity analysis).

Financial and fiscal risks may cause public debt to grow more than anticipated in the baseline scenario. The underlying risks that can bring about a rise in the debt and the cost of public debt servicing include:

1) refinancing risks;
2) foreign exchange risk;
3) market risk (interest rate risk, inflation risk);
4) liquidity risk;
5) credit risk;
6) operational risks;
7) risks associated with the distribution of servicing costs (debt structure, the concentration of liabilities).

Graph 7. Effect of Changes in the Dinar Exchange Rate against a Basket of Currencies from the Public Debt Portfolio on the Change in the Public Debt-to-GDP Ratio - Central Government



Graph 7 presents movements of the public debt-to-GDP ratio for central government, depending on changes in the exchange rate of the dinar against a defined basket of currencies. It shows the basic set of projections with alternative scenarios, depending on the appreciation or depreciation of the dinar exchange rate ranging from 10% appreciation to 20% depreciation of the dinar against the basket of currencies. By applying these scenarios, it is possible to see that the ratio for 2018 would range from 68.5% of GDP to 85.9% of GDP, while the baseline scenario would be at the level of 74.3% of GDP.

With a view to mitigating the exposure to variable interest rates, amidst the expectations that the variable interest rate with the highest share in the public debt – Euribor - would go up, new liabilities are contracted at fixed interest rates, where possible, especially for loans intended for financing investment projects, with lenders such as the European Investment Bank, the German Development Bank - KfW and the EXIM Bank of China.

In the event of changes in the level of Euribor by 10 basis points relative to the baseline projection, interest payments in 2016 would go up by about RSD 0.5 billion, while the growth in 2018 would amount to around RSD 0.7 billion.

Bearing in mind the limitations and potential risks related to the financial market, the public debt management strategy for the upcoming medium-term envisages the financing of the Republic of Serbia's outlays predominantly through issues of government securities on the domestic and international financial markets. The objective for the next long-term period is to secure funding mainly by issuing dinar denominated securities on the domestic financial market. However, the current situation suggests that, despite the strong resolve to continue with the development of the domestic market for government securities, in the next medium term part of the financing will have to be secured on the international financial markets. The annual borrowing decision is passed as part of the Budget Law for a specific fiscal year, and in line with changes in the main fiscal aggregates it is possible to change the borrowing plan in the course of the fiscal year. In the upcoming medium term, further development of the secondary market for government securities is expected, and one of the incentives for the development of this market segment will be provided by issues of long-term government securities denominated in domestic currency, in amounts per issue that can be considered as benchmark size issues from the standpoint of international standards.

One of the basic principles underlying the new arrangement with the IMF is that the Republic of Serbia will not issue guarantees to public enterprises for new loans to finance liquidity in the upcoming period, which has been confirmed by amendments to the Law on Public Debt enacted in July 2015. In this manner, the practice has been abandoned of the 2010 - 2014 period, when many sizeable liquidity loans were guaranteed for public enterprises and enterprises wholly owned by the government - *PE Serbiagas, Galenika jsc.* and *JAT Airways*. In the next medium-term period, guarantees will only be issued for loans intended for investment projects and for boosting further growth and development of the economy, and attaining EU standards in the fields of energy efficiency, use of renewable energy sources and environmental protection.

6. Sensitivity Analysis and a Comparison with the Previous Programme

Fiscal Risks

Fiscal risks are considered to be the circumstances which, if materialized, would result in a sharper decline in revenue or a rise in expenditure, and factors which affect the size of the deficit and public debt in some other manner. The meeting of the planned targets for revenue, expenditure and the result depends on the success of fiscal policy in minimizing the probability of risk materialisation. Success in managing fiscal risks depends on political, macroeconomic and social circumstances in the country and in the region. If the implementation and realisation of the medium-term macro-fiscal framework is based on a comprehensive fiscal consolidation programme, the risks associated with its implementation, irrespective of their type, represent a significant source of fiscal risks.

Slackening economic activity. The negative scenario that implies economic contraction or lower growth in the next period would lead to substantially lower capital inflows, a drop in foreign trade, also because of reduced activity up to the narrowing of the current account deficit. In that case, revenue would underperform and, consequently, the deficit would widen, if no further adjustments were made on the expenditure side. According to the assessments of fiscal balance sensitivity, any change in real growth of 1 p.p. of GDP leads to a change in the fiscal result of around 0.38 % of GDP. In the case of lower-than-planned real GDP growth rates in the next three years (on average lower by 1 p.p. a year), the cumulative increase in the fiscal deficit would amount to over RSD 50 billion.

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

The exchange rate. Movements in the exchange rate can be an important source of fiscal risks, less on the revenue side and more when it comes to movements in interest expense and the amount of public debt. The exchange rate affects total revenues by exerting an impact on the revenues from customs duties and excises on imported goods. These revenues account for about 6% of total revenues at the level of general government. Depreciation (appreciation) of the dinar rate by 1% has a positive effect on revenues of around RSD 1 billion. The effect on the overall level of the value added tax is reflected only in the change of the structure between the imported and domestic components. The response of interest expense to the same change in the exchange rate would be an increase by RSD 0.9 billion dinars. The exchange rate risk is significant from the standpoint of the movements in the public debt-to-GDP ratio. According to the Public Debt Reduction Strategy a change in the dinar exchange rate by 1% changes the share of public debt by 0.6 p.p. in 2016.

Interest. Interest expense is affected, besides the amount and composition of public debt, by factors such as the exchange rate and interest rates on the international and domestic markets. Given the unpredictable trends of certain variables, it is likely that more funds could be needed for interest payments in the coming period. Interest rate policy pursued by certain international institutions (Fed, ECB, etc.) can influence the general level of interest rates in the global markets, and for the Republic of Serbia, as a small, open economy, this poses an additional fiscal risk. A significant portion of public debt (as well as of the fiscal deficit) refers to called guarantees issued to public enterprises. If enterprises can meet their liabilities, these guarantees increase the level of public debt, but do not require additional funding. If the enterprises are not able to meet their liabilities, these guarantees are called and additional funds are needed, both for the repayment of the principal and for interest.

The international environment. Numerous factors from the international environment can affect the level of economic activity and indirectly the level of fiscal risk in the country, as well as directly the expenditure side of the budget. Trends in economic activity of the most important trading partners certainly constitute the most significant factor. Interest rate developments have already been described as a potential risk factor. Current favourable trends in the market of primary products and raw materials in the petrochemical industry have a favourable impact on the operations of the local petrochemical complex. In the event of more profound changes in this market it is not possible to exclude difficulties which companies from this industry can face. This could result in potential risks on the expenditure side of the budget.

The informal economy. According to the programme of fiscal consolidation measures, further efforts have been envisaged in the combat against tax evasion and the informal economy. Despite the fact that these effects have not been explicitly counted as revenues projected by this fiscal framework, certain shortfalls on the revenue side are possible in case the situation related to the volume of the informal economy deteriorates. The fight against the informal economy has to include, in particular, the curbing of illicit trade in tobacco products, the reduction of the informal economy in the areas of labour and employment, and continued good results in the field of trade in petroleum products.

Rightsizing. The deceleration of attrition in 2016 and 2017 requires quite an ambitious programme of targeted rightsizing in the coming period, especially in systems with many employees. Anticipated resistance to this process can slow down the pace and reduce the scope essential for achieving the planned savings on the wage bill in the public sector. On the other hand it is necessary to carefully design this process and make it transparent in order to avoid potential long-term adverse effects on the efficiency of services provided by the public sector. At first glance, these are two conflicting objectives that have to be achieved in the implementation of this measure.

Unspent funds from previous periods. In the previous period, significant deposits of unspent funds have been accumulated at certain levels of government, which are carried over in similar amounts from one to the other budget period in most of the cases, thus not causing distortions of the fiscal result. If, however, liquidity dropped and a shortfall in the collection of current revenues occurred, these deposits could be rapidly spent, resulting in a higher fiscal deficit. Although the thus generated portion of the fiscal deficit does not affect the level of public debt at the time of its creation, it has an adverse impact on the level of liquidity in the future period and to a certain extent creates a misleading picture of the situation of public finances.

Project loans. Project loans constitute the key funding source for major infrastructure projects. The proceeds of these loans are included in the calculation of the fiscal result, mostly as capital expenditures. Although faster withdrawals of these funds are not a negative thing from the standpoint of economic activity, and can constitute a basis for more rapid development in the future, they increase the expenditure side of the budget, the fiscal deficit and public debt. An estimate and an analysis of costs, schedules and amounts of disbursements in the past are key factors for assessing the justification for planning individual project loans.

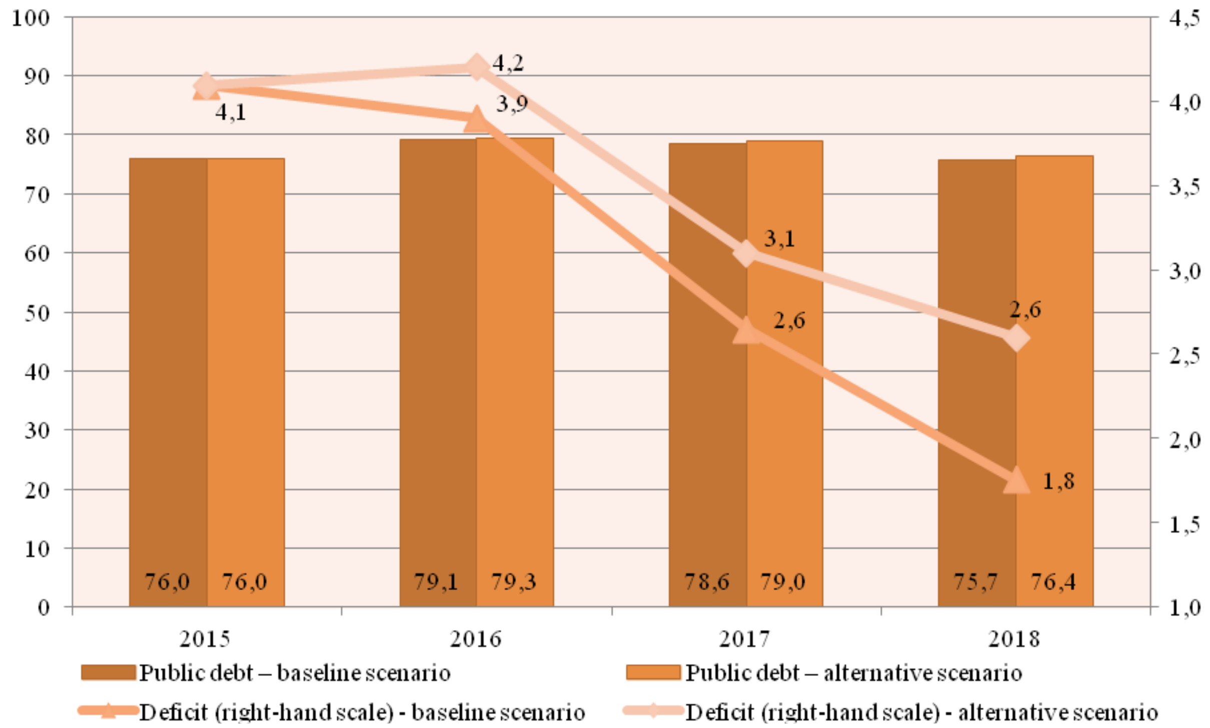
Public enterprises. The revenue projection for the next three years includes considerable amounts of profits of public enterprises paid into the budget. On average, up to 0.25% of GDP was planned on this basis in the next three years. Many decisions related to public enterprises have significant potential or actual fiscal implications. Public enterprises also have a direct connection with the budget, both on the revenue side (dividends, taxes, etc.) and on the expenditure side (subsidies, loans, etc.), as well as through the creation of contingent liabilities (guarantees, losses, etc.). In order to prevent the emergence of new and materialization of the existing fiscal risks, better controls and monitoring of public enterprises' business operations have been introduced, and the restructuring of three big public enterprises (*EPS, Srbijagas* and *Serbian Railways*) was launched. In order for the restructuring process to be successfully implemented, it is necessary to apply in the coming period the agreed measures set out in individual corporate and financial restructuring plans.

Public private partnerships (PPP). Although Serbia has no major PPP projects that are under way, there is growing pressure to implement them, primarily because of dissatisfaction at the current capacity for the implementation of infrastructure projects as well as tighter fiscal conditions. In order to avoid any unforeseen effects on the budget, it is very important to understand, assess and report on the fiscal implications, risks and benefits of a project at an early stage of the PPP project consideration.

An Alternative Scenario of Fiscal Developments in the Period 2015- 2017

The following graph shows the developments related to the respective shares in GDP of the deficit and public debt under the alternative macroeconomic scenario, which implies growth rates of 0.6%, 0.8% and 1.9% in the next three-year period.

Graph 8. A Comparison of Respective Shares of Public Debt and the Fiscal Deficit in Baseline and Alternative Scenarios, in % of GDP



A slower GDP growth would also affect, through its components, the actual fiscal aggregates, primarily the revenue side, namely predominantly revenues from labour and consumption taxes. Such GDP dynamics would lead to a slower narrowing of the fiscal deficit and higher public debt levels. In the case of this or a similar scenario, or the materialisation of other negative risks for the achievement of the planned fiscal result, additional measures will be taken in the context of fiscal consolidation both on the revenue and the expenditure side.

A Comparison with the Previous Programme

A comparison of total revenue, expenditure and the deficit of consolidated general government with the previous economic reform programme (2015-2017) shows certain differences, both on the revenue and on the expenditure side of the general government budget. Reasons for discrepancies in the projections, compared to the previous programme, relate to, *inter alia*: different levels of nominal GDP, a change in the assumptions for real GDP growth, better-than-expected outturn in the base year 2014, changes in policies that affect the revenue and expenditure sides, or a pace of the implementation of certain fiscal consolidation measures and structural reforms, which is different from the originally anticipated one.

Table 10. A Comparison of Fiscal Indicators of the Two Programmes, in % of GDP

	2014	2015	2016	2017	2018
NERP 2015 - 2017					
Revenue	41.0	40.0	39.3	38.6	-
Expenditure	48.9	45.8	44.0	42.4	-
Deficit	7.9	5.8	4.7	3.8	-
ERP 2016 - 2018					
Revenue	41.8	41.9	41.1	40.1	39.0
Expenditure	48.4	46.0	45.0	42.7	40.8
Deficit	6.6	4.1	3.9	2.6	1.8
Difference					
Revenue	**0.8**	**1.9**	**1.8**	**1.5**	**-**
Expenditure	**-0.6**	**0.2**	**1.0**	**0.3**	**-**
Deficit	**-1.4**	**-1.7**	**-0.8**	**-1.2**	**-**

Source: MoF

The National Economic Reform Programme (2015-2017) projected a fall of GDP in 2015, and a more moderate pace of growth in the following two years, considering the magnitude of the expected fiscal consolidation. More favourable conditions in the global environment have offset the impact of the fiscal consolidation on the decline in personal consumption, which resulted in GDP growth of 0.8% in 2015, and the projected real growth of 2.2% in 2016 and 3.5% in 2017. The increase in GDP growth projections resulted in an upward adjustment of revenue projections throughout the observed period.

The base year 2014 was concluded with revenue over-performance and lower-than-planned execution on the expenditure side, which had an impact on changes in the projections for the next period, both on the revenue and on the expenditure side.

On the revenue side, changes in policies or the pace of the implementation of certain measures did not have a significant impact on the modification of revenue projections. In relation to the originally scheduled deadline, excise on electricity was introduced with a six-month delay, which was reflected in lower revenue in 2015, but did not affect the projections for the coming years.

On the expenditure side, at a pace that is slower than planned, the rightsizing in the government sector is implemented, which contributed to the under-execution of expenditures for severance payments in this year, as well as to their shifting into 2016 and 2017. Reforms in the area of agricultural incentives have not brought the expected savings in 2015. The amendment of the Law on Incentives in Agriculture and Rural Development has ensured the materialisation of the full effect of these reforms in 2016 and beyond. Bigger savings than planned in 2015 on certain expenditure categories have created room for the settlement of certain debts and arrears from the previous period (debt of Serbiagas, debt to military pensioners, debt to agricultural producers). The resulting change affected the composition of expenditure more than it affected their level.

7. Institutional Framework

Reform efforts within different sub-systems of public finance management (PFM) are included in the Programme of Public Finance Management Reform 2016-2020 (the RPFM programme). The objective of the RPFM Programme is to provide a comprehensive and integrated framework for the planning, coordination, implementation and monitoring of progress in the implementation of sustainable activities in order to improve macroeconomic stability, ensure efficient and appropriate allocation and use of public resources for the achievement of national priorities and improve services provided by the public administration in the Republic of Serbia, while increasing transparency and the overall functionality of the public finance management, and the fulfilment of the necessary requirements for accession to the European Union (EU). Also, a draft strategy for the development of internal financial controls in the public sector covering the period 2015 to 2019 has been prepared, while a Draft Anti-Fraud Strategy is being elaborated.

In the field of improving the budget system the following activities are planned for the coming period:

- Continuation of work on improving the programme budget. Further improvements are necessary in order to ensure the uniformity and stability among programme structures of all budget beneficiaries, and thus the desired quality of the budget document as a whole, as soon as possible.
- Preparation of a proposed act for the Government, which will more specifically regulate the content, method of preparation and evaluation, as well as monitoring of the implementation, and reporting on the realization of capital projects;
- Streamlining of the form for financial effect estimates, based on observed shortcomings in the previous period.

Amendments to the Budget System Law have created conditions for improving the programme structure of the budget, primarily through the introduction of gender-responsive budgeting at all levels of government. Gender responsive budgeting contributes to improving the effectiveness and transparency of budgets and programmes and provides better insights into the benefits that women and men have from budget policies. Gender responsive budgeting is the application of gender equality in the budget process. It involves integrating gender equality into all budget processes, and restructuring revenues and expenditures in order to promote gender equality. It implies that, in the budget process, the needs and priorities of women and men are taken into account, as well as those of different groups of women and men, bearing in mind the different roles that they have in the family, at work and in society at large.

This law also proposes the extension of the validity of the temporary regime banning employment with beneficiaries of public funds without the approval of a Government body by the end of 2016, as an assessment has been made that it is reasonable to keep this mechanism, especially in the context of the implementation of the Law on the Maximum Number of Public Sector Employees.

Within the framework of the European Union accession process, one of the objectives is the shift to the ESA methodology of national accounts, which also include public finances. The classification of national accounts and reporting to the EU institutions are regulated in accordance with this methodology. The work on trial (pilot) reporting related to the deficit overrun procedure is in progress and significant improvement in this segment is expected in the coming period.

The Tax Administration Transformation Programme for the period 2015-2020 was adopted in June 2015, and it includes quarterly performance indicators for assessing compliance with the targets. The inadequate organization of the Tax Administration's operations and its processes, with an inadequate number and structure of human resources and the lack of a proper risk assessment system, had prevented the focusing of the limited resources to taxpayers who are most likely to be non-compliant. On the other hand, the manner in which the Tax Administration has functioned so far often had negative effects on the taxpayers who are fully compliant and meet their obligations to the state in a timely fashion, through non-uniform practice in interpreting tax regulations, complicated administrative procedures, which all resulted in a rise of the costs and risks of doing business in Serbia. The draft PFR programme and the TA transformation programme provide for, *inter alia*, the establishment of special organizational units for rendering services to taxpayers in order to improve communication and interaction with taxpayers, including the timely provision of updated information on changes in laws and regulations.

Bearing in mind that foreign economic relations are based on an open, export-oriented economy and active integration into the international economic flows, the customs system and policy will be designed in accordance with the above principles, in order to increase the competitiveness of the economy on the global market, and attract foreign investment. Further harmonization of regulations with the EU customs regulations and WTO rules is expected, hence it is planned to:

- Harmonize the Customs Law and relevant regulations with the new Customs Law of the Union (which enters into force in May 2016) and the secondary legislation for its implementation, as well as WTO rules;
- Align the Free Zones Law with the Customs Law;
- Adopt a new Law on Customs Tariffs after Serbia's accession to the membership of the World Trade Organization, in order to transpose the consolidated tariff schedules agreed in the negotiations with WTO members;
- Adopt a Decree on the Harmonization of the Customs Tariff Nomenclature (annually) for the purpose of harmonization with the Combined Nomenclature of the EU and transposition of preferential tariff rates in accordance with all free trade agreements that the Republic of Serbia has concluded.

IV. STRUCTURAL REFORM PRIORITIES 2016-2018

1. Identification of Key Obstacles to Growth and Competitiveness

Although the positive effects of fiscal consolidation have stabilised the macroeconomic environment, their long-term sustainability depends on the reforms that would balance the structure of the economy and remove obstacles to employment and income growth, thus enabling the activation of Serbia's competitive advantages towards a more sustainable growth model. Within individual areas relevant for the improvement of competitiveness, major obstacles have been identified that need to be removed through structural reforms in the next three years.

Key barriers have been identified in certain areas on the basis of all available analyses and data.

The outdated and inadequate system of public finance management reduces the efficiency of budget spending, efficiency of public investment and also affects tax collection and services provided for businesses and citizens.

In the area of physical infrastructure, incomplete and insufficiently modernised transport infrastructure restricts the connection with surrounding markets and increases the costs associated with transport, which greatly discourages potential investments and increases regional development disparities. In the field of energy stability, the long-standing lack of investment in energy capacities increased import dependence and risks that affect the functioning of the energy system. In terms of the energy market, there is considerable scope for greater diversification of energy sources. In terms of communications infrastructure, there is a need to cover the territory of Serbia with a broadband internet network, which would improve access to information and participation in digital trends.

With regard to the development of individual economic sectors, key barriers were identified in agriculture, industrial production and services. The issues in the agriculture sector are related to the unfavourable structure of agricultural holdings (fragmented small-sized agricultural holdings without enough incentives for land consolidation), a poor choice of crops and low yields as a result of technical and technological obsolescence and fragmented holdings in households which tend to rely on extensive production, as well as a low degree of processing in the existing food industry. These problems are partly a result of insufficient funding earmarked for agriculture and rural development. The industrial production in Serbia, which is crucial for restoring the structural imbalance in foreign trade, is generally underdeveloped compared to the overall structure of the economy. In this regard, the main challenges in terms of improving the competitiveness of industrial production are technological upgrading of production and focus on high value-added products. It is necessary to develop market mechanisms and competition, and focus industrial policy on consistent and targeted industrial development with the support of an efficient management system for the promotion of investment and exports.

In the area of business environment the following key challenges in terms of competitiveness were identified: insufficient access to finance for small and medium-sized enterprises due to problems related to the supply of and demand for financial instruments, inadequate corporate governance systems in public enterprises, but also problematic corporate and financial structures in the operation of some of the largest public enterprises (EPS, Železnice Srbije, Srbijagas). In addition, a coherent legal framework which regulates fees (types, amounts and method of collecting and distributing) is missing, the system of inspection oversight is inadequate, and the system of issuing building permits is inefficient. The legal framework generates unnecessary administrative costs due to prolonged, complicated and non-transparent procedures related to the operations of business entities with regard to their relations with the public administration. One of the challenges faced by the business environment is the underdeveloped implementation of public-private partnerships as a means of financing investments in activities of general interest.

Key issues in the area of technological absorption and innovations are: low allocations for R&D and innovation, lack of cooperation between the science and business sectors in terms of commercialisation of research and innovative projects, lack of researchers ('brain drain'), absence of an institutional framework for supporting innovation and unreliable funding of scientific and research organisations.

In the area of trade integration, key challenges are related to the harmonisation of technical regulations in order to improve the quality infrastructure and non-price export competitiveness of the Serbian economy.

High structural unemployment (especially youth unemployment) and a great share of the long-term unemployed in the overall unemployed population, high inactivity rate of the working-age population, a large discrepancy between the available human capital and economic needs, lack of gender equality, as well as the limited scope of active employment policy measures are the main problems and challenges faced by the labour market in Serbia.

There is considerable scope for enhancing the quality of social protection in the existing financial framework in order to absorb adverse effects of fiscal consolidation and structural reforms on the society. The main challenges in this area are widespread poverty, insufficient coverage and inadequacy of means-tested cash benefits, low quality of services accompanied by poor mechanisms of oversight, regulation, monitoring and evaluation, as well as the uneven availability of social protection services.

The priority structural reforms outlined in Section 2 have been defined on the basis of major obstacles to competitiveness.

During the prioritisation of reforms, attention was paid to the efficiency of removing key structural problems and the macro-fiscal framework laid down in the Fiscal Strategy and the Agreement with the IMF i.e. the three-year scenario concerning the overall budget expenditure but also the limitations in terms of administrative capacity for the consistent implementation of reforms. In addition, the recommendations following the Economic and Financial Dialogue between EU member states and the Western Balkans and Turkey held in May 2015 were taken into account, as well as the recommendations and findings of the EC 2015 Progress Report for Serbia.

2. Priority Structural Reforms by Area

PUBLIC FINANCE MANAGEMENT

Key challenges in the area of public finance management are: 1. high tax evasion, i.e. high level of grey economy as a consequence of outdated organisation and work methodology of the Tax Administration, inefficient control mechanisms, identification and collection of taxes and other public revenues; 2. poor realisation of capital investments and room for more efficient management of other budget funds, which comes as a consequence of deficiencies in the budget planning system applied by the public administration, as well as inadequate project feasibility assessment, planning, implementation and monitoring.

The high level of grey economy, which is estimated at approximately 30% of GDP in Serbia[9], has a negative impact on the budget deficit, but it also negatively affects the business and investment environment. It is mainly a consequence of an inefficient mechanism of control, identification and collection of taxes and other public revenues. Inadequate organisation of work and processes in the Tax Administration, accompanied by an inappropriate level and structure of human resources and lack of an appropriate risk assessment system have obstructed the limited number of staff to focus on those taxpayers that demonstrate the greatest non-compliance with tax legislation.

Inefficient implementation of planned public investments, for which funding has been secured and that are economically justified, hinders competitiveness. More precisely, it impedes improving the overall capacity of infrastructure and other positive effects of the construction process itself. The implementation of most projects faced numerous problems: starting from inadequate project documentation, difficulties regarding land expropriation, ineffective control of contractors and their outputs leading not only to pushing deadlines but also to increased costs, slow issuing of permits, etc. Inappropriate, unprofessional and non-credible conduct, as well as lack of accountability for assumed obligations is present at all levels and in all phases of implementation. This stems from the fact that the system of planning and monitoring of capital investments is not systematically regulated and organised.

Reform activities affecting various PFM subsystems are foreseen in the *Public Finance Management Reform Programme* 2016-2020 adopted in November 2015, which is covered by the *Public Administration Reform Strategy of the Republic of Serbia*. The Program foresees improvements in the following six areas: Sustainable medium-term macro-fiscal and budgetary framework; Planning and budgeting of public expenditures; Efficient and effective budget execution; Effective financial control; Accounting, monitoring and financial reporting and External scrutiny of public finances. Strengthening of the PFM system will lead to a better transparency of public spending and a lower risk of corruptive behaviour and will contribute to creating a favourable investment climate in the Republic of Serbia.

A detailed plan for Tax Administration reform is presented in the *Tax Administration Transformation Programme for 2015-2020,* which was adopted in June 2015. This programme

9 By applying the MIMIC method (*multiple indicators, multiple causes estimation*), the scope of grey economy is estimated at 30.1% GDP in 2010. Following a HTC method (*household tax compliance*), grey economy is estimated at 24% of GDP in 2010; according to the Survey on business conditions for enterprises and entrepreneurs, which is based on the product turnover and partial or complete undeclared work, the grey economy figure is 21% of GDP in 2013. Source: FREN, 2013, 'Grey Economy in Serbia: New Findings and Reform Recommendations'

foresees further simplification and unification of the tax administration and better training of staff, as well as improvement of operational activities aimed at curbing the grey economy, which is in line with recommendations given by the EC (EC 2015 Progress Report for Serbia, p. 50). In addition to more efficient tax collection, the planned reform will result in a reduced administrative burden of the tax collection process, thus upgrading this element of the business environment in Serbia (more details are provided in the Business Environment section).

Priority structural reform 1. *TAX ADMINISTRATION TRANSFORMATION*

Structural reform outline

This reform includes a number of institutional, organisational and HR-related changes defined in the *Tax Administration Transformation Programme for 2015-2020* that will lead to the establishment of appropriate organisational, staff and technical-technological infrastructure within the Tax Administration, accompanied by improved efficiency and effectiveness of business processes. The measure is recognized as a priority in *the Public Financial Management Reform Program 2016 -2020* as part of reform activities under Pillar III "*Efficient and effective budget execution*". The main goal of the envisaged measures is to create an institutional framework that will stimulate taxpayers to comply with the tax legislation and at the same time efficiently detect and penalise tax evasion in a systematic manner.

Current structural reform preparation status and implementation plan

The scope of work of the Tax Administration of the Republic of Serbia is defined by the Law on the Tax Procedure and Tax Administration, which has enabled electronic submission of tax and social insurance contribution declarations as one of the major preconditions for modernisation of the Tax Administration operations. The Tax Administration has set up and is continually developing a data centre for consolidated reporting and usage of data for other analytical purposes (conversion, mapping, etc.). Introduction of electronic services enabled taxpayers to electronically perform a large number of procedures for preparation and payment of taxes, which contributes to more transparent operations of tax authorities and simplified tax procedures reflected in a reduced number of tax declarations and an optimised timeframe for submission and verification of calculated and paid taxes. This has resulted in lower costs for tax compliance and improved tax collection. Full application of electronic services for all types of taxes for business entities is expected by 2017.

The following activities have been planned for 2016: developing a plan for tax procedure compliance and a plan for retaining quality employees, adopting a new organisational structure and redesigning a human resources management system, and establishing a new risk management system. The transformed Tax Administration will start the implementation of activities in 2017 which should improve oversight and collection, tax and legal affairs and non-tax functions, as well as improve the efficiency of managing material and IT resources.

Budgetary implications of the structural reform

This structural reform requires EUR 11,395,228 for the period 2016-2018. In compliance with the 2016 Budget Law, the said amount is identified for the current and two subsequent fiscal years as follows: for 2016 – EUR 3,798,350 and for each of the following two years - EUR 3,798,439. Positive budgetary implications will be created through improved tax collection, particularly for indirect taxation, due to a decrease in grey economy (estimated additional annual revenue is approximately 0.25% GDP), which yields estimated positive effects per annum: EUR 17 million in 2016, EUR 20 million in 2017 and EUR 25 million in 2018.

Risks in priority structural reform implementation

The following key risks have been identified in relation to Tax Administration transformation: limited financial resources for the implementation of the transformation programme and inadequate professional capacities for introducing reforms. A particular risk is also maintaining the staffing level in the IT division due to wage competition from the private sector.

Expected impact on competitiveness

Tax Administration transformation should establish a modern and efficient administration which will upgrade the tax collection and thus contribute to stable public finances and increase the fiscal scope for investments. This reform will also ensure easier and fair business conditions as well as lower burdens, i.e. costs related to the payment of taxes to be borne by taxpayers and better communication between taxpayers and the Tax Administration (more details are provided in the Business Environment section).

Expected social impact

The creation of a cost-effective and efficient institutional mechanism for public revenue collection will have a limited positive impact on standards and rights related to working conditions. Indirectly, improved collection will lead to a potentially better quality of public services and improved infrastructure.

Structural reform implementation monitoring indicators

1) Composite indicator of tax collection efficiency and effectiveness – BV: (), TV: ()[10].
- Newly registered taxpayers (annually)
- Annual growth of newly discovered revenues
- Performance against the target collection level.

Priority structural reform 2. *IMPROVED MANAGEMENT OF CAPITAL INVESTMENTS*

Structural reform outline

Setting up a single platform for planning capital projects/investments and a methodology for analysis and planning of capital projects/investments is aimed at strengthening the mechanisms for managing capital investments. This platform will introduce the practice that all potential projects are first subject to cost-benefit analysis and then prioritised. Planning of public investments includes: assessment of proposed capital projects by budget beneficiaries and development of the implementation plan, synchronisation of planning, selection of capital projects/investments regardless of the source of funding (central of local government budget, EU funds and other sources) and ultimately, monitoring the implementation of approved capital projects aimed at timely detection and removal of obstacles and more efficient risk management. Capital project management is covered by *the Public Finance Management Reform Programme for 2016-2020* as part of reform measures under pillar II "*Planning and budgeting of public expenditures*". The process will also take into account current activities of the National Investment Committee (NIC) established in 2014.

Current structural reform preparation status and implementation plan

The institutional framework has been improved by setting up a Division for Assessment of Capital Projects in the Ministry of Finance. Based on the analysis of the current situation related

10 A methodology for the computation of the composite indicator, as well as its baseline and target values, is being developed; hence, these values will be set at a later date.

to planning of capital projects from all sources of funding, a Report with recommendations for improvement of capital investment management has been developed. Preparation of the Decree on the Content, Manner and Assessment of Capital Projects is under way in order to further regulate this area in methodological and procedural terms.

The following activities have been planned for 2016: adoption of the Decree on the Content, Manner and Assessment as well as monitoring the implementation and reporting on the implementation of capital projects; adoption of the methodology and guidelines for the implementation of the Decree; preparation of training modules for budget beneficiaries and the beginning of the pilot phase of evaluation of capital projects. During 2017, the training of budget beneficiaries will be carried out, and the remaining methodologies for the implementation of the Decree will be adopted. Implementation and updating of a uniform database of capital projects and evaluation of capital projects by budget beneficiaries and the Ministry of Finance will start during 2017 and will be implemented continuously in the following period.

Budgetary implications of the structural reform
Implementation of this reform will be financed from regular budget expenditures of the Ministry of Finance. Improved management of capital investments will ensure an indirect positive impact on the budget on the grounds of taxes, but it will also enable budget savings stemming from lower fees paid for poor withdrawal of loans and a lower amount of unplanned additional expenses for implementation of works. These positive effects are estimated at EUR 20 million in 2017 and EUR 30 million in 2018. Funds for the software development and the supporting technical assistance have been ensured from World Bank resources in the amount of EUR 161,626.

Risks in priority structural reform implementation
Lack of a modern human resource management system, which results in an outflow of expert staff for the assessment and prioritisation of proposed projects and subsequent project management present the key risk for reforms in this area of public finance management.

Expected impact on competitiveness
Improved implementation of capital/public investments is an anti-recession and development-spurring economic policy measure that produces significant positive effects in a short term and has a positive impact on economic growth, much more so than other public expenditures. In addition to direct effects on employment and growth fuelled by implementation of capital projects, the upgraded quality of physical capital, in particular transport and communication infrastructure, reduces the time of transport, lowers costs, increases competitiveness of the national economy and creates conditions for its quicker recovery (more details are available in the Infrastructure section).

Expected social impact
More efficient planning, monitoring and implementation of capital, in particular, infrastructure projects have a neutral impact on society. Some positive, indirect social effects can be expected in terms of stronger local demand for certain profiles on the labour market and improved (geographical) distribution of goods and services.

Structural reform implementation monitoring indicators
1) Percentage of implementation of planned investments – BV: 40% (2015), TV: 70% (2018).

INFRASTRUCTURE

Key weaknesses in the area of physical infrastructure are reflected in insufficient connectivity, high transport costs, and underutilised capacities for better communication links. In addition, in the energy field, the problems are reflected in an insufficient diversification of energy sources and increased import dependence due to the long-term lack of investment in new capacities.

The Republic of Serbia is a country with medium population density and a well-developed road network. The overall road network (40,845 km of state roads) is well developed and, although its quality is impaired owing to inadequate investment and maintenance in the period 1990-2000, the network has sufficient capacity for the present transport volume and the assessed transport volume in the medium-term, **but its construction has not been completed in terms of technical and operational performance and it is not capable of delivering the service level compliant with European standards**. The road density of 6.2 km per 1,000 people lags significantly behind the EU-28 average (12.1 km), while, in regional terms, it exceeds only the values for Bosnia and Herzegovina and Albania. By motorisation rate, Serbia is among the European countries motorised to an above-average degree. Corridor 10 (road and rail) and Corridor 7 (Danube waterway) form the basis of the transport system in Serbia. The road and rail route E-763 Belgrade - south Adriatic, i.e. the E-79 railway line, is also of high importance.

Serbia has an obsolete railway network with 3,819 km of railway network. One third of the railway network is electrified and only 7.4% of the railway lines are double-track. The rail passenger transport services volume in Serbia recorded a decline, at only 63 pkm per capita in 2014. In order to improve the railway network and the overall rail transport service, in addition to implementing infrastructure capacity improvement projects, it is of primary importance to reorganise the Public Enterprise Železnice Srbije (Serbian Railways) in accordance with the principles of efficient and sustainable operation (for more information, see section Business Environment**:** Reform of Public Enterprises). During 2015, works were carried out on the road Corridor 10, in accordance with the priority measure 3.1.1. NERP 2015, whereby 22.5 km were constructed (of which 10 km in one direction only) out of a total of 86.9 km of the eastern part of Corridor 10 (E-80), to be finished by the end of 2016, and 38.9 km out of a total of 74.2 km of the southern part of corridor 10 (E-75), to be finished until March 2017.

The non-upgraded and dilapidated road infrastructure and the increase in road transport volume affect declining **transport safety**, rising costs due to reduced throughput on key road routes, and increasing adverse environmental impact. Although it has been reduced, the number of fatalities in transport accidents remains relatively high in Serbia (650 in 2013). The *Strategy for Road Transport Safety in the Republic of Serbia in the period 2015-2020* was adopted in mid-2015. The regulations on lorry drivers' driving time and rest periods in domestic transport have not been fully adopted and/or amended yet. The Law on Working Hours of Road Transport Vehicle Crew and Tachographs, which is largely aligned with the relevant *acquis* in this area, was passed by the National Assembly on 20 November 2015. However, further alignment with the road safety and dangerous goods *acquis* is still necessary (*EC 2015 Progress Report for Serbia, p. 41).*

The **inadequate safety and development level of inland waterway transport** hampers the use of this economically advantageous mode of transport in Serbia.

The transport network through Serbia is being built in accordance with the goals of the *Strategy of Railway, Road, Inland Waterway, Air and Intermodal Transport Development in the Republic* *of Serbia 2008-2015* and *the Railway, Road, Inland Waterway, Air and Intermodal Transport Development Plan in the Republic of Serbia 2015-2020*. In accordance with these documents, intensifying activities for each mode of transport entails: building, modernising and improving the maintenance of the existing infrastructure; improving domestic carriers' competitiveness; defining a sustainable funding modality; introducing cost rationalisation measures; faster public enterprise restructuring; and introducing and implementing intelligent transport systems (ITS), which will ensure more efficient and cost-effective movement of passengers and goods in all modes of transport.

The electric power system is characterised by **obsolete, inefficient generation capacities and lack of investments in new energy capacities and in the system of preventive protection of the electro-energy system** (the average age of the entire installed generation capacity in thermal and hydroelectric power plants of the Public Enterprise Elektroprivreda Srbije (Electric Power Industry of Serbia – PE EPS) exceeds 25 years). In order for PE EPS to be able to meet the increased electric power demand, the construction of a new B3 unit (350 MW) in Kostolac Thermal Power Plant is planned, amongst others. The construction of 'Trans-Balkan Corridor', a 400 kV power transmission system that will link eastern and western European markets, will contribute significantly to improving energy stability and raising the profile of the Serbian electric power industry.

In Serbia, **gas infrastructure** is characterised by a pipeline transport system for natural gas, with a single point of entry into the country, which is unfavourable from the aspect of energy security and market development. The domestic natural gas market is small in terms of volume and burdened with numerous problems: gas pipeline network not covering all parts of the country, high transit costs, economically disadvantageous terms of procurement in the European market, large existing debt to suppliers etc. In order for this sector to develop, it is essential to provide interconnectors with neighbouring countries, which would create the possibility of transporting natural gas via other supply routes, primarily from the direction of Bulgaria. This is consistent with the European Commission recommendation to accelerate preparatory works on building a gas interconnector between Serbia and Bulgaria in order to diversify Serbia's gas supply *(EC 2015 Progress Report for Serbia, p. 42).* Ensuring competitiveness in the energy market in accordance with the principles of non-discrimination, openness to the public and transparency, by developing electric power and natural gas markets and linking them with the single EU energy market, as well as by more intensive linking of the Republic of Serbia's energy system with other countries' energy systems, is one of the goals under the *Agreement with the IMF*.

Serbia's own oil production accounts for a relatively low share of the total demand, and imports from one single supply route are prevalent, which **renders the economy = highly dependent on oil and oil derivatives.** In the coming period, developments in the area of oil and oil derivatives transport entail, in particular, activities on a strategic development project aimed at building a refined products pipeline system through Serbia. Serbia has undertaken to implement Directive 2009/119/EC, imposing an obligation to maintain minimum stocks of crude oil and/or petroleum products, by 31 December 2022 at the latest. In line with fulfilling this commitment, the Law on Commodity Reserves was passed in December 2013 (Official Gazette Nos 104/13 and 145/14 – amended by another law). One of the opening benchmarks under Chapter 15 is that the Republic of Serbia should submit an Action Plan on the alignment with the *acquis* on minimum stocks of crude oil and petroleum products in conformity with the Directive. All executive and professional affairs in this area are managed by the Directorate for Energy Stocks within the Ministry of Mining and Energy, established by the Energy Law of December 2014.

Given that Serbia is still at an early stage of alignment with the *acquis*, it cannot provide precise information about its oil stock levels (*EC 2015 Progress Report for Serbia, p. 42).*

The establishment of the Budget Fund for Energy Efficiency Improvement has yielded limited results, since modest funding has been provided for its operation. To date, through the Fund's operation, 11 contracts on the implementation of energy efficiency improvement projects have been signed with local government units. The introduction of energy managers should provide insight into the state of affairs in the area of energy efficiency in municipalities, which will be required to achieve the stipulated energy savings, monitor them and report to the line ministry (*EC 2015 Progress Report for Serbia, p. 42).* Also, the relatively low electric energy price provides an insufficient incentive for energy efficiency.

Pursuant to Article 3 of the Energy Law, the key strategic documents governing and implementing the energy policy are the Energy Development Strategy, the Strategy Implementation Programme and the Energy Balance. *The Serbia Energy Development Strategy until 2025 with Projections until 2030* was adopted by the National Assembly on 4 December 2015. The document defines the key Serbian energy sector development priorities: enhancing energy security, energy market development and overall transition to sustainable energy. It also defines the main strategic courses of action and estimates the funding required for all energy areas: electric power, heat, renewable energy sources, coal, oil, gas, energy efficiency. In accordance with Articles 5 and 6 of the Energy Law, following adoption of the Serbia Energy Development Strategy until 2025 with Projections until 2030, the Ministry competent for the area of energy is required to prepare a Proposal for a Strategy Implementation Programme, covering a period of six years. In 2016, the Ministry competent for the area of energy will prepare a Proposal for a Strategy Implementation Programme 2017-2022, which will elaborate all measures, projects and activities, required funding and implementation schedule for all energy areas. The prepared Proposal for a Strategy Implementation Programme 2017-2022 will be submitted to the Government to adopt an instrument endorsing this programme.

The communications infrastructure in the Republic of Serbia consists of the sum of all electronic communications resources (technological, organisational and business, publicly or privately owned) providing for electronic communications for all citizens, businesses and the public sector. **This field needs to be systematically regulated through enhanced legislation and public investments,** in order for Serbia to reach the level of EU countries regarding internet bandwidth. Administrative costs need to be reduced, procedures for obtaining the required permits for the construction of optical networks need to be simplified, and the joint use of existing available capacities needs to be enabled. The harmonisation of the national legislative framework in the field of electronic communications with Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks will contribute to this. The adoption of the Law on Broadband Access will regulate the conditions and method of developing broadband access, including the construction of a national optical broadband network across the territory of the Republic of Serbia.

There are **underutilised existing optical system networks** in Serbia, thus it is necessary to provide the conditions for their use. The existing state-owned capacities (primarily PE Elektroprivreda Srbije, PE Elektromreža Srbije, PE Pošta Srbije, Železnice Srbije A.D., Emisiona tehnika i veze A.D. (broadcasting infrastructure operator)) and the capacities required for the more efficient provision of public services indicate the need for the efficient use of existing capacities, their maintenance and further development. An 80-node network of optical cables is currently unused, built along the network of power lines with a total length of 6,000 km. This network represents the backbone for establishing a national broadband network. State and local institutions can be connected using existing nodes.

In addition to administrative bodies, educational, scientific and cultural institutions also lag considerably behind developed countries in regards to ICT infrastructure. The existing equipment is frequently inadequately utilised, since **there is no standardised communication infrastructure that would provide for the rapid, reliable and secure connection of all institutional users to the internet.** *The Academic Network of the Republic of Serbia (AMRES)*, with its developed optical infrastructure across over 50 cities in Serbia and established international optical links, is an institution with a built-up professional and technological capacity that could be the basis for further development of ICT in education. Only higher education institutions are currently connected to the AMRES network. Conditions should be created for connecting primary and secondary schools, student standards facilities, museums, libraries, archives and other institutions to this network during the coming period.

Since it is believed that investments in the sector of electronic communications will become one of the key stimuli for the growth of GDP, the reduction of the unemployment rate and the modernisation of society, the Digital Agenda for Europe envisages that by the end of 2020 a full 100% of the EU population will have broadband access, with speeds exceeding 30Mbit/s, i.e. 50% of the population will have access to high speed broadband connections (with speeds exceeding 100 Mbit/s). In 2014 a total of 78% of all households in EU-28 had broadband access to the internet (according to Eurostat), while in Serbia only 55% of the households did (source: SORS). By 2020 Serbia should reach and match the EU level for broadband internet access as defined in the Digital Agenda for the Republic of Serbia, comprised of *the Strategy for Information Society Development in the Republic of Serbia by 2020,* and *the Strategy for the Development of Electronic Communications in the Republic of Serbia 2010-2020*.

The NERP 2015 measure which relates to *Ensuring environmental sustainability through proper management of natural resources and reducing pollution* in three interrelated areas (Development and Improvement of Waste Management Systems; Improvement of Water Management - water supply and waste water management; Improving Air Quality by Reducing Harmful Emissions) was intensively implemented during 2015. A regional waste management centre is being established in Subotica through IPA 2012 funds. The major design and the necessary technical documentation were completed in September 2015, and works started in November 2015.

Within the process of harmonisation of national legislation with international standards in the field of hazardous waste, the following documents are being drafted: Studies of institutional organisation of the hazardous waste management system in the Republic of Serbia and work plans for the development of Specific plans for particular waste streams and an integrated management plan for specific waste streams. For this purpose, in 2015, four workshops were held by foreign experts and representatives of the Ministry of Agriculture and Environmental Protection, and representatives of other bodies and organisations involved in this process.

For the improvement of the water management system, systematic monitoring of the quality of surface and ground waters and sediments was carried out in 2015. Methods for controlling hazardous and harmful substances in the soil were introduced into regular analytical work. Soil sampling was performed at defined locations. The total number of samples taken for physical and chemical indicators of water and sediment quality was 1,357 (until 30 October 2015).

For the improvement of air quality, annual monitoring of air quality in the urban network of measuring stations was conducted in 2015. A total of 18 contracts were concluded with the authorised legal entities that performed the measurements. According to the signed contracts, the overall funding allocated to this activity amounted to EUR 132,992 without VAT. There were 162 monthly reports submitted in the period January-September 2015, out of a total of 216. A functional National Laboratory was established and the calibration of gas analysers was performed in the national network of stations for automatic air quality monitoring. Professional and competent staff trained to perform complex and highly specialised analytical procedures were employed in the National Laboratory as a prerequisite for the efficient functioning of the body. In 2015, the Laboratory took part in an inter-laboratory comparison in the reference laboratory EU-JRC, ISPRA, Italy, which is a necessary precondition for the accreditation.

Priority structural reform 3. *IMPROVE PHYSICAL INFRASTRUCTURE FOR BETTER CONNECTION WITH EU AND REGIONAL MARKETS*

Linking road and railway routes to the transport system of European countries and connecting systems for the transmission of electricity and gas are very important for the development of the entire economy and improved competitive position of Serbia. This reform will be implemented through investment projects for road-railway Corridor 10, E-763 motorway, Belgrade-South Adriatic motorway, Niš-Dimitrovgrad trunk gas pipeline and the Trans-Balkan corridor.

Corridor 10 is a key pan-European transport corridor that passes through Serbia and links Austria, Hungary, Slovenia, Croatia, Serbia, Bulgaria, Macedonia and Greece. The implementation of this project will lead to an overall acceleration of transit transport, service level enhancement, facilitation of international trade flows and passenger transport. The construction of a new motorway will have a positive impact on commercial and trade activities in the region and contribute considerably to regional development and cohesion of the wider Balkan area. Through this project, the Republic of Serbia's transport system becomes compatible with the European Union transport system, with the tendency of further modernisation in accordance with European Union standards in the transport area. In Serbia, Corridor 10 comprises a road corridor (835 km) and a rail corridor (769.3 km).

The road Corridor 10 is being built under the following projects: the *North* project – motorway from the Hungarian border to Novi Sad (E-75 – 108 km), the *South* project – from Niš to the Macedonian border (E-75 – 152 km), the *East* project – from Niš to the Bulgarian border (E-80 – 86.9 km) and the *Belgrade Bypass Motorway* project.

The *Belgrade-Budapest Railway Reconstruction (Modernisation) Project* is among the key infrastructure projects in the coming period. The trilateral memorandum on cooperation among China, Hungary and Serbia pertaining to the Belgrade-Budapest railway line construction was signed at the summit of China and central and eastern European countries ('16+1') in November 2015.

Another project is the construction of the Žeželj Bridge near Novi Sad, on the route of the international railway line Belgrade-Novi Sad-Subotica-state border with Hungary.

Finally, the next project on rail Corridor 10 in Serbia is *Modernisation and Rehabilitation of the Niš- Preševo Section of the Niš-Brestovac Single-Track Railway Line*.

Project 3.1. *E-75 AND E-80 MOTORWAY CONSTRUCTION (Corridor 10)*

Structural reform outline

The construction of the E-80 motorway (Niš-border with Bulgaria) will provide better links between south-eastern Serbia, on the one hand, and western, central and southern Serbia and the Timok-Danube basin, on the other. The southern stretch of E-75 comprises the construction of a motorway between Grdelica and Levosoje. Project implementation will result in more efficient transport and improved transport safety on the sections covered by the project. The deadline for the completion of road infrastructure on Corridor 10 is March 2017.

Current structural reform preparation status and implementation plan

The current situation assessment indicates that the works completion rate on the southern stretch: Grabovnica-Levosoje is approximately 43%, and on the eastern stretch: Prosek-border with Bulgaria – 57.1%, with the overall Corridor 10 completion rate of 49.7%. The remaining time for the completion of works is 17 months. Design and procurement and installation of equipment for the Predejane and Manajle tunnels will be performed subsequently (costs envisaged in 2017).

Construction of the sections of E-75 and E-80 highways is expected to be completed in March 2017; this will be followed by design and equipment installation in the tunnels on the southern stretch. The contractor selection procedure for the tunnels on the eastern stretch is under way and will be followed by the procedure for the Bancarevo and Sopot tunnels.

Budgetary implications of the structural reform

The total funds to be borrowed for E-75 and E-80 project implementation amount to EUR 1,004,200,000. The estimated value of the works amounts to EUR 872.5 million (as of October 2015, the expenditures amounted to EUR 377.5 million, and EUR 495 million is planned for the next two years). The costs of technical supervision, environmental supervision and occupational safety, as well as the costs of financial audit, procurement of transport safety equipment etc. are to be covered from the remaining EUR 131.7 million of loan. Under the 2016 Budget Law, EUR 4,065,040 has been earmarked for the construction of Lot 1: Srpska kuća-Levosoje section (8 km) and EUR 1,626,016 for Lot 2: Donji Neradovac-Srpska kuća section (0.8 km).

Risks in priority structural reform implementation

Key risks in implementation of this reform are the untimely provision of funds in the Republic of Serbia budget, expropriation problems and tunnel equipment contracting problems.

Expected impact on competitiveness

By integration in the Trans-European Transport Network, in view of its geographical position, Serbia will attract international goods and passenger flows and continue its development as a key transit country, owing to shorter travelling times and reduced transport costs. By rerouting transit flows away from urban zones, transport efficiency will be raised and road users' costs reduced.

Expected social impact

In the short term, motorway construction will have a positive social impact by raising the local population's employment in construction-related jobs. In the longer term, modern transport infrastructure ensures better geographical links, wider availability of goods and services and labour force mobility. Transport safety will be enhanced and travelling times reduced.

Structural reform implementation monitoring indicators

1) Weighted percentage of E-75 motorway physical completion: BV – 52% (October 2015), TV – 100% (2017)
2) Weighted percentage of E-80 motorway physical completion: BV – 49% (October 2015), TV – 100% (2017)

Project 3.2. *CONSTRUCTION OF THE ŽEŽELJ BRIDGE NEAR NOVI SAD WITH SLIP ROADS* ***(Corridor 10)***

Structural reform outline

The bridge is located on the route of the international railway line Belgrade-Novi Sad-Subotica-state border with Hungary, from km 75+083 to km 75+557 (Corridor 10) and is part of the Belgrade-Budapest Railway Reconstruction Project. The designed bridge is 474 m long and features two 160 km/h railway tracks, two road lanes 7.7 m in width and two pedestrian/cycling lanes 2.5 m in width.

Current structural reform preparation status and implementation plan

The project is implemented under two contracts: Basic Contract for *Lot 1*, comprising procurement of materials, manufacturing of all steel elements and transport to the construction site in Novi Sad, and Basic Contract for *Lot 2*, comprising the construction of foundations and piers, assembly of steel elements, installation of hanging trusses, positioning arches in the design position on piers, construction of the concrete bridge deck and dismantling of the temporary MD 88 bridge. Slip road construction is governed by a separate contract. To date, 96% of the works under Lot 1 and 46% of the works under Lot 2 has been performed. The works on slip roads are under preparation.

The construction of the road-railway Žeželj Bridge near Novi Sad with slip roads is planned to start in the first quarter of 2016 and to be completed in the beginning of 2017, while the construction of slip roads is expected to finish in the second quarter of 2017.

Budgetary implications of the structural reform

The investment value is EUR 45,310,001; EUR 26,231,079 has been earmarked under IPA 2009 for the fulfilment of the Contract for Lot 1, while EUR 6,359,640 has been earmarked from the City of Novi Sad budget and EUR 12,719,281 from the Autonomous Province of Vojvodina budget for the fulfilment of the Contract for Lot 2. In 2015, by Addendum 1 to the Basic Contract, an additional EUR 3 million was provided from the City of Novi Sad and Autonomous Province of Vojvodina budgets. Slip road construction is funded under IPA 2011/IPA 2015. Under the 2016 Budget Law, EUR 4,878,049 is foreseen for Žeželj Bridge construction.

Risks in priority structural reform implementation

The key risk for this structural reform is failure to ensure continuity in the performance of works.

Expected impact on competitiveness

The construction of the new Žeželj Bridge will restore the normal functioning of railway transport on Corridor 10 (which currently runs on a temporary bridge, at speeds up to 20 km/h) and reduce travelling times.

Expected social impact

The key social impact is reflected in enhanced safety and, in the short term, increase in local population's employment in construction-related activities. In the longer term, the project will have an impact on better geographical links, wider availability of goods and services and labour force mobility.

Priority structural reform implementation monitoring indicators

1) Bridge built by the planned deadline (end 2017)
2) Slip roads built by the planned deadline (end 2017)

Project 3.3. *BELGRADE-SUBOTICA-KELEBIJA (STATE BORDER WITH HUNGARY) RAILWAY LINE MODERNISATION (CORRIDOR 10)*

Structural reform outline

The modernisation of the existing railway line into a double-track electrified railway line for passenger and freight transport equipped with modern electrotechnical devices, enabling speeds up to 200 km/h, will ensure high safety and service levels in domestic and international passenger and freight transport. The railway line is part of an indicative extension of the Trans-European Transport Network. The governments of China, Serbia, Hungary and Macedonia have signed the *Agreement on Railway Transport Modernisation*, which prioritises the construction of the Belgrade-Budapest high-speed railway. The part of the *Strategy of Railway, Road, Inland Waterway, Air and Intermodal Transport Development in the Republic of Serbia 2008-2015* relating to railway transport foresees agreements with neighbouring countries with the aim of raising the average speed and railway competitiveness.

Current structural reform preparation status and implementation plan

The required planning and technical documentation is under preparation. The drafting of the documentation and preliminary design is expected to be completed by the end of 2016, contracting in accordance with the defined model in the second quarter of 2017, while the Stara Pazova-Novi Sad section, which is financed from the Russian loan, should be completed at the end of 2017.

Budgetary implications of the structural reform

Under the 2016 Budget Law, funds amounting to EUR 9 million are foreseen, as well as EUR 40 million in 2017.

Risks in priority structural reform implementation

Key risks for the implementation of this structural reform are the untimely provision of funds for the works and problems related to land expropriation.

Expected impact on competitiveness

A modernised double-track high-speed railway line will reduce the Budapest-Belgrade travelling time from 8 hours to less than 3 hours, which will facilitate an increase in the volume of international passenger and goods flows, as well as the creation of conditions conducive to economic development and investments in the areas served by the railway corridor. This will also contribute to higher competitiveness of railway compared to road transport, which is currently the primary mode of transport in this part of Serbia.

Expected social impact
Positive impact of railway modernisation is reflected in enhanced safety and improved links among settlements along the railway corridor by grade-separation of railway crossings. Also, better labour market integration and increased employment of the local population are anticipated, owing to easier labour force mobility.

Structural reform implementation monitoring indicators
1) Design developed in order to obtain a construction permit.

Project 3.4. *MODERNISATION AND REHABILITATION OF THE NIŠ-BRESTOVAC SECTION OF THE NIŠ-PREŠEVO SINGLE-TRACK RAILWAY LINE* (Corridor 10)

Structural reform outline
The single-track railway line Niš-Preševo (151 km) is part of the oldest railway line in Serbia and one of the most important parts of the Corridor 10 railway through Serbia, as the main railway line which connects Macedonia and Greece with the rest of Europe. The project is focused on the Niš-Brestovac part (23.4 km) as the first section of the Niš-Preševo railway line, which accounts for 15% of its length. The project comprises railway line reconstruction and modernisation to allow speeds up to 120 km/h, as well as the reconstruction and modernisation of all railway infrastructure elements (construction works, track works and electrification works, reconstruction of stations and signalling and telecommunication equipment). This project will increase railway capacity, safety and reliability, as well as transport service quality on the Niš-Preševo railway line.

Current structural reform preparation status and implementation plan
The Feasibility Study with Preliminary Design and the Environmental Impact Study for the Niš-Brestovac section were developed through an EU grant in June 2013. The location requirements are in the process of being renewed, since the previous ones have expired; this will be followed by a revision of the Feasibility Study with Preliminary Design by the State Revision Commission. The project is part of the IPA 2015 Action Document. The European Commission's consent to the IPA 2015 programme will be followed by the signing of the Financing Agreement, development of the tender dossier and launch of the tender process.

The signing of the IPA 2015 Financing Agreement with the European Commission and the beginning of drafting bidding documents is planned for early 2016, and the signing of the contract with the most favourable bidder and the commencement of works that last three years is planned for early 2017.

Budgetary implications of the structural reform
The value of the works amounts to EUR 59,818,282: the EU contribution is EUR 44,078,644, and the Republic of Serbia provides co-financing amounting to EUR 15,739,638. The price for the works includes the development of a design to obtain the building permit. The amount for supervision of the works is EUR 2,906,252, to be funded from EU assistance. Co-financing from the national budget is foreseen for 2017.

Risks in priority structural reform implementation
Key risks for the implementation of this measure are the failure to obtain all location requirements and revision of the prepared documentation by the State Revision Commission (SRC).

Expected impact on competitiveness
The key railway modernisation components include rails, sleepers, surface levelling, ballast and other equipment. In the short term, a rise in employment will occur in connection with construction works, and opportunities will arise for local businesses to enter into supply contracts. At the same time, passenger and freight train travelling times on this part of the railway will be reduced, which will contribute to a rise in the share of railway transport in passenger and freight transport between southern and western Europe.

Expected social impact
The implementation of the selected project option will have an impact in particular on clients, through savings in travelling times and costs. A reduction in road transport emissions will have a positive impact on public health. Local financial and economic development will be positively affected by employment growth, income growth and societal benefits, such as improved transport safety and reduced number of transport accidents.

Structural reform implementation monitoring indicators
1) Design developed in order to obtain a building permit.

Project 3.5 *E-763 BELGRADE-SOUTH ADRIATIC MOTORWAY CONSTRUCTION*

Structural reform outline
The construction of the E-763 motorway (258 km in length in Serbia, from Belgrade to Boljare, i.e. state border with Montenegro) will improve the road network of the Republic of Serbia by providing higher-quality and safer services, compatible in terms of performance and functionally integrated in the Trans-European Transport Network. Corridor 11 will link Romania, Serbia, Montenegro and Italy. It will run from Timișoara, via Vršac, Belgrade, Čačak, Požega and Podgorica to Bar, and then to Bari, Italy, by a sea link across the Adriatic. The part of the *Strategy of Railway, Road, Inland Waterway, Air and Intermodal Transport Development in the Republic of Serbia 2008-2015* relating to transport system development (vision for 2015 – Long-term road network development) foresees the construction of the E-763 Belgrade-south Adriatic motorway, linked with the Romanian border-Vršac-Pančevo-Belgrade motorway (E-70; M1.9).

Current structural reform preparation status and implementation plan
The Ub-Lajkovac section (12.5 km) is built with full motorway cross-section, while the Obrenovac-Ub, Lajkovac-Ljig and Ljig-Preljina sections are under construction. The preliminary designs for the Surčin-Obrenovac and Preljina-Požega sections have also been developed. Towards the end of 2015, the Memorandum of Understanding on the Cooperation in the E-763 Motorway Construction Project, specifically the Surčin-Obrenovac and Preljina-Požega sections, was signed with the Government of China. For the Požega-Boljare section (107 km), the Special Purpose Area Spatial Plan for the infrastructure corridor and the report on the environmental impact assessment of the Special Purpose Area Spatial Plan are being developed.

It is envisaged that the usage permit for the Ub-Lajkovac section will be obtained and work on the Ljig-Preljina section completed in 2016. Construction of the Surčin-Obrenovac section will begin after financing has been contracted in the first quarter of 2016, and the deadline for completion is the end of 2018. In 2017, the construction of the Preljina-Požega section is expected to start, which will be implemented in the next three years. The year 2018 foresees the preparation of project documentation for the section Požega-Boljare.

Budgetary implications of the structural reform
For the Surčin-Požega section, the Government has opted to fund the project through a loan (EUR 1.2 billion) and expressed its interest in cooperating with a Chinese company, provided that it fulfils the eligibility requirements for the Project contractor. For the section from Požega to the state border with the Republic of Montenegro, the budgetary implications are currently not known. Under the 2016 budget, EUR 7,8 is foreseen for the Ljig-Preljina section, EUR 3,5 million for the Ub-Lajkovac section and EUR 1,7 for the Obrenovac-Ljig section.

Risks in priority structural reform implementation
Key risks in implementing this reform are problems in contracting the construction of the Surčin-Obrenovac and Preljina-Požega sections, failure to find a funding modality for the Požega-Boljare section, untimely provision of funds in the Republic of Serbia budget and expropriation-related problems.

Expected impact on competitiveness
The construction of this transport structure will provide Serbia with a better road link with Montenegro and the port of Bar, as the final destination, which will enable Serbia's integration with container flows and attracting international goods and passenger flows. In the short term, a rise in employment will occur in connection with construction works. Also, the engagement of domestic enterprises and employment of the local population will increase.

Expected social impact
Areas with undeveloped or obsolete transport networks are affected by population depletion, which has been a characteristic of Serbia in the past. Hence, the construction of the Belgrade-south Adriatic motorway will not only contribute to economic development, but also mitigate negative demographic trends and contributes to alleviating regional development disparities. Better links between underdeveloped and devastated southern areas and developed parts of Serbia, accompanied by shorter travelling times, lower travelling costs and higher transport safety, will enable better living conditions for the local population, entrepreneurship development and a higher standard of living. Also, motorway construction will enable displacing transit flows from urban zones, which will have a positive impact on population health owing to reduced pollution and noise in urban environments.

Priority structural reform implementation monitoring indicators
1) E-763 motorway completion percentage – BV: 0% (2015), TV: 40% (2018);
2) Number of kilometres built and in use – BV: 0 km (2015), TV: 102 km (2018)

Project 3.6. *NIŠ-DIMITROVGRAD TRUNK GAS PIPELINE CONSTRUCTION*

Structural reform outline
The construction of the Niš-Dimitrovgrad trunk gas pipeline, 108 km in length, provides for diversification of supply routes and sources, as well as improvement in security of supply for Serbia, Bulgaria and the entire region. The load on the northern part of the gas pipeline system will be significantly reduced, thus also increasing security of supply on the transit route to Bosnia and Herzegovina, as well as future supply of Macedonia and Montenegro. In addition to improving security of natural gas supply in the Serbian market and further development of the

distribution network through Serbia, the project facilitates the integration of the existing and future natural gas storage capacities in a single energy system, which is the essential purpose of establishing an integrated regional market and of the provisions of the Treaty Establishing the Energy Community. The strategic planning framework governing the extension of gas supply in Serbia is part of the *Republic of Serbia Energy Development Strategy until 2025 with Projections until 2030* and the *Law on the Spatial Plan of the Republic of Serbia 2010-2020*.

Current structural reform preparation status and implementation plan

The *Memorandum of Understanding between the Government of the Republic of Serbia and the Government of the Republic of Bulgaria* was signed (in Brussels, on 14 December 2012); it provides the basis for the implementation of the Niš-Dimitrovgrad-state border with Bulgaria gas pipeline project. Under the Memorandum, an Action Plan was adopted, setting further key specific steps for Governments, national and regulatory authorities, as well as national transport system operators. At the first meeting of the Project Coordination Committee (CESEC – in Brussels, on 8 September 2015), the high priority of this project was reiterated. The CESEC prepared a draft Road Map, in accordance with the project implementation timetable in Bulgaria; accordingly, the operational launch of the Project is planned for the second half of 2018. Also, the *Memorandum of Understanding on a joint approach to address the natural gas diversification and security of supply challenges* was signed by energy ministries of all the countries in the region and by the European Commission (in Dubrovnik, on 10 July 2015); the Serbia-Bulgaria gas interconnector is among the six priority projects for the EU and the region. The Decision on the Development of the *Special Purpose Area Spatial Plan for the infrastructure corridor of the Niš-Dimitrovgrad trunk gas pipeline, with detailed regulation elements* was adopted (Official Gazette No 32/15).

The development of planning documentation and the preliminary design is planned for 2016, as well as other necessary documentation for obtaining a construction permit. Construction permits are expected to be obtained at the end of 2017, when the construction of the pipeline should start, which will be put into operation in the last quarter of 2018 according to the plan.

Budgetary implications of the structural reform

The investment amount is EUR 68 million. The project has been proposed for implementation under the IPA 2016 Action Document. Following an EC proposal, with consent of the Ministry of Mining and Energy and PE Srbijagas, the available project documentation is being analysed, the optimum implementation model is being considered, and a project readiness assessment in the context of IPA 2016 is being performed. In the EC decision-making process, the contribution of EU funds relative to the total investment amount will be defined. Also, under the 2016 Budget Law, EUR 109,756 has been earmarked for these purposes. The Ministry of Mining and Energy has also proposed that EUR 2,188,740 be provided for land expropriation in 2016, and EUR 5,107,058 in 2017 in the appropriate account at the Ministry of Finance. At the same time, PE Srbijagas will provide an additional EUR 4,575,780 for this project from its own sources in 2016.

Risks in priority structural reform implementation

Possible risks in structural reform implementation concern the possibility of Bulgaria abandoning the construction of the Bulgarian part of the pipeline, as well as untimely provision of funding for project implementation. It is also possible to encounter problems in conducting the tendering procedure, delays in the development of design and technical documentation and obtaining the necessary permits, as well as problems in land expropriation, specifically the identification of land owners.

Expected impact on competitiveness

By building this gas pipeline, Serbia secures another natural gas supply route, as well as potential access to other gas markets, which will contribute to increasing the security of natural gas supply, overall energy efficiency improvement by using gas as a primary energy carrier, as well as environmental protection. The existing and planned natural gas storages in the territory of Serbia will be integrated in natural gas flows in the region, which will reduce transit costs. Extending the gas supply network to southern and eastern regions of Serbia will facilitate accelerated economic development of this part of the country and a more efficient way of addressing development problems, improvement of these areas' competitiveness compared to those that already have access to the gas supply network and reduction of the economic development imbalance. The gas pipeline construction would also enable using our transport system for natural gas transit to other countries, which would generate transit fee revenues.

Expected social impact

In addition to increasing the security of the natural gas supply, the foreseen project will, in the short term, lead to an increased demand for specific qualification profiles in the labour market and increased employment of the local population.

Structural reform implementation monitoring indicators

1) % of structure completion by years: BV – 25% (2016), 50% (2017), 75% (2018), TV – 100% (2019).

Project 3.7. *TRANS-BALKAN CORRIDOR*

Structural reform outline

The construction of transmission lines and extension of transformer stations as part of the Trans-Balkan Corridor comprises a set of projects aimed at upgrading obsolete power transmission infrastructure in the area of western Serbia, increasing cross-border transmission capacities, and increasing the security of power supply for customers in Serbia. The total length of the 400 kV transmission lines planned to be built in the first phase of the Trans-Balkan Corridor project in the upcoming ten-year planning period is about 350 km. This structural reform comprises the following infrastructure projects:

1) Pančevo-Reșița (Romania) double-circuit 400 kV transmission line,
2) Kragujevac 2 - Kraljevo 3 400 kV transmission line, together with the construction of a 400 kV plant in the Kraljevo 3 transformer station,
3) Obrenovac - Bajina Bašta double-circuit 400 kV transmission line, together with the construction of a 400 kV plant in the Bajina Bašta transformer station,
4) Bajina Bašta - Pljevlja (Montenegro) - Višegrad (Bosnia and Herzegovina) double-circuit 400 kV transmission line.

The *Law declaring public interest and establishing special procedures for expropriation and procurement of documents for the construction of the 'Trans-Balkan Corridor' 400 kV electric power transmission system* and the *Serbia Energy Development Strategy until 2025 with Projections until 2030* provide the strategic and legal framework for this reform.

Current structural reform preparation status and implementation plan

Project 1 is in the investment stage. The tender process for the selection of the contractor has been completed and the contract signing procedure is under way. The construction of the transmission line will be conducted in the course of 2016 and 2017. The completion of the first stage of construction under Project 2 (obtaining the building permit) is expected in 2016, and the beginning of the works is planned for 2017 and will take two years. Project 3 is in the development stage. Pursuant to the Grant Agreement concluded between Public Enterprise Elektromreža Srbije (Electric Power Grid of Serbia – PE EMS) and German Development Bank - KfW, the existing technical documentation is being adapted to the requirements of the national legislation (feasibility study with a preliminary design, environmental impact study). Under the 14th call for proposals within the Western Balkan Investment Framework (WBIF), pertaining to technical assistance, a EUR 0.8 million grant was approved for the development of the second phase technical documentation, which will facilitate transition to the construction stage. The land expropriation process has not been commenced yet, and the activity schedule in the coming period will depend on its progress. Project 4 is in the development stage as well. Under the 5th call for proposals within the WBIF, pertaining to technical assistance grants, the pre-feasibility study, feasibility study with preliminary design, and environmental impact study have been completed. At the same time, a EUR 0.8 million grant has been provided under the 13th call for proposals within WBIF to continue the development of the necessary technical documentation for Project 4. An initiative has been submitted to the Ministry of Construction, Transport and Infrastructure to have a Special purpose area spatial plan developed, whose development is expected towards the end of 2016.

Budgetary implications of the structural reform

This reform has no direct budgetary implications. The total estimated value of the first construction phase of the Trans-Balkan Corridor project amounts to about EUR 150 million (EU grants, KfW loan arrangements with a sovereign guarantee and resources of PE EMS). The negotiations on financing Project 2 are being finalised; the total value is EUR 28 million, partly from PE EMS resources, partly from a grant secured through the WBIF (EUR 6.6 million), of which EUR 5.6 million in the form of an investment grant for works performance, EUR 1.0 million in the form of technical assistance for supervision of the works, in compliance with EU requirements and requirements of the Serbian legislation, and partly from a KfW credit line (up to EUR 15 million with a sovereign guarantee). Any additional borrowing in the form of sovereign guarantees in 2017 and 2018 will be subject to further consideration.

Risks in priority structural reform implementation

Key risks in implementing this structural reform are the complexity of investment procedures, possible problems in resolving ownership-related issues, high-voltage power lines being unacceptable to the local population and securing additional funds.

Expected impact on competitiveness

The power transmission system construction provides the basis and constitutes a prerequisite for economic development at the local and regional levels, given that the existing 220 kV network is old and inadequate for industrial development and technological advancement in the economy of western and central Serbia. The Republic of Serbia’s power transmission system development improves Serbia’s competitive position in relation to countries in the region. The implementation of the ‘Trans-Balkan Corridor’ set of projects will reduce transmission losses and enable the connection of renewable power sources to the grid, which will have a direct impact on improving energy efficiency and system reliability and a positive impact on environment. The transmission system construction will contribute to linking the eastern and western European energy markets, leading to export and GDP growth.

Expected social impact
The foreseen construction of transmission lines on the 'Trans-Balkan Corridor' entails engagement of additional labour force and promotes employment of the local population in the short term. In the long run, the reform will have impact on improved living standards.

Structural reform implementation monitoring indicators
1) Number of kilometres of transmission lines built at the annual level – BV: 0 (2015), TV: 95 (65 km of double-circuit 400 kV transmission line and 30 km of single-circuit 400 kV transmission line by end 2018).

Project 3.8. *ENHANCING SECURITY OF THE ELECTRIC POWER SUPPLY – CONSTRUCTION OF A NEW B3 UNIT IN KOSTOLAC THERMAL POWER PLANT*

Structural reform outline
The project for the construction of a new B3 unit (350 MW) in Kostolac Thermal Power Plant (TEKO) will contribute to increasing the generation capacity, and thereby also to enhancing energy stability in the Republic of Serbia.

Current structural reform preparation status and implementation plan
The *Law Ratifying the Agreement on Economic and Technical Cooperation in the Field of Infrastructure between the Government of the People's Republic of China and the Government of the Republic of Serbia* has been passed. A separate Contract Agreement for Phase II of the Kostolac B Power Plant Project Package was signed (in 2013) with the Chinese company CMEC. The project implementation time limit is 58 months.

Budgetary implications of the structural reform
The value of the TEKO B3 construction contract is EUR 644.4 million (USD 715.6 million). 85% of the project value will be funded by a preferential loan from Exim Bank of China, with an approved sovereign guarantee, while the remainder (15%) has been provided by PE EPS. PE EPS funds amounting to USD 107.3 million were used in 2015 for the first portion of the advance payment.

Risks in priority structural reform implementation
Key risks in implementing this reform are delays in obtaining the necessary permits and approvals, remoteness of the supplier country – equipment transport risk, and the fact that the TEKO B3 project is the first project of such scale in almost 25 years, i.e. since the construction of TEKO B2 unit. Further, the project implementation itself implies specific operational risks, since this is the first time that a boiler with supercritical parameters (fresh steam pressure of about 250 bar and temperature of about 560 ^{o}C) is being installed and a structure executed according to the stipulated characteristics. The goal of supercritical parameters is to ensure a higher net efficiency of the unit.

Expected impact on competitiveness
The construction of a new thermal generation unit will provide replacement power and heat generation, which is needed owing to the foreseen decommissioning of old generation capacities. The TEKO B3 unit is compliant with all environmental standards stipulated by the laws of the Republic of Serbia. Its construction is of exceptional importance for energy sector development in the Republic of Serbia. It will ensure secure and efficient supply of energy and energy carriers and create conditions for the reliable and safe operation and sustainable

development of the energy sector in general, which has a direct impact on the competitiveness and export capacity of the Serbian economy.

Expected social impact
The construction of a new thermal generation unit will contribute to a rise in employment in the areas of electric power generation and plant maintenance, and also potentially create opportunities for the engagement of domestic companies in overhaul activities. Further, the new thermal generation unit fulfils strict environmental protection criteria, which will lead to a reduction in adverse effects on population health.

Structural reform implementation monitoring indicators
1) % of plant completion by years – BV: 0 (2015), TV: (2018)[11]

Priority structural reform 4. *DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE*

Structural reform outline
The Law on Broadband Access will harmonise the national legislative framework in the field of electronic communications with the EU framework, provide the conditions and regulate the method of developing broadband access to the internet. The implementation of this structural reform encompasses the consolidation of the broadband network owned by the public sector, and the connection of public institutions to the national network. Likewise, programmes need to be formed and implemented to stimulate and support investments in the development of broadband communications infrastructure, with access networks in settlements, and particularly in less populated areas.

Current structural reform preparation status and implementation plan
The Law on Broadband Access is currently in the drafting phase, with adoption expected during the fourth quarter of 2016. The drafting of the action plan for the consolidation of the communications infrastructure owned by the public sector is under way. A project has been initiated, financed by an EBRD donation, aimed at elaborating the possible incentive models for the development of broadband communications infrastructure, including cost-effectiveness studies for investments.

There is a plan to connect education and culture institutions with the Academic Network of the Republic of Serbia in 2016, as well as to prepare a plan for the establishment of a unified national telecommunications network (UNTN). Building access broadband networks in municipalities across the country will begin in the last quarter of 2016 and will last two years. Operational establishment of the UNTN is planned for the beginning of 2017.

Budgetary implications of the structural reform
The implementation of this structural reform during the period 2016-2018 envisages funds from the budget of RS to the amount of EUR 4,700,000, i.e. by year: 2016 – EUR 700,000, 2017 - EUR 2,000,000 and 2018 - EUR 2,000,000. Furthermore, a donation of EUR 400,000 was secured in 2016, and it is necessary to secure additional EUR 58,000,000 in 2017 and EUR 58,000,000 in 2018. The options for financing individual projects within the programme are: IFI grants, cross-state agreements/loans, public-private partnerships, cross-border EU funds.

11 The indicator baseline and target values will be set at a later date.

Risks in priority structural reform implementation
Key risks for the implementation of this reform are the untimely securing of financing, poor cooperation among institutions and institutions/companies managing the unused optic cables.

Expected impact on competitiveness
The availability of adequate communications infrastructure represents a key factor of the business environment in the digital age. The implementation of the reform will significantly improve the conditions for doing business throughout the country, particularly in rural and underdeveloped areas. This will create the conditions for a reduction in the economic gap, i.e. it will provide for uniform regional development, growth of GDP, employment, productivity and an improvement of efficiency.

Expected social impact
The positive social effects are multiple: better communication connections across the country (of particular importance is the connectivity of remote and underdeveloped rural areas), the creation of the possibilities for development and massive use of advanced services in the field of e-business (e-government, e-healthcare, e-education), contribution to equal treatment and equal opportunities, as well as improved access to the educational and social protection system.

Structural reform implementation monitoring indicators
1) % of households with broadband access to the internet - BV: 55% (2014), TV: 70% (2018).

SECTORAL DEVELOPMENT
1. Development of the Agriculture Sector

Key issues in this field are the unfavourable structure of agricultural holdings, technical and technological underdevelopment of the agriculture sector, primarily medium and small holdings, poor organisation in cooperatives, as well as underdeveloped food industry whose production is based on products with a low degree of processing.

The relatively high share of the sector of agriculture and food industry in the GDP of Serbia (7.7% and 3.3% in 2014) is partly a reflection of the favourable natural conditions and resources for agricultural production, since agricultural land represents 65% of the territory, but is also largely a reflection of the low technological level of the remainder of the industry. The share of agricultural products in total export is 6.6%, with the agricultural-food sector registering a 21% share, but the export structure is dominated by raw materials, primarily cereals. The Stabilisation and Association Agreement had a favourable impact on the export of agricultural products, since an increase of 14% was noted between 2013 and 2014, with export still far higher than import (by 63%). Regarding the average yield of cereals, Serbia is among low-yield European countries (4.8 t/ha), with nearly half the yield of the most successful economies (Belgium 9.2 t/ha). This is the consequence of inadequate technology, particularly in smaller holdings, but also inadequate cultures or forms of agricultural production in certain agricultural areas and smaller holdings.

The farm structure is unfavourable, since **most of the holdings are small to medium in size, practicing extensive production.** Among the total number of farms, 3.1% are over 20 ha in size, encompassing 44% of the used agricultural land. On the other hand, holdings of up to 5 ha comprise 77.7% of the total number, and use 25.2% of the land. Such farms are too small to be competitive, both for direct sales to European markets, as well as the sale of raw materials to agricultural processing plants, with an additional limiting factor being the lack of skills and knowledge, reflected in low average yields. Due to the abovementioned method of production, over 20% of the total number of employed persons is working in the agriculture sector.

The number of registered agricultural holdings constantly increasing (in 2015 a total of 469,967 holdings, around 75% of the registered number), since registration is the basic condition for receiving all forms of incentives. The total number of subsidies notes a decrease between 2014 and 2015, from RSD 31.1 bn to 22.3 bn. The current agricultural policy of Serbia does not favour large producers over small and medium ones, except in that agricultural producers engaged in production in areas that are difficult to use for agriculture, are in a more favourable position when competing for incentives for certain measures (primarily rural development measures). Following the amendments to the *Law on Incentives in Agriculture and Rural Development* from December 2014, beneficiaries of subsidies can be registered holdings with up to 20 ha of planted surface area. Likewise, amendments to this law abolished subsidies for persons leasing state-owned agricultural land.

There is **technical-technological underdevelopment in the agricultural sector, as well as in the food industry.** Since trade with the EU is now completely open, the poor performance of the food industry (operating for a long time under protection on the local market) could be a limiting factor for the chain of agricultural production and processing. Serbian agriculture is well mechanised regarding the number and power of tractors, however, the tractors in small and medium holdings are mostly old and worn out, and there is also a lack of specialised agricultural machinery. The equipment of cattle-farming facilities is very unequal and depends, primarily, on the degree of specialisation and size of the herd. Sizable regional differences are also present.

The basic directions for the development of the agricultural sector are defined by the adopted *Strategy of Agriculture and Rural Development of the Republic of Serbia 2014-2024*. A *National Programme for Agriculture 2015-2020* was prepared, along with the *National Programme of Rural Development 2015-2020,* as mid-term strategic documents identifying the key problems of the sector and elaborating in more detail the measures to overcome these problems. They are based on the abovementioned Strategy, the Law on Agriculture and Rural Development, the Law on Incentives in Agriculture and Rural Development and the National Programme for the Adoption of the Acquis, and supported by the European Commission. The adoption of these documents is expected for the first quarter of 2016.

A certain degree of improvement was achieved in the agriculture sector regarding the expansion of the Farm Accountancy Data Network (FADN), as well as regarding the implementation of the IPARD programme (*EC 2015 Progress Report for Serbia*, p. 38).

Priority structural reform 5. *IMPROVEMENT OF THE COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS*

Structural reform outline

The improvement of the competitiveness of agricultural production will be accomplished through an institutional framework for the implementation of the IPARD programme 2014-2020, the National Programme for Agriculture 2015-2020 and the National Programme of

Rural Development 2015-2020, which will be adopted during 2016 and will define measures for the improvement of the competitiveness of agricultural holdings at the mid-term level. The IPARD programme defines the priority sectors where the highest level of competitiveness can be achieved for agricultural holdings on the domestic and foreign market (sectors: milk, meat, vegetables and fruits, crop cultures). The national programmes and the IPARD programme are complementary, whereby the IPARD measures are intended for economically more powerful holdings, while national measures are focusing on small agricultural producers, which was not the case before (national measures were used by all registered agricultural holdings).

Current structural reform preparation status and implementation plan
The establishment of the institutional framework is currently under way. The finalisation of the accreditation process for all structures in the Republic of Serbia by the European Commission, required to implement the structural reform (in the section related to the IPARD programme) is expected in 2016. The implementation of national reforms for the improvement of the competitiveness of holdings is defined by the Law on Incentives in Agriculture and Rural Development through rural development measures, while the plan of their harmonisation with the Common Agricultural Policy is contained in the strategic documents. After drafting the rulebook and the preparation and implementation of the call for proposals during 2016, the implementation of the structural reform (in accordance with the Plan of IPARD structural reforms announcement, which is adopted at the beginning of the year for the same year and by-laws) will begin at the end of 2016 and will be implemented continuously in the coming years.

Budgetary implications of the structural reform
This reform will be financed from EU funds, amounting to EUR 175 million by 2020, with co-financing from the budget of RS envisaged at around EUR 20 million in 2016, EUR 30 million in 2017 and EUR 33.5 million in 2018. The funds for financing national measures for the improvement of the competitiveness of agricultural holdings and the co-financing of the IPARD programme are envisaged by the Budget Law of the Republic of Serbia for 2016, while the mid-term financial framework for the competitiveness measures is defined by the draft Programme Budget. The assessment of the positive impact on the budget is reflected in the redirection of the use of budget funds towards the improvement of competitiveness of small agricultural holdings (through national measures) and the increase of GDP through increased investments in the agricultural sector.

Risks in priority structural reform implementation
Key risks for the implementation of this measure are the lack of an established administrative structure in its full capacity (managing body and IPARD Agency); unfavourable conditions for pre-financing investments (difficult financing from own sources and use of loans with high interest rates); unacceptable mortgages on buildings in rural areas; exchange rate differences as most agricultural products are sold in dinars, while long-term financing is approved in loans tied to the euro; insufficient use of funds; lack of established support structure for the implementation of measures to improve competitiveness (issuing permits, programme promotion, etc.)

Expected impact on competitiveness
The implementation of investments in the construction/adaptation of facilities or procurement of new equipment and machinery, as well as the development of infrastructure for agricultural needs (draining and irrigation, road network, hail protection, systems for waste water cleaning) will create the conditions to improve competitiveness, through the use of new technologies and the reduction of the costs of production, leading to a decrease in cost price and increase in the

price competitiveness of products. Likewise, increased investments in processing capacities will contribute to increasing the production of products in higher phases of processing and increasing the value of exports. The purchase of new equipment and machinery and the construction of new facilities decrease the costs of depreciation and maintenance, thereby decreasing the total costs of production and increasing productivity. The sustainable development of rural areas requires the revitalisation of the cooperatives sector, as potentially the largest reserve for increasing the volume and competitiveness of agricultural production.

Expected social impact

The implementation of reforms from the IPARD and national programme aims to increase the quality of life and work in rural areas of Serbia and provide opportunities for additional income. The end users are agricultural producers, whether individuals or legal entities, who will have a direct impact on the increase of employment in rural areas and improvement of the working conditions on agricultural holdings through the implementation of their investments. The activities of educational and scientific-research organisations will be aimed more towards agricultural economy subjects. One of the prescribed conditions for the return of funds for the implementation of investments within the IPARD programme is that the holding applies minimum national environmental protection standards, which will have positive impact on this area.

Structural reform implementation monitoring indicators

1) Degree of use of funds from the IPARD programme – BV: 0 (2015), TV: 100% (2018);
2) Number of supported projects in the field of processing – BV: 0 (2015), TV: 330(2018);
3) Number of companies investing in energy production from renewable sources – BV: 0 (2015), TV: 24 (2018);
4) Number of newly open workplaces in the field of processing – BV: 0 (2015), TV: 80 (2018);
5) Number of households that modernised production in primary production – BV: 0 (2015), TV: 310(2018);
6) Number of holdings making progress towards achieving EU standards – BV: 0 (2015), TV: 435 (2018)

2. Industry Sector Development

Serbian industry is burdened with structural weaknesses, the most prominent being: underdeveloped industry yielding tradable goods as a consequence of insufficient investments, a high share of raw materials in production and exports, underdeveloped trade mechanisms and lack of competition, a lack of targeted industrial development and inefficient management of the state support system for the promotion of investments and exports.

Insufficient level of investments in the industry sector, primarily in the processing industry, and low competitiveness of Serbian products have affected a change in the economic structure, namely a growth in the share of services GVA and a reduced industry GVA (the share of industry GVA in the total GVA decreased continuously, from 28.1% in 2001 to a minimum low of 22.7% in 2010). There has been an opposite trend and a growing share of industry GVA as of 2010. The reindustrialisation trend was launched with an influx of investments in the automotive industry and its suppliers (*Fiat Automobili Srbija*), including greater investments in the field of agriculture, food industry and the industry of electric appliances and machines. Reduced trade deficit was also registered during the same period, which accounted for 25% of the GDP before the crisis in 2008 and 14% of the GDP on average during the period from 2010 through 2014.

Predominantly, industrial development has not been plan-based so far. Measures of industrial policy have not been focused enough on key comparative advantages of Serbia, in particular with regard to a **prioritised sector approach**. The new Law on Investments should support investments in identified priority industries, with particular focus on balanced regional development.

Due to underdeveloped trade mechanisms, the domestic market fails to respond fully to the requests of potential investors. The lack of competition fails to stimulate companies to invest into production processes and innovate them, resulting in low productivity and slow technological restructuring of companies. This results in insufficiently diversified products and a focus on the production of low value added products.

The current state support system promoting investments and exports is fragmented, unsynchronised, insufficiently transparent and lacking adequate evaluation mechanisms. The influx of foreign direct investments is crucial for industrial development, notably in the finished goods production sectors and export-oriented sectors, including restructuring and reengineering which call for technological modernisation of export areas. Investments in new technologies, processes and services should be stimulated, as well as investments in products with higher value added and level of finalisation, compliant with European and international standards. The stimulation of private and public investments is recommended in the *EC 2015 Progress Report for Serbia (page 29).*

Priority structural reform 6. *RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY*

Structural reform outline
This reform contains a mix of legal and administrative measures and activities: the prioritisation of industries with highest growth and development potential, drafting respective implementation action plans, the development and adoption of laws and bylaws relevant to the implementation of new action plans for priority industries, reforming the operations of agencies in the jurisdiction of the Ministry of Economy in charge of implementing programmes focusing on providing support for investments and exports in compliance with the principles of balanced regional development and the development of a monitoring and evaluation system. The reform will help create a focused and better coordinated industrial development policy, and enhance the efficiency of public institutions partaking in its implementation. Processing industry reforms are crucial, notably the reform of the system supporting investments and exports, as identified in the *Industrial Development Strategy and Policy of the Republic of Serbia 2011-2020.*

Current structural reform preparation status and implementation plan
An analysis of the strategic relevance of institutions under the jurisdiction of the Ministry of Economy was published in 2015, the Law on Investments has been adopted, and the Methodology for Prioritising Industries with Highest Growth and Development Potential has been established by using the composite Development Potential Index.

The following activities are to be carried out during 2016: 1) promotion of the Law on Investments at the local level, training of the representatives of local self-governments and support for the development of local acts, (2) reform of the agencies within the Ministry of Economy, which includes the preparation and adoption of a strategic framework and action plan and development of a system for monitoring and evaluation of the work of agencies, and (3) identification of priority industries and development of strategies and action plans for priority industries, taking into consideration the principles of balanced regional development. In 2017, the implementation and evaluation of new programmes for supporting investments and exports will begin, and, if necessary, the improvement of the programmes, which will be continuously carried out in the coming years.

Budgetary implications of the structural reform

The reform implementation costs per annum in total: EUR 4 million in 2016; EUR 3 million in 2017; EUR 3 million in 2018. *Expected positive budgetary implications:* 2016 – the creation of at least 3,000 new jobs will yield EUR 4.2 million in taxes and contributions, EUR 4 million in VAT revenue, EUR 2 million from increased investments and incentives for creating supply chains; 2017 – the creation of at least 3,500 jobs, EUR 5 million in taxes and contributions, EUR 5 million in VAT revenue, EUR 2 million of additional expected revenue due to increased investments and incentives for creating supply chains; 2018 – the creation of at least 3,000 jobs, EUR 6 million in taxes and contributions, EUR 6 million in VAT revenue, EUR 3 million of anticipated revenue from increased investments and incentives for creating supply chains.

Risks in priority structural reform implementation

Key risks in the implementation of this reform include the deterioration of the business environment – a ratings drop on the World Bank ‘Doing Business’ list; inadequate access to sources of financing; inefficiency of public administration; limited impact of state programmes and programmes financed from foreign sources.

Expected impact on competitiveness

The reform will impact the competitiveness of the domestic industry through focusing all state activities on the selected priority sectors of industry. Creating a predictable, clear and transparent system of state incentives will increase the level of investment activities in Serbia, leading to overall economic growth. The support programme will be prepared in accordance with the requirements and needs of businesspeople and oriented towards increasing the export activities of the industrial sector, particularly of those sectors with greater value added, likewise impacting competitiveness and the sustainable growth of the GDP.

Expected social impact

Raising the competitiveness of the processing industry involves the creation of more favourable and safer working conditions compliant with EU standards. Regarding impact on employment and the labour market, assessments state that this reform will lead to new jobs for highly educated human resources, but also layoffs of workers not meeting the requirements regarding qualifications and training for working under the new conditions (mostly older and less educated workers). The negative impact of the structural reform should be prevented by implementing the structural reform Improving the Effectiveness of Active Labour Market Policies with Special Emphasis on Youth, Redundant Workers and the Long-term Unemployed.

Structural reform implementation monitoring indicators

1) 5% average annual growth rate of the value of exports in the processing industry in 2016-2018;
2) Share of the processing industry in the GDP of Serbia – BV: 15.7% (2014), TV: 20% (2018)

3. Development of the Services Sector

Key problems of the services sector are: inability of small and medium enterprises to make use of the advantages of the internal market of the European Union, insufficient information on the conditions and procedures for obtaining approval for the provision of services and starting business activities, low share of e-commerce, underutilised tourism potential.

The services sector has a large share in the GDP of Serbia (around 50%). However, knowledge-intensive services are underrepresented within the structure of services, and a lack of knowledge and skills is noted as one of the key obstacles for the development of more complex services, i.e. services with greater value added and those that could be provided at the international level. Knowledge-intensive services employed 24% of the total number of employees in Serbia in 2013 (34% in EU-28), and participate with 26% in the GDP (31.3% in EU-28). On the other hand, less knowledge-intensive services employ 41% of the total number of employees (42.5% in EU-28), creating only 24% of the GDP (36.5% in EU-28).

Small and medium enterprises (SME) cannot fully utilise the advantages of the internal market of the European Union and expand their operation outside national borders, leading to the need to transpose the Services Directive into domestic legislation (*EC 2015 Progress Report for Serbia, p. 32*) through the preparation of the Law on Services, defining a national list of services the law will relate to and elaborating the plan of sectoral harmonisation of regulations in this field. Activities that were started are financed by funds from the Kingdom of Norway bilateral assistance. At the same time, **service providers cannot find all the information necessary to start a business in one place.** Establishing a Unified Electronic Focal Point, presented in more detail under the segment Business Environment as part of structural reform 9, will provide service providers with all the necessary information on the conditions and procedures for exercising rights and obtaining approval for providing services in Serbia and EU countries, and will enable the electronic implementation of all procedures, leading to a significant decrease in the costs of starting a business and providing transparency.

The share of e-commerce in overall trade is still low. The IPA 2012 project 'e-Business Development' started activities for overcoming the low level of information and education among SME representatives on the one hand, and consumers on the other, including administrative obstacles in the domain of regulations in the competence of the National Bank of Serbia and the Ministry of Finance, which hinder full execution of e-trade transactions. In addition to raising the awareness of retailers and consumers on the advantages of e-commerce, it is necessary to continue harmonisation with EU legislation in the field of e-commerce (*EC 2015 Progress Report for Serbia, p. 48)*. With a view to stimulating e-commerce development, the Law on Payment Services and the relevant amendments to the Law on Foreign Exchange Operations were passed and became applicable on 1 October 2015, thus enabling the establishment of new payment service providers, which would additionally improve payments via the internet, mobile devices etc., and allowing residents to perform international payment operations not only through foreign electronic money issuers, but also through domestic ones, for the purposes of payment and collection on account of electronic sale and purchase of goods and services. Accordingly, the NBS made the relevant amendments to the bylaws in the area of international payment operations. At the current level of development of the national ICT infrastructure (more details under the section Infrastructure), SMEs have the potential for developing channels by way of e-commerce, for increasing competitiveness and productivity, and for generating more jobs. A shortcoming in the field of electronic commerce lies in excessive charges. The faster development of e-business (e.g. through the introduction of e-invoices) would additionally improve the competitiveness of domestic companies.

Regarding tourism services, the goals established by the *Tourism Development Strategy of the Republic of Serbia for the Period 2005-2015* were not achieved, partly due to the global economic and financial crisis and the decrease in living standards, as well as insufficiently focused measures in this field. Serbia, however, **has significant tourism potential that could be valorised better** during the coming period. This potential is primarily based on natural resources, a favourable climate, thermal spas, mountain resorts, the potential for health and rural tourism, as well as a favourable position for a centre of services in the region for the development of congress tourism. Capital projects need to be prepared to better utilise this potential through improvements of the infrastructure and modernisation of capacities. A comparison of the indicators for the degree of utilisation of accommodation capacities[12] of Serbia and EU-28 (17.2% and 23.9% in 2013, source: Eurostat) shows lower efficiency in attracting tourists. However, during the first eight months of 2015, and compared to the same period in 2014, the number of tourists in Serbia increased by 12.5%, the number of overnight stays increased by 9.2%, while foreign currency inflow during the first seven months of 2015 increased 7% expressed in euros. This increase was additionally stimulated by special Government measures to stimulate domestic tourism.

In order to **increase income from tourism** it is possible to stimulate the development of tourism by investing in the development of tourist infrastructure and suprastructure in tourist destinations, investing in projects for promotion, education and training in tourism with a focus on underdeveloped regions, improving the tourist turnover of domestic tourists and attracting organised groups of foreign tourists. In addition to these measures, the greatest potential contribution to the tourism offer of Serbia could come from the strategic development of the overall spa offer, which remains to be designed.

In addition to this reform, a package of measures is envisaged for the overall development of the services sector, aiming to increase the transparency of the conditions for doing business for each type of services in Serbia, in accordance with the European Services Directive (more detail under the priority structural reform 9. Simplification of procedures for business entities).

BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE, REDUCTION OF THE INFORMAL ECONOMY

The underdeveloped business environment is largely a consequence of: insufficient access of SMEs to finance, inadequate corporate governance in public enterprises, absence of a single system law which prescribes types of fees for using public resources, absence of an efficient system of inspection, inefficient construction permit processes, underdeveloped public-private partnerships.

With regard to general business conditions, although Serbia has significantly improved its rankings on the World Bank's international *"Doing Business"* list and now ranks 59 out of

12 The degree of utilisation of accommodation capacities represents the % of the total number of overnight stays during one year against the maximum possible number of overnight stays (number of beds *365).

189 countries in 2015 (68 in 2014), there is still significant room for improving the business environment, especially in comparison with other European countries.

Inadequate access to finance and an inefficient regulatory and investment framework are some of the main issues affecting the development of the SME sector in Serbia (this sector generates about two thirds of employment and about 34% of Serbia's GDP). Access to finance in Serbia is listed as the most problematic factor for doing business in the Global Competitiveness Report 2015-2016 of the World Economic Forum. Apart from that, a need to improve access to finance for SMEs is pointed out in *EC 2015 Progress Report for Serbia* (page 47). The key problems of access to finance for SMEs are the following: insufficiently stimulating regulatory framework affecting the formation of interest rates; inadequacy of banking products and services for SMEs and concentration on other market segments; lack of major alternative channels for access to finance for SMEs; limited impact of government programmes and programmes financed from foreign sources; weak financial capacity of SMEs and negotiating position in relation to the banks.

Main problems in the functioning of public enterprises are related to aspects of inadequate corporate governance (management and control of a public enterprise, i.e. a set of the most important rules by which the internal organisation of a public enterprise functions): lack of the planning function at strategic and operational level, low level of operational and financial performances, inefficiencies and low quality of services, lack of professionalism, lack of gender equality in management positions etc. Large public enterprises in transport and energy sectors have been inefficient for years, plagued by bad debts and cumulative losses. The business inefficiency of public enterprises determines the business performance of the entire business sector. The Ministry of Economy regularly analyses quarterly reports on the implementation of operation programmes of public enterprises and for-profit corporations performing activities of general interest, whose founder is the Republic of Serbia, and submits to the Government the information on the degree of alignment between the activities planned and performed. Towards the end of 2014, the operations of 35 public enterprises were analysed and it was found that public enterprises had a total of 84,823 employees and that they had incurred losses totalling RSD 63,618,305,000 (EUR 517,221,991). As of June 2015, the figures were as follows: public enterprise had a total of 83,585 employees and had incurred net losses amounting to RSD 23,574,318,000 (EUR 191,869,919).

Along with the introduction of corporate governance in all public enterprises, there is an ongoing process of reorganisation and financial restructuring of the largest public enterprises, PE Elektroprivreda Srbije (Electric Power Industry of Serbia), PE Srbijagas and PE Železnice Srbije (Serbian Railways). The purpose of this reorganisation is to make sure that in the future the Government will not need to provide new subsidies, issue guarantees and grant liquidity loans to these enterprises. Organisational reforms in these enterprises will eliminate business losses and increase efficiency of their operations, and due to their great significance, this will positively affect economic trends and competitiveness of the economy.

There is not a single law that would define all types of fees for using public resources, taxpayers, amount, i.e. elements for determining the amount of fees, manner of determining and paying fees, allocation of revenues and authority for control and collection. A comprehensive and updated electronic database of administrative requirements will help individuals and businesses to obtain necessary information about public services, avoid undue additional costs and save time. Administrative burdens borne by business entities in Serbia are about 3.43% of

GDP (according to the USAID BEP 2014 research), and para-fiscal charges are 1.97% of GDP (according to NALED 2014 research). In comparable countries, administrative burdens borne by business entities are at the level of 2-3% of GDP. On 17 December 2015, the Government adopted the National Programme for Combating Informal Economy with an action plan which, *inter alia*, for 2016, foresees an analysis of the amount of parafiscal charges and adoption of a government instrument ordering the abolition of parafiscal charges which have been proved to be unjustified through the analyses. In order to carry out this activity, it is necessary to establish a system of official public registers of fees and charges, which is also laid down in the National Programme.

The large size of the informal economy (about 30% of GDP, for more details, see section Public Finance Management) adversely affects economic activity in the domestic market and limits the competitiveness of Serbia in the international market. Besides an unreformed Tax Administration (for more details see section Public Finance Management), another significant contributory factor is the **lack of order and system in the field of inspection**. The new Law on Inspection (adopted on 15 April 2015), and adopted bylaws, including the Decision on the Establishment of the Coordination Commission of 23 July 2015 (Official Gazette No 66/15), should regulate the situation in this area. In October 2015 the Government adopted a set of bylaws regulating the standards of inspection oversight, which are related to common elements of risk assessment in inspection oversight, forms and methods of keeping records of inspection, programme and manner of conducting the examination for inspectors, form of the inspection oversight record and the form of inspectors' official identification. The establishment of a unified information system for inspections (e-Inspector) will enable a more efficient, effective and joint work of all inspectorates, which will not only reduce the informal economy but will also increase budgetary inflows from taxes and contributions.

One of the main determinants of Serbia's low rank on the World Bank *Doing Business* list is **an inefficient system of issuing building permits**. In this area, in 2014, Serbia ranked 178 while in 2015 it improved by as many as 39 rankings. Amendments to the Law on Planning and Construction introduced a unified procedure for obtaining location conditions, all the necessary utility connections, technical conditions, building and use permits. Compared to the previous legal solution, a single communication between potential investors and competent authorities has now been established, where the Republic Geodetic Authority is obliged to communicate with other government bodies and organisations (thereby creating a one-stop system). An important part of the reform is the abolition of land development fees for production facilities (including warehouses), which reduced construction costs. On 1 January 2016, an electronic building permit system was implemented, which will further facilitate the process and speed up the process of obtaining building permits.

The privatisation process (initiation of bankruptcy proceedings, restructuring and finding a strategic partner), under the new Law on Privatisation and the Law on Bankruptcy Procedure, was completed by the end of 2015 (except for 17 strategic enterprises). This should have a positive impact on public finances through the reduced amount of funds from the budget of the Republic of Serbia which are subsidised to enterprises with large losses and increased productivity of the privatised enterprises.

Since the Law on Public-Private Partnership and Concessions (2011) entered into force and the Public-Private Partnership Commission was established (2012), a small number of public-private partnership (PPP) projects has been implemented in Serbia. Also, there are no large PPP projects that are currently being carried out in the Republic of Serbia (*IMF report on Preparing and Reporting on Fiscal Risks from March 2015*), but there is a growing need and interest in implementing new projects. It is necessary to develop capacities for assessing and reporting on fiscal risks associated with PPP projects, bearing in mind that the existing capacities are not adequate. The Government has pledged to build a capacity in the Ministry of Finance, which will be able to understand, assess and report on fiscal implications, risks and long-term net benefits of PPP projects (*'stand-by' arrangement with the IMF*).

Measures promoting the rule of law and efficiency of the courts are extremely important for improving the business environment, and these are covered by the Action Plan for Chapter 23 Judiciary and Fundamental Human Rights, adopted by the Government in October 2015. The working group was established to monitor the implementation of these activities. Also, in January 2016, the Strategy for regulatory reform and improvement of the public policy management system for the period 2016-2020 was adopted, which, among other things, provides for the simplification of sectoral regulations, introduction of standards for measuring the administrative burden, testing the impact on small and medium enterprises and introducing the portal for administrative requirements (as described in priority structural reform No. 7) with the ultimate aim of achieving the level of administrative burden of 3.2% of GDP by the end of 2017.

Priority structural reform 7. *PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEs*

Structural reform outline
Improved access to finance for SMEs means better quality of the banking sector offer for SMEs, development of new financial instruments, as well as improved ability of SMEs to access different sources of funding. The proposed reform is the implementation of priority activities within the second pillar of the *Strategy to support the development of small and medium enterprises, entrepreneurship and competitiveness for the period 2015-2020*. Stimulating private investment through state schemes to support lending, as well as improving the environment for business entities (especially SMEs) is in line with recommendations from the *EC 2015 Progress Report for Serbia* (p. 47).

Current structural reform preparation status and implementation plan
The proposed reform is the further implementation of a 2015 NERP reform, and a number of relevant measures and activities have been carried out so far. Activities on the implementation of the first tranche of 'APEX loan for SMEs and other priorities III/A' of the European Investment Bank (EIB), in the amount of EUR 150 million, are in the final stage. Preparations have started for negotiations with the EIB to approve the second tranche of a loan worth EUR 150 million. In September 2015, the Government adopted a regulation on establishing the Small Business Support Programme for purchasing equipment in 2015 with a budget of RSD 200 million (the program is adopted annually, after the implementation and analysis of the impact of the last year's program). Towards the end of 2015, the Regulation amending the Regulation on establishing the Small Business Support Programme for purchasing equipment in 2015 was adopted, whereby an additional RSD 350 million was earmarked from the 2015 budget for equipment procurement support for micro and small enterprises, sole traders and cooperatives. In 2016, an additional RSD 500 million is foreseen for the same purpose. Also, the European Union's COSME programme will be implemented from 2016, which should improve SME access to funding sources. Applications for EUR 20 million are planned to be submitted under

IPA 2016 for a guarantee scheme to be implemented through the EDIF. Funds were requested from IPA 2016 to start the implementation of financial instruments within the Sector Planning Document for competitiveness. Small and medium enterprises now have better access to information about available funding sources through the web portal of the Serbian Chamber of Commerce (http://poslovanje.rs/), which is regularly updated. UniCredit Bank has implemented a credit line amounting to EUR 30 million covered by an EIF guarantee. The service *Investment Readiness* training was developed within the project "Integrated Innovation Support Programme – IISP", which was completed in 2013. A methodology was prepared within this project and accredited regional development agencies were trained for the implementation of this training. Investment Readiness training is one of the ten trainings implemented through the programme of a standardised set of services implemented by the accredited regional development agencies, stimulating balanced regional development. In the course of 2016, an Action Plan for developing three pilot programs of new financial instruments for state financial support to SMEs will be developed, and will be implemented towards the end of the year.

A reform of public financial institutions (the Development Fund and the Export Credit and Insurance Agency of the Republic of Serbia) is planned in the period 2016-2018, which includes the preparation and adoption of a plan, as well as the preparation of laws and by-laws relating to the reform of public financial institutions. In order to improve the institutional framework for microfinance, the competent authorities and institutions have been participating for some time in activities dealing with the possible introduction of non-depository financial institutions, with special emphasis on those dealing with retail lending and SMEs known as 'microfinance institutions'. The analysis of the need to introduce these institutions is supported by the USAID project – BEP (Business Enabling Project). The project is in the development phase. The analyses and project finalisation activities will be continued and a law on microfinance will be prepared in 2016.

Budgetary implications of the structural reform

The implementation of the structural reforms in the period from 2016 to 2018 will cost EUR 9.6 million, and the costs by year are as follows: 2016 – EUR 4.065 million from the RS budget and EUR 150,000 from IPA 2014; 2017 – EUR 3.15 million from the RS budget; 2018 – EUR 3.15 million from the RS budget. This is expected to have a positive effect on the budget and to increase budget revenues by EUR 12 million per year, due to increased output and employment.

Risks in priority structural reform implementation

Key risks for the implementation of this reform are macroeconomic and financial instability; possible lack of cooperation and coordination between competent state bodies, organisations, and bodies; possible lack of financial resources (if the funds from the IPA funds are not granted); lack of interest and involvement of the banking sector.

Expected impact on competitiveness

Improved financial support system will lead to the establishment of new enterprises/entrepreneurs, modernised existing production capacity, improved production processes, improved product quality and service, which will ultimately increase the volume of production, exports and employment, and improve the competitiveness of the SME sector.

Expected social impact
Increased activity of the SME sector due to favourable financing conditions will lead to job creation, increased demand on the labour market, better working conditions in the SME sector, the use of innovation and the possibility for the development of social entrepreneurship.

Structural reform implementation monitoring indicators
1) Share of SME loans in total loans to business entities (source NBS) – BV: 18.9% (2013), TV 30% (2020);
2) Accessibility of financial services (GCI) – BV: ranking 110/144 (2015-2016) TV: ranking <60 (2020);
3) The total number of SMEs (SORS) – BV: 315,412 (2013), TV: 350,000 (2020)

Priority structural reform 8. *REFORM OF PUBLIC ENTERPRISES*

Structural reform outline
The proposed structural reform includes four measures:

Measure 8.1. The introduction of corporate governance in public enterprises
Measure 8.2. The reform of railways
Measure 8.3. Reform of PE EPS
Measure 8.4. Reform of PE Srbijagas.

The introduction of corporate governance in public enterprises includes the following activities: preparation of laws and by-laws; in 2016, introduction of mandatory further professional development in the area of corporate governance for chairs and members of supervisory boards according to a programme to be adopted by the Government; improving the monitoring and accountability system for state-owned enterprises; in 2017, legislative and organisational activities towards the introduction of a licensing system for public enterprise supervisory board members; in 2018, delivering training in corporate governance for public enterprise directors and supervisory board members and launch of licensing. The introduction of corporate governance is based on two key pillars which increase the level of transparency and de-politicization of public enterprises: professionalization of management respecting gender equality principles and work control system. Improvement of corporate governance is a recommendation from the *EC 2015 Progress Report for Serbia* (Chapter 4) and Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of May 2015.

In view of the reform of public enterprises, restructuring of large systems in transport and energy sectors is envisaged, which have been inefficient for years and are burdened by bad debts and cumulative losses, namely: PE Elektroprivreda Srbije, PE Srbijagas and Železnice Srbije A.D. (measures 12.2 – 12.4). Within the arrangement with the IMF, Serbia committed itself to introducing the principle of 'hard budget constraints' in the operation of these enterprises. At the suggestion of the relevant ministries, the Government adopted programmes for the corporate restructuring of these large systems, in order to improve their organisational structure and management system, as well as reduce the negative impact on public finances and the rest of economy.

Current structural reform preparation status and implementation plan

Regarding the introduction of corporate governance in public enterprises, the new Law on Public Enterprises was passed in February 2016 with the aim of professionalising their operations and increasing governance efficiency at both national and local levels.

The provisions of the new Law specify the requirements for supervisory board member election and director selection procedure, with a view to their further professionalization and raising personal and collective accountability. Within the Ministry of Economy, the Department for Public Enterprise and Business Registers Control, Supervision and Administrative Affairs has been established.

The enterprise Železnice Srbije A.D. was divided into four railway enterprises in 2015 for: infrastructure management, transport of passengers, transport of goods, and holding company. The contractual relationship between the state and railway enterprises is expected to begin in 2016 under the Multi-Annual Infrastructure Contract and the Public Service Obligation Contract. The *Multi-Annual Infrastructure Contract* will define the level of financial assistance allocated by the state for maintenance, renovation and improvement of the public railway infrastructure, but will also determine the manner in which the infrastructure management railway enterprise needs to provide its network maintenance and improvement services, relying on the identification of result indicators to be met when carrying out maintenance and upgrading the networks (train speed and reliability, customer satisfaction, network capacity, the level of safety and environmental protection). The *Public Service Obligation Contract* is an instrument of the Government of the Republic of Serbia for the purchase of socially necessary rail services, which will enable Government to limit its support to the carrier of railway passengers, defining the extent and type of services which will be bought under the public transport obligation. In October 2015, a study was adopted by the Government's interdepartmental working group which contains the *Plan for the Railway Reform 2016-2020* and gives a framework for further restructuring of the labour force, assets and liabilities of Železnice Srbije. The required number of employees in the railway enterprises was identified together with the World Bank and other international financial institutions. Negotiations are underway with the unions on the social programme for redundant employees, financing sources and the period in which these funds could be made available.

In view of PE EPS restructuring, the PE Electric Power Industry of Serbia Reorganisation Plan and Financial Consolidation Plan were adopted (in June 2015). A new organisational structure of PE EPS was established (in July 2015) as follows: seven power generation companies were acquired by PE EPS, five subsidiary power distribution companies were merged into the company Operator distributivnog sistema EPS Distribucija d.o.o. Beograd (distribution system operator). There are also EPS Snabdevanje d.o.o. (power supplier), the company EPS Trgovanje d.o.o. Ljubljana (power trading company) with the status of a foreign company, as well as companies in conformity with the Brussels Agreement of August 2015. After the completion of the reorganisation and financial consolidation processes, the legal status of PE EPS shall be changed into a joint-stock company (by 1 July 2016).

In view of PE Srbijagas restructuring, the Foundations for PE Srbijagas Restructuring were adopted in December 2014 and in August 2015, a new organisational structure was established with its transmission and distribution subsidiaries – Transportgas Srbija d.o.o. Novi Sad and Distribucijagas Srbija d.o.o. Novi Sad. A comprehensive financial consolidation plan is being prepared in consultation with the World Bank, which will define measures for achieving long-term financial viability and competitiveness of PE Srbijagas. The restructuring plan shall be completed by March 2016. The PE Srbijagas reform implementation timeline will be known after the adoption of the Action Plan.

Budgetary implications of the structural reform

The cost of introducing corporate governance in all public enterprises by year is: 2016 – EUR 160,000 (RS budget) + EUR 20,000 (Project 'Perform'); 2017 – EUR 160,000 (RS budget); 2018 – EUR 160,000 (RS budget). Increased efficiency of the public enterprises and losses narrowed by 10% compared to the previous year will reduce state subsidies to public enterprises. Budget savings for the three years amount to EUR 64 million, EUR 57.6 million and EUR 51.84 million, respectively.

The 2016 Budget Law is planned to fund the implementation of measures related to contracts between the state and railway companies, totalling EUR 89,430,000. Regarding the implementation of the master plan for restructuring the labour force, which was defined in the recently approved Study, according to conservative estimates it will be necessary to spend EUR 39 million. The funds for this purpose should be provided through the budget of the Republic of Serbia and a possible credit arrangement with the World Bank. The implementation of the reform plan can lead to significant improvements in the railway sector in Serbia. It is estimated that annual cost savings due to the restructuring of the labour force will amount to about EUR 12,200,000 as of 2017.

Under the 2016 Budget Law of the Republic of Serbia, a EUR 200 million loan from the European Bank for Reconstruction and Development (EBRD) is planned for the financial restructuring of PE Elektroprivreda Srbije. The financial restructuring plan implementation will lead to more efficient operations and creation of a company competitive in the market.

The main elements of the Financial Restructuring Plan for PE EPS are: increased revenues through improved collection and reduced costs through increased efficiency, procurement process optimisation and reduction in the number of employees.

The financial restructuring of PE Srbijagas should stop further deterioration of the financial position of PE Srbijagas and eliminate the need for additional state aid in line with the fiscal programme. An action plan for restructuring PE Srbijagas is being drafted and it shall be the starting point for the opening of negotiations under Chapter 15 – Energy[13].

Risks in priority structural reform implementation

Increased transparency and de-politicisation of public enterprises are more political than economic processes, and the key risk is the political support for the introduction of corporate governance in public enterprises. Also, the risk is related to the willingness of Serbian educational institutions to provide adequate and quality training programmes with a focus on corporate governance. Risks related to the restructuring of three large state-owned public enterprises are the following: untimely provision of financial resources necessary for the restructuring of the labour force in the new enterprises, rescheduling of liabilities and claims, resolving property issues.

13 The implementation timetable of the planned activities for PE Srbijagas reform and its budgetary implications will be known after the Action Plan is adopted, which will be further outlined in the revised version of ERP for 2016.

Expected impact on competitiveness

The reform should increase the efficiency of public enterprises by reducing the waste of resources, increasing the volume and improving the quality of services, upgrading technology and the like. Increased efficiency of public enterprises is of great importance for increasing the efficiency of the overall economy, not only because of the great value of the services they deliver, but also because of a large part of the social wealth that is under their control. The aim is to prepare public enterprises for doing business in line with market conditions, to discontinue state aid and subsidies, which ultimately should have a positive effect on public finances and economic competitiveness.

By introducing a new contractual relationship between the state and the railway enterprises (Multi-Annual Infrastructure Contract and Public Service Obligation Contract), the Government of the Republic of Serbia will abolish the term ‘subsidy’ and link results with targeted funding, i.e. it will be able to efficiently and transparently manage the funds provided to railway enterprises from the RS budget based on the evaluation of their impact. In addition, the planned restructuring of the labour force will increase the productivity of railway enterprises, which will make the reformed Serbian railways competitive in comparison with railways in the region.

A financial restructuring plan of PE EPS envisages increasing revenues through more efficient billing, lower technical and commercial losses, increased electric energy rates for public/guaranteed supply, reduced operating costs due to improved business efficiency, optimised different offers for the supply of electricity and rationalised number of employees. Improving the organisational structure and corporate governance is the first step towards establishing the financial sustainability of PE EPS.

A reform of PE Srbijagas will increase the efficiency of its operations, which will lead to reduced allocations from the budget of RS on the basis of activated guarantees of PE Srbijagas. Apart from the reforms, diagnostic analysis of the sector will be implemented (by fragments) for gas distribution so the possibilities for achieving greater efficiency and economies of scale could be considered. These activities will prevent further deterioration of the financial position of PE Srbijagas and enable this company to achieve sustainability of its operations.

Expected social impact

The introduction of corporate governance in public enterprises and restructuring of the three large state-owned infrastructure enterprises will reduce employment, but also improve the performance of activities of general interest, thereby reducing irrational and unreasonable spending of taxpayers’ money, in turn enabling additional support to the SMEE sector. In addition, gender equality in managerial positions will be improved.

Structural reform implementation monitoring indicators

Indicators for Measure 8.1:

1) % of women directors and members of managing boards of public enterprises out of the total number of directors and members of managing boards of PEs – BV 13% (2015), TV: ≥20% (2018) 30% (2020);
2) Number of public enterprises established by the Republic of Serbia, which incurred a loss – BV: 9 (2014), TV 0 (2020);
3) The total loss (in EUR) which was incurred by public enterprises founded by the Republic of Serbia – BV: 640 million (2014), TV: 0 (2020).

Indicators for Measure 8.2:

1) The amount or the percentage of the reduction in the funds that the state allocates for the railway sector: BV (2015), TV (2018);
2) Percentage of the increase in the quality of railway services: BV (2015), TV (2018);
3) Percentage of the reduction of extraordinary events due to improved network quality: BV (2015), TV (2018).

Priority structural reform 9. *SIMPLIFICATION OF PROCEDURES FOR BUSINESS ENTITIES*

Structural reform outline

The establishment of a unified public register of administrative requirements and procedures will allow business entities and citizens an overview of all administrative requirements and procedures that need to be fulfilled and implemented to ensure the provision of certain services, regardless of the level of government, including all the costs in the form of fees, taxes etc. The simplification of procedures and abolition of superfluous taxes will provide a precondition for increasing the predictability of doing business and reducing costs that individuals and business entities bear when exercising guaranteed rights and fulfil obligations imposed by the regulations. In addition, information obstacles for conducting business activities in Serbia will be removed. The establishment of a Unified Electronic Focal Point (UEFP) portal containing information relevant for service providers, is envisaged in the Draft Law on Services and represents one of the requirements of the Services Directive 2006/123/EC, whose transposition is a commitment undertaken under the Stabilisation and Association Agreement, Chapter III, Article 59. This reform is defined in the *Regulatory Reform Strategy of the RS 2014-2016* and the *Strategy for Supporting the Development of Small and Medium Enterprises, Entrepreneurship and Competitiveness for the period 2015-2020* and the corresponding action plans.

Current structural reform preparation status and implementation plan

The Law on Fees is expected to be adopted towards the end of 2016. The Law on Services and the Law on Electronic Commerce are being prepared, as well as the Development Strategy of the Service Sector, while the Strategy for Regulatory Reform and Improvement of Public Policy Management System for the period 2016-2020 was adopted in January 2016.

A governance structure for the implementation of the project will be established in 2016 (consisting of representatives of the Ministry of Economy, the Ministry of Trade, Tourism and Telecommunications, the Ministry of Finance and the State Secretariat for Public Policy) and a list of procedures and a list of fees will be made. The Regulation on PSC is planned to be adopted in the last quarter of 2016 and implementation will last 18 months. For 2017 and 2018 the following activities are planned: training in process management, process optimisation (in terms of cost and time for the business community), developing technical specifications (software, hardware), promotional campaigns, training in the operational maintenance of the portal, developing digitalization instructions, completing alignment of sectoral legislation with the Services Directive, i.e. the Law on Services.

Budgetary implications of the structural reform

Mapping procedures and listing fees and charges shall be funded from the regular budget expenditures of the Republic Secretariat for Public Policy and the Ministry of Finance (EUR 22,000). In order to establish a UEFP, it is necessary to provide funds in the amount of EUR 2.5

million for engaging legal experts and experts who deal with business process reengineering, for developing the website and connecting to all the institutions. The Ministry of Trade, Tourism and Telecommunications (MTTT) applied for IPA 2016 funds that have not been confirmed yet. During 2016, the MTTT will try to provide funds from the bilateral cooperation programme. If funding is provided in 2016, this amount shall be deducted from the budget in 2017. The organisational establishment of the UEFP requires engagement of additional human resources (as detailed in the draft Law on Services). Also, funding under IPA 2013 amounting to EUR 2.5 million has been provided for the 'Strengthening the Business Environment' project, whose beneficiary is the Ministry of Economy. After the establishment of a single registry (from 2018), positive effects on the budget (due to business expansion, establishment of new companies and job creation) of EUR 10 million per year are expected.

Risks in priority structural reform implementation
Key risks for the implementation of this reform are delays in the implementation of donor (IPA) funds that were planned to partially finance these reforms (particularly in the field of analysis and optimisation of administrative requirements and procedures); inadequate cooperation and coordination of the public authorities at all levels in terms of the enumeration of administrative procedures, administrative requirements and procedures; non-continuous maintenance of the established registry; inadequate implementation of recommendations for simplifying administrative requirements and procedures and reducing costs by the public authorities for new regulations or for amendments to existing regulations; inability to engage additional human resources.

Expected impact on competitiveness
If a comprehensive and updated electronic database/register of administrative requirements and procedures were established, individuals and businesses would be allowed easy access to the necessary information and undue additional costs would be avoided. This would also save time that people who apply for public services would otherwise have to spend on becoming familiar with the administrative requirements and procedures, and the transparency and efficiency of public service providers would be increased. Apart from that, reduced administrative costs borne by business entities in procedures required by the state authorities will have long-term indirect effects: newly established businesses, increased investment, economic growth and increased formal employment. Positive effects will be reflected in a more favourable business environment and fewer obstacles for improved information services.

Expected social impact
The implementation of this structural reform will contribute to the development of standards, rights and obligations (especially of employers) with regard to working conditions, as well as better awareness of both employers and employees.

Structural reform implementation monitoring indicators
1) The administrative burden on businesses in % GDP – BV: 3.6% (2013), TV: 3% (2018).

Priority structural reform 10. *ESTABLISHING A COMMON INFORMATION PLATFORM FOR ALL INSPECTIONS AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)*

Structural reform outline
The implementation of a unified inspection information system– e-Inspector is related to the activity contained in the Draft Action Plan for the implementation of the Strategy for

the Development of e-Government in the Republic of Serbia 2015-2018 (e-Government Strategy 2015-2018). This reform will ‘improve the coordination of inspections, introduce legal regulations and establish an information system in order to effectively exchange data and electronic documents for planning and conducting an inspection’, which is the goal of the *Public Administration Reform Strategy in the Republic of Serbia* and *the Law on Inspection*.

Current structural reform preparation status and implementation plan
In 2015, an activity was introduced that envisages the development of all business procedures and preparation of tender documents for the establishment of an information platform – e-Inspector. Business processes were listed in all 36 inspectorates at the national level. Estimates were made of the hardware infrastructure necessary for the overall information system (IS), which includes communication with external partners (Business Registers Agency, Customs Administration). The following activities are planned in 2016-2018: business procedures stocktaking, publishing bids and contracting, e-Inspector system design and functional analysis, testing and IS deployment in four inspectorates. The deployment of the overall system is envisaged in the second quarter of 2018.

Budgetary implications of the structural reform
The amount of funds required to implement the structural reforms in the period 2016-2018 is EUR 2.197.813, which shall be provided from the RS budget and allocated by year, as follows: 2016 – EUR 246,593; 2017 – EUR 975,610; and 2018 – EUR 975,610. It is expected that savings from the introduction of the new IS will amount to EUR 406,504 per year.

Risks in priority structural reform implementation
Key risks in the implementation of this reform are the high costs of establishing the information platform e-Inspector; late or insufficient provision of funds in the RS budget for financing the implementation of e-Inspector; implementation of parallel reform processes for improving inspection, particularly in relation to the development of inspection capacity, and inadequate coordination of these efforts; lack of adequate personnel and technical equipment; insufficient capacity to absorb changes in the area of inspection, such as the introduction of e-Inspector.

Expected impact on competitiveness
Developing an effective and unified information system will enable more efficient and effective work of all inspections due to targeted control they will carry out. This should lead to more regular work of business entities and a more secure business environment due to more comprehensive application of regulations. Bona fide business entities will be less burdened by unnecessary and frequent inspections. In addition, this reform should reduce the informal economy, increase budget inflows from taxes and contributions, and improve formal employment opportunities.

Expected social impact
Improved inspection processes and better coordination and exchange of information between inspection services will reduce the administrative burden, create conditions for the efficient allocation of inspection resources, greater transparency and legal certainty for all parties involved in the oversight process, which will ultimately allow for a greater impact on the quality of work, working conditions and occupational health and safety.

Structural reform implementation monitoring indicators
1) All inspections at the republic level will be using the e-inspection system in 2018.

TECHNOLOGICAL ABSORPTION AND INNOVATIONS

The key issues in the field of technological absorption and innovations are: low expenditures on research and innovation, insufficient collaboration of the science and business sectors with regard to commercialisation of research and innovation projects, lack of researchers ('brain drain'), lack of an institutional framework supporting innovations and unreliable financing of scientific and research organisations.

Expenditures on R&D in Serbia (1% of the GDP) are below the EU-28 average (2.01% of the GDP in 2013). The investments in R&D by the private sector account for as little as 7.5%, which is considerably below the EU-28 average, where private sector investments account for as much as 55% of all investments.

Despite constant growth in the number of scientific publications in Serbia, **there is a lack of collaboration of the academic community with the business sector** (*EC 2015 Progress Report for Serbia, p. 64*), including commercialisation of research, significantly reducing the potential of science to improve the competitiveness of the private sector. In addition to low investments, **another issue is the lack of human capacities caused by substantial brain drain and demotivation of researchers** (there are fewer than 2,000 researchers per million inhabitants compared to 5,000 in EU-28). Significant steps were undertaken in the previous four-year cycle of financing scientific projects, when the number of financed researchers increased. In addition to the low number of researchers, another issue is **the lack of mobility among scientific and research organisations and the private sector** (joint doctoral studies, opportunities for researchers to spend a period of time in the private sector, joint projects, etc.).

International practice indicates that state programmes supporting innovation in the private sector (co-financing research and innovation in the private sector) improve their efficiency and increase the pace of growth of innovative enterprises. In addition to state financial support for projects of the public and private sectors, it is **necessary to establish an institutional framework supporting innovation** – technology transfer offices, incubators for newly founded innovative companies etc. *The Central Technology Transfer Facility* was formally established within the Innovation Fund through the IPA 2013 'Serbia Research, Innovations and Technological Transfer' project, to ensure **a commercialisation of a number of innovative projects** of the academic sector and strengthen the capacities of the existing technology transfer units in universities. The business and technological incubators in Serbia have largely been established as a result of donor projects and are facing sustainability issues, due to lacking support of scientific and research organisations or budget funds. Most Serbian universities have set up some form of technology transfer units, which do not have sufficient human capacities and funds at their disposal to identify innovation within scientific and research organisations and to support their commercialisation.

Priority structural reform 11. *PROGRAMME SUPPORTING INNOVATION AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS*

Structural reform outline

In addition to support for innovation and technological development projects in scientific and research organisations and the private sector, this reform envisages the establishment of a technology transfer system, implementation of joint projects by public scientific and research organisations and private companies, and financing innovation projects in the private sector through the Innovation Fund. Independent international evaluation of Serbian institutes will be conducted in the course of 2016, to enhance their efficiency and capacities for collaboration with the private sector through technological projects.

Current structural reform preparation status and implementation plan
The Central Technology Transfer Facility has been formally established in the Innovation Fund, international experts with expertise in this field have been engaged and its activities have been launched. Amendments to the Law on Scientific and Research Activities have been passed, and the Draft 'Research for Innovation' Scientific and Technological Development Strategy of the Republic of Serbia 2016-2020 has been prepared.

The agreement on a direct grant between the Innovation Fund and the Ministry of Finance - IPA 2013 will be signed in the first quarter of 2016, after which the fulfilment of the direct grant agreement will commence. The World Bank project 'Competitiveness & Jobs' has been launched. In the future, the reform should ensure continuity in financing projects implemented through the Investment Fund which have proved to be well designed. In 2017, an analysis will be conducted of the institutions in the scientific-research sector which should be modernised. A plan of sector reforms will be prepared, including the introduction of result-oriented management systems, both at the level of institutions and individuals.

Budgetary implications of the structural reform
A total of EUR 129.96 million is planned in the budget of the Republic of Serbia for the implementation of the structural reform during the 2016-2017 period, per annum: EUR 40.33 million in 2016 (2016 Budget Law); EUR 45.05 million in 2017 and EUR 44.58 million in 2018. A total of EUR 117 million from the 2016-2018 budget funds will be allocated for the 'Technological Development Programme' (including salaries for approximately 6,000 researchers), while EUR 12.5 million is envisaged for financing a grant scheme through the Innovation Fund (mini and matching grant scheme for innovations and technology transfer). Furthermore, a total of EUR 4.4 million (of which EU IPA 2013 EUR 2.4 million, RS budget EUR 1 million and companies EUR 1 million) has been provided for joint projects of the business sector and scientific organisations and for the technology transfer programme in the course of 2016-2018: EUR 1,388 million in 2016, EUR 2,347 million in 2017 and EUR 0.665 million in 2018 (in total comprising resources from EU funds, RS budget and companies).

Risks in priority structural reform implementation
The following key risks have been identified with regard to the implementation of the reform: inadequate implementation of other foreseen reforms in the science and innovation sector, weak interest in cooperation between the business and science sectors, lack of potential technologies to be commercialised in scientific and research organisations, low interest of researchers in partaking in the commercialisation process, the resistance of researchers in scientific institutes.

Expected impact on competitiveness
The reform will contribute to the commercialisation of innovative ideas through the establishment of a technology transfer system and joint projects of collaboration between researchers and private companies, resulting in increased competitiveness of the private sector and higher relevance of innovations coming from the scientific community.

Expected social impact
The reform will have impact on stimulating entrepreneurship, the creation of new jobs and increased employment of youth, primarily through joint projects of the private sector and the academic community, and will thus reduce the effect of brain drain. The projects funded from the budget through the technological development programme will facilitate project-based engagement of young researchers and students of doctoral studies. Furthermore, the reform will contribute to promoting an innovation culture in society, an increased absorption of new technologies and, therefore, an increased level of general education in society.

Structural reform implementation monitoring indicators
1) Number of conducted self-evaluations of institutes – BV: 0 (2015), TV: 50 (2018);
2) Number of newly established project partnerships of the private and academic sectors – BV: 22 (2015), TV: 42 (2018);
3) Number of newly established innovative companies – BV: 156 (2015), TV: 296 (2018);
4) Number of registered patents – BV: 58 (2015), TV: 103 (2018);
5) Number of highly qualified staff employed through the supported projects – BV: 324 (2015), TV: 584 (2018).

TRADE INTEGRATION

Problems in this area comprise delays in the legislative alignment with the World Trade Organization and the incomplete process of adopting technical regulations.

The Stabilisation and Association Agreement (SAA) with the European Union entered into force on 1 September 2013. In addition, Serbia is a party to a range of free trade agreements: with Russia (2000), CEFTA (2007), with the EU (2008), Belarus, Turkey (2009), EFTA, with Kazakhstan (2010), and a free trade agreement (FTA) is being negotiated with Ukraine.

The finalisation of Serbia's accession to the World Trade Organization (WTO) depends on the **alignment of domestic legislation with WTO rules**; in our case, this concerns the passage of the Law on Genetically Modified Organisms consistent with WTO rules: this is a systemic matter, rather than a bilateral requirement on the part of any member country. In addition, the accession process will be complete once all remaining bilateral negotiations on market access are finalised with the countries that have initiated them, namely Ukraine, Russian Federation and Brazil.

Serbia's long-term sustainable economic growth is not possible without export growth, which, in addition to strengthening the country's overall competitiveness, also creates a positive image of the functioning of its economy. The European Union recognises **technical regulations as an area in which full alignment has not been achieved,** and this constitutes a prerequisite for pursuing the international and European integration path and ensuring free movement of goods and services. The implementation of the *Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia 2015-2020*, adopted at a Government meeting in October 2015 (Official Gazette No 93/2015) will provide the prerequisites for trade in goods in conformity with the principles, rules and standards of the single European market and relevant European and international organisations, as well as the full implementation of the legal and institutional framework for quality infrastructure. Serbia has fully aligned its national legislation in the area of export control of arms, military equipment and dual-use goods with the *acquis*.

The passage of the Law Ratifying the Convention on a Common Transit Procedure and the Law Ratifying the Convention on the Simplification of Formalities in Trade in Goods has provided the prerequisites for the implementation of the New Computerised Transit System (NCTS), used in the customs territories of EU member states, EFTA and Turkey. The NCTS implementation will, amongst other things, facilitate the acceleration of customs procedures, return of foreign carriers to domestic roads and higher competitiveness of domestic carriers engaged in international road freight transport.

Priority structural reform 12. *IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM*

Structural reform outline

This reform is primarily focused on attaining a high development level and balanced development of key elements of the quality infrastructure (QI) system: metrology, standardisation, accreditation and conformity assessment, as well as the full and efficient implementation of the legislation applicable to free movement of goods, without unnecessary technical barriers to trade. An efficient and internationally recognised QI system will provide better conditions for Serbian enterprises and industry to apply technical regulations and standards for products and management systems (safety, quality, environmental protection etc.), which is among the prerequisites for improving the competitiveness of the Serbian economy, exports and economic growth. The structural reform will be implemented through IPA projects on strengthening the capacities of the national QI system and product conformity assessment bodies. The reform is consistent with the goals of the *Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia 2015-2020*.

Current structural reform preparation status and implementation plan

1) The IPA 2013 Twinning project 'Strengthening Capacities of National Quality Infrastructure (NQI) and Conformity Assessment (CA) Services in the Republic of Serbia', with a consortium from the Czech Republic as the partner, was launched in October 2015. 2) The project 'Supply of Equipment Necessary for Improving of Conformity Assessment (CA) Services in Republic of Serbia', funded under IPA 2013, is in progress. The project goal is to enhance the technical capacities of the Directorate for Measures and Precious Metals and conformity assessment bodies in Serbia. The tender dossier has been prepared and submitted to the EU Delegation for ex-ante control and approval. The tender process is expected to be launched in early 2016. 3) The Action Plan Implementing the Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia 2015-2020 is under preparation (the adoption is envisaged for the beginning of 2016).

The following activities are planned in 2016: preparing and adopting an action plan for the non-harmonised area, strengthening the focal point for providing information on technical regulations, strengthening the capacity of relevant ministries to identify/remove barriers to trade in non-harmonised areas and conducting legal analysis of the regulations of the Action Plan for the non-harmonised area. An Action Plan for the adoption and implementation of European legislation in the harmonised area is planned to be adopted at the end of 2016. Activities from the adopted action plans will be implemented during 2017 and 2018 (repealing and updating outdated technical regulations in non-harmonised areas, adopting new technical regulations, implementing public procurement procedures, analysing legislation in the field of metrology and pre-packaged products, promoting the importance of QI and production of publications and promotional material).

Budgetary implications of the structural reform
The costs of structural reform implementation by years are as follows: 1) Twinning project: in 2016 – EUR 34,250 from the RS budget and EUR 308,250 from IPA 2013; in 2017 – EUR 10,000 from the RS budget and EUR 90,000 from IPA 2013. 2) Equipment supply project: in 2016 – EUR 200,000 from the RS budget and EUR 1,800,000 from IPA 2013; in 2017 – EUR 300,000 from the RS budget and EUR 2,700,000 from IPA 2013. After the completion of the Action Plan Implementing the Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia, the budgetary impact will be known.

Risks in priority structural reform implementation
The key risk in implementing this reform is insufficient capacities for the preparation and implementation of technical regulations in line ministries.

Expected impact on competitiveness
Unnecessary barriers to trade will be removed (unnecessary technical and non-technical regulations lead to higher costs for businesses) to facilitate trade in goods between the EU and Serbia, which will enable Serbian businesses to import and export products in conformity with European requirements and without technical barriers, i.e. without duplicating costly tests and certification. Strengthening the capacity to produce goods that meet the requirements, primarily those of the European market, leads to a rise in export activities and improvement of economic competitiveness, which, in turn, leads to sustainable economic growth rates.

Expected social impact
The implementation of this structural reform directly ensures high protection of human safety and health owing to using safer products, as well as protection of property, the environment and other public interests. In addition, the protection of consumers' and end users' interests is improved and awareness is raised about the importance of technical regulations and standards.

Structural reform implementation monitoring indicators
1) Share of exporters in the total number of SMEs – BV: 4.3% (2013), TV: 7% (2020);
2) Share of exports in the total turnover of the SME sector – BV: 9.1% (2013), TV: 14% (2020);

EMPLOYMENT AND LABOUR MARKETS

The major challenges facing the Serbian labour market are high structural unemployment (especially high youth unemployment which results in brain drain), a major mismatch between deployable human capital and economic needs, as well as a limited impact of active labour market policies.

The overall number of the working-age unemployed in 2014 stood at 613,004, a 6.4% drop compared to 2013. **The working-age population unemployment rate of 20.1% (EU-28 – 10.2%)** is lower than the one recorded in 2013 (23.0%). However, a massive influx of the unemployed is expected following the completion of the privatisation process, through initiating bankruptcy procedures (188 companies employing 5,000 people) and restructuring state-owned enterprises (155 companies employing 54,000 people). **Long-term unemployment is prevalent in Serbia** – as many as 67.2% of the unemployed have been seeking a job for more than a year. As a result, their knowledge becomes outdated, so that the likelihood of them finding a job decreases as the length of unemployment increases, which may lead to permanent exclusion from the labour market (the 2014 Labour Force Survey, revised data).

Youth between the ages of 15 and 29 (218,971 in 2014), who are at the same time the most critical group, **make up a large proportion of the unemployed.** In 2014, the youth unemployment rate (15-29) was 37.8%, which was considerably higher than the overall unemployment rate of 20.1% in the 15-64 age group (according to the Labour Force Survey). The fact that young people cannot find employment is one of the reasons why they leave Serbia upon graduation from university. Of 144 countries which were ranked in 2014 according to their ability to 'keep talent at home', Serbia ranked 141st, whereas it came in last in the 2015 ranking (of 140 countries). Based on its ability to 'attract' talented people, Serbia ranked second to last in both 2014 and 2015, leaving behind only Venezuela (according to the Global Competitiveness Report of the World Economic Forum). High youth inactivity rates of 54.5% in the 15-29 age group and 71.8% among 15-24-year-olds further compound the existing challenges in this labour market segment. **One in five 15 to 24-year-olds (20.2%) falls into the so called NEET category (not in education, employment or training), which poses a serious economic challenge for the country** (Labour Force Survey, revised data for 2014).

The state of affairs regarding human capital and skills in Serbia does not meet social and economic needs. The shortage of qualifications, knowledge, skills and key competences in demand in the labour market restricts employability to low-skilled and low-wage jobs.

There has been some progress in the vocational education and training reform aiming to better satisfy labour market needs. The National Qualifications Framework should be completed and compared with the European Qualifications Framework. Within the secondary education system a total of 56 qualifications is based on qualification standards and learning outcomes (around 25% of occupational profiles in vocational schools). The ongoing higher education reform should place special emphasis on the importance of study programmes, knowing that the unemployment rate among higher education graduates (aged 19–24) is 40% and that young and highly qualified people emigrate in high numbers (*EC 2015 Progress Report for Serbia, p. 65*).

Improving counselling methods and techniques in dealing with the unemployed is of paramount importance for the assessment of employability on a case-by-case basis in line with the characteristics of individuals (education level, work experience, additional sets of knowledge and skills, gender, etc.) and of the labour market, as well as for their purposeful involvement in those active labour market policies which would most contribute to the labour force being more competitive upon entering the labour market.

<u>Priority structural reform 13.</u> *ESTABLISHING THE NATIONAL QUALIFICATIONS FRAMEWORK AIMED AT INCREASING COMPETENCES*

Structural ref orm outline

The purpose of developing the National Qualifications Framework in Serbia (NQFS) is to regulate the system of qualifications which are attained through education and training in accordance with the demands of social and economic development, provide support to the implementation of lifelong learning and facilitate labour force mobility. Enacting an integrated NQFS and the Law on the NQFS will help define the institutions and processes, competent bodies and institutions for the accreditation of facilities/bodies and programmes based on which qualifications are attained, and set up a quality assurance system within the NQFS.

This structural reform envisages the establishment of the Register of Qualifications and Sector Councils – the bodies which determine the occupations needed and the competences for each of them in a given sector – as well as the qualification standards based on which education/training programmes will be developed at all levels, which would result in higher competitiveness of both the population fit for work and just about to enter the labour market and those who need retraining or attaining further qualifications. The NQFS is referenced to the EQF (European Qualifications Framework), while the Register of Qualifications is linked with the EU qualifications database.

Current structural reform preparation status and implementation plan
The team of experts working on the elaboration of an integrated NQFS is preparing a final document to be presented to the competent councils in the first quarter of 2016, and after that to the wider public. The Draft Law is in preparation, and the final proposal will be prepared upon completion of consultations on the NQFS (adoption is expected in the third quarter of 2016). The preparation of the expert instructions and action plan for the establishment of sector councils started in December 2015 and will continue in 2016. Establishment of two sector councils pursuant to the Adult Education Law is foreseen in the second quarter of 2016. Simultaneously, the self-referencing procedure is being prepared. The preparation of public consultations on the Draft Law on Regulated Professions, i.e. on the recognition of qualifications in accordance with the existing EU Directives, is underway. The establishment of the Qualifications Register and the Qualifications Agency is envisaged in 2017. The focus as of 2017 will be on the development of qualifications standards in two sectors and their accreditation (entry into the register) and the development of education programs/curricula in compliance with qualification standards.

Budgetary implications of the structural reform
A total of EUR 16,260 is earmarked in the 2016 Budget Law. The same amount is projected for 2017 and 2018. Additional funds are earmarked from IPA 2014 (EUR 1.5 million), IPA 2015 (EUR 4 million) and IPA 2016 (sector budget support of EUR 25 million)[14].

Risks in priority structural reform implementation
One of the greatest challenges to the implementation of this structural reform is inadequate support from social partners in the course of adoption of the NQFS and establishment of sector councils. Additional risks are the impossibility of establishing the institutional framework and hiring adequate experts owing to the restrictive employment measures or the application of the Law on Public Procurement in procuring expert services, as well as the lack of administrative capacities of existing institutions and bodies.

Expected impact on competitiveness
The new education/training programmes will enable greater competitiveness of the labour force, which will possess competences that correspond to labour market demands, which should allow for easier and faster employment. Moreover, the establishment of the NQFS will provide opportunities for improving the qualifications and competences necessary for higher-paying, high-skilled jobs.

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14 The sector budget support programming process is under way and the precise amount will be confirmed only after the signature of the IPA 2016 Financing Agreement.

Expected social impact

The relevance and quality of the education system is upgraded through the development of the NQFS. By promoting the relevance (development of social partnership in education) and quality of education programmes, the education system will be able to better respond to the needs of the labour market and allow for higher labour force employability. The NQFS will ensure greater flexibility of the education system, opportunities for raising the education level of the overall population, as well as inclusion of various vulnerable groups in the education system and the labour force.

Structural reform implementation monitoring indicators

1) The number of accredited qualifications in the register of qualifications (based on qualification standards and learning outcomes) – BV: 0 (2015), TV: 70 (2018);
2) The number of functioning sector councils – BV: 0 (2015), TV: 12 (2018)

Priority structural reform 14. *IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES WITH SPECIAL EMPHASIS ON YOUTH, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED*

Structural reform outline

The promotion of efficiency and effectiveness of labour market policies based on the labour market needs assessment and the status of certain groups of the unemployed, bearing in mind the effects of these policies on employment, should contribute to a timely, adequate and quality integration or reintegration of the unemployed in the labour force. Developing a system of early profiling of the unemployed (by improving counselling methods and techniques, employability assessment and career guidance and counselling) and including youth, redundant workers and the long-term unemployed in active labour market policies (ELMP) through packages of services suited to labour market needs and characteristics of each individual, leads to higher employability, employment and self-employment. The measures are implemented in line with the *National Employment Strategy 2011-2020* and the annual *National Employment Action Plans*. The Law on Employment and Unemployment Insurance lays down ELMP, with the possibility of creating new ones in response to the labour market needs on an annual basis through the National Employment Action Plan.

Current structural reform preparation status and implementation plan

The National Employment Action Plan for 2016 has been adopted. Annual reports on the implementation of the National Action Plan are planned to be prepared for the previous year based on the analysed effects if the EAP measures. In accordance with the results of the analysis, as well as the needs of the labour market, new EAP measures will be designed, which will be covered by the Employment Action Plan for the coming year. The national employment action plan for the next year is planned to be adopted in the third quarter of the current year.

The realisation of the activities set out in the Action Plan for the Implementation of the National Youth Strategy 2015-2017 commenced in 2015 and will be implemented throughout the coming years according to the foreseen timeline.

Budgetary implications of the structural reform

The amount of EUR 22,764,228 has been earmarked for the realisation of active labour market policies in 2016, with another EUR 4,471,545 for occupational rehabilitation and employment of persons with disabilities. The budget projections for 2017 and 2018 set aside the same amount, EUR 22,764,228 for the implementation of active labour market policies, whereas EUR 4,878,049 in 2017 and EUR 5,284,553 in 2018 are to be allocated for occupational rehabilitation and employment of persons with disabilities. The projected amounts refer to all measures, i.e. the overall number of people who are planned to be covered by them.

The following funds have been earmarked for implementing activities aimed at providing support to the development and implementation of cross-sector services to boost youth activity, employability and employment rates at the local level: in 2016 – EUR 2,382,114 (EUR 756,098 from the Ministry of Youth and Sport, and EUR 1,626,016 from other sources) and in 2017 – EUR 2,382,114 (EUR 756,098 from the Ministry of Youth and Sport, and EUR 1,626,016 from other sources).

Risks in priority structural reform implementation
Key risks in implementing this reform include the inactivity of the unemployed in the labour market; demand-supply mismatch, i.e. inadequate qualifications, and the fact that the unemployed are lacking in the knowledge and skills required by employers; employers' reluctance to employ/engage people from the hard-to-employ group.

Expected impact on competitiveness
The involvement of youth, redundant workers and the long-term unemployed in 'targeted' active labour market policies, i.e. according to personal characteristics and preferences, in compliance with gender equality principles, especially if their goal is the attainment of knowledge, skills and work experience, employment/engagement or entrepreneurship development, contributes to the promotion of the status of these groups of the unemployed in the labour market and prevention of adverse migration flows in the form of brain drain (of youth in particular) and work in the grey economy.

Expected social impact
Raising the effectiveness of active labour market policies with special emphasis on youth, redundant workers and the long-term unemployed will contribute to higher employment of these groups, easier transition of youth into the labour market, improved working conditions, as well as greater social inclusion of the abovementioned groups. Moreover, positive effects will also be visible in the availability and completion of additional training, and better labour force mobility.

Structural reform implementation monitoring indicators
1) The long-term unemployment rate (the percentage of the unemployed seeking a job for 12 months or longer in the total active population) – BV: 11.2% (2014), TV: 7% (2018);
2) The number of people employed/engaged through active labour market policies during a year – BV: 16,800 (2014), TV: 30,000 (2018);
3) The long-term youth unemployment rate (15-29) (the percentage of those unemployed for a year or longer in the total active population) – BV: 21.6% (2014), TV: 7% (2018)

FOSTERING SOCIAL INCLUSION, COMBATING POVERTY AND PROMOTING EQUAL OPPORTUNITIES

Widespread poverty, insufficient coverage and adequacy of means-tested cash benefits, and low service quality accompanied by weak oversight, regulation, and monitoring and evaluation mechanisms are the key problems and challenges in Serbia's social protection system. On the other hand, from the aspect of increasing economic growth and competitiveness, measures such as developing social services also offer a potential for investments, which should be exploited in the coming period, in accordance with the European Commission's Social Investment Package[15], according to which well-designed social policies can simultaneously contribute to economic growth, provide protection from poverty and serve as economic stabilisers.

The living standard is low in Serbia, and poverty is prevalent. The absolute consumption poverty rate shows that, in recent years, between 6% and 9% of the total population has not been able to meet even its basic needs. The 2012 at-risk-of-poverty rate of 24.6% and the severe material deprivation rate of 27% show that the level of vulnerability is substantially higher, judging by low income levels and the inordinate number of items that individuals in Serbia cannot afford. According to these indicators, in particular the **at-risk-of-poverty rate, the level of vulnerability in Serbia is higher than in the EU member states** (at-risk-of-poverty rate 16.6%, severe material deprivation rate 9.9%).

In recent years, the expenditures on social protection amounted to about 25% of the GDP, while, in the expenditures breakdown, expenditures on net pensions prevailed, at more than 13% of the GDP. The ratio of expenditures on social protection to Serbia's GDP (below 25%) is lower than the EU-28 average, which has been approximately 29% in recent years. However, in absolute terms, the expenditures amounted to only about 2,200 PPS per capita, i.e. 3.5 times lower than in the EU-28 (according to the Eurostat data for 2012). Only Bulgaria and Latvia had lower expenditures than Serbia in PPS per capita.

The social assistance system in Serbia consists of a range of schemes with different goals, such as poverty reduction, population policy and/or assistance to other vulnerable groups (persons with disabilities, disabled war veterans etc.). The efficiency and effectiveness of social assistance, viewed through the lens of its impact on poverty, is limited precisely because a large portion of social assistance is spent on schemes that do not have poverty reduction as their primary goal. **Social assistance has a low impact on poverty.** Only 23% of all transfers goes to the poorest quintile (merely 35% of the poorest quintile receives some form of social assistance), and as much as 28% goes to the richest quintile[16]. Financial social assistance (FSA) is the only scheme whose goal is poverty reduction; it is subject to a means test, which makes it the best-targeted scheme[17]. However, the coverage by FSA is still low. In July 2015, the basic FSA amount stood at EUR 64, and the increased amount – at approximately EUR 76. Benefit adequacy is unsatisfactory when assistance amounts are assessed from the aspect of the ability to meet the basic needs, i.e. being lifted out of absolute consumption poverty.

The first group of challenges comprises increasing the coverage and **improving the adequacy of means-tested cash benefits**, subject to the availability of budget funds. Assuming perfect

15 Social Investment Package, European Commission, 2013.
16 World Bank, Republic of Serbia Public Finance Review 2015, http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/11/776271446462342355/PFR-eng-web-final.pdf
17 According to the World Bank Report, 74% of FSA recipients are in the poorest quintile.

targeting, the coverage of the population at risk of poverty and entitled to financial social assistance would be only 15%. The data on the number of individuals and children from the poorest quintile by consumption who receive financial social assistance and child allowance also indicate the need to increase the coverage of the vulnerable by these cash benefits. The coverage can be increased by raising the income ceiling, and also by relaxing property-related and other eligibility requirements (such as the requirement for parents to be covered by health insurance in the child allowance scheme).

The second group of challenges comprises **improving service quality**, strengthening oversight and regulatory mechanisms, monitoring and evaluation. The reform processes in the area of social protection entail not only adopting a completely different, client-centred approach, but also establishing numerous new innovative and flexible services, involving more service providers from the non-state sector (civil society organisations - CSO and private sector), and linking the widest range of stakeholders at the local and national levels.

In the short term, the challenge is to complete the process of standardising services and licensing social service providers and professionals, as well as to establish and strengthen training programmes. Challenges may also be identified in the need for services tailored to the clients' individual needs, in better defining the eligibility criteria for clients, in introducing elements of service evaluation from the client perspective, in intensifying support to CSOs as social service providers, as well as in improving the standards and quality of care in residential care institutions.

Gender equality in Serbia is still not on a satisfactory level. Although women made up 51.3% of the general population in 2014, there are still fewer of them among decision-makers and in managerial positions. Women occupy 34% of the parliament seats, 20% are represented in the Government, while there are only 5% of women mayors and presidents of municipalities. When it comes to managerial positions in companies in 2014 women made up 33% of the total number of managers, while in public enterprises only 13% of women are directors and managing board members (one of the indicators of structural reform 8: Reform of Public Enterprises).

Priority structural reform 15. *IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES*

Structural reform outline

Improving the adequacy, quality and targeting of social protection comprises two measures: 1) Increasing the adequacy of cash benefits and improving the accessibility and quality of social services by amending legislation; 2) Linking the different sectors' information systems to ensure that clients have access to their social rights without administrative barriers and that the overall social assistance is thus better targeted. This structural reform is defined on the basis of the Employment and Social Reform Programme (ESRP), in conformity with the new EC Guidance for the Economic Reform Programmes, according to which ESRP is to be integrated into ERP from 2016.

Increasing the weightings (benefits) for children and youth with disabilities; relaxing property-related requirements, in particular raising the land ownership ceiling depending on land quality for elderly households; linking cash benefits to the relevant services; reviewing the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analysing the basic attendance allowance level are the prerequisites for increasing the adequacy of cash benefits and all these activities need to be carried out in order to reach the desired level of adequacy.

With a view to improving the accessibility and quality of social services, it is essential to introduce earmarked transfers foreseen by law, strengthen oversight and regulatory mechanisms, as well as to complete the process of standardising services and licensing social service providers and professionals. The activities contributing to the goal (consistent and high-quality social services within the mandate of local governments) are: amending the existing regulations and adopting new ones in the area of oversight and regulatory mechanisms, strengthening oversight services (in staffing and professional terms), mapping the existing non-institutional social services within the mandate of local governments, revising the benchmarks and criteria for costing social services, aligning social service standards with A Voluntary European Quality Framework for Social Services[18], establishing and implementing the mechanism of earmarked transfers to underdeveloped municipalities to fund social services in conformity with the Budget System Law, and further involvement of the widest range of different stakeholders, including civil society organisations, in the system of social service providers, while taking account of quality through strengthening the social protection inspection service.

Linking the different sectors' information systems will reduce administrative barriers for beneficiaries of social protection entitlements and shorten the time needed to access their entitlements. In the decision-making procedures in response to applications for entitlements, centres for social work should be allowed access to other public authorities' records and enabled to procure certain pieces of evidence in the procedures, which would shorten the duration of the procedures and thereby enable easier access, while at the same time serving as an oversight mechanism. This would shorten the procedures, simplify administrative barriers and reduce the scope for any abuse.

Current structural reform preparation status and implementation plan

To increase cash benefit adequacy and improve social service accessibility and quality, it is essential to improve the existing legal framework; therefore, the Working Group on Amending the Law on Social Protection and the Working Group on Amending the Law on Financial Support to Families with Children have been formed. The provision of technical equipment to centres for social work has been completed, and all centres for social work are being linked into a single network by means of software that will cover all procedures and services, as well as client records. In preparation for linking the different sectors' information systems, the list of the pieces of evidence required to exercise the right to social protection has been prepared.

The introduction of social protection service quality monitoring and evaluation (including client satisfaction assessment), strengthening of inspection services (increasing the number of staff, introducing a new organisation and modality of operation), expansion of regional foster care and adoption centres and definition of their oversight function have been commenced upon the entry of the Law on Social Protection into force, but has yet to attain the required scale. It is essential to strengthen the oversight and regulatory mechanisms in order to ensure social service quality.

18 A Voluntary European Quality Framework for Social Services, the Social Protection Committee, 2010.

Budgetary implications of the structural reform

The social protection system strives to remain within the same financial boundaries; however, the goal is to achieve a more equitable and better distribution, better coverage of the socially vulnerable population, without the possibility of receiving double entitlements or accessing them on false grounds. National budget funds amounting to EUR 779,418,683 are foreseen for the implementation of social protection measures in the period 2016-2018, specifically by years: 2016 – EUR 223,557,862, 2017 – EUR 257,760,049, and 2018 – EUR 298,100,772.

Risks in priority structural reform implementation

Delay in the passage of amendments to the Law on Financial Support to Families with Children and amendments to the Law on Social Protection, as well as reduction of the total funds for these purposes. Establishing a single social protection information system requires linking multiple institutions and opening their databases, which constitutes one of the greatest potential risks to the implementation of this measure.

Expected impact on competitiveness

The successful implementation of structural reforms geared towards enhancing competitiveness and growth requires coordinated sector-wide action and implementation of those structural reforms that constitute the prerequisites and basis for further growth and improvement of competitiveness. From this aspect, an essential reform, interpreted as a 'horizontal reform' necessary for the successful functioning of other sectors, is social protection system reform. Social protection system reform will enable relieving enterprises of social functions and facilitate the operation of an equitable support system, while ensuring the minimum standard of living.

Expected social impact

Improving the adequacy, quality and targeting of social protection measures will have an impact on mitigating the negative effects of structural reforms through better and more effective social protection and greater social inclusion of the most vulnerable population groups. In addition, a positive impact on these groups' health status will be achieved through better housing, living, working conditions, better nutrition, etc.

Structural reform implementation monitoring indicators

1) Ratio of net income of FSA recipients to at-risk-of-poverty threshold for a single-person household – BV: 57% (2014), TV: 80% (2020);
2) Ratio of net income of FSA recipients to at-risk-of-poverty threshold for a household with two adults and two children – BV: 69% (2014), TV: 80% (2020);
3) Ratio of number of licensed service providers to number of those who have not obtained licences yet (but who may be in the licensing process)

3. Overview of Priority Structural Reforms

In accordance with the identified obstacles in relevant areas for increasing competitiveness, the prepared list of priority reforms should eliminate the observed obstacles in the best possible way within available funding sources and capacities in terms of their implementation.

In the area of public finance management, priority reform No. 1 is reflected in achieving a more efficient and modern functioning of Tax Administration, not only to improve tax collection and reduce the informal economy, but also to reduce the burden associated with the procedures for tax return and paying taxes for businesses and citizens. Another significant reform in this area relates to the promotion of public investment in order to improve the selection and the management of the implementation and absorption of the allocated resources.

In the area of physical infrastructure, priority reform No. 3 should in the next three years significantly improve the connectivity of transport systems of the Republic of Serbia with the surrounding countries through specific projects on road-railway Corridor 10 and Belgrade-South Adriatic motorway. In the area of energy, in the next three years, the goal is to improve significantly the connections between the energy systems of the Republic of Serbia and the surrounding countries through specific projects – the Niš-Dimitrovgrad trunk gas pipeline and the Trans-Balkan power transmission corridor, and to improve security of supply through the project 'Construction of a new B3 unit in Kostolac Thermal Power Plant'. The goal of priority reform No. 4 is establishing a national broadband network.

In the area of sectoral development of the economy prioritised reforms should improve the productivity of agricultural production through a targeted system of incentives (reform No. 5) and established a support system for the processing industry development (reform No. 6).

In the area of improving the business environment, the following reforms were set out as priorities: reform No. 7 relating to access to the finance for small and medium-sized enterprises, reform No. 8, which refers to the management of public enterprises, reform No. 9, which is about the simplification of procedures relevant for operations of business entities and reform No. 10, which aims to establish a common information platform for all inspections at the level of the republic.

In the area of technology absorption and innovation, priority reform No. 11 aims to support innovation and technology transfer in both the private and the public sector.

When it comes to trade integration in the coming period, priority reform No. 12 refers to the improvement of the overall infrastructure system quality.

In terms of employment and the labour markets, the focus is on the reform of active employment measures (reform No. 13) and the establishment of a national qualifications framework (reform No. 14).

Finally, in the area of social inclusion, priority reform No. 15 is related to improving adequacy, quality and targeting of social protection measures.

A detailed overview of the priority reforms is given in Table 12.

V. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

The costs of implementing structural reforms in 2016 should amount to EUR 474 million and the estimated positive effects on the budget revenues in the same period (based on the increase in output and employment, more efficient administrative processes, better revenue collection, lower allocations from the budget due to increased efficiency and liquidity of state-owned enterprises) amount to about EUR 104 million. The total net impact on the budget in 2016 is estimated at EUR -371 million.

The plan for the funds for the implementation of structural reforms in 2016 was made in accordance with the **Budget Law 2016** (Official Gazette of RS, No. 103/15), budget funds and loans, inflows from donations, or from other sources. Due to the fact that in 2016 the net impact on the budget is negative, it should be taken into account that a smaller direct impact is expected on budget expenditures than the recorded ones, as the described effects are intended for implementing reforms and regular activities that are the basis for their implementation (for reforms financed from section 20, the total amounts are provided by the Budget Law 2016, but for a specific purpose, i.e. the ERP priority reforms, the exact amounts will be determined by the specific Government instruments). Funds from the budget of the Republic of Serbia for the implementation of structural reforms in 2017 and 2018 must be planned in accordance with the assigned limits for the holders during the budget procedure.

Direct effects of each individual reform on budget expenditures are reported in accordance with the Law on Budget for 2016. The reported positive effects on the budget are estimated and represent positive risks, and are not an integral part of the scenario from the medium-term macroeconomic framework (Chapter 2 of the ERP). In addition, for each structural reform, the allocated funds from other sources are shown such as the EU IPA funds, loans, grants from international financial institutions.

Detailed information on the budgetary implications of the structural reforms and possible non-budget financing is given in Table 10 in the Annex.

VI. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The process of drafting the ERP for the period 2016-2018 started on 21 September 2015 at the meeting of the national ERP coordinators at the OECD headquarters in Paris, organised by the European Commission and the OECD, where the new EC guidelines for drafting the ERP were presented. The EC officials stressed the need that to better align the ERP with the EU accession agenda and with similar initiatives developed in cooperation with international organisations such as the IMF. It was suggested that countries should focus on capital investments that contribute to growth. The importance of inter-ministerial cooperation and consultations with the civil sector in the process of prioritising structural reforms was especially emphasised. Representatives of the Republic of Serbia reported that a large part of the recommendations of the Ministerial Dialogue held in May 2015 had already been implemented or were being implemented.

The MoF established a Working group to draft the ERP. In cooperation with the EC and the OECD, a round table was organised where the methodology for drafting the document was presented. In addition to the ERP coordinators, the meeting was attended by representatives of the EC, the EU Delegation and the OECD. ERP coordinators from the relevant ministries and other relevant institutions (NBS, NES, RSO) were appointed at the highest level, which shows great commitment and ownership of the ERP development process (list of institutions from which ERP coordinators were appointed is given in Annex 2).

Activities of the Working Group for preparing the contents of Chapter 4 and 5 Priority Structural Reforms 2016-2018 and the budgetary implications of reforms were coordinated by the Public Policy Secretariat in cooperation with the MoF. The work was carried out in the form of exchange of contributions, discussions at individual meetings with relevant ministries and institutions for certain areas of structural reforms. In addition, two full-day workshops were organised that were attended by all members of the Working Group, as well as experts of the OECD. During the drafting process, representatives of the EU Delegation in Serbia and the Directorate-General for Neighbourhood Policy and Enlargement Negotiations (DG NEAR) were invited to comment on the draft documents so that their suggestions regarding the proper application of the methodology would be taken into account. At the same time, a macroeconomic and fiscal framework was prepared (chapters 1-3), which was largely reliant on the Fiscal Strategy for 2016, with plans for 2017 and 2018 by the MoF and the National Bank of Serbia.

The draft version of Chapter 4 was uploaded on the MoF website on 30 December 2015 with a call for the civil society and all stakeholders to submit comments. The comments were received by the Government of AP Vojvodina and they were partly integrated into the text of ERP during this process. In order to ensure even wider consultations with the civil sector, on 22 January 2016 the MoF in cooperation with the National Convent on the EU organised a consultation meeting with civil society organisations and other interested parties which was attended by over 150 participants. The complete draft of ERP 2016-2018 was presented on this occasion, and the opinions and comments given at the meeting were integrated into the draft ERP. (The table with comments and a list of civil society organisations which were consulted and whose comments were presented at the meeting is given in Annex 1).

The revised ERP 2016-2018 draft was delivered to all relevant institutions which were asked for their opinion. The received opinions were taken into account in drafting the final version of the ERP, which the RS Government adopted in February 2016. The draft ERP for the period 2016 to 2018 in English was submitted to the EC in accordance with the given deadline.

Table 10. Budgetary Implications of Structural Reforms

Policy outline	2015	2016	2017	2018
Priority structural reform 1. TAX ADMINISTRATION TRANSFORMATION				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR		13,201,650	16,201,561	21,201,561
B.1. Direct impact on budgetary revenue, in EUR		*17,000,000*	*20,000,000*	*25,000,000*
B.2. Direct impact on budgetary expenditure, in EUR		*3,798,350*	*3,798,439*	*3,798,439*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 2. IMPROVED MANAGEMENT OF CAPITAL PROJECTS/INVESTMENTS				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*0*		
C. Possible non-budgetary financing, in EUR		161, 626		
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 3*. IMPROVED PHYSICAL INFRASTRUCTURE FOR BETTER CONNECTION WITH THE MARKETS IN THE EU AND THE REGION (3.1. + 3.2. + 3.3. + 3.4. + 3.5. + 3.6. + 3.7.)*				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	0	-39,052,252	-206,989,053	-1,869,919
B.1. Direct impact on budgetary revenue, in EUR	0	0	0	0
B.2. Direct impact on budgetary expenditure, in EUR	20,350,000	39,052,252	206,989,053	1,869,919
C. Possible non-budgetary financing, in EUR	48,310,001	58,835,644	37,914,000	28,037,000
C.1. Of which committed IPA funding including WBIF funding, in EUR	26,231,079	44,298,644	26,500,000	26,500,000
Project 3.1. E-75 AND E-80 MOTORWAY CONSTRUCTION (Corridor 10)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-12,008,130	-112,000,000	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	*20,000,000*	*12,008,130*	*112,000,000*	
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.2. CONSTRUCTION OF THE ŽEŽELJ BRIDGE NEAR NOVI SAD WITH SLIP ROADS (Corridor 10)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-4,878,049	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*4,878,049*		
C. Possible non-budgetary financing, in EUR	48,310,001			
C.1. Of which committed IPA funding including WBIF funding, in EUR	*26,231,079*			

Project 3.3. BELGRADE-SUBOTICA-KELEBIJA (STATE BORDER WITH HUNGARY) RAILWAY LINE MODERNISATION (Corridor 10)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-9,064,862	-39,168,520	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*9,064,862*	*39,168,520*	
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.4. MODERNISATION AND REHABILITATION OF THE NIŠ-BRESTOVAC SECTION OF THE NIŠ-PREŠEVO SINGLE-TRACK RAILWAY LINE (Corridor 10)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		0	-15,739,638	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*0*	*15,739,638*	
C. Possible non-budgetary financing, in EUR		44,078,644		
C.1. Of which committed IPA funding including WBIF funding, in EUR		*44,078,644*		
Project 3.5 E-763 BELGRADE-SOUTH ADRIATIC MOTORWAY CONSTRUCTION				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-12,991,455	-34,430,894	-1,869,919
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*12,991,455*	*34,430,894*	*1,869,919*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.6. NIŠ-DIMITROVGRAD TRUNK GAS PIPELINE CONSTRUCTION				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-109,756	-5,107,059	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	*350,000*	*109,756*	*5,107,059*	
C. Possible non-budgetary financing, in EUR			26,500,000	26,500,000
C.1. Of which committed IPA funding including WBIF funding, in EUR			*26,500,000*	*26,500,000*
Project 3.7. TRANS-BALKAN CORRIDOR				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*0*		
C. Possible non-budgetary financing, in EUR**		14,757,000	11,414,000	1,537,000
C.1. Of which committed IPA funding including WBIF funding, in EUR		*220,000*		
Project 3.8. ENHANCING SECURITY OF ELECTRIC POWER SUPPLY – CONSTRUCTION OF A NEW B3 UNIT IN KOSTOLAC THERMAL POWER PLANT				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR				
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR				
C. Possible non-budgetary financing, in EUR***		*6,500,472*	*114,401,690*	*195,669,494*
C.1. Of which committed IPA funding including WBIF funding, in EUR				

Priority structural reform 4. DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		-699,187	-2,000,000	-2,000,000
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*699,187*	*2,000,000*	*2,000,000*
C. Possible non-budgetary financing, in EUR		400,000	58,000,000	58,000,000
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 5. IMPROVEMENT OF THE COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-20,000,000	-30,000,000	-33,500,000
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	*15,000,000*	*20,000,000*	*30,000,000*	*33,500,000*
C. Possible non-budgetary financing, in EUR		20,000,000	25,000,000	30,000,000
C.1. Of which committed IPA funding including WBIF funding, in EUR		*20,000,000*	*25,000,000*	*30,000,000*
Priority structural reform 6. RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR		6,216,260	9,000,000	12,000,000
B.1. Direct impact on budgetary revenue, in EUR		*10,200,000*	*12,000,000*	*15,000,000*
B.2. Direct impact on budgetary expenditure, in EUR		*3,983,740*	*3,000,000*	*3,000,000*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 7. PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEs				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR		7,934,959	8,850,000	8,850,000
B.1. Direct impact on budgetary revenue, in EUR		*12,000,000*	*12,000,000*	*12,000,000*
B.2. Direct impact on budgetary expenditure, in EUR		*4,065,041*	*3,150,000*	*3,150,000*
C. Possible non-budgetary financing, in EUR		150,000	0	0
C.1. Of which committed IPA funding including WBIF funding, in EUR		*150,000*		
Priority structural reform 8. REFORM OF PUBLIC ENTERPRISES (8.1. + 8.2. + 8.3. + 8.4.)				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR		-45,891,707	-36,055,935	4,525,528
B.1. Direct impact on budgetary revenue, in EUR		*64,000,000*	*69,795,122*	*64,035,122*
B.2. Direct impact on budgetary expenditure, in EUR		*109,891,707*	*105,851,057*	*59,509,593*
C. Possible non-budgetary financing, in EUR		20,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Measure 8.1. THE INTRODUCTION OF CORPORATE GOVERNANCE IN PUBLIC ENTERPRISES				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR		63,840,000	57,440,000	51,680,000
B.1. Direct impact on budgetary revenue, in EUR		*64,000,000*	*57,600,000*	*51,840,000*
B.2. Direct impact on budgetary expenditure, in EUR		*160,000*	*160,000*	*160,000*
C. Possible non-budgetary financing, in EUR		20,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				

Measure 8.2. THE REFORM OF RAILWAYS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-109,731,707	-93,495,935	-47,154,472
B.1. Direct impact on budgetary revenue, in EUR			*12,195,122*	*12,195,122*
B.2. Direct impact on budgetary expenditure, in EUR		*109,731,707*	*105,691,057*	*59,349,593*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Measure 8.3. REFORM OF PE EPS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR				
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*0*		
C. Possible non-budgetary financing, in EUR****		200,000,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Measure 8.4. REFORM OF PE SRBIJAGAS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR				
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*0*		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 9. SIMPLIFICATION OF PROCEDURES FOR BUSINESS ENTITIES				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		-22,000	-93,750	9,912,500
B.1. Direct impact on budgetary revenue, in EUR				*10,000,000*
B.2. Direct impact on budgetary expenditure, in EUR		*22,000*	*93,750*	*87,500*
C. Possible non-budgetary financing, in EUR			843,750	787,500
C.1. Of which committed IPA funding including WBIF funding, in EUR			*843,750*	*787,500*
Priority structural reform 10. ESTABLISHING A COMMON INFORMATION PLATFORM FOR ALL INSPECTIONS AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		159,911	-569,106	-569,106
B.1. Direct impact on budgetary revenue, in EUR		*406,504*	*406,504*	*406,504*
B.2. Direct impact on budgetary expenditure, in EUR	*173,415*	*246,593*	*975,610*	*975,610*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 11. PROGRAMME SUPPORTING INNOVATIONS AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS				
A. Duration of the reform*		X		
B. Net direct budgetary impact (if any), in EUR		-41,330,000	-45,050,000	-44,580,000
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*41,330,000*	*45,050,000*	*44,580,000*
C. Possible non-budgetary financing, in EUR		1,058,000	1,777,000	565,000
C.1. Of which committed IPA funding including WBIF funding, in EUR		*728,000*	*1,207,000*	*465,000*

Priority structural reform 12. IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-234,250	-310,000	
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*234,250*	*310,000*	
C. Possible non-budgetary financing, in EUR		2,108,250	2,790,000	
C.1. Of which committed IPA funding including WBIF funding, in EUR		*2,108,50*	*2,790,000*	
Priority structural reform 13. ESTABLISHING THE NATIONAL QUALIFICATIONS FRAMEWORK AIMED AT INCREASING COMPETENCES				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-16,260	-16,250	-16,250
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*16,260*	*16,250*	*16,250*
C. Possible non-budget financing, in EUR		1,500,000	4,000,000	25,000,000
C.1. Of which committed IPA funding including WBIF funding, in EUR (in 2018 IPA 2016 – SBS)		*1,500,000*	*4,000,000*	*25,000,000*
Priority structural reform 14. IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES WITH SPECIAL EMPHASIS ON YOUTH, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-27,991,870	-28,398,375	-28,048,780
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*27,991,870*	*28,398,375*	*28,048,780*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 15. IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR		-223,557,862	-257,760,049	-298,100,772
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		*223,557,862*	*257,760,049*	*298,100,772*
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Total budget net impact		**-371,282,608**	**-573,190,956**	**-352,195,237**
Total impact on budget revenues		***103,606,504***	***114,201,626***	***121,441,626***
Total impact on budget expenditures		***474,889,112***	***687,392,582***	***478,636,863***

* Indicate start (and, if needed, end) with an 'X' mark
** Sovereign guarantee (to be issued in 2016 under the 2016 Budget Law, for the amount of EUR 15 million)
*** Law Ratifying the Preferential Buyer Credit Loan Agreement on Phase II of the Package Project Kostolac B Power Plant between the Government of the Republic of Serbia and Export-Import Bank of China (Official Gazette – International Treaties, No 2-2015)
**** Sovereign guarantee (to be issued in 2016 under Article 3 of the 2016 Budget Law, for the amount of EUR 200 million)

Table 11. Planned Implementation Timetable of Structural Reform Priorities

Priority structural reform 1. *TAX ADMINISTRATION TRANSFORMATION*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Prepare a plan of tax compliance												
Staff retention plan, considering gradual change in age structure												
Analysis of current state of play and initial proposal of future organisational structure												
Activities related to establishment of new risk management system												
Proposal of necessary amendments to Law on Tax Procedure and Tax Administration and Criminal Act in order to extend the powers and authorities for tax related investigations												
Harmonised proposal of the new organisational structure on all levels												
Review and revise Law on Tax Procedure and Tax Administration regarding the application of indirect calculation methods and assessment methods used for inspection of taxpayers' bookkeeping data based on risks/operations												
Commence preparations for implementation of the adopted proposal of the new organisational structure												
Set up a risk management unit as a separate organisational unit and build its capacities, establishment of risk management methodology												
Continue activities related to improvement of control and collection function, tax-legal affairs and non-tax functions, more efficient management of material and IT resources, upgrade of electronic services and development of services to taxpayers												
Final preparations for implementation of the adopted proposal of the new Tax Administration organisational structure												
Re-design of the HR management system and development of new generation of civil servants												
Set up a new organisational unit for providing services to taxpayers												
Introduce a more effective regime for late payment penalties												
Activities related to establishment of a new system of training in line with the organisation's needs												
Establish internal communication system between control and tax-related investigations												
Efficient management of seized goods												
Complete Tax Administration electronic services												

Priority structural reform 2. *IMPROVED MANAGEMENT OF CAPITAL INVESTMENTS*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Decree on the Content, Manner of Preparation and Assessment, as well as monitoring the implementation and reporting on the realization of capital projects												
Prepare and adopt methodologies and guidelines for applying the Regulation												
Prepare modules for training budget beneficiaries in the application of the Regulation and use of the methodology and guidelines												
Conduct a pilot phase of the assessment of capital projects by budget beneficiaries and the Ministry of Finance												
Adopt the remaining methodologies for the application of the Regulation												
Conduct training of budget beneficiaries regarding the application of the Regulation and the use of the methodology and guidelines												
Develop terms of reference and purchase unique information database of capital projects												
Make analysis and proposals for improving the methodology;												

Implement and update a uniform database of capital projects												
Rate capital projects by budget beneficiaries and the Ministry of Finance												

Priority structural reform 3. *IMPROVED PHYSICAL INFRASTRUCTURE FOR BETTER CONNECTION WITH THE MARKETS IN THE EU AND THE REGION*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Measure 3.1. E-75 and E-80 motorway construction (Corridor 10)												
Contract the tunnel equipment												
Complete the construction of sections												
Complete tunnel construction												
Measure 3.2. Construction of the Žeželj Bridge near Novi Sad with slip roads (Corridor 10)												
Build the slip roads												
Complete bridge construction												
Measure 3.3. Belgrade-Subotica-Kelebija (state border with Hungary) railway line modernisation (Corridor 10)												
Develop the planning documentation for the preliminary design												
Contracting in accordance with the defined funding model												
Carry out the 'Russian loan' – complete the Stara Pazova - Novi Sad section												
Measure 3.4. Modernisation and rehabilitation of the Niš- Preševo section of the Niš- Brestovac single-track railway line (Corridor 10)												
Sign the IPA 2015 Financing Agreement with the European Commission and launch tender dossier preparation												
Prepare the tender dossier and launch the tender process according to the EU rules												
Conduct the tender procedure and select the best bidder												
Sign the contract with the best bidder												
Launch the works (foreseen to last three years, until end 2019)												
Measure 3.5. E-763 Belgrade-South Adriatic motorway construction												
Contract the funding for the Surčin-Obrenovac section												
Obtain the use permit for the Ub-Lajkovac section												
Build the Surčin-Obrenovac section												
Build the Ljig-Preljina section												
Build the Preljina-Požega section												
Build the Obrenovac-Ub and Lajkovac-Ljig sections												
Develop the design documentation for the Požega-Boljare section												
Measure 3.6. Niš-Dimitrovgrad trunk gas pipeline construction												
Develop the planning documentation												
Developing the expropriation study												
Exploratory works												
Develop the preliminary design												
Declare public interest												
Develop the feasibility study												
Obtain location requirements												
Develop the design to obtain the building permit												
Develop the environmental impact study												
Address ownership-related affairs												
Obtain approvals for the preliminary design and feasibility study												
Obtain the energy permit												
Develop the detailed design												
Conduct the tender procedure												
Obtain the building permit												
Construction works												

Measure 3.7. Trans-Balkan Corridor												
Build the Pančevo-Reşiţa transmission line	■	■	■	■	■	■	■	■				
Reconstruct the Pančevo 2 transformer station, which is required to install the new Pančevo-Reşiţa double-circuit transmission line					■	■						
Obtain the building permit for the Kragujevac-Kraljevo transmission line		■										
Launch the reconstruction of the Kraljevo 3 transformer station, required to install the new Kragujevac-Kraljevo transmission line.					■							
Reconstruct the Kragujevac 2 transformer station, which is required to install the new Kragujevac-Kraljevo transmission line.								■	■			
Build the Kragujevac-Kraljevo transmission line					■	■	■	■	■	■	■	■
Prepare the technical documentation for the Obrenovac - Bajina Bašta transmission line			■									
Develop the urban/spatial plan for the Bajina Bašta - Obrenovac transmission line						■						
Develop the spatial plan for the Bajina Bašta - Višegrad-Pljevlja transmission line				■								

Measure 3.8. Enhancing security of electric power supply – construction of a new B3 unit in Kostolac Thermal Power Plant												
Unit B3 – 350 MW – Kostolac, Serbia												
Total project duration	■	■	■	■	■	■	■	■	■	■	■	■
Design (preliminary design, main design)	■	■	■	■	■	■	■	■	■			
Manufacture and deliver the principal equipment									■	■	■	■
Prepare the site	■	■	■	■	■	■	■	■	■	■	■	
Foundation and construction works											■	■
Assembly and commissioning												
Excavator-conveyor-stacker (ECS) system VI at Drmno open-cast mine												
Total project duration	■	■	■	■	■	■	■	■	■	■	■	■
Design and approval		■	■	■	■	■	■	■				
Fabrication and delivery					■	■	■	■	■	■	■	
Assembly and commissioning								■	■	■	■	■

Priority structural reform 4. *DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Law on Broadband Access				■								
Connect educational and cultural institutions to the Academic Network of the Republic of Serbia		■										
Prepare and plan for the establishment of a unified national telecommunications network (UNTN)			■									
Develop broadband access networks in municipalities across the country (end of first phase)				■	■	■	■	■	■	■	■	
Operational establishment of UNTN					■							

Priority structural reform 5. *IMPROVEMENT OF COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Prepare the rulebook and competition	■											
Adopt the rulebook and issue the competition		■										
Publish the call and implement the competition			■									
Implement the measure (in accordance with the Plan for Publishing the Call for IPARD measures adopted at the beginning of the year for the current year and bylaws)				■	■	■	■	■	■	■	■	■

Priority structural reform 6. *RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Promote the Law on Investments on the local level – a conference targeting local government units – partner SCTM												
Deliver training of local government representatives on the implementation of the Law on Investments – partner SCTM												
Support local governments to draft local instruments – partner SCTM												
Develop the strategic framework and an action plan for reforming agencies in the jurisdiction of the Ministry of Economy – working group establishment and operations												
Adopt the strategic framework and the action plan for reforming agencies in the jurisdiction of the Ministry of Economy												
Initiate the procedure of reforming the agencies in the jurisdiction of the Ministry of Economy – drafting bylaws												
Develop a monitoring and evaluation system within the Ministry of Economy for monitoring and supervising the work of agencies												
Objectives and indicators for monitoring and evaluating the work of agencies in the jurisdiction of the Ministry of Economy are developed												
Conduct the reform of agencies in the jurisdiction of the Ministry of Economy												
Identify priority industries – working group establishment and operations												
Draft the strategy and the action plan for priority industries – working group establishment and operations												
Finalise four strategies and action plans for priority industries												
Synergy of operations of the reformed agencies and action plans for priority industries through the development of new programmes supporting investments and exports												
Review industry policy												
Implement new programmes supporting investments and exports												
Evaluate the effects of the implemented programmes supporting investments and exports												
Enhance programmes supporting investments and exports and develop new programmes (as needed)												

Priority structural reform 7. *PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEEs*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Negotiate on the drawdown of the loan of APEX credit line for additional EUR 150 million.												
Prepare the APEX loan												
Draw down the loan of APEX credit line for additional EUR 150 million.												
Negotiate on the drawdown of the loan of APEX credit line by additional EUR 200 million.												
Prepare the APEX loan												
Draw down the loan of APEX credit line for additional EUR 200 million.												
Prepare a report with recommendations 'State Financial Support for SMEs'												
Prepare an action plan for the Pilot Programme - New financial instruments for state financial support for SMEs												
Develop 3 pilot programmes of new financial instruments												
Implement 3 pilot programmes of new financial instruments												

Prepare a small businesses support programme for purchasing equipment												
Implement the small businesses support programme for purchasing equipment												
Analyse the impact of the implemented programme for purchasing equipment												
Prepare needs analysis for alternative financial instruments with a proposal of an investment strategy – EIB												
Provide training in the implementation of financial instruments held by EIF, through EDIF project												
Prepare a plan of public financial institutions reform – form a working group												
Prepare a plan of public financial institutions reform – activities of a working group												
Implement the project of establishing financial instruments financed from IPA 2016												
Adopt a plan of public financial institutions reform												
Draft laws and subordinate legislation related to the reform of public financial institutions												
Start a new annual cycle of implementing the small businesses support programme for purchasing equipment												
Evaluate the investment strategy programme												
Analyse the impact of the implemented programme equipment												
Implement the programmes and monitor their implementation												
Evaluate the impact of the implemented programmes												
Develop new programmes												

Priority structural reform 8. *REFORM OF PUBLIC ENTERPRISES*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Measure 8.1. Introduction of corporate governance in PE												
Develop Guidelines for the preparation of an annual business plan of public enterprises founded by the RS												
Prepare amendments to the Law on Public Enterprises - activities of a working group												
Adopt the new Law on Public Enterprises												
Prepare a Study – Analysis of corporate governance in public enterprises founded by the RS												
Analyse the capacity of prospective educational institutions for providing training in corporate governance												
Establish a working group to define a system of licensing directors and supervisory board members in PE												
Organise activities of the working group to define a system of licensing directors and supervisory board members in PE												
Draft laws and subordinate legislation for introducing a system of licensing directors and supervisory board members in PE												
Carry out training needs analysis (TNA) of directors and supervisory board members in public enterprises												
Implement training for PE directors and supervisory board members in corporate governance												
Develop procedures in ME for monitoring and evaluating the impact of corporate governance in PE												
Implement procedures in ME for monitoring and evaluating the impact of corporate governance in PE												
Analyse the impact of the implementation of corporate governance in PE												

Measure 8.2. Reform of railways												
Implement the plan for key contracts management												
Review key contracts (audit)												
Monitor the implementation of labour force restructuring												
Secure funding for key contracts and investments												
Provide feedback on the network rationalisation												
Develop a plan for capacity enhancement												
Measure 8.3. Reform of PE EPS												
Measure 8.4. Reform of PE Srbijagas												

Priority structural reform 9. *SIMPLIFICATION OF THE PROCEDURES FOR BUSINESS ENTITIES*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Law on Electronic Business Adopt the Law on Services												
Adopt the Law on Fees												
Prepare an Action Plan for a unified public registry												
Establish patterns and list procedures												
Establish a management structure for the project implementation (Ministry of Economy, Ministry of Trade, Tourism and Telecommunications, the Ministry of Finance, PPS)												
List taxes												
Adopt the Regulation on the electronic point of single contact Complete and establishing a PSC (phase I)												
Start training on process management												
Start the implementation of the Law on Fees												
Make a general list of IPA 2013 procedures (beginning)												
Optimise the process (in terms of cost and time for business)												
Produce technical specifications (software, hardware)												
Organise a promo campaign												
Provide training in operational maintenance												
Provide instructions for electronisation												
Complete the harmonisation of sectoral legislation with the Services Directive, i.e. the Law on Services												

Priority structural reform 10. *ESTABLISH A COMMON INFORMATION PLATFORM FOR ALL INSPECTIONS AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)*	2016				2017				2018			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Phase I a) List business procedures b) Prepare ToR for Phase II of the project												
Phase II a) Organise a tender procedure for Phase II												
b) Contract contractors for Phase III c) Conduct a GAP analysis												
d) Design e-Inspector system e) Conduct a functional system analysis												
f) Develop e-Inspector system for the first four inspection services												
g) Test the system h) Produce the system for the first four inspection services												
Phase III a) Conduct a GAP analysis of the rest of the system												

b) Design e-Inspector system c) Conduct a functional system analysis												
d) Develop the e-Inspector system for the other 32 inspection services												
e) Test the system f) Produce the entire system												

Priority structural reform 11. *PROGRAMME SUPPORTING INNOVATIONS AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS*	**2016**				**2017**				**2018**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Sign the contract on direct grant between the Innovation Fund and the Ministry of Finance – IPA 2013												
Prepare documentation for a collaborative grant scheme – IPA 2013, promotion activities – info-days												
Submit the application by the Innovation Fund to the Ministry of Finance – IPA 14												
Prepare a manual for MG - 'Competitiveness & Jobs'												
Organise open days and workshops, prepare applicants for submitting applications – IPA 2013												
Open a public call for the collaborative grant scheme – IPA 2013												
Conduct promotion activities and present the programme and open the public call for MG at the end of the quarter - 'Competitiveness & Jobs'												
Launch the implementation of the technological development programme – MoESTD												
Set up service lines for technology transfer in the Central Technology Transfer Facility – IPA 14 and 'Competitiveness & Jobs' Conduct self-evaluations of scientific-research sector institutions and an analysis of pilot institutions by international experts - 'Competitiveness & Jobs'												
Sign the contract on direct grant between the Innovation Fund and the Ministry of Finance at the end of the quarter – IPA 14												
Conduct consultations and open days and submission of applications at the end of Q3 – 'Competitiveness & Jobs'												
Assess the submitted project proposals and adopt a decision on financing and launch the implementation of the approved projects under the collaborative grant scheme - IPA 2013												
Prepare documentation for the grant scheme - IPA 2014, promotion activities – info-days												
Assess the submitted project proposals and adopt a decision on financing - 'Competitiveness & Jobs'												
Set up service lines for technology transfer in the Central Technology Transfer Facility: 1. for collection of project proposals, 2. evaluation of project proposals and 3. identification of commercial usage strategy - IPA 14 and 'Competitiveness & Jobs' Detailed report on self-evaluation and pilot analyses of international experts - 'Competitiveness & Jobs'												
Conduct project implementation by beneficiaries who are granted funds, monitoring by the Innovation Fund - IPA 2013												
Organise open days and workshops, prepare applicants for submitting applications – IPA 2014 Open the public call for the grant scheme at the end of the quarter - IPA 2014												
Conduct project implementation of 1 PC by beneficiaries who are granted funds, monitoring by the Innovation Fund – 'Competitiveness & Jobs'												
Open 2 PC at the end of the quarter - 'Competitiveness & Jobs'												

Activity implementation: 1. collect project proposals by TTO iTTF, 2. evaluate the submitted project proposals and 3. define the commercial usage strategy - IPA 14 and 'Competitiveness & Jobs' + develop new service lines												
Conduct an analysis of scientific-research sector institutions based on the methodology derived from the institution pilot analysis conducted in 2016 Sector reform plan, including an introduction of an output-based management system, both on the institutional and individual level - 'Competitiveness & Jobs'												
Organise consultations and open days for 2 PC at the end of Q2, application submission - 'Competitiveness & Jobs'												
Assess the submitted project proposals and adopt a decision on financing Launch the implementation of the approved projects under the collaborative grant scheme - IPA 2014												
Assess the submitted project proposals in 2 PC and adopt a decision on financing - 'Competitiveness & Jobs'												
Conduct project implementation by beneficiaries who are granted funds, monitoring by the Innovation Fund - IPA 2014												
Conduct project implementation of 2 PC by beneficiaries who are granted funds, monitoring by the Innovation Fund - 'Competitiveness & Jobs'												
Sector reform plan, including an introduction of an output-based management system, both on the institutional and individual level, adopted by the Government - 'Competitiveness & Jobs'												
Finalise the project of setting up technology transfer service lines in the Central Technology Transfer Facility - IPA 14 and 'Competitiveness & Jobs'												

Priority structural reform 12. *IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM*	**2016**				**2017**				**2018**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Action Plan Implementing the Strategy for the Improvement of Quality Infrastructure												
EC approval to launch the tender process for equipment supply for conformity assessment services under IPA 2013												
Conduct other activities under the planned projects: – prepare and adopt the Foundations for the Action Plan on the Non-Harmonised Area – strengthen the contact point for the provision of information on technical regulations and implementation of Regulation (EC) No 764/2008 – support in the development of the Draft Law on Metrology Prepare the Institute for Standardisation of Serbia to apply for membership in CEN/CENELEC												
Strengthen the capacity of line ministries to identify/remove barriers to trade in the non-harmonised area and conduct a legal analysis of the regulations from the Action Plan on the Non-Harmonised Area												
Adopt new technical regulations in accordance with the Action Plan on the Harmonised Area and the revised NPAA												
Conduct the public procurement procedure and select the best bidders – IPA 2013												
Conduct a campaign on the need to notify technical regulations in the preparation stage (as required by the revised Decree on Notification)												
Conduct other activities under the planned projects: – analyse the legislation in the area of metrology and pre-packaged products, organise round-table discussions and present recommendations – support for transposing the Aerosols Directive – further strengthen the contact point for the provision of information on technical regulations and implementation of Regulation (EC) No 764/2008 – support for the implementation of the REACH Directive												

Develop new types of accreditation and develop the existing types of accreditation in new areas												
Prepare the Institute for Standardisation of Serbia to apply for membership in CEN/CENELEC												
Strengthen ISS capacities to participate in the work of technical committees of the European standardisation organisations CEN and CENELEC												
Conduct other activities under the planned projects: – analyse the legislation in the area of metrology and pre-packaged products, organise round-table discussions and present recommendations – organise training for sanitary inspectors – organise training for designated and authorised conformity assessment bodies, i.e. potential notified bodies develop new types of accreditation and develop the existing types of accreditation in new areas												
Distribute the equipment to conformity assessment bodies												
Adopt the Action Plan on the Non-Harmonised Area, with time limits for removing the identified barriers												
Adopt the Strategy and Action Plan for Transposing and Implementing the Acquis in the Harmonised Area												
Conduct other activities under the planned projects by preparing and adopting technical regulations in the harmonised area												
Develop new types of accreditation and develop the existing types of accreditation in new areas												
– Prepare and implement the Action Plan Implementing the Strategy												
Implement the Action Plans on the Harmonised and Non-Harmonised Areas – transpose directives in accordance with the Action Plans – repeal and update outdated technical regulations in the non-harmonised area												
Conduct other activities under the planned projects: – prepare guides, publications and promotional materials – organise information events on the importance of quality infrastructure for all stakeholders, in particular industry												
Conduct other activities under the planned projects: – organise round-table discussions for all stakeholders – organise three television campaigns on the importance of the new approach, technical regulations and CE marking												

Priority structural reform 13. *ESTABLISHING THE NATIONAL QUALIFICATIONS FRAMEWORK AIMED AT INCREASING COMPETENCES*	**2016**				**2017**				**2018**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt a document on the NQF												
Make preparations for setting up sector councils												
Prepare 2 sector profiles / descriptions												
Draft the Law on the NQF and organise public consultation												
Make preparations for referencing the NQF to the EQF												
Set up 2 sector councils based on the Law on Adult Education												
Enact the Law on the NQF												
Prepare a report on referencing the NQF to the EQF												
Set up a formal qualifications database												
Record qualifications in the database												
Prepare by-laws for the establishment of the NQF												
Register the NQF for referencing												
Set up 2 sector councils based on the Law on the NQF												
Establish the Register of Qualifications												

Develop qualification standards in 2 sectors and ensure their accreditation (entry onto the Register)												
Establish the Qualifications Agency												
Develop education / study programmes based on qualification standards												

Priority structural reform 14. *IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET MEASURES WITH SPECIAL EMPHASIS ON THE YOUNG, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED*	**2016**				**2017**				**2018**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Analyse active labour market policies in the previous year, and draft and adopt the Report on the Implementation of the National Employment Action Plan for the year before												
Conclude the Agreement on the National Employment Service Performance for the current year												
The National Employment Service to announce public calls / open competitions for the implementation of active labour market policies, in line with the National Employment Action Plan for the current year												
Decide on requests made in relation to public calls / open competitions for the implementation of active labour market policies; implement active labour market policies												
Implement active labour market policies and monitor the process												
Adopt the National Employment Action Plan for the coming year												
Implement relevant activities from the Action Plan for the Implementation of the National Youth Strategy 2015-2017, according to the set schedule												

Priority structural reform 15. *IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES*	**2016**				**2017**				**2018**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Map the existing non-institutional social services within the mandate of local governments												
Revise the benchmarks and criteria for costing social services												
Amend the Law on Financial Support to Families with Children												
Link centres for social work into a single network (by implementing software)												
Increase the weightings (benefits) for children and youth with disabilities; relax property-related requirements, in particular raise the land ownership ceiling depending on land quality for elderly households												
Link cash benefits to the relevant services; review the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analyse the basic attendance allowance level												
Improve the adequacy of cash benefits												
Complete the process of standardising services and licensing social service providers and professionals, develop the relevant bylaws and strengthen training programmes												
Improve the quality of social services												
Expand regional foster care and adoption centres and define and improve their oversight function												
Align the regulations applicable to social protection with a view to linking different sectors' information systems												
Link different sectors' information systems												
Shorten the time limits for access to entitlements												
Strengthen inspection services (increase the number of staff, introduce a new organisation and modality of operation)												

Table 12. OVERVIEW OF PRIORITY STRUCTURAL REFORMS 2016-2018

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	PUBLIC FINANCE MANAGEMENT						
1.	**Tax Administration transformation**	Implementation of a number of institutional, organisational and HR-related changes defined in the *Tax Administration Transformation Programme for 2015-2020* which will lead to the establishment of the appropriate organisational, staff and technical-technological infrastructure within the Tax Administration, accompanied by improved efficiency and effectiveness of business processes.	The following activities have been planned for 2016: developing a plan for tax procedure compliance and a plan for retaining quality employees, adopting a new organisational structure and redesigning a human resources management system, and establishing a new risk management system. The transformed Tax Administration will start the implementation of the activities in 2017 which should improve the oversight and collection, tax and legal affairs and non-tax functions, as well as improve the efficiency of managing material and IT resources.	Total funds required for the period 2016-2018 equal EUR 11,395,228. In compliance with the Budget Law for 2016, the said amount is identified for the current and two subsequent fiscal years as follows: for 2016 – EUR 3,798,350 and for each of the following years – approximately EUR 3,798,439.	Tax Administration transformation should establish a modern and efficient administration, which will upgrade the tax collection and thus contribute to stable public finances and increase fiscal room for investments. This reform will also ensure easier and fair business conditions as well as lower burden, i.e. costs related to the payment of taxes to be borne by taxpayers and better communication between taxpayers and Tax Administration.	Composite indicator of tax collection efficiency and effectiveness[19]	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 3 and 5)
2.	**Improved management of capital investments**	Setting up a unique platform for planning capital projects/ investments and methodology for analysis and planning of capital projects/investments which is aimed at strengthening the mechanisms for managing capital investments. This platform will introduce the practice that all potential projects are first subject to the cost-benefit analysis and then prioritised. Planning of public investments includes assessment of proposed capital projects by budget beneficiaries and development of the implementation plan, synchronisation of planning and selection of capital projects/ investments regardless of the source of funding (central or local government budget, EU funds and other sources) and ultimately, monitoring of implementation of approved capital projects aimed at timely detection and removal of obstacles and efficient risk management.	The following activities have been planned for 2016: adoption of the Decree on the Content, Manner and Assessment as well as monitoring the implementation and reporting on the implementation of capital projects; adoption of the methodology and guidelines for the implementation of the Decree; preparation of training modules for budget beneficiaries and the beginning of the pilot phase of evaluation of capital projects. During 2017 the training of budget beneficiaries will be carried out, and it is planned to adopt the remaining methodologies for the implementation of the Decree. Implementation and updating of a uniform database of capital projects and evaluation of capital projects by budget beneficiaries and the Ministry of Finance will start during 2017 and will be implemented continuously in the future.	Implementation of this reform measure will be financed from regular budget expenditures of the Ministry of Finance.	Improved implementation of capital/public investments is an anti-recession and development-spurring economic policy measure that produces significant positive effects in a short period of time and has a positive impact on the economic growth, much more than other public expenditures. In addition to direct effects on employment and growth fuelled by implementation of capital projects, the upgraded quality of physical capital, in particular transport and communication infrastructure, increases competitiveness of the national economy and creates conditions for quicker recovery (more details in the Infrastructure section).	Percentage of implementation of planned investments – BV: 40% (2015), TV: 70% (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendations 3 and 5)

19 A methodology for the computation of the composite indicator, as well as its baseline and target values, is being developed; hence, these values will be set at a later date.

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	INFRASTRUCTURE						
3.	**Improve physical infrastructure for better connection with the markets in the EU and the region**						
3.1.-3.4.	**Road and rail corridor 10 construction**	The reform comprises four projects: 3.1. E-75 and E-80 motorway construction; 3.2. Construction of the Žeželj Bridge near Novi Sad with slip roads; 3.3. Belgrade-Subotica-Kelebija (state border with Hungary) railway line modernisation; 3.4. Modernisation and rehabilitation of the Niš-Brestovac section of the Niš-Preševo single-track railway line.	3.1. Construction of the sections of E-75 and E-80 highways are expected to be completed in the third quarter of 2016; contracting tunnelling equipment for the southern stretch of E-75 is scheduled for the beginning of 2016, and the construction of the tunnel should be completed in the second quarter of 2017; 3.2. The construction of the road-railway Žeželj bridge near Novi Sad with slip roads is planned to start in the first quarter of 2016 and to be completed in the beginning of 2017, while the construction of slip roads is expected to finish in the second quarter of 2017; 3.3. The drafting of the documentation and preliminary design is expected to be completed by the end of 2016, contracting in accordance with the defined model in the second quarter of 2017, while the Stara Pazova-Novi Sad section, which is financed from the Russian loan, should be completed at the end of 2017; 3.4. The signing of IPA 2015 Financing Agreement with the European Commission and the beginning of drafting bidding documents is planned for early 2016, and the signing of the contract with the most favourable bidder and the commencement of works that last three years is planned for early 2017.	3.1. The total funds to be borrowed in the period 2016-2018 for E-75 and E-80 project implementation amount to EUR 1,004,200,000. Under the 2016 Budget Law, EUR 4,065,040 has been earmarked for the construction of Lot 1: Srpska kuća-Levosoje section (8 km) and EUR 1,626,016 for Lot 2: Donji Neradovac-Srpska kuća section (0.8 km). 3.2. The investment amount is EUR 45,310,001. Funding sources: – EU IPA 2009 (EUR 26,231,079 (Lot 1), City of Novi Sad budget, EUR 6,359,640 (Lot 2), AP of Vojvodina budget, EUR 12,719,281 (Lot 2); – EUR 4,878,049 is foreseen in the RS budget for 2016; 3.3. Under the 2016 Budget Law, funds amounting to EUR 9 million are foreseen; 3.4. The value of the works amounts to EUR 59,818,282: the EU contribution is EUR 44,078,644, and Serbia provides co-financing amounting to EUR 15,739,638 (co-financing is not foreseen in 2016).	By integration in the Trans-European Transport Network, in view of its geographical position, Serbia will attract international goods and passenger flows and continue its development as a key transit country, owing to shorter travelling times and reduced transport costs. A modernised high-speed railway line will reduce the travelling time, which will facilitate an increase in the volume of international passenger and goods flows, as well as the creation of conditions conducive to economic development and investments in the areas served by the railway corridor. This will also contribute to higher competitiveness of railway compared to road transport, which is currently the primary mode of transport in this part of Serbia.	% of E-75 motorway completion (in use): BV – 52% (October 2015), TV – 100% (2017) % of E-80 motorway completion (in use): BV – 49% (October 2015), TV – 100% (2017)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
3.5.	**E-763 Belgrade-south Adriatic motorway construction**	The construction of the E-763 motorway (258 km) will improve the road network of the Republic of Serbia and ensure the provision of high-quality and safe services, compatible in terms of performance and functionally integrated in the Trans-European Transport Network. Corridor 11 will link Romania, Serbia, Montenegro and Italy. It will run from Timişoara, via Vršac, Belgrade, Čačak, Požega and Podgorica to Bar, and then to Bari, Italy, by a sea link across the Adriatic.	It is envisaged that the use permit for UB-Lajkovac section should be obtained and the work on Ljig-Preljina section should be completed in 2016. Construction of the Surčin-Obrenovac section will begin after financing has been contracted in the first quarter of 2016, and the deadline for completion is the end of 2018. In 2017, the construction of Preljina-Požega section is expected to start, which will be implemented in the next three years. The year 2018 foresees the preparation of project documentation for the section Požega-Boljare.	For the Surčin-Požega section, the Government has opted to fund the project through a loan (EUR 1.2 billion) and expressed its interest in cooperating with a Chinese company, provided that it fulfils the eligibility requirements for the Project contractor. For the section from Požega to the state border with the Republic of Montenegro, the funding source is currently not known. Under the 2016 budget, EUR 7,804,878 is foreseen for the Ljig-Preljina section, EUR 3,519,512 million for the Ub-Lajkovac section and EUR 1,666,667 for the Obrenovac-Ljig section.	The construction of this transport structure will provide Serbia with a better road link with Montenegro and the port of Bar, as the final destination, which will enable Serbia's integration in container flows and attracting international goods and passenger flows. In the short term, a rise in employment will occur in connection with construction works. Also, the engagement of domestic enterprises and employment of the local population will increase.	E-763 motorway completion percentage BV: 0% (2015), TV: 40% (2018) Number of kilometres built and in use BV: 0 km (2015), TV: 102 km (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7).
3.6.	**Niš-Dimitrovgrad trunk gas pipeline construction**	By building this gas pipeline, Serbia secures another natural gas supply route, as well as potential access to other gas markets, which will contribute to increasing the security of natural gas supply in Serbia, rationalising energy consumption and increasing overall energy efficiency by using gas as a primary energy carrier.	The development of the planning documentation and preliminary design, as well as other documentation required in order to obtain the building permit, is planned for 2016 and the first half of 2017. The building permit is expected to be obtained towards the end of 2017. Gas pipeline construction is expected in early 2018, and commissioning towards the end of 2019.	The investment amount is EUR 68 million. The project has been proposed for implementation under the IPA 2016 Action Document. At the EC proposal, with consent of the Ministry of Mining and Energy and PE Srbijagas, the available project documentation is being analysed, the optimum implementation model is being considered, and a project readiness assessment in the context of IPA 2016 is being performed. In the EC decision-making process, the contribution of EU funds relative to the total investment amount will be defined. Also, under the 2016 Budget Law, EUR 109,756 has been earmarked for these purposes. The Ministry of Mining and Energy has also proposed that EUR 2,188,740 be provided for land expropriation in 2016, and EUR 5,107,058 in 2017 in the appropriate account at the Ministry of Finance. At the same time, PE Srbijagas will provide an additional EUR 4,575,780 for this project from its own sources in 2016.	The existing and planned natural gas storages in the territory of Serbia will be integrated in natural gas flows in the region, which will reduce the existing transit costs. Extending the gas supply network to southern and eastern regions of Serbia will facilitate accelerated economic development of this part of the country and a more efficient way of addressing development problems, improvement of these areas' competitiveness compared to those that already have access to the gas supply network and reduction of the economic development imbalance. The gas pipeline construction would also enable using our transport system for natural gas transit to other countries, which would generate transit fee revenues.	% of structure completion by years BV – 25% (2016), 50% (2017), 75% (2018), TV – 100% (2019)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
3.7.	**Trans-Balkan Corridor**	The construction of transmission lines and extension of transformer stations as part of the Trans-Balkan Corridor comprises a set of projects aimed at upgrading obsolete power transmission infrastructure in the area of western Serbia, increasing cross-border transmission capacities, and increasing the security of power supply for customers in Serbia. The structural reform comprises the following infrastructure projects: Pančevo-Reșița (Romania) double-circuit 400 kV transmission line; Kragujevac 2 - Kraljevo 3 400 kV transmission line, together with the construction of a 400 kV plant in the Kraljevo 3 transformer station; Obrenovac - Bajina Bašta double-circuit 400 kV transmission line, together with the construction of a 400 kV plant in the Bajina Bašta transformer station; Bajina Bašta - Pljevlja (Montenegro) - Višegrad (Bosnia and Herzegovina) double-circuit 400 kV transmission line.	Project 1 is in the investment stage, the tender process for the selection of the contractor has been completed, and the contract signing procedure is under way. The construction of the transmission line will be conducted in the course of 2016 and 2017. The completion of the first stage of construction under Project 2 (obtaining the building permit) is expected in 2016, and the beginning of the works is planned for 2017 and will take two years. Project 3 is in the development stage. Pursuant to the Grant Agreement concluded between PE EMS and German Development Bank (KfW), the existing technical documentation is being adapted to the requirements of the national legislation (feasibility study with a preliminary design, environmental impact study). Under the 14th call for proposals within the Western Balkan Investment Framework (WBIF), pertaining to technical assistance, a EUR 0.8 million grant was approved for the development of the second phase technical documentation, which will facilitate transition to the construction stage. The land expropriation process has not been commenced yet, and the activity schedule in the coming period will depend on its progress. Project 4 is in the development stage as well. Under the 5th call for proposals within the WBIF, pertaining to technical assistance grants, the pre-feasibility study, feasibility study with preliminary design, and environmental impact study have been completed. At the same time, a EUR 0.8 million grant has been provided under the 13th call for proposals within WBIF to continue the development of the necessary technical documentation for Project 4. An initiative has been submitted to the Ministry of Construction, Transport and Infrastructure to have a Special purpose area spatial plan developed, whose development is expected towards the end of 2016.	This reform has no direct budgetary implications. The total estimated value of the first construction phase of the Trans-Balkan Corridor project amounts to about EUR 150 million (EU grants, KfW loan arrangements with a sovereign guarantee and own resources of PE EMS). The negotiations on financing Project 2 are being finalised; the total value is EUR 28 million, partly from own resources, partly from an EU grant (EUR 6.6 million), and partly from a KfW credit line (up to EUR 15 million with a sovereign guarantee). Any additional borrowing is subject to further consideration with regard to the necessary sovereign guarantees in 2017 and 2018.	The power transmission system construction provides the basis and constitutes a prerequisite for local and regional economic development. The Republic of Serbia's power transmission system development creates a competitive advantage in relation to countries in the region. The implementation of the 'Trans-Balkan Corridor' set of projects will reduce transmission losses and enable the connection of renewable power sources to the grid, which will have a direct impact on improving energy efficiency and system reliability. The power transmission system construction will contribute to linking the eastern and western European energy markets and to export and GDP growth.	Number of kilometres of transmission lines built at the annual level BV: 0 km (2015), TV: 95 km (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
3.8	**Enhancing security of electric power supply – construction of a new B3 unit in Kostolac Thermal Power Plant**	The goal of building a new B3 unit (350 MW) in Kostolac Thermal Power Plant (TEKO) is to meet the increased demand for electric power, thereby also improving energy stability in the Republic of Serbia. The project also includes extending Drmno open-cast mine, i.e. increasing the annual coal mining output from 9 to 12 million tonnes. The new TEKO B3 unit will provide replacement generation capacity (instead of old TEKO A1 and A2 units), which will provide security of electric power and heat supply.	2016-2018	The investment amount is EUR 644 million (USD 715.6 million). Funding sources: - Exim bank loan (85%) with a sovereign guarantee; - EPS (15%).	The construction of a new thermal generation unit will provide replacement power and heat generation, which is needed owing to the foreseen decommissioning of old generation capacities. Its construction is of exceptional importance for energy sector development in the Republic of Serbia, in the interest of ensuring secure and efficient supply of energy and energy carriers and creating the conditions for reliable and safe operation and sustainable development of the energy sector in general, which has a direct impact on the competitiveness and export capacity of the Serbian economy.		Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7).
4.	**Development and improvement of the national broadband communications infrastructure**	The Law on Broadband Access should harmonise the national legislative framework in the field of electronic communications with the EU framework, to provide conditions and regulate the method of development of broadband internet access, and enable the establishment of a unified national telecommunications network. The implementation of this structural reform also encompasses the consolidation of the broadband network owned by the public sector, the connection of public institutions to the national network, the connection of educational and cultural institutions to the Academic Network of the Republic of Serbia, as well as the development of a broadband communications infrastructure with an access network in settlements.	There is a plan to connect education and culture institutions with the Academic Network of the Republic of Serbia in 2016, as well as to prepare a plan for the establishment of a unified national telecommunications network (UNTN). Building access broadband networks in municipalities across the country will begin in the last quarter of 2016 and will last two years. Operational establishment of the UNTN is planned for the beginning of 2017.	The implementation of this structural reform during the 2016-2018 period envisages funds as per the Budget Law of RS for 2016 to the amount of EUR 4.7 million, i.e. per year: 2016 – EUR 0.7 million , 2017 – EUR 2 million and 2018 – EUR 2 million. Likewise, an EUR 0.4 million donation was secured in 2016, while additional funds need to be secured in 2017 and 2018 to the amount of EUR 58 million each. The options for financing individual projects within the programme are: donations by international institutions, bilateral agreements/loans, public-private partnerships, cross-border EU funds.	The construction of the PNTN would create a platform for the development of modern e-services (e-government, e-banking, e-health, e-business) thereby considerably improving the conditions for doing business throughout the country, particularly in rural and underdeveloped areas. This would create the conditions for decreasing the economic gap, i.e. a uniform regional development, the growth of GDP, employment, productivity, and the improvement of efficiency.	% of households with broadband access to the internet BV: 55% (2014), TV: 70% (2018)	

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	SECTORAL DEVELOPMENT						
	Development of the agricultural sector						
5.	**Improvement of the competitiveness and status of agricultural holdings**	The improvement of the competitiveness of agricultural production will be implemented through the institutional framework envisaged for the implementation of the IPARD programme 2014-2020, the National Programme for Agriculture 2015-2020 and the National Programme of Rural Development 2015-2020, defining measures for the improvement of the competitiveness of agricultural holdings at the mid-term level. The IPARD programme defines priority sectors where the highest degree of competitiveness of agricultural holdings can be achieved in the domestic and foreign market (sectors: milk, meat, fruit and vegetables, crop cultures). The national programmes and the IPARD programme are complementary, in such a way that the IPARD measures are intended for economically more powerful holdings, while national measures focus on small agricultural producers, which was not the case previously (national measures were used by all registered agricultural holdings).	After drafting the rulebook and the preparation and implementation of the competition during 2016, the implementation of the structural reform (in accordance with the Plan of IPARD structural reforms announcement, which is adopted at the beginning of the year for the same year and by-laws) will begin at the end of 2016 and will be implemented continuously in the coming years.	The share of EU funds in the implementation of this measure (by 2020[20]) was EUR 175 million, while the budget of RS envisaged co-financing: 2016 – EUR 20 million; 2017. – EUR 30 million; 2018. – EUR 33.5 million.	The implementation of investments in the construction/adaptation of facilities or the procurement of new equipment and machinery will create the conditions for improving competitiveness, through the use of new technologies and the reduction of the costs of production, leading to a reduction in the cost and increase of the price competitiveness of products. Likewise, increased investments in the processing capacities will contribute to increasing the production of products at a higher phase of processing and an increase in the value of exports. Purchasing new equipment and machinery and the construction of new facilities reduces the costs of depreciation and maintenance, thereby reducing the overall costs of production and increasing productivity.	Degree of use of funds from the IPARD programme – BV: 0 (2015), TV: 100% (2018); Number of supported projects in the field of processing BV: 0 (2015), TV: 330 (2018) Number of companies investing in energy production from renewable sources – BV: 0 (2015), TV: 24 (2018) Number of newly open workplaces in the field of processing – BV: 0 (2015), TV: 80 (2018) Number of households that modernised production in primary production – BV: 0 (2015), TV: 310 (2018) Number of holdings making progress towards achieving EU standards – BV: 0 (2015), TV: 435 (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendations 6 and 7).

20 The funds earmarked for the IPARD programme for Serbia can be contracted by the end of 2013, and spent by 2026.

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	Industry Sector Development						
6.	**Raising the competitive-ness of the processing industry**	The reform comprises a mix of legal and administrative measures and activities: the prioritisation of industries with highest growth and development potential, drafting respective implementation action plans, the development and adoption of laws and bylaws relevant to the implementation of new priority industries action plans, reforming the operations of agencies in the jurisdiction of the Ministry of Economy that are in charge of implementing programmes focusing on providing support for investments and exports and the development of a monitoring and evaluation system.	The following activities are to be carried out during 2016: 1) promotion of the Law on Investments at the local level, training of the representatives of local self-governments and support for the development of local acts, (2) reform of the agencies within the Ministry of Economy, which includes the preparation and adoption of a strategic framework and action plan and development of a system for monitoring and evaluation of the work of agencies, and (3) identification of priority industries and development of strategies and action plans for priority industries, taking into consideration the principles of balanced regional development. In 2017, the implementation and evaluation of new programmes for supporting investments and exports will begin, and, if necessary, the improvement of the programmes, which will be continuously carried out in the coming years.	The value of investment (2016-2018) around EUR 10 million from RS budget; 2016: EUR 4 million; 2017: EUR 3 million; 2018: EUR 3 million.	The reform will impact an increase of competitiveness of the domestic industry through focusing all state activities on the selected priority branches of the industry. The creation of a predictable, clear and transparent system of state incentives will increase the degree of investment activities in Serbia, leading to overall economic growth. The support programme will be prepared in accordance with the requirements and needs of businesspeople and oriented towards increasing the export activities of the industrial sector, particularly those branches with greater added value, likewise impacting competitiveness and the sustainable growth of GDP.	5% average annual growth rate of the value of exports in the processing industry in 2016-2018. Share of the GDP of the processing industry in the GDP of Serbia BV: 15.7% (2014), TV: 20% (2018)	Stimulating private and public investments and accelerating the implementation of public infrastructural projects (aiming to increase the competitiveness of the processing industry) is a recommendation from the EC Progress Report for Serbia 2015, p. 29.

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	Development of the Services Sector (*covered by structural reform 9*)						
	BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE, REDUCTION OF THE INFORMAL ECONOMY						
7.	**Package of measures to improve access to finance for SMEEs**	Improved access to finance for SMEEs means better quality of the banking sector offer for SMEEs, development of new financial instruments, as well as improved ability of SMEEs to access different sources of funding	In the course of 2016, an Action Plan for developing three pilot programs of new financial instruments for state financial support to SMEs will be developed, and will be implemented towards the end of the year. A reform of public financial institutions is planned in the period 2016-2015, which includes the preparation and adoption of a plan, as well as the preparation of laws and by-laws relating to the reform of public financial institutions.	The implementation of the structural reforms in the period from 2016 to 2018 will cost EUR 9.6 million, and the costs by year are as follows: 2016: EUR 4.065.000 (RS budget) + EUR 150,000 (IPA 2014); 2017: EUR 3,150,000 (RS budget); 2018: EUR 3,150,000 (RS budget).	Improved financial support system for SMEEs through reformed public financial institutions will lead to the establishment of new enterprises/entrepreneurs, modernised existing production capacity, improved production processes, improved product quality and service, which will ultimately increase the volume of production, exports and employment, and improve the competitiveness of the SME sector. Improved financial support system for SMEs through reformed public financial institutions will lead to the establishment of new enterprises/entrepreneurs, modernised existing production capacity, improved production processes, improved product quality and service, which will ultimately increase the volume of production, exports and employment, and improve the competitiveness of the SMEE sector.	Share of SME loans in total loans to business entities BV: 18.9% (2013), TV 30% (2020)	The EC 2015 Progress Report for Serbia 2015 (p. 47) stresses the need to improve access to finance for SMEs.

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
8.	**Reform of public enterprises**	The proposed structural reform includes four measures: Measure 8.1. The introduction of corporate governance in public enterprises; Measure 8.2. The reform of railways; Measure 8.3. Reform of PE EPS and Measure 8.4. Reform of PE Srbijagas. The introduction of corporate governance in public enterprises includes the following activities: preparation of laws and by-laws; introduction of a system of licensing managers and supervisory board members, improving the system of monitoring and accountability for state-owned enterprises. The introduction of corporate governance is based on two key pillars: professionalisation of management and work control system. Other measures are related to the reform of the three major public enterprises in transport and energy sectors, which have been inefficient for years, are burdened by bad debts and cumulative losses, and the continuity of their operation is ensured through state assistance and subsidies from the national budget. Within the arrangement with the IMF, Serbia committed itself to introducing the principle of 'hard budget constraints' in the operation of these enterprises.	8.1. The Ministry of Economy set up a department to control and supervise the work of public enterprises, formed a working group for amendments to the Law on Public Enterprises and introduced a systematic analysis of public enterprises 8.2. The contractual relationship between the state and railway enterprises is expected to begin in 2016 under the Multi-Annual Infrastructure Contract and the Public Service Obligation Contract. In October 2015, a study was adopted by the Government's interdepartmental working group which contains the Plan for the Railway Reform 2016-2020 and gives a framework for further restructuring of the labour force, assets and liabilities of Železnice Srbije. 8.3. In view of PE EPS restructuring, the PE Electric Power Industry of Serbia Reorganisation Plan and the Financial Consolidation Plan were adopted (in June 2015). A new organisational structure of PE EPS was established (in July 2015) as follows: seven power generation companies were acquired by PE EPS, five subsidiary power distribution companies were merged into the company Operator distributivnog sistema EPS Distribucija d.o.o. Beograd (distribution system operator). There are the company EPS Snabdevanje d.o.o. (power supplier), the company EPS Trgovanje d.o.o. Ljubljana (power trading company) with the status of a foreign company, as well as companies in conformity with the Brussels Agreement of August 2015. After the completion of the reorganisation and financial consolidation processes, the legal status of PE EPS shall be changed into a joint-stock company (by 1 July 2016).	Measure 8.1. 2016: EUR 160,000 (RS budget) + EUR 20,000 (Project 'Perform'); 2017: EUR 160,000 (RS budget); 2018: EUR 160,000 (RS budget).	Improving the management of public enterprises should increase their efficiency by reducing the waste of resources, increasing the volume and improving the quality of services, upgrading technology and the like. Increased efficiency of public enterprises is of great importance for the overall economy and citizens, not only because of the great value of the services they deliver, but also because of a large part of the social wealth that is under their control. Preparing public enterprises for doing business in line with the market conditions will enable discontinuing state aid and subsidies, which has a positive effect on the public finance and economic competitiveness.	The total loss (in EUR) which was incurred by public enterprises founded by the Republic of Serbia BV: 640 million (2014), TV: 0 (2020) % of women directors and members of managing boards of public enterprises out of the total number of directors and members of managing boards of PEs BV 13% (2015), TV: ≥20% (2018) 30% (2020)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendations 1, 2, 7).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
			8.4. In view of PE Srbijagas restructuring, the Foundations for PE Srbijagas Restructuring were adopted in December 2014 and in August 2015, a new organisational structure was established with its transmission and distribution subsidiaries – Transportgas Srbija d.o.o. Novi Sad and Distribucijagas Srbija d.o.o. Novi Sad. A comprehensive financial consolidation plan is being prepared in consultation with the World Bank, which will define measures for achieving long-term financial viability and competitiveness of PE Srbijagas. The restructuring plan shall be completed by March 2016, and the PE Srbijagas reform implementation timeline will be known after the adoption of the Action Plan.				
9.	**Simplification of procedures for business entities**	The establishment of a unified public register will allow business entities and citizens an overview of all procedures that need to be implemented to ensure the provision of certain services, regardless of the level of government, including all the costs in the form of fees, taxes etc. This will increase the predictability of business and reduce costs that individuals and business entities bear when exercising guaranteed rights and fulfil obligations imposed by the regulations. In addition, information obstacles for conducting business activities in Serbia will be removed.	A governance structure for the implementation of the project will be established in 2016 (consisting of representatives of the Ministry of Economy, the Ministry of Trade, Tourism and Telecommunications, the Ministry of Finance and the State Secretariat for Public Policy) and a list of procedures and a list of fees will be made. The Regulation on PSC is planned to be adopted in the last quarter of 2016, when its implementation starts, which will last 18 months. For 2017 and 2018 the following activities are planned: training in process management, process optimisation (in terms of cost and time for the business community), developing technical specifications (software, hardware), promotional campaigns, training in the operational maintenance of the portal, developing digitalization instructions, completing alignment of sectoral legislation with the Services Directive, i.e. the Law on Services.	Mapping of procedures and the list of fees and taxes will be financed from the regular budget resources of the PPS and MF (EUR22.000). Funds amounting to EUR 2.5 million are required (efforts are being made to provide funding under a bilateral cooperation programme, and an application has been submitted for funding under IPA 2016).	A comprehensive and updated electronic database of administrative requirements will help individuals and businesses to obtain necessary information about public services, avoid undue additional costs, save public service clients' time and increase public service providers' efficiency. Apart from that, reduced administrative costs borne by business entities in procedures required by the state authorities will have long-term indirect effects: newly established businesses, increased investment, economic growth and formal employment.	The administrative burden on businesses in % GDP BV: 3.6% (2013), TV: 3% (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 5). Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 5).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
10.	**Establishing a common information platform for all inspections at the level of the republic (e-Inspection)**	The implementation of a unified inspection information system–e-Inspector is related to the activity contained in the Draft Action Plan for the implementation of e-Government Strategy 2015-2018. This reform will improve the coordination of inspections, introduce legal regulations and establish an information system in order to effectively exchange data and electronic documents for planning and conducting an inspection.	The following activities are planned in 2016-2018: business procedures stocktaking, publishing bids and contracting, e-Inspector system designing and its functional analysis, testing and IS deployment in four inspectorates. The deployment of the overall system is envisaged in Q2 2018.	The amount of funds required to implement the structural reforms in the period 2016-2018 is EUR 2.197.813, as follows: 2016: EUR 246.593 (RS budget); 2017: EUR 975,610 (RS budget); 2018: EUR 975,610 (RS budget).	Developing an effective and unified information system will enable more efficient and effective work of all inspections, which will lead to more regular work of business entities due to targeted control and a lower burden on bona fide business entities due to unnecessary and frequent inspections. In addition, this reform can reduce the informal economy, increase budget inflows from taxes and contributions, and increase formal employment.	All inspections at the republic level will be using the e-inspection system in 2018.	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 5).
	TECHNOLOGICAL ABSORPTION AND INNOVATIONS						
11.	**Programme supporting innovations and technological development in the public and private sectors**	In addition to support for innovation and technological development projects in scientific-research organisations and the private sector, the reform implies the establishment of a technology transfer system, implementation of joint projects by public scientific-research organisations and private companies, and financing innovation projects in the private sector through the Innovation Fund. Independent international evaluation of Serbian institute will be conducted through the Competitiveness and Jobs project in the course of 2016, to enhance their efficiency and capacities for collaboration with the private sector through technological projects.	The agreement on a direct grant between the Innovation Fund and the Ministry of Finance - IPA 2013 will be signed in the first quarter of 2016, after which the fulfilment of the direct grant agreement will commence. The World Bank project 'Competitiveness & Jobs' has been launched. In the future, the reform should ensure continuity in financing projects implemented through the Investment Fund which have proved to be well designed. In 2017, an analysis will be conducted of the institutions in the scientific-research sector which should be modernised. A plan of sector reforms will be prepared, including the introduction of result-oriented management systems, both at the level of institutions and individuals.	A total of EUR 129,960,000 are planned in the budget of the Republic of Serbia for the implementation of the structural reform in the period 2016-2017 2016: EUR 40.33 million 2017: EUR 45.05 million 2018: EUR 44.58 million A total of EUR 117 million from the 2016-2018 budget funds will be allocated for the Technological Development Programme, while EUR 12.5 million is envisaged for financing a grant scheme through the Innovation Fund (mini and matching grant scheme for innovations and technology transfer). Furthermore, a total of EUR 4.4 million have been provided (including EUR 2.4 million under EU IPA 2013, EUR 1 million from the RS budget and EUR 1 million from companies) for joint projects of the business sector and scientific organizations and for the technology transfer programme: 2016: EUR 1.388 million 2017: EUR 2.347 million 2018: EUR 0.665 million	The reform will contribute to the commercialization of innovative ideas through the establishment of a technology transfer system and joint projects of collaboration between researchers and private companies, which will result in increased competitiveness of the private sector and higher relevance of innovations driven by the scientific community.	Number of registered patents BV: 58 (2015), TV: 103 (2018) Number of newly established innovative companies BV: 156 (2015), TV: 296 (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 7). Enhance collaboration of the business sector and scientific institutions and increase the level of investments in innovations (EC Progress Report for Serbia 2015, p. 64).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	TRADE INTEGRATION						
12.	**Improving the national quality infrastructure system**	The reform is primarily focused on attaining a high development level and balanced development of key elements of the quality infrastructure (QI) system: metrology, standardisation, accreditation and conformity assessment, as well as the full and efficient implementation of the legislation applicable to free movement of goods, without unnecessary technical barriers to trade. An efficient and internationally recognised QI system will provide better conditions for Serbian enterprises and industry to apply technical regulations and standards for products and management systems (safety, quality, environmental protection etc.), which is among the prerequisites for improving the competitiveness of the Serbian economy. The structural reform will be implemented through IPA projects on strengthening the capacities of the national QI system and product conformity assessment bodies. The reform is consistent with the goals of the Strategy for the Improvement of Quality Infrastructure 2015-2020.	The following activities are planned in 2016: preparing and adopting an action plan for the non-harmonised area, strengthening the focal point for providing information on technical regulations, strengthening the capacity of relevant ministries to identify/remove barriers to trade in non-harmonised areas and conducting legal analysis of the regulations of the Action Plan for the non-harmonised area. It is planned to adopt an Action Plan for the adoption and implementation of European legislation in the harmonised area at the end of 2016. Activities from the adopted action plans will be implemented during 2017 and 2018.	The costs of structural reform implementation by years are as follows: 1) Twinning project: 2016: EUR 34.250 from the RS budget and EUR 308.250 from IPA 2013; 2017: EUR 10.000 from the RS budget and EUR 90,000 from IPA. 2) Equipment supply project: 2016: EUR 200.000 from the RS budget and EUR 1,800,000 from IPA 2013; 2017: EUR 300.000 from the RS budget and EUR 2,700,000 from IPA 2013.	Removal of unnecessary barriers to trade (unnecessary technical and non-technical regulations lead to higher costs for businesses) to facilitate trade in goods between the EU and Serbia, which will enable Serbian businesses to import and export products in conformity with European requirements and without technical barriers, i.e. without duplicating costly tests and certification. Strengthening the capacity to produce goods that meet the requirements, primarily those of the European market, leads to a rise in export activities and improvement of economic competitiveness, which, in turn, leads to sustainable economic growth rates.	Share of exporters in the total number of SMEEs BV: 4.3% (2013), TV: 7% (2020); Share of exports in the total turnover of the SMEE sector BV: 9.1% (2013), TV: 14% (2020)	Ensure better implementation of technical requirements and standards (EC 2015 Progress Report for Serbia, p. 31).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	EMPLOYMENT AND LABOUR MARKETS						
13.	**Establishing the national qualifications framework aimed at increasing competences**	The purpose of developing the National Qualifications Framework in Serbia (NQFS) is to regulate the system of qualifications, which are obtained through education and training in accordance with the demands of social and economic development, provide support to the implementation of lifelong learning and facilitate labour force mobility. Enacting an integrated NQFS and the Law on the NQFS will help define the institutions, and processes, competent bodies and institutions for the accreditation of facilities/bodies and programmes based on which qualifications are obtained, and set up a quality assurance system within the NQFS. This structural reform envisages the establishment of the Register of Qualifications and Sector Councils, as well as the qualification standards based on which education/training programmes will be developed at all levels. The NQFS is referenced to the EQF (European Qualifications Framework), while the Register of Qualifications is linked with the EU qualifications database.	The team of experts working on the elaboration of an integrated NQFS is preparing a final document to be presented to the competent councils in Q1 2016, and after that to the wider public. The Draft Law is in preparation, and the final proposal will be prepared upon completion of consultations on the NQFS (adoption is expected in Q3 2016). The preparation of the expert instructions and action plan for the establishment of sector councils started in December 2015 and will continue in 2016. Establishment of two sector councils pursuant to the Adult Education Law is foreseen in Q2 2016. Simultaneously, the self-referencing procedure is being prepared. The preparation of public consultations on the Draft Law on Regulated Professions, i.e. on the recognition of qualifications in accordance with the existing EU Directives, is underway. The establishment of the Qualifications Register and the Qualifications Agency is envisaged in 2017. The focus as of 2017 will be on the development of qualifications standards in two sectors and their accreditation (entry into the register) and the development of education programs/curricula in compliance with qualification standards.	2016: EUR 16,260 (budget) + EUR 1.5 million (IPA 2014); 2017: EUR 16,260 (budget) + EUR 4 million (IPA 2015); 2018: EUR 16,260 (budget) + EUR 25 million (IPA 2016[21]).	The new education/training programmes will enable greater competitiveness of the workforce, who will possess competences that correspond to labour market demands, which should allow for faster and easier employment. Moreover, the establishment of the NQFS will provide opportunities for improving the qualifications and competences necessary for higher-paying, high-skilled jobs.	The number of accredited qualifications in the register of qualifications (based on qualification standards and learning outcomes) BV: 0 (2015), TV: 70 (2018); The number of functioning sector councils BV: 0 (2015), TV: 12 (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 6).

21 The sector budget support programming process is under way and the precise amount will be confirmed only after the signature of the IPA 2016 Financing Agreement.

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
14.	**Improving the effectiveness of active labour market policies with special emphasis on youth, redundant workers and the long-term unemployed**	The promotion of efficiency and effectiveness of labour market policies based on the labour market needs assessment and the status of certain groups of the unemployed, bearing in mind the effects of employment measures, should contribute to a timely, adequate and quality integration and reintegration of the unemployed in the world of work. Developing a system of early profiling of the unemployed (by improving counselling methods and techniques, employability assessment and career guidance and counselling) and including youth, redundant workers and the long-term unemployed in active labour market policies through packages of services suited to labour market needs and characteristics of each individual, leads to higher employability, employment and self-employment. The measures are implemented in line with the *National Employment Strategy 2011-2020* and the annual *National Employment Action Plans*. The Law on Employment and Unemployment Insurance lays down active labour market policies, with the possibility of creating new ones in response to the labour market needs on an annual basis through the National Employment Action Plan.	The National Employment Action Plan for 2016 has been adopted. Annual reports on the implementation of the National Action Plan are planned to be prepared for the previous year based on the analysed effects if the EAP measures. In accordance with the results of the analysis, as well as the needs of the labour market, new EAP measures will be designed, which will be covered by the Employment Action Plan for the coming year. Annual employment action plans for the next year are planned to be adopted at the end of the current year. The realisation of the activities set out in the Action Plan for the Implementation of the National Youth Strategy 2015-2017 commenced in 2015 and will be implemented throughout the coming years according to the foreseen timeline.	The following amounts have been earmarked for the implementation of active labour market policies and occupational rehabilitation and employment of persons with disabilities: 2016 – 27,991,870 EUR 2017 – 27,967,480 EUR 2018 – 28,048,780 EUR The following funds have been earmarked for implementing activities aimed at providing support to the development and implementation of cross-sector services to boost youth activity, employability and employment rates at the local level: 2016 – 2,382,114 EUR 2017 – 2.382.114 EUR	The coverage of youth, redundant workers and the long-term unemployed by 'targeted' active labour market policies, i.e. according to personal characteristics, especially if their goal is the attainment of knowledge, skills and work experience, employment/engagement or entrepreneurship development, contributes to the promotion of the status of these groups of the unemployed in the labour market and prevention of adverse migration flows (of youth in particular) and work in the grey economy.	The long-term unemployment rate BV: 11.2% (2014), TV: 7% (2018) The number of people employed/engaged through active labour market policies during a year BV: 16,800 (2014), TV: 30,000 (2018) Long-term youth unemployment rate (15-29) BV: 21.6% (2014), TV: 7% (2018)	Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2015 (recommendation 6).

No	Reform name	Reform description	Implementation time frame	Reform cost	Expected impact on competitiveness	Output indicators	Relevant recommendations
	FOSTERING SOCIAL INCLUSION, COMBATING POVERTY AND PROMOTING EQUAL OPPORTUNITIES						
15.	**Improving the adequacy, quality and targeting of social protection measures**	Improving the adequacy, quality and targeting of social protection comprises two measures: 1) Increasing the adequacy of cash benefits and improving the quality of social services by amending legislation; 2) Linking the different sectors' information systems to ensure that clients have access to their social rights without administrative barriers and that the overall social assistance is thus better targeted.	In the previous period, the Working Group on Amending the Law on Social Protection and the Working Group on Amending the Law on Financial Support to Families with Children have been formed. The provision of technical equipment to centres for social work has been completed, and all centres for social work are being linked into a single network by means of software that will cover all procedures and services, as well as client records. In preparation for linking the different sectors' information systems, the list of the pieces of evidence required to exercise the right to social protection has been prepared. The introduction of social protection service quality monitoring and evaluation (including client satisfaction assessment), strengthening of inspection services (increasing the number of staff, introducing a new organisation and modality of operation), expansion of regional foster care and adoption centres and definition of their oversight function have been commenced upon the entry of the Law on Social Protection into force, but has yet to attain the required scale.	The social protection system strives to remain within the same financial boundaries; however, the goal is to achieve a more equitable and better distribution, better coverage of the socially vulnerable population, without the possibility of receiving double entitlements or accessing them on false grounds. National budget funds amounting to EUR 779,418,683 are foreseen for the implementation of social protection measures in the period 2016-2018, specifically by years: 2016 – EUR 223,557,862 2017 – EUR 257,760,049 and 2018 – EUR 298,100,772	The successful implementation of structural reforms geared towards enhancing competitiveness and growth requires coordinated sector-wide action and implementation of those structural reforms that constitute the prerequisites and basis for further growth and improvement of competitiveness. From this aspect, an essential reform, interpreted as a 'horizontal reform' necessary for the successful functioning of other sectors, is social protection system reform. Social protection system reform will enable relieving enterprises of social functions and facilitate the operation of an equitable support system, while ensuring the minimum standard of living.	At-risk-of-poverty rate before social transfers (% of population) BV: 51.1% (2013); TB: (2018) At-risk-of-poverty rate after social transfers (% of population) BV: 24.5% (2013) TV: (2018)	Ensure financial and institutional resources for employment and social policies and strengthen social dialogue at all levels (EC 2015 Progress Report for Serbia, p. 45).

Annex 1. Overview of the consulted civil society organisations and comments on ERP 2016-2018

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
GENERAL ISSUES		
European Policy Centre; European Movement in Serbia	Explain the ERP development **methodology**	The methodology of ERP development was defined by the European Commission under the guidelines - Guidance for the Economic Reform Programmes.
Institute of Economic Sciences	How were **structural reforms prioritised** in the ERP	The prioritisation methodology was developed by the OECD, in accordance with the mandate of the European Commission, whereby relevant studies and analysis of key development obstacles were used.
European Policy Centre; European Movement in Serbia	It is necessary to define **a system of monitoring implementation and evaluation of results**	The system of monitoring implementation and evaluation will be an integral part of the European Semester Light; stakeholders will be informed and involved in the system.
European Policy Centre; European Movement in Serbia	It is necessary to integrate a **regional development approach** in the document	Methodology of ERP development does not provide explicit integration of the regional approach but other public policies envisage a regional approach to the development of the industry through a new organisation - Development Agency of Serbia; Better reflection of the regional dimension in the document will be taken into account in the next revision; In its policies and in the ERP within the priority structural reform 6 *Raising the Competitiveness of the Processing Industry* the Government of the Republic of Serbia is planning to incorporate a regional approach to the development of the industry.
European Movement in Serbia	**Sustainable development** was not taken into account within the ERP and there is no mention of the environmental impact. It is suggested that **environmental impact** should be considered in the future in the same way as the economic impact;	This is a serious and comprehensive area and will be introduced gradually in development policies in line with the sustainable level of income; the Government officials sent a similar comment to the European Commission officials during the presentation of ERP 2016 drafting methodology at a meeting held on 2 October, 2015, in Belgrade. However, the European Commission thinks that this dimension of development should not be specifically included;

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
Centre for Democracy Foundation	The process of diagnosing the state of play of **gender equality** is not clear enough although the indicator *'% of women directors and members of managing boards of public enterprises out of the total number of directors and members of PE managing boards'* shows the intention to address the issue of gender equality and the fact that it is included in the ERP is particularly welcomed.	The comment has been taken into consideration.
PUBLIC FINANCE MANAGEMENT		
APV Secretariat of Finance	Improving public financial management cannot be reduced only to the reform of the Tax Administration.	Besides priority structural reform concerning the Tax Administration Transformation, the area of Public Finance Management defines the structural reform Improved management of capital investments; Public Finance Management is explained comprehensively and in detail in the newly adopted Programme of Public Finance Management Reform from 2016 to 2020. The selected areas are in line with the EU recommendations made during the economic dialogue held in May 2015.
	The overall budget process should be improved (with a special emphasis on the compliance with the budget calendar), and it is necessary to change the indicator for the structural reform Tax Administration Transformation;	We agree with the statement that it is necessary to improve the overall budget process. However, since the guidelines for the drafting ERP limit the number of measures to 15, up to a maximum of 20, and they should primarily strengthen competitiveness and growth, the improvement of the overall budget process is presented in a comprehensive and detailed way in the *Programme of the Public Finance Management Reform for the Period 2016-2020*; Also, the indicator for the reform Tax Administration Transformation has further been improved.
	It is suggested that **fees for using mineral resources - mineral rent should be regulated**, arguing that the mineral rent in Serbia is among the lowest in the world, and it is necessary to regulate its amount in order to protect the mineral resources of Serbia, ensure an adequate and sustainable level of exploitation of mineral resources, establish funds for further investment, and provide an additional source of budget funds.	It will be taken into consideration by the Ministry of Finance for the purpose of creating future public policies.
Belgrade Fund for Political Excellence; NGO Fraktal; Centre for the Promotion of Sustainable Development; Heinrich Böll Foundation; Faculty of Mechanical Engineering, Belgrade; WWF Danube-Carpathian Programme; Faculty of Electrical Engineering, Belgrade; Green Serbia Chamber of Commerce; CEDEF (Central European Development Forum); National Agency for Regional Development; Standing Conference of Towns and Municipalities; Faculty of Forestry; Provincial Secretariat for Economy, Employment and Gender Equality; NIS a.d.; Vrbas Office of Energy Management; Vojvodina Chamber of Commerce; Economic Institute; Centre for Research in Politics 'Argument'; Team of students from the Faculty of Security Studies; Union of Engineers and Technicians of Serbia; City Municipality Mediana Niš; Civic Library EVROPA Bor; Belgrade Chamber of Commerce.	It is necessary to improve the prioritisation of capital infrastructure projects. An adequate selection of projects should be made before their implementation begins (drafted technical documentation of good-quality, resolved legal property issues, etc.), in order to avoid delays and problems in implementation.	This issue is currently being addressed within the priority structural reform 2 Improved Management of Capital Investments. In addition, the ERP document itself is part of the process of strengthening the management of capital investments.

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
Institute of Economic Sciences; Faculty of Economics; Serbian Association of Employers; Societe Generale Bank; Europolis; Institute of Industrial Relations; National Alliance for Local Economic Development; Petrović-Đorđević Law Office; Atrium; Certus Consulting; VIP (mobile operator); Public Policy Research Centre. Recyclers' Association of Serbia; Samardžić Law Office; 'IFA' DOO Belgrade; Moravčević, Vojnović & Partners Law Office; Agency for Development of the Municipality of Knjaževac; Association of Business Women of Serbia; European Vojvodina; Faculty of Law, Belgrade; National Consumer Organisation of Serbia; Group for Development Projects; Women's Entrepreneurship Academy;	In addition to the transformation of tax administration, the tax policy should be improved. It is necessary to better inform the public about the work of the tax administration and the results of donor projects whose beneficiary it is.	Fiscal policy is determined by the programme of fiscal consolidation and presented in detail in parts 2 and 3.
Business Association UVRA Novi Sad; European Policy Centre BT Legal aod Belgrade; Janković, Popović & Mitić a.o.d.; Centre for Tolerance and Sustainable Development-Centor Krčedin; European Movement in Serbia; Beekeeping Association of Serbia; Association of Banks of Serbia; Serbian Association of Employers; European Movement Leskovac; PU International Transport, Belgrade; Consumer Centre of Serbia; Union of Engineers and Technicians of Serbia; Serbian Association of Accountants; Association of Small and Medium Enterprises.	Employers who regularly pay their taxes and contributions were brought into an unequal position.	The *Draft of the National Programme for Combating the Informal Economy* envisages enhanced fairness in fiscal policy by establishing a list of business entities that regularly settle tax liabilities ('White List') and therefore are entitled to tax allowances. Also, the transformation of the Tax Administration defined in the *Programme of the Tax Administration Transformation 2015-2020* will lead to establishing more equitable business conditions for taxpayers.
Bojana Katuševski Ivanović, independent expert	The risk was not adequately defined within the structural reform Improving Capital Investments in the domain of the system of assessment and prioritisation of investments.	The comment has been accepted.

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
INFRASTRUCTURE		
APV Secretariat of Finance	Within Reform 3 Construction of a Road-Railway Corridor 10 an additional project should be included: construction of Novi Sad-Ruma motorway with a tunnel through Fruska Gora.	The methodology for prioritising structural reforms takes into account the readiness of projects / measures in terms of secured funding for 2016 which was not achieved completely with this project, so it will not be on the list of priority reforms. However, this should not influence the implementation of the project.
	For traffic infrastructure priority is given only to reforms in the field of land transport (structural reforms 3 and 4) such as the construction of Corridor 10 and construction of Belgrade - South Adriatic motorway. Inland waterways are not given enough importance.	The comment has been integrated into the text so that increasing importance of inland waterways on the territory of Serbia can be seen; the section Other reforms contains the project 'Hydraulic and dredging works on critical sectors on the Danube in Serbia, between Bačka Palanka and Belgrade (including supervision and ecological monitoring of the works) and the development and installation of marking system on the waterways'.
Belgrade Fund for Political Excellence, Aleksandar Macura, independent Expert; NGO Fraktal; Centre for the Promotion of Sustainable Development; Heinrich Böll Foundation; Faculty of Mechanical Engineering, Belgrade; WWF Danube - Carpathian Programme; Faculty of Electrical Engineering, Belgrade; Green Serbia Chamber of Commerce; CEDEF (Central European Development Forum); National Agency for Regional Development; Standing Conference of Towns and Municipalities; Faculty of Forestry, Belgrade; Provincial Secretariat for Economy, Employment and Gender Equality; Petroleum Industry of Serbia a.d.; Office of Energy Management Vrbas, Vojvodina Chamber of Commerce, Economics Institute; Centre for Research in Politics ‘Argument’; Team of students from the Faculty of Security Studies; Union of Engineers and Technicians of Serbia; City Municipality Mediana Niš; Civic Library EVROPA Bor; Belgrade Chamber of Commerce.	'Energy efficiency' should be at the level of priority areas as a special structural reform because there is a great potential for savings.	The comment will be taken into consideration in designing future public policies.
	The document says that the floods caused import dependence but the growth of import dependence is a trend and it is not directly related to floods.	The comment was taken into full account and integrated into the text.
	The proposal which states that the construction of a new thermal block should be a structural reform is problematic since this is a completely commercial project for which the state is indebted and there is a risk that this would not be in line with European policy.	The priority structural reform which includes Kostolac B3 project is based on the need to ensure energy stability and reduce dependence on imports for the purpose of the smooth functioning of business entities; the project is not commercial because the loan agreement was concluded under preferential conditions with China in accordance with the international agreement between Serbia and China - energy community does not limit states to develop their energy sector and the project has received all the EU certificates (CE).

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
Informatics Association of Serbia; Faculty of Electrical Engineering, Belgrade; Creative Youth Centre, Novi Sad; Metropolitan University; Pedagogical Society of Informatics Teachers, Niš; Public Enterprise ‘Pošta Srbije’; Faculty of Organisational Sciences, Belgrade; Belgrade Chamber of Commerce; Health Centre Voždovac; Niš Cluster of Advanced Technologies; Faculty of Electronic Engineering, Niš; Association of Journalists of Serbia; Saga d.o.o.; College of Economics and Administration; Faculty of Media and Communications; Institute for Informatics and Statistics of Belgrade; Regional Chamber of Commerce Niš; Asseco SEE; Faculty of Technical Sciences, Novi Sad; Independent Association of Journalists of Serbia; Civic Library Evropa, Bor;	The document does not mention Telekom optical network as an important resource that can be exploited.	Telekom is not included in the review because, unlike other state-owned enterprises, it is an enterprise which is not 100% state-owned and which is planned to be privatised.
	In order to establish a modern communications network that would provide broadband Internet access to all Serbian citizens, it is necessary to establish a public-private partnership between public enterprises, from the side of the state, and a number of private enterprises.	The comment will be taken into consideration in designing future public policies.
Solidarity Fund; Faculty of Electrical Engineering, Belgrade; Serbian Chamber of Commerce; Vojvodina ICT Cluster; Association of Court Experts; Archives of Vojvodina; Association for Medical Informatics of Serbia;		
Development of the agriculture sector		
Association of farmers	Establish a national Fund for Agricultural Development and sell a portion of agricultural land in state ownership to farmers.	The proposal will be discussed. However, there is room in the existing policy for supporting agriculture to improve the efficiency of the measures. Significant funds from the budget have already been allocated for subsidies to farmers. It is necessary to direct the subsidies to products with added value and to provide farmers with better access to financing from other financial instruments.
European Movement in Serbia; National Alliance for Local Economic Development; European Project Centre; Construction Cluster DUNĐER; Centre for the Development of Jablanica and Pčinja Districts; Agency for Regional Development of Kolubara District Municipalities; Union of Autonomous Trade Unions of Serbia; RDA Panonreg Subotica; Centre for the Development of a Democratic Society ‘Europolis’; Association for the Development of the Ibar Valley; YUROM RDA Centre Banat; Regional Economic Development Agency for Šumadija and Pomoravlje; RDA Panonreg Subotica; Agency for the Development of Bor Municipality; RDA Srem; Regional Development Agency ‘Braničevo-Danube’; Centre for Contemporary Politics (European Western Balkans); RDA Banat; Regional Development Agency ‘Zlatibor’; Timok Club; European Movement Leskovac; RDA Bačka; Local Democracy Centre, Subotica; Local Development House Brus	Take all necessary measures to make the IPARD funds system operational since it is of vital importance for the implementation of structural reforms.	The comment was accepted and included in the text of ERP, in priority structural reform 5 Improvement of the Competitiveness and Status of Agricultural Holdings.
	Envisage advisory support to farmers for the implementation of standards that will be established within EU integration process.	The comment will be taken into consideration in designing future public policies.

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
APV Secretariat of Finance	Define through the institutional framework of IPARD programme a manner of subsidising agriculture and pre-financing projects and their compliance with the *Law On Incentives for Agricultural and Rural Development*.	The comment was accepted and included in the text of ERP, in the parts of priority structural reform 5 Improvement of the Competitiveness and Status of Agricultural Holdings.
Development of the industry sector		
Economic Institute; Serbian Chamber of Commerce; National Assembly of Serbia; Foreign Investors Council; Belgrade Chamber of Commerce; Construction Cluster DUNĐER Niš; Faculty of Economics, Belgrade; Faculty of Economics, Niš; Faculty of Economics, Subotica; European Movement in Serbia; POLUX Cluster Kikinda; Innovation Centre of Advanced Technologies CNT doo Niš; Faculty of Electronic Engineering, Niš; Institute for Territorial Economic Development; Cluster of Creative Industry of Vojvodina; Academy of National Development; People's Parliament; Centre for Development of Entrepreneurship and Financial Education; Business Technology Incubator of Technical Faculties; Slovo; Automotive Cluster of Serbia; European Cluster Alpe Adria; Pannonia; Chamber of Commerce Novi Sad; Belgrade Chamber of Commerce; Singidunum University; Faculty of Business; Independent Trade Union of Metalworkers of Serbia; ICT Network; Economic Institute; Western Balkans Institute; Institute of Industrial Relations; Vojvodina ICT Cluster; Economic Expert Community Association; Novex; Serbian Association of Employers; Regional Chamber of Commerce Niš; ISAC Fund / European Movement in Serbia; Educational Leadership Centre; European Policy Centre; Vojvodina Chamber of Commerce; Association of Business Women of Serbia; Cluster FACTS; Free Zone Novi Sad; NALED; Faculty of Economics, Subotica; Faculty of Technical Sciences, Novi Sad; Faculty of Economics, Subotica; European Movement in Serbia - Leskovac; RDA Bačka; Union of Employers of Vojvodina; City Municipality Mediana Niš; Faculty of Economics, Niš; Junior Achievement in Serbia; Creative Industries Cluster of Vojvodina, Novi Sad; SAMSP / Serbian Association of Small and Medium Enterprises; Faculty of Economics, Kragujevac; Regional Chamber Niš; Vojvodina Metal Cluster; Union of Engineers and Technicians of Serbia.	The issue of competitiveness in defining measures in the structural reform Raising the Competitiveness of the Processing Industry needs to be horizontal rather than sectoral.	Taken into consideration for the creation of specific measures under priority structural reform 6. Raising the Competitiveness of the Processing Industry.

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
Development of the service sector		
Informatics Association of Serbia; Faculty of Electrical Engineering, Belgrade; Creative Youth Centre, Novi Sad; Metropolitan University; Pedagogical Society of Informatics Teachers, Niš; Public Enterprise 'Pošta Srbije'; Faculty of Organisational Sciences, Belgrade; Belgrade Chamber of Commerce; Health Centre Voždovac; Niš Cluster of Advanced Technologies; Faculty of Electronic Engineering, Niš; Association of Journalists of Serbia; Saga d.o.o.; College of Economics and Administration; Faculty of Media and Communications; Institute for Informatics and Statistics of Belgrade; Regional Chamber of	Shortcomings in the Area and electronic commerce to be removed: complicated legislation for international payments and making online payments, excessive charges; the proposal to establish a ministry of the information society, since there are a number of state institutions involved in this area and there is a risk to the adequate and coordinated implementation of this reform.	It will be taken into consideration by the relevant institutions in creating future public policies.
Commerce Niš; Asseco SEE; Faculty of Technical Sciences, Novi Sad; Independent Association of Journalists of Serbia; Civic Library Evropa, Bor; Internet-Ogledalo; Solidarity Fund; Faculty of Electrical Engineering, Belgrade; Serbian Chamber of Commerce; Zesium mobile; Logo d.o.o.; Vojvodina ICT Cluster; Archive info; Association of Court Experts; Archives of Vojvodina; Association for Medical Informatics of Serbia; Faculty of Security Studies, Belgrade; Radio Beograd 2.		
BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE, REDUCTION OF THE INFORMAL ECONOMY		
APV Secretariat of Finance; National Alliance for Local Economic Development; Recyclers' Association of Serbia; Samardžić Law Office; IFA DOO Belgrade; Moravčević, Vojnović and Partners - law office; Agency for the Development of the Municipality of Knjaževac; Association of Business Women of Serbia; InTER; European Vojvodina; Faculty of Law, Belgrade; National Consumer Organisation of Serbia; Group for Development Projects; Women's Entrepreneurship Academy; Business Association UVRA Novi Sad; European Policy Centre BT Legal aod Belgrade; Janković, Popović & Mitić a.o.d.; Centre for Tolerance and Sustainable Development-Centor Krčedin; European Movement in Serbia; Beekeeping Association of Serbia; Association of Banks of Serbia; Serbian Association of Employers; European Movement Leskovac; PU International Transport, Belgrade; Consumer Centre of Serbia; Union of Engineers and Technicians of Serbia; Serbian Association of Accountants; Association of Small and Medium Enterprises.	Measures which are related to the administrative procedure and referred to in the ERP (simplifying procedures and establishing a common information platform for all inspections at the level of the republic) are essential for this area but it is necessary to expand the number and character of the statements and the envisaged measures. Structural reforms are essential in other areas of law, especially in the field of judicial and normative activity.	The comment was accepted which stated that for this area measures in the field of promotion of the rule of law and efficiency of courts were of great significance. There is room for improving the rule of law, which the Government is already working on; the *Action Plan for Chapter 23* has been adopted, and a working group that will monitor the implementation has been established.
	The document is aimed at fiscal discipline and evasion, and there is no mention about incentives for the economy.	Incentive instruments for economic development are included in the priority structural reforms: *5. Improvement of the Status and Competitiveness of Agricultural Holdings 6. Raising the Competitiveness of the Processing Industry, 7. Package of Measures to Improve Access to Finance for SMEEs, 11. Programme Supporting Innovation and Technological Development in the Public and Private Sectors.*
	In the area of access to financing for SMEEs, the *Law on Microfinance* should be classified as a priority bearing in mind that 2016 is the year of entrepreneurship. There are a large number of micro-businesses that do not have a credit history and without the law, it is difficult to engage them in entrepreneurship.	The comment will be considered for the further development of the institutional and legal framework for financial instruments.

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
Economic Institute; Serbian Chamber of Commerce; National Parliament of Serbia; Foreign Investors Council; Belgrade Chamber of Commerce; Construction Cluster DUNĐER Niš; Faculty of Economics, Belgrade; Faculty of Economics, Niš; Faculty of Economics, Subotica; European Movement in Serbia; POLUX Cluster Kikinda; Innovation Centre of Advanced Technologies CNT doo Niš; Faculty of Electronic Engineering, Niš; Institute for Territorial Economic Development; NGO BIO ALPE ADRIA PANNONIA; Cluster of Creative Industry of Vojvodina; Academy of National Development; People's Parliament; Centre for the Development of Entrepreneurship and Financial Education; Business Technology Incubator of Technical Faculties; Automotive Cluster of Serbia; Chamber of Commerce Novi Sad; Belgrade Chamber of Commerce; Singidunum University; Faculty of Business; Independent Trade Union of Metalworkers of Serbia; ICT network; Economics Institute; Western Balkans Institute; Institute of Industrial Relations; Vojvodina ICT Cluster; Economic Expert Community Association; Novex; Serbian Association of Employers; Regional Chamber of Commerce Nis; ISAC Fund / European Movement in Serbia; Educational Leadership Centre; European Policy Centre; Vojvodina Chamber of Commerce, Association of Business Women of Serbia; Cluster FACTS; Free Zone Novi Sad; NA LED; Faculty of Economics, Subotica;	The informal economy is a result of poor tax policy and a large number of fiscal and para-fiscal levies.	Integrated into the text, within structural reform 9 *Simplification of the Procedures for Business Entities*, as well as in other public policies that are not individually mentioned in the priority structural reforms.
	It is necessary to come up with measures to support the development of innovative, IT start-up companies which should serve as a development support at universities.	It will be taken into consideration by the relevant institutions in creating future public policies.
Faculty of Technical Sciences, Novi Sad, Faculty of Economics, Subotica; European Movement in Serbia - Leskovac; RDA Bačka; Union of Employers of Vojvodina, City Municipality Mediana Niš; Faculty of Economics, Niš; Junior Achievement; Creative Industries Cluster of Vojvodina, Novi Sad; SAMSP / Serbian Association of Small and Medium Enterprises; Faculty of Economics, Kragujevac; Regional Chamber Niš; Vojvodina Metal Cluster Association of Engineers and Technicians of Serbia; Independent Trade Union of Metal Workers of Serbia.		

The consulted stakeholders (civil society organisations)	Comments / Suggestions / Questions	Answers
TECHNOLOGICAL ABSORPTION AND INNOVATION		
Informatics Association of Serbia; Faculty of Electrical Engineering, Belgrade; Creative Youth Centre, Novi Sad; Metropolitan University; Pedagogical Society of Informatics Teachers, Niš; Public Enterprise 'Pošta Srbije'; Faculty of Organisational Sciences, Belgrade; Belgrade Chamber of Commerce; Health Centre Voždovac; Niš Cluster of Advanced Technologies; Faculty of Electronic Engineering, Niš; Association of Journalists of Serbia; Sagga d.o.o.; College of Economics and Administration; Faculty of Media and Communications; Institute for Informatics and Statistics of Belgrade; Regional Chamber of Commerce Niš; Asseco SEE; Faculty of Technical Sciences, Novi Sad; Independent Association of Journalists of Serbia; Civic Library Evropa, Bor; Internet-Ogledalo; Solidarity Fund; Faculty of Electrical Engineering, Belgrade; Serbian Chamber of Commerce; Logo d.o.o.; Vojvodina ICT Cluster; Archive info; Association of Court Experts; Archives of Vojvodina; Association for Medical Informatics of Serbia; Belgrade Faculty of Security Studies; Radio Beograd 2; Microsoft Serbia.	It is necessary to provide modern finance instruments such as platforms for crowd investing, market funding in education (student loans, co-financing).	It will be taken into consideration by the relevant institutions in creating future public policies.
EMPLOYMENT AND LABOUR MARKETS		
Centre for Democracy Foundation; Partners for Democratic Change; NALED; Union of Autonomous Trade Unions of Serbia; National Parliament; Resource Centre Majdanpek; European Movement in Serbia; Centre for Human Rights and Democracy - Užice; Independent Trade Union of Bank Employees; Insurance companies and other financial organisations of Serbia; Belgrade Open School; International Labour Organisation; Association of Employers; Human Rights Centre Čačak; PRAXIS; Centre for Decent Work – Union University; Institute of Industrial Relations; Association of Enterprises for Vocational Rehabilitation and Employment of Persons with Disabilities of the Republic of Serbia; Institute for Economic Research; AMITY; Association 'Prevent'; 'Zajedno zajedno'; Timok Club; Belgrade Centre for Human Rights; Centre for the Development of Trade Unionism; SMART collective; Artesa Kikinda; Accessibility Audit Association; Group 484; Union of Autonomous Trade Unions of Novi Sad and Municipalities.	Reform 14 concerning the active employment measures highlights the position of some categories and the youth is said to be the main focus, but this is not reflected in the indicators.	Taken into consideration.

Annex 2 – The list of institutions in which ERP coordinators were appointed

1 Ministry of Finance
2 Ministry of Economy
3 Ministry of Trade, Tourism and Telecommunications
4 Ministry of State Administration and Local Self-Government
5 Ministry of Health
6 Office of the Minister without portfolio in charge of EU
7 National Employment Service
8 Ministry of Education, Science and Technological Development
9 Ministry of Culture and Information
10 Ministry of Agriculture and Environmental Protection
11 Ministry of Mining and Energy
12 Ministry of Labour, Employment, Veteran and Social Issues
13 Ministry of Construction, Transport and infrastructure
14 Ministry of Justice
15 Ministry of Youth and Sport
16 Social Inclusion and Poverty Reduction Unit
17 Office for European Integration
18 National Bank of Serbia
19 Public Policy Secretariat
20 Statistical Office of the Republic of Serbia
21 Government of the Republic of Serbia – Prime Minister's Office – Unit for Implementation of Strategic Projects (Delivery Unit)

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		Level (bn EUR)	**Rate of change**				
1. Real GDP at market prices	B1*g	27.912	-1.8	0.75	1.75	2.2	3.5
2. Current GDP at market prices	B1*g	34.263	0.8	2.2	4.4	5.5	7.3
Components of real GDP							
3. Private consumption expenditure	P3	20.814	-1.3	-0.6	0.2	0.8	1.9
4. Government consumption expenditure	P3	5.098	-0.6	-1.2	0.8	-2.9	0.3
5. Gross fixed capital formation	P51	5.249	-3.6	7.5	7.0	7.0	6.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.213	0.6	-0.0	-0.0	-0.0	0.0
7. Exports of goods and services	P6	11.460	5.7	8.0	7.7	7.0	6.7
8. Imports of goods and services	P7	14.922	5.6	6.0	5.8	4.4	4.3
Contribution to real GDP growth							
9. Final domestic demand		31.2	-1.8	0.7	1.6	1.5	2.7
10. Change in inventories and net acquisition of valuables	P52+P53	0.2	0.6	-0.0	-0.0	-0.0	0.0
11. External balance of goods/services	B11	-3.5	-0.6	0.1	0.1	0.8	0.7

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. GDP deflator		2.7	1.5	2.6	3.2	3.7
2. Private consumption deflator		2.6	1.6	2.8	3.9	4.0
3. HICP		:	:	:	:	:
4. National CPI change		:	:	:	:	:
5. Public consumption deflator		1.2	-1.3	2.3	2.3	2.5
6. Investment deflator		1.2	0.9	0.5	4.7	5.4
7. Export price deflator (goods & services)		0.4	2.8	2.3	0.7	0.6
8. Import price deflator (goods & services)		-0.2	1.0	1.9	2.1	1.8

Table 1c: Labour markets developments

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		Level	Level/Rate of change				
1. Population (thousands)			7,131.8	7,115.8	7,101.6	7,087.4	7,073.2
2. Population (growth rate in %)			-0.2	-0.2	-0.2	-0.2	-0.2
3. Working-age population (persons)[1][7]			4,823.4	4,765.1	4,722.5	4,713.1	4,703.7
4. Participation rate [7]			63.1	63.3	63.0	63.0	63.0
5. Employment, persons [2][7]			2,430.2	2,457.4	2,469.6	2,491.9	2,529.3
6. Employment, hours worked[3]			:	:	:	:	:
7. Employment (growth rate in %)[7]			10.6	1.1	0.5	0.9	1.5
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate [4][7]			20.1	18.5	17.0	16.1	14.6
11. Labour productivity, persons[5]		1275.7	-11.2	-0.4	1.2	1.3	2.0
12. Labour productivity, hours worked[6]			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

[1] Age group of 15-64 years
[2] Occupied population, domestic concept national accounts definition
[3] National accounts definition
[4] Harmonised definition, Eurostat; levels
[5] Real GDP per person employed
[6] Real GDP per hour worked
[7] RSO revised Labour Force Survey data for 2014

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.0	-4.6	-4.5	-4.1	-4.1
of which:						
- Balance of goods and services		-11.0	-9.7	-8.9	-8.5	-7.9
- Balance of primary incomes and transfers		5.0	5.1	4.4	4.3	3.7
- Capital account		0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	0.6	-0.5	-0.6	-1.5	-2.3
3. Net lending/borrowing of general government		-6.6	-4.1	-3.9	-2.6	-1.8
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	3908.5	3995.5	4170.2	4400.5	4723.0
Investment ratio (% of GDP)		16.7	17.7	18.2	19.4	20.2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		2.0	-8.1	8.1	2.7	3.6
2. Industry (excluding construction)		-7.4	4.6	4.3	5.2	5.6
3. Construction		-1.5	13.4	7.3	7.2	7.0
4. Services		-0.2	-0.2	-0.7	0.2	2.2

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Current account balance (% of GDP)	% of GDP	-6.0	-4.6	-4.5	-4.1	-4.1
2. Export of goods	Bn NCU or EUR	10.6	11.4	12.4	13.2	14.1
3. Import of goods	Bn NCU or EUR	14.8	15.3	16.2	17.1	18.1
4. Trade balance	Bn NCU or EUR	-4.1	-3.9	-3.8	-3.9	-4.0
5. Export of services	Bn NCU or EUR	3.8	4.2	4.6	4.9	5.2
6. Import of services	Bn NCU or EUR	3.3	3.6	3.8	4.0	4.2
7. Service balance	Bn NCU or EUR	0.5	0.7	0.8	0.9	1.0
8. Net interest payments from abroad	Bn NCU or EUR	-0.9	-0.9	-1.0	-1.0	-1.0
9. Other net factor income from abroad	Bn NCU or EUR	-0.5	-0.7	-0.8	-0.7	-0.8
10. Current transfers	Bn NCU or EUR	3.0	3.3	3.3	3.3	3.3
11. Of which from EU	Bn NCU or EUR	:	:	:	:	:
12. Current account balance	Bn NCU or EUR	-2.0	-1.5	-1.5	-1.5	-1.6
13. Capital and financial account	Bn NCU or EUR	1.7	1.1	1.5	1.5	1.5
14. Foreign direct investment	Bn NCU or EUR	1.2	1.6	1.5	1.5	1.5
15. Foreign reserves	Bn NCU or EUR	9.9	10.4	11.0	10.6	10.6
16. Foreign debt	Bn NCU or EUR	25.7	26.4	27.5	27.6	27.4
17. Of which: public	Bn NCU or EUR	14.2	15.2	16.5	16.6	16.3
18. O/w: foreign currency denominated	Bn NCU or EUR	25.7	26.4	27.5	27.6	27.4
19.O/w: repayments due	Bn NCU or EUR	3.1	2.3	2.3	3.0	2.8
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	121.0	121.0	123.0	124.0	125.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	117.3	120.7	122.5	123.5	124.5
22. Net foreign saving	% of GDP	6.0	4.6	4.5	4.1	4.1
23. Domestic private saving	% of GDP	9.8	9.3	10.3	10.7	9.7
24. Domestic private investment	% of GDP	14.4	15.1	15.3	16.4	17.0
25. Domestic public saving	% of GDP	-4.0	-1.5	-1.0	0.3	2.6
26. Domestic public investment	% of GDP	2.5	2.6	2.9	2.9	3.1

Table 1g: Sustainability indicators

	Dimension	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
1. Current Account Balance [1]	% of GDP	-10.9	-11.6	-6.1	-6.0	-4.6
2. Net International Investment Position[2]	% of GDP	-78.1	-92.0	-90.1	-97.7	-104.2
3. Export market shares	%, yoy	3.7	-6.3	22.2	2.3	0.4
4. Real Effective Exchange Rate [3]	%, yoy	10.2	-6.9	6.8	-2.2	-4.9
5. Nominal Unit Labour Costs[4]	%, yoy	5.1	7.9	2.4	3.8	-1.9
6. Private sector credit flow[5]	% of GDP	2.3	4.3	-2.1	0.3	0.0
7. Private sector debt	% of GDP	46.4	48.4	42.7	42.7	41.7
8. General Government Debt	% of GDP	47.4	58.1	61.1	71.8	76.0

[1] Projection for 2015
[2] Ending Q2 2015.
[3] REER is obtained by deflating the NEER by the geometric weighted average of the ratio of domestic to Euro area (weight 0.8) and to US (weight 0.2) end-of-year CPI over the previus end-of-year CPI .
[4] Ending Q3 2015.
[5] As end October 2015.

Table 2a: General government budgetary prospects

	ESA code	Year 2014	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-258.1	-6.6	-4.1	-3.9	-2.6	-1.8
2. Central government	S1311	-273.9	-7.0	-4.1	-3.8	-2.6	-1.8
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	9.6	0.2	0.0	-0.0	-0.0	-0.1
5. Social security funds	S1314	6.2	0.2	-0.0	-0.1	0.0	0.0
General government (S13)							
6. Total revenue	TR	1,620.8	41.5	41.9	41.0	40.1	39.0
7. Total expenditure[1]	TE	1,878.9	48.1	45.9	45.0	42.7	40.8
8. Net borrowing/lending	EDP.B9	-258.1	-6.6	-4.1	-3.9	-2.6	-1.8
9. Interest expenditure	EDP.D41 incl. FISIM	115.2	2.9	3.4	3.5	3.5	3.4
10. Primary balance[2]		-142.9	-3.7	-0.7	-0.4	0.9	1.6
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		929.6	23.8	23.7	23.9	23.4	22.8
12a. Taxes on production and imports	D2	674.3	17.3	17.5	17.7	17.3	16.9
12b. Current taxes on income and wealth	D5	254.8	6.5	6.2	6.1	6.1	5.9
12c. Capital taxes	D91	0.5	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	509.4	13.0	12.6	12.4	12.1	11.9
14. Property income	D4	30.0	0.8	1.2	0.5	0.5	0.5
15. Other (15 = 16-(12+13+14)) [4]		151.8	3.9	4.3	4.2	4.0	3.8
16 = 6. Total revenue	TR	1,620.8	41.5	41.9	41.0	40.1	39.0
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,439.0	36.8	36.3	36.3	35.5	34.7
Selected components of expenditures							
16. Collective consumption	P32	714.5	18.3	16.9	16.9	15.6	14.6
17. Total social transfers	D62 + D63	696.8	17.8	17.8	17.2	16.5	15.9
17a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
17b. Social transfers other than in kind	D62	696.8	17.8	17.8	17.2	16.5	15.9
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	115.2	2.9	3.4	3.5	3.5	3.4
19. Subsidies	D3	117.0	3.0	3.4	2.7	2.5	2.4
20. Gross fixed capital formation	P51	96.7	2.5	2.6	2.9	2.9	3.1
21. Other (21 = 22-(16+17+18+19+20) [6]		138.7	3.5	1.9	1.9	1.7	1.4
22. Total expenditures	TE [1]	1,878.9	48.1	45.9	45.0	42.7	40.8
p.m. compensation of employees	D1	457.7	11.7	10.6	10.4	9.2	8.3

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.
[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).
[3] A plus sign means deficit-reducing one-off measures
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).
[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.
[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2b: General government budgetary prospects

	ESA code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-258.1	-162.1	-163.4	-115.9	-87.1
2. Central government	S1311	-273.9	-162.5	-159.0	-114.3	-83.5
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	9.6	0.9	-1.5	-1.6	-3.7
5. Social security funds	S1314	6.2	-0.5	-3.0	0.0	0.0
General government (S13)						
6. Total revenue	TR	1620.8	1,672.6	1,711.4	1,763.3	1,841.7
7. Total expenditure[1]	TE	1,878.9	1,834.7	1,874.8	1,879.2	1,928.8
8. Net borrowing/lending	EDP.B9	-258.1	-162.1	-163.4	-115.9	-87.1
9. Interest expenditure	EDP.D41 incl. FISIM	115.2	134.3	144.9	155.8	161.6
10. Primary balance[2]		-142.9	-27.8	-18.5	39.9	74.5
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		929.6	946.8	995.6	1029.9	1076.9
12a. Taxes on production and imports	D2	674.3	698.9	738.9	763.0	796.5
12b. Current taxes on income and wealth	D5	254.8	247.4	256.2	266.4	279.8
12c. Capital taxes	D91	0.5	0.5	0.5	0.5	0.5
13. Social contributions	D61	509.4	504.8	517.4	533.5	560.0
14. Property income	D4	30.0	49.8	22.0	22.9	23.8
15. Other (15 = 16-(12+13+14)) [4]		151.8	171.2	176.4	177.0	181.0
16 = 6. Total revenue	TR	1620.8	1672.6	1711.4	1763.3	1841.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,439.0	1,451.6	1,513.0	1,563.4	1,636.9
Selected components of expenditures						
16. Collective consumption	P32	714.5	676.8	703.3	684.4	689.7
17. Total social transfers	D62 + D63	696.8	709.9	715.7	725.6	749.8
17a. Social transfers in kind	P31 = D63	:	:	:	:	:
17b. Social transfers other than in kind	D62	696.8	709.9	715.7	725.6	749.8
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	115.2	134.3	144.9	155.8	161.6
19. Subsidies	D3	117.0	136.4	111.6	110.5	113.7
20. Gross fixed capital formation	P51	96.7	103.2	120.8	128.1	147.9
21. Other (21 = 22-(16+17+18+19+20) [6]		138.7	74.1	78.5	74.8	66.1
22. Total expenditures	TE [1]	1878.9	1834.7	1874.8	1879.2	1928.8
p.m. compensation of employees	D1	457.7	423.7	432.0	406.8	390.4

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.
[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).
[3] A plus sign means deficit-reducing one-off measures
[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).
[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.
[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. General public services	1	7.7	7.2	8.0	7.5	7.1
2. Defence	2	1.5	1.4	1.3	1.3	1.2
3. Public order and safety	3	3.0	2.7	2.5	2.4	2.2
4. Economic affairs	4	6.0	6.0	4.9	4.8	4.8
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	1.5	1.4	1.4	1.3	1.3
7. Health	7	6.0	5.6	5.6	5.2	4.9
8. Recreation, culture and religion	8	1.1	1.1	0.9	0.9	0.9
9. Education	9	3.7	3.4	3.1	2.9	2.7
10. Social protection	10	17.3	16.9	16.8	16.1	15.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	48.1	45.9	45.0	42.7	40.8

Table 4: General government debt developments

% of GDP	ESA code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Gross debt [1]		71.8	76.0	79.1	78.6	75.7
2. Change in gross debt ratio			4.2	3.1	-0.5	-2.9
Contributions to change in gross debt						
3. Primary balance [2]		3.66	0.7	0.4	-0.9	-1.6
4. Interest expenditure [3]	EDP D.41	2.95	3.4	3.5	3.5	3.4
5. Stock-flow adjustment		-6.6	0.1	-0.8	-3.1	-4.7
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		4.9	4.8	4.8	4.7	4.7
6. Liquid financial assets [8]		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).
[2] Cf. item 10 in Table 2.
[3] Cf. item 9 in Table 2.
[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.
[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.
[6] Changes du to exchange rage movement, and operation in secondary market could be distinguished when relevant.
[7] Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.
[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Real GDP growth (%, yoy)	B1g	-1.8	0.7	1.8	2.2	3.5
2. Net lending of general government	EDP.B.9	-6.6	-4.1	-3.9	-2.6	-1.8
3. Interest expenditure	EDP.D.41	2.9	3.4	3.5	3.5	3.4
4. One-off and other temporary measures [1]		-0.9	-0.9	-0.7	-0.6	-0.3
5. Potential GDP growth (%, yoy)		0.4	0.9	1.6	2.3	2.9
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-0.9	-1.0	-0.8	-0.9	-0.3
7. Cyclical budgetary component		-0.3	-0.4	-0.3	-0.3	-0.1
8. Cyclically-adjusted balance (2-7)		-6.3	-3.7	-3.6	-2.3	-1.7
9. Cyclically-adjusted primary balance (8+3)		-3.3	-0.3	-0.1	1.2	1.7
10. Structural balance (8-4)		-5.3	-2.7	-2.9	-1.8	-1.4

[1] A plus sign means deficit-reducing one-off measures.

Table 6: Divergence from previous programme

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. GDP growth (%, yoy)					
Previous programme	-2.0	-0.5	1.5	2.0	:
Latest update	-1.8	0.75	1.8	2.2	3.5
Difference (percentage points)	0.2	1.2	0.3	0.2	:
2. General government net lending (% of GDP)					
Previous programme	-7.9	-5.9	-4.7	-3.8	:
Latest update	-6.6	-4.1	-3.9	-2.6	-1.8
Difference	1.3	1.8	0.8	1.2	:
3. General government gross debt (% of GDP)					
Previous programme	69.9	77.7	79.2	78.7	:
Latest update	71.8	76.0	79.1	78.6	75.7
Difference	1.9	-1.7	-0.1	-0.1	:

Table 7a: General government guarantees

% of GDP	Year 2015	Year 2016
Public guarantees	7.8	8.0
Of which: linked to the financial sector	0.0	0.0

Table 8: Basic assumptions on the external economic environment [1] [2]

	Dimension	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Short-term interest rate	Annual average	0.1	0.0	-0.1	0.0	:
Long-term interest rate	Annual average	2.0	0.5	0.7	0.9	:
USD/EUR exchange rate	Annual average	1.329	1.110	1.090	1.090	:
Nominal effective exchange rate	Annual average	2.1	-6.3	1.8	0.0	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	3.7	3.3	3.8	4.0	:
EU GDP growth	Annual average	1.4	1.9	2.0	2.1	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	2.7	0.9	3.0	4.0	:
Oil prices (Brent, USD/barrel)	Annual average	98.9	53.8	52.2	57.5	:

[1] European Commission European Economic Forecast, Autumn 2015.
[2] European Central Bank Eurosystem Staff Macroeconomic Projections, December 2015.

Table 9: Employment and Social Development Indicators

	Source*	2012	2013	2014	2015	2016
1. Labour market participation rate (%)	LFS	46,7	48,4	51,8	51,9	
male	LFS	55,7	57,1	60,4	60,8	
female	LFS	38,3	40,4	43,7	43,7	
2. Employment rate (%)	LFS	35,5	37,7	41,7	43,2	
male	LFS	42,8	45,2	49,1	51,2	
female	LFS	28,7	30,8	34,8	35,8	
3. Unemployment rate (%)	LFS	23,9	22,1	19,4	16,7	
male	LFS	23,2	20,8	18,7	15,8	
female	LFS	24,9	23,8	20,4	17,9	
4. Long-term unemployment rate (%)	LFS	78	76	67,2	67,3	
male	LFS	55,2	53,1	53,5	54,1	
female	LFS	44,7	46,9	46,5	45,9	
5. Youth unemployment rate (15-24 yrs)(%)	LFS	51,1	49,4	47,3	41,9	
male	LFS	47,9	44,6	45,8	36,9	
female	LFS	57,0	57,5	50,0	42,1	
6. Young people (15-24) not in employment, education or training (NEET), in %	LFS	21,5	19,5	20,2	18,6	
7. Early school leavers (18-24), in (%) (Eurostat definition)	LFS			8,15		
8. Participation rate in early childhood education and care	SORS***	54,8	58,1	58,9		
9. GINI coefficient	SILC	38.0	38.7			
10. Inequality of income distribution S80/S20	SILC	8,8	9,8			
11. Social protection expenditure (% GDP)	eurostat - esspros	23,5	22,8			
	MF**	18.8	17.7	17.3	16.5	15.9
12. Health expenditure in (% GDP)	eurostat - esspros	6,1	5,9			
	MoF**	5.8	5.7	5.8	5.6	5.6
13. At-risk-of-poverty before social transfers, (% of the population)	SILC	50.1	51,1			
14. Poverty rate	SILC	24,6	25,6			
15. Poverty gap	SILC	36,6				
16. Absolute poverty rate	HIS	8,8	8,6	8,9		
17. Poverty gap (depth) in %	HIS	1,9	1,8	1,7		

*Source: Statistical Office of the Republic of Serbia (Labour Force Survey -LFS, Household Survey on Income - HSI and Statisticis on Income and Living Conditions - SILC)
The sample framework has been changed since 2013
** Ministry of Finance - General Government Expenditure by function, % GDP
*** Statistical Office of the Republic of Serbia, Education Statistics