

**ECONOMIC REFORM PROGRAMME FOR
THE PERIOD FROM 2023 TO 2025**

Belgrade, January 2023

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Based on Article 38, Paragraph 1 of the Law on the Planning System of the Republic of Serbia ("Official Gazette of the RS", No. 30/18),

The Government adopts

ECONOMIC REFORM PROGRAMME FOR THE PERIOD 2023- 2025

1. OVERALL POLICY FRAMEWOR AND OBJECTIVES

Economic policy in the forthcoming period is shaped by exiting one and entering a new crisis. Coming out of the two-year crisis caused by the pandemic, a calmer period was expected that would allow economic, primarily fiscal policy, a break and enough time to return to a sustainable path. However, the conflict in Ukraine intensified existing and brought new risks that completely change both the international environment and the economic policy in the country. Global, growing inflation and intensified energy crisis pose great challenges to economic policy makers. The geopolitical crisis made short-term inflationary pressures permanent, with a high probability of their long-term presence in the global economy. At the same time, it is expected that the increased uncertainty at the global level will have a negative impact on capital flows towards emerging countries, especially if one takes into account the cycle of tightening monetary policies of the leading central banks. In addition to temporary factors, economic trends are also characterized by structural changes in the geopolitical and economic environment driven by deglobalization processes, unfavourable demographic trends and accelerated green transitions.

In conditions of growing uncertainty, fiscal policy has a special role. The role of fiscal policy was crucial in the past two pandemic years. With the outbreak of the conflict in Ukraine and the increase in global uncertainty, the circumstances in which fiscal policy can operate have completely changed. Countries are now facing conditions of high and growing inflation, growth slowdown and tightening conditions for the deficit financing. Fiscal policy faces new challenges. Disruptions in the energy sector along with growing costs of the economy and maintaining the standards of the population require a new set of measures. Energy costs (procurement of energy sources, subsidizing the gas price etc.) take up a good part of the fiscal space; incomes of the population (public sector wages and pensions) are adjusted in order to preserve the standard of living. It is necessary to continue to maintain the level of capital investments, which are much needed to support the economic growth. Finally, it is extremely important to preserve fiscal discipline in conditions of high uncertainty. The Republic of Serbia submitted a request for a new Precautionary Arrangement with the International Monetary Fund (hereinafter IMF) that will support efforts to preserve macroeconomic and fiscal stability. The directions of the fiscal policy are defined towards the reduction of deficit and debt in the medium term. After exceptional circumstances, which increased the costs of budgetary support to the energy sector in 2022 and partly in 2023, it is expected, after the implemented structural reforms and changes in the international environment, that these costs will be eliminated, that is, they will not require budgetary intervention in the medium term. For the purpose of preserving fiscal stability, the fiscal rules have been redefined, taking on the role of guardians of a sustainable fiscal position in the medium term.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Fulfilment of the Policy Guidance (PG) for individual policies as part of the Joint Conclusions on the Economic Reform Programme (ERP) 2022-2024, adopted at the Economic and Financial Affairs Council (hereinafter ECOFIN) meeting held on May 24th 2022 in Brussels, within the framework of the “Economic and Financial Dialogue between the European Union and the Western Balkans and Turkey“, is reflected in numerous reform measures and activities of the Government.

2.1. FULFILMENT OF THE RECOMMENDATIONS OF THE ECOFIN COUNCIL FROM MAY 2022 FOR THE REPUBLIC OF SERBIA

1. If needed, use the available fiscal space in the 2022 budget to cushion the potential impact of adverse shocks through targeted support to vulnerable households and firms; provided the economic recovery is well entrenched, plan a further gradual return to a deficit close to balance in the 2023 budget and medium-term fiscal framework.

The medium-term fiscal framework envisages a reduction in deficit and debt levels even with significant growth of expenditures related to energy and amortization of energy costs effects. Large part of these means is provided by fiscal space created by better revenue collection and expenditure control in previous years.

Contain overall spending on wages as a percentage of GDP by adopting an adequate wage indexation mechanism and taking preparatory steps towards an appropriately designed public sector wage system reform. Adopt a credible and binding system of fiscal rules for entry into force in 2023 as envisaged in the ERP.

The Law on Amendments to the Law on the Budget System (“Official Gazette of the RS”, No. 138/22) , which provides for the amendment and strengthening of fiscal rules, was adopted on December 9, 2022, and part of fiscal rules set is wage indexation mechanism which limits indexation of wages in line with GDP growth¹. Reform of the salary system, is set for 2025, in agreement with the International Monetary Fund (IMF).

2. To reduce the grey economy, strengthen VAT collection and improve the tax control process, finalise the introduction of the new model of electronic fiscalisation and the transition to electronic invoicing and implement the tax administration reform according to the ERP 2022 timeline.

The draft Programme for Combating Grey Economy for the period 2022-2025, with an Action plan, has been prepared and is expected to be adopted by the Government in the first quarter of 2023. The coordinating body of the Government for combating the grey economy was formed in January 2021 with the task of coordinating and directing work on the preparation and implementation of the Programme for Combating Grey Economy for the period 2022-2025. The goals of the document are to reduce the share of the grey economy in the total economic activity in the Republic of Serbia by strengthening the capacity of inspections and misdemeanour courts, improving tax supervision procedures and fiscal and administrative relief of legal business.

The results of more efficient collection and control of taxpayers were evident in the previous period and it is expected that this trend will continue. The increase in the level of value-added tax (VAT) collection in terms of the implementation of independent anti-evasion measures in the area of VAT produced results in the past period. In this segment, room for further improvements will be created by strengthening and modernizing the Tax Administration.

Regarding the progress in the implementation of the recommendation for the improvement of the tax audit process:

- The project “Support to the Ministry of Finance within the Sectoral Reform Agreement for Public Administration Reform“ is underway, which aims to actively apply indirect methods in the audit process (Technical report “List of functional requirements for IT support in the application of the

¹ More about fiscal rules in point 4.8. Fiscal management and budget frameworks.

proposed methodology“ is being prepared). Instructions for the application of the methodology for indirect assessment of the tax base have been prepared.

- In cooperation with the GIZ project *Public Financial management – Agenda 2030*, an activity is underway related to the analysis of the possibility of communication with taxpayers at a distance and consequently the implementation of the audit procedure.

- During the first half of 2022, in order to improve the audit function, related to the audit of transfer prices, access to the software solution was provided – ORBIS database.

- The centralized platform for electronic fiscalization was launched on November 1, 2021. In the next six months, taxpayers switched to a new fiscalization system. As of May 1st, 2022, the old system of fiscal cash registers ceased to be valid, i.e. turnover recording is done exclusively according to the new system of e-fiscalization. With regard to electronic invoicing, a phased introduction is planned (three phases: 1 May 2022-B2G, 1 July 2022-G2B and 1 January 2023-B2B). The first two phases have been completed and the third phase is still planned for January 1st, 2023.

- Training for users of the new model of fiscalization and electronic invoicing began in July 2021 and are taking place as planned until the end of 2022. In this process, the Ministry of Finance has the support of National Alliance for Local Economic Development (hereinafter NALED) and the Chamber of Commerce and Industry of Serbia, as selected partners for training and communication campaign for these two reforms.

Regarding the recommendation to implement the reform of the Tax Administration in accordance with the ERP deadlines, realised activities in 2022 are:

1. Reengineering of business processes, including training of trainers for the introduction of new functions in the organizational units of TA. On June 7, 2022, the Tax Administration, with the help of a consultant, created the Draft “Business Process Design with Attachments and Presentations” after which intensive consultations were held between the Tax Administration, the Treasury Administration and other organisational units of the Ministry of Finance and the consultant with the aim of harmonizing the views, objections and suggestions on the submitted document, especially the parts related to the order of settlement of tax obligations, as well as identifiers and the schedule of deposit payments for bidding and purchase prices. Decisions were made by the Tax Administration regarding the method of calculating interest, for which the consultant proposed several variants in the General Business Model, as well as decisions regarding the introduction of a single account for the payment of public revenues and the distribution of funds that will be kept on the overpayment account, in order to continue further work on the development of the Redesigned Business Model in details, after which the Redesigned Business Model in details was presented to the Ministry of Finance.

On October 4th, the consultant submitted a corrected version of the Draft document “Design of business processes with attachments and presentations”. The final version of the document was adopted on November 14, 2022, at the second session of the Committee for Implementation of the Transformation Programme of the Tax Administration.

2. Analysis and introduction of a modern record management system through a comprehensive information management model – After the analysis of the legal framework, the first draft of the document “Analysis of the legal framework in the field of archiving of the Tax Administration with recommendations for improvement” was submitted on August 3rd, 2022. The draft document was forwarded to the World Bank.

3. Procurement of the system for the new ICT platform - In relation to consulting services for market analysis and development of specifications for a commercial off-the-shelf solution (hereinafter COTS), the Tax Administration, with the help of the consultant, has drafted the document “Technical Specification for a Complete Commercial Solution” (COTS) with functional and non-functional requirements, which should be an integral part of the Request for Bid (RFB). After the analysis of the mentioned document and the adjustment of comments, suggestions and proposals by the Tax Administration and the consultant, the “Technical specification for ready-made commercial solution“

(COTS) was adopted by the Committee for the implementation of the transformation Programme of the Tax Administration on September the 30th, 2022.

The document is the basis for the preparation of the Request for Bid (RFB). The call for initial selection – submission of bids for the procurement and installation of COTS with data integration and migration was published on October the 13th, 2022. By the Decision of the Director of the Tax Administration, a Commission was formed for the evaluation of the bids received in the procedure of procurement of ready-made commercial solutions (COTS).

Realization of other activities takes place in accordance with the Procurement Plan of Tax Administration Modernization Project (hereinafter TAMP).

Reinforce fiscal risk analysis capacity, in particular on SOEs, and make resulting reporting publicly available in the fiscal strategy updates in spring and autumn.

In cooperation with the Fiscal Risks Monitoring Department of MoF and the World Bank, at the end of 2021, the Government adopted the Conclusion No. 40-9575/2021 by which the Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia was adopted (“Official Gazette of the RS”, No. 99/21), which includes four primary methodologies, namely:

1. Methodology for monitoring fiscal risks stemming from SOEs business activities;
2. Methodology for monitoring of fiscal risks arising from the activities performed by local self-government units;
3. Methodology for monitoring fiscal risks arising from litigation;
4. Methodology for monitoring fiscal risks arising from natural disasters.

After adopting the Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia, work is performed in establishing and adjusting models following the Methodology.

Given the Department's intensive work on establishing a system for assessing fiscal risks, the Fiscal Strategy has been upgraded with new data and more detailed reporting. In addition, there is constant work on improving capacities within the Department, so during 2022, employees attended several significant training: analysis of financial reports, improvement of skills for work in Excel, etc.

The global energy crisis in 2022 emphasized even more the need for adequate monitoring of the operations of public companies² in the field of energy, in order to reduce related fiscal risks.

Implement the time-bound action plan for the deployment of the new SOE ownership and management strategy according to the ERP 2022 timeline to improve the governance of SOEs and reduce related fiscal risks.

After the database of companies owned by the Republic of Serbia was established and the internal Act on the *Baseline for establishing mechanisms and criteria for reviewing and approving key decisions of SOEs* was adopted, the Ministry of Economy has initiated the formation of a working group to analyze the existing legal framework, consisting of the representatives of the ministries relevant to SOEs. The Draft Law on the Management of Companies Owned by the Republic of Serbia has been prepared. The public hearing was completed in the second half of December 2022.

3. Carefully assess and analyse price developments and stand ready to tighten monetary policy further, if needed, to preserve price stability in the medium term. Maintain a transparent and accurate reporting of asset quality and adequate provisioning.

Amid the build-up of inflationary pressures globally and in order to limit the second-round effects of rising prices through inflation expectations, the National Bank of Serbia continued to tighten monetary policy further by increasing the key policy rate from April to December by total 400 basis points (hereinafter bp), to 5.0%. The deposit and credit facility interest rates have been increased too, and are currently at the level of 4.0% and 6.0%, respectively.

² More information on activities undertaken to address fiscal risks at state-owned enterprises in point 4.6. Sensitivity analysis and comparison with previous Programmes p. 56 and point 4.7 Quality of public finances p. 65.

Regulatory and supervisory activities, supported by the banking sector's commitment to timely addressing any asset quality issues, resulted in preserved and strengthened financial system stability and further reduction of the NPL ratio to 3.03% (in November 2022), which is the historically lowest level of this indicator.

Further upgrade NPL resolution, including by facilitating out-of-court settlement, and continue to reduce data gaps in particular as regards the real estate sector.

Having in mind the established framework and the concrete results, the National Bank of Serbia continues its activities through the supervisory processes and monitoring the situation in the banking sector on an ongoing basis. Efforts are being made to strengthen the National Bank of Serbia real estate database on the valuations of mortgaged real estate with the aim to enable comprehensive data collection and analysis.

According to the Law on Consensual Financial Restructuring ("Official Gazette of the RS", No. 89/15), the Chamber of Commerce and Industry of Serbia is defined as an institutional mediator and the only institution responsible for enforcing this law. Given the capacities that were built and provided simple procedure, the promotion and constant endeavours will continue in order to make desirable results of out-of-court settlement as a way of resolving disputes. Although the Law on Consensual Financial Restructuring ensures this procedure to be used by entrepreneurs as well, so far none of them has expressed interest for this procedure. In the meantime, the NPL ratio in the corporate sector decreased to 2.05%. To further promote implementation of this procedure in the economy additional incentives are needed, as well as mediation in commercial disputes, strong media campaigns and dedication.

Currently, the resolution of the remaining problematic placements of banks in bankruptcy and placements in the name and on behalf of the Republic of Serbia, which are managed by the Deposit Insurance Agency, is ongoing.

Continue efforts to promote the use of the national currency, including by enhancing long-term financing in national currency, further encouraging forex hedging and raising awareness of risks related to forex lending.

According to the Decision on Capital Adequacy of Banks "Official Gazette of RS", No. 103/16, 103/18, 88/19 and 67/20, the systemic risk buffer in the last examination in March 2022 was kept at 3% of total FX and FX-indexed placements of a bank approved to corporates and households in the Republic of Serbia. All banks whose share of FX and FX-indexed placements approved to corporates and households in the Republic in Serbia exceeds 10% are obliged to maintain this buffer.

Given that the additional operations introduced by the National Bank of Serbia at the beginning of 2022 - bilateral FX swap transactions had proven to be more efficient instrument for providing support to banks in dinar and FX liquidity management, mostly due to the greater flexibility regarding the maturity of transactions compared to swap auctions, the National Bank of Serbia stopped organizing regular two-week and three-month foreign exchange swap auctions starting from August 1, 2022 (not excluding the possibility of reintroduction if the need arose). Also, bilateral swap transactions in which the National Bank of Serbia mediates between domestic banks are more efficient than swap auctions in overcoming the problem of insufficient or non-existent interbank trading limits. Greater flexibility of bilateral swap transactions has become particularly emphasized in the circumstances of increased geopolitical tensions, caused by the crisis related to Ukraine.

4. Further improve transparency in the adoption and implementation of legislation, particularly by ensuring a timely consultation of businesses and social partners on new legislation affecting their operations.

Although the adopted regulations provide a solid framework for involving the public in the law-making process, in 2021 only 44.4% (40/90) of the adopted laws underwent a consultation process in the manner provided by the regulatory framework, which is 8.4 percentage points more than in 2020 (according to Public Policy Secretariat data), (hereinafter PPS). In the same observed period, during the year 2021, only 21.4% (50/234) of the adopted by-laws underwent a consultation process, which is 9.9 percentage points more than in 2020 (according to PPS data).

In order to further improve transparency, the Government adopted a Decision on the establishment of the "eKonsultacije" Portal ("Official Gazette of the RS", No. 62/21) on the establishment of the "eKonsultacije" Portal, which is an integral part of the eGovernment Portal, with the aim of enabling the public, on a single and an equal way, electronically, to participate in the preparation and adoption of public policy documents and regulations. The "eKonsultacije" portal has been operating since December 16, 2021.

From its commissioning until the end of October 2022, consultations and public discussions on 41 regulations and public policy documents were or are being conducted on the "eKonsultacije" Portal, of which 14 procedures have been successfully completed.

The "eKonsultacije" portal is managed by the PPS. Officials with the user roles of administrators, moderators and evaluators have been appointed to work on the Portal. The number of appointed moderators for 14 ministries, the City of Belgrade and the Development Agency of Vojvodina is 197, while the number of appointed evaluators is 24 from the PPS and the General Secretariat of the Government. In addition, two administrators from the Ministry of State Administration and Local Self-Government were appointed for the part of the Portal related to "Partnership for Open Administration".

A total of 63 consultation processes and public hearings were launched on the "eKonsultacije" portal. Of these, 34 processes were created for public policy documents, and 29 processes for regulations. By the same date, a total of 183 citizens participated in the process of consultations and public hearings.

In the upcoming period, work will be done on the further improvement of the "eKonsultacije" Portal, especially in the area of evaluation and quality control of consultations and public hearings.

Continue with the process to ensure a harmonised approach for prioritising and monitoring all investments and basing investment decisions on feasibility studies, cost-benefit analysis and environmental impact assessments.

The Government continuously works to implement the full-scale project management methodology. Various challenges in its work have appear so far, especially in implementing the pre-implementation stage as prescribed by the PIM Decree ("Official Gazette of the RS", No. 51/91). A detailed analysis of the legal framework related to capital projects financed by EU funds and international development aid was also carried out.

The Decree on Amendments to the Decree on the Management of Capital Projects "Official Gazette of the RS", No. 139/22 entered into force on December 24, 2022, and is applied from April 1st, 2023. The amendments aimed to include parameters projects' impact on the environment in the criteria for identification and assessment of project readiness. Legal framework that already governs the area of environmental impact assessment is in place in the Republic of Serbia, but it functioned in parallel with the capital project management process regulated by the PIM Decree ("Official Gazette of the RS", No. 51/91). The Ministry responsible for environmental protection is involved in the assessment and monitoring of capital projects to the extent commensurate with the legal framework that regulates the area of environmental impact assessment. In this way, a connection is made with the existing procedure, which is conducted on the basis of the law governing environmental assessment.

Regarding the operational part, the result is as follows:

-The PIM Unit of MoF currently monitors 159 capital projects, which are implemented at the national level, valued at over five million euros (in the reporting period Q2 2022, there were 65 projects in the pre-implementation stage and 93 in the implementation stage, and one project was currently abandoned). Among the projects being monitored, there are also projects of particular importance for the Republic of Serbia.

-The PIM Unit of MoF also collects data on projects in the pre-implementation stage via an auxiliary form. Until December 2022, seven regular Republic Commission for Capital Investments sessions were held.

One of the reform goals of RoS is the establishment of a unique project filter for which further evaluation will be done in accordance with the applicable laws, thus, ensuring better control of public expenditures.

Employees' skills within the MoF PIM Unit are constantly improving with specific training in 2022 such as project management and training on feasibility studies and assessment of fiscal risks and costs in externally funded projects, including PPPs.

Regarding establishing the Information System for the Management of Capital Projects (hereinafter PIMIS), the Ministry of Finance is currently testing the pre-production environment for projects under implementation. The system is expected to be operational at the beginning of 2023.

Apply the principles of competition, equal treatment, non-discrimination and transparency in public procurement and state aid procedures in line with the EU acquis for all public investment projects regardless of the financing source and ensure a consistent and transparent track record demonstrating the operational independence of the Commission for State Aid Control.

After the adoption of the Public Procurement Law ("Official Gazette of RS", No. 91/19), and establishing Public Procurement Portal, Public Procurement Office continues with upgrading the public procurement Portal and organising trainings for economic operators in 2022. From May to December 2022, three new versions of the Public Procurement Portal are developed and published and each of them bring new functionalities to contracting authorities and other economic operators. These technical improvements of the Portal are related to the list of all contracts awarded to a specific bidder, search optimization, authorizations for administrative users, protections of rights, quarterly reports, prior information notices, etc. Regarding the trainings that are organized for the needs of contracting authorities and bidders, the trainings were primarily related to strengthening the capacity of prosecutors, police, and judges regarding the most common irregularities, abuses in public procurement procedures and use of Public Procurement Portal, but also strengthening the capacity of contracting authorities and bidders regarding the use of the Portal of Public Procurements, implementation of the provisions of the Public Procurement Law related to environmental and social public procurements, partnership for innovation. Also, trainings were organized for economic operators and persons engaged in public procurement procedures to help them to prepare for the exam for public procurement officers. Also, Public Procurement Office made a Model of the special act, which explains in greater detail the manner of planning, conducting public procurement procedures, and monitoring of the execution of the public procurement contract, (the manner of communication, the rules, duties, and responsibilities of persons and organizational units), the manner of planning and conducting procurements exempted from the law and procurements of social and other specific services, which is prescribed by Article 49, paragraph 2 of PPL ("Official Gazette of the RS", No. 91/19). Furthermore, Public Procurement Office created Model of tender documentation for public procurement of paper accessories for maintaining personal hygiene for the use of dynamic purchasing systems, Model of tender documentation for green public procurement - stationery and Model of tender documentation for green public procurement - communal electric vehicle.

Institutional framework for state aid control is already set up. Commission for State Aid Control (CSAC) according to Law on State Aid Control ("Official Gazette of the RS", No. 73/19), is an standalone and operational independent body who works transparently. CSAC conducts intensive activities on the harmonization of regulations in the field of state aid control with the EU *acquis*, as well as activities related to cases of state aid control, in accordance with its competence. Besides that, CSAC prepares annually reports on granted state aid and publishes them after adopting by the Government, prepares annually reports of CSAC work, and publishes them after adoption of National Assembly and regularly publishes all decisions regarding state aid control on web page www.kkdp.gov.rs.

5. Continue to develop and adopt a national long-term energy and climate plan in line with the Green Agenda for the Western Balkans and international commitments, and further increase investments in

modernising energy infrastructure and lowering carbon emissions with a view to accelerating the green transition. Implement outstanding financial and institutional measures for higher take-up of renewables and energy efficiency, including launching first auctions for renewable energy sources (RES) and further develop the newly established administrative entity for energy efficiency and further improve the sustainability of the financing mechanism. With a view to further liberalising the energy market, address outstanding reforms, including price and tariff reform, accelerate the unbundling of all energy utilities in line with the EU acquis, and as regards the gas sector in line with Serbia's Action Plan; as regards Gastrans, Serbia should ensure that its regulatory regime is in full compliance with EU legislation all in line with the Action plan developed following the recently opened Cluster 4 for Energy, Climate and Transport in the EU accession process.

The Draft Integrated National Energy and Climate plan for the period from 2021 to 2030, with a vision until 2050 (NECP) was prepared and presented to the interdepartmental Working Group at the meeting on October 7, 2022. The revision of the draft NECP in accordance with the comments submitted by the members of the Working Group is in the final stage. The following actions include conduction of public consultations, cross-border consultations and consultations with the Secretariat of the Energy Community.

The Directorate for Financing and Promotion of Energy Efficiency (hereinafter the Directorate) was established as a legal entity within the Ministry of Mining and Energy. In August 2021, the Director of the Directorate was appointed. The document on job classification entered into force on November 25, 2021. The Directorate became operational at the beginning of 2022, and it is planned to have 12 employees (so far, there are nine full-time employees and five hired under contract). A budget of about 2 billion dinars has been provided for the operation of the Directorate in 2022. The available funds from the budget for 2023 will be additionally increased by means of a loan from the World Bank and the European Bank for Reconstruction and Development (EBRD).

In 2022, the Directorate announced one public call for subsidies to citizens for energy rehabilitation of residential buildings, family houses and apartments which is to be carried out by local self-government units as well as city municipalities (contracts were signed with 151 local self-government units) and one public call for financing of the projects to improve energy efficiency in buildings of public importance in local self-government units, as well as city municipalities (contracts signed with 38 local self-government units).

The Budget Law of the Republic of Serbia for 2023 ("Official Gazette of RS", No. 138/22) foresees a loan from the World Bank in the amount of 50 million US dollars. The WB loan for the implementation of the "Serbia Scaling Up Clean Energy Project" (SURCE) project was negotiated in February 2022, confirmed by the Law on the Confirmation of the Loan Agreement (Serbia Scaling Up Clean Energy Project) between the Republic of Serbia and the International Bank for Reconstruction and Development ("Official Gazette of RS - International Agreements", No. 6/22), which entered into force and is applied from December 20, 2022. The Budget Law also foresees a loan of 50 million EUR from the EBRD for the project "Energy efficient rehabilitation of residential and public buildings". So far, 20 municipalities have expressed interest in participating in this Programme, which would focus on residential buildings that are connected to district heating systems. EBRD will provide a grant of five million EUR to support this project.

In July 2022, the Energy Agency of the Republic of Serbia (hereinafter AERS) adopted amendments to the Methodology for Setting Electricity Price of Guaranteed Supply ("Official Gazette of RS", No. 141/22). The amendments defined a new way of distributing the maximum approved revenue to the tariff elements on the basis of which the tariffs are calculated by categories and groups of customers and the harmonization with the Law on Amendments to the Law on Energy ("Official Gazette of RS", number 40/21) was carried out, by specifying that this methodology is also applied to the prosumers.

In July 2022, the price of electricity for guaranteed supply was increased by 6.5%, and in November 2022, this price was increased by an additional 8%, starting from January 1, 2023.

In the electricity sector, the process of unbundling of activities was completed in accordance with the Law on Energy ("Official Gazette of RS", No. 145/14, 95/18-other laws and 40/21), which fully transposed the provisions of the Third Energy Package. In other words, the legal obligation of legal

and functional unbundling of the electricity distribution system operator Elektro distribucija Srbije Ltd. Belgrade has been fully fulfilled, from a vertically-integrated company, PE EPS Belgrade, while the operator of the transmission system JSC Elektromreža Belgrade has been certified by the Energy Agency, and according to previously fulfilled conditions on the unbundling of activities in accordance with the Law on Energy.

The Energy Agency of the Republic of Serbia approved the Programme for ensuring non-discriminatory behaviour developed by the Distribution System Operator of the Republic of Serbia (February 2022), as well as the draft conditions for the appointment and prior approval of the appointment of the new Compliance Officer (June 2022).

Transportgas Srbija Ltd. Novi Sad withdrew its application for certification according to the ISO model (March 2022), after which the AERS dismissed the certification procedure. In March 2022, the AERS confirmed the certificate issued to Gastrans Ltd. Novi Sad.

In March 2021, the Republic of Serbia adopted the Law on Climate Change ("Official Gazette of the RS", No. 26/21) in order to establish a system for limiting/reduction greenhouse gas emissions and fulfilling international obligations. The Law on Climate Change envisages the adoption of the Low Carbon Development Strategy with an Action Plan of RS within two years from the day the law enters into force.

6. Reduce poverty by increasing the adequacy of benefits of the Financial Social Assistance (FSA) scheme for individuals and families with children

In accordance with the Law on Social Protection ("Official Gazette of RS", No. 24/2011 and 117/2022 - US decision), the basis for determining financial social assistance is adjusted to the consumer price index in the previous six months, based on statistical data, twice a year, on April 1 and October 1.

As of April 1, 2022, the nominal amount of financial social assistance for an individual is RSD 9,580.00, which is an increase of RSD 465.00 (about EUR 4) compared to October 2021. The nominal amount of financial social assistance for an individual in October 2021 amounted to RSD 9,115.00).

In the Budget Law of the Republic of Serbia for 2023 ("Official Gazette of RS", number 138/22), the allocations for social welfare entitlements have been envisaged in the amount in compliance with the applicable legal framework. Any legislative change, that is, revisiting or extension of the entitlements is reflected in the corresponding increase in the amount of the allocations thereof. A number of variants to contribute to the increased FSA have been taken into consideration. As a result, the taken stance is to wait for the effects of the application of the of the Law on the Social Card ("Official Gazette of RS", number 14/21), and possible savings, which will contribute to the FSA increase in the conditions of the budget restrictions.

and by increasing substantially the untaxable wage base close or equal to the level of the minimum salary for workers.

The documents of the fiscal strategy on the goals of fiscal policy that refer to the period from 2018 to 2023 determine the reduction of the fiscal burden of work through the reduction of taxes and contributions on wages. Reducing the fiscal burden on labour is obtained by increasing the non-taxable amount of wages and reducing the rate of contributions for compulsory social insurance, all depending on the created additional fiscal space that can be used to reduce the tax burden on wages.

Progressive taxation of salaries is achieved by not paying tax on salaries up to the amount of the prescribed non-taxable amount. In this way, the lowest salaries are exempt from the tax part so that the tax is not paid on the prescribed non-taxable amount. In 2022, part of the salary in the amount of 19,300 dinars per month is not taxed. The non-taxable amount of salary, for 2023, is increased to 21,712 dinars per month. Otherwise, the non-taxable amount of earnings is increased annually by adjusting the annual consumer price index.

In addition, progression is achieved by taxing the annual personal income tax. Earnings (as well as other income based on work) that natural persons earn during the calendar year are also taxed with

an additional annual personal income tax after the end of the calendar year. The subject of taxation with the annual tax is the income realized in a calendar year which is higher than the prescribed non-taxable amount (three times the amount of the average annual salary). The annual personal income tax rate is progressive and amounts to 10% for taxable income up to the amount of six times the average annual salary and 15% for taxable income over the stated amount.

Within the measures of fiscal relief of wages, the reduction of the contribution rate for compulsory social insurance was made, namely the contribution rate for unemployment insurance, from 1.5% to 0.75% (in such a way that the employer is exempt from paying part of the contribution which is calculated and paid at his expense in the amount of 0.75%, while at the expense of the employee is paid a contribution at a rate of 0.75%) with application from 1 January 2019 and the contribution rate for mandatory pension and disability insurance, from 26% to 25.5%, with effect from 1 January 2020, and from 25.5% to 25%, with application from January 1st 2022. Also, the contribution rate for mandatory pension and disability insurance was further reduced from 25% to 24%, with effect from January 1st 2023.

Continue facilitating school-to-work transitions by stepping up further VET, including dual VET, through revised curricula and the provision of infrastructure, which enables the acquisition of practical skills.

For the 2022/2023 school year, 65 dual educational profiles with qualification standards were developed. A methodology has been prepared for the development of curricula for dual educational profiles. The methodology is in use and in accordance with this methodology, the Institute for the Improvement of Education develops new plans and Programmes and modernizes the existing ones. In accordance with the Law on dual education ("Official Gazette of RS", No. 101/17 and 6/20), the basis for adopting curricula is the qualification standard determined by the sector skills council for a specific sector of work, in accordance with the law regulating the national qualifications framework. Part of every curriculum for dual education profiles is "work-based learning", which is an organized process during which students, under the guidance and supervision of instructors and coordinators of work-based learning, in a real working environment with the employer, acquire competencies for working in a certain occupation or group of occupations. Amendments to the regulations governing the operation of regional training centres are currently being prepared. The establishment of a legal framework will regulate the organization and functioning of regional training centres. We are currently working on amendments to the laws regulating dual education, at the level of secondary professional education, as well as non-formal education in order to ensure a stronger connection with the economy. By the Decree of the Government of RS ("Official Gazette of the RS", No. 124/22), of November 10, 2022, the Office for Dual Education and the National Qualifications Framework was established.

Finalise, in co-operation with all relevant ministries, their agencies and stakeholders, a Youth Guarantee Implementation Plan, adopt it and initiate its implementation.

At the session held on January 13, 2022, the Government passed the Decision on the establishment of the Coordination Body for drafting and monitoring the implementation of the Youth Guarantee Implementation Plan, as well as the Expert Group of the Coordinating Body tasked with conducting preparatory activities for the development of the Youth Guarantee Implementation Plan.

In accordance with the Guidelines for the Preparation of the Youth Guarantee Implementation Plan, on January 31, 2022, the Youth Guarantee Coordinator was established as a special working group within the Ministry of Labour, Employment, Veteran and Social Affairs. A bilateral meeting was held with the European Commission, ILO and ETF.

The meeting of the Youth Guarantee Coordinators of the Western Balkans economies with the representatives of the EC, ILO and ETF was held on February 1, 2022, in order to review the progress in all economies and exchange experiences.

Introductory workshop of the Coordination Body and Expert Group "Establishing the Youth Guarantee in Serbia" was held on February 3, 2022. Key characteristics and steps, roles,

responsibilities and time frame of the Youth Guarantee scheme were presented, as well as key characteristics of NEET youth in Serbia based on an analysis prepared by the ILO.

Between March and September 2022, with the aim of establishing the Youth Guarantee in Serbia and drawing up the Implementation Plan, several meetings were held at all levels: with the Delegation of the European Union, experts of the International Labour Organization, two meetings of the Expert Group of the Coordination Body, as well as meetings with representatives Ministry of Youth and Sports, Ministry of Economy, Ministry of Agriculture, Forestry and Water Management, Ministry of Education, Science and Technological Development and Agency for Qualifications, National Employment Service, civil society organizations.

After the meetings and extensive consultations with partners on the planned reforms and initiatives, the first draft of the Implementation Plan was prepared in June 2022, which was revised in September, based on the comments and suggestions of the Expert Group.

Given that the new Government was formed at the end of October 2022, that new ministries and institutions were formed within it, that the responsibilities of the actors recognized in the implementation of the Youth Guarantee were changed, the procedure for amending the Decision on the establishment of the Coordination Body for drafting and monitoring the implementation of the Youth Guarantee Implementation Plan was launched. Also, with the setting up of the new Government, there have been personnel changes in the Ministry of Labour, Employment, Veterans and Social Affairs, and as a result it is expected that a new Coordinator for Youth Guarantees will be appointed.

It is expected that the Implementation Plan of the Youth Guarantee of the Republic of Serbia for the period 2023-2025 will be completed by the end of the first quarter of 2023 and adopted by the end of the second quarter of 2023.

3. MACROECONOMIC FRAMEWORK

3.1. ESTIMATES OF THE INTERNATIONAL ECONOMIC ENVIRONMENT

The global economy faces numerous turbulent challenges. The highest rate of inflation in the last few decades, the tightening of financial conditions in most regions, the armed conflict in Ukraine and the long-term uncertainty have consequences for the global economy prospects. International financial institutions have revised their expectations for the global economic recovery downwards compared to their previous estimates. The conflict in Ukraine continues to negatively affect the region, but also more widely, due to the consequences of sanctions against Russian Federation (hereinafter Russia), which destabilize the energy market, leading to price shocks and interruptions in gas exports to EU countries. The normalization of monetary and fiscal policy that provided unprecedented support during the pandemic is now dampening aggregate demand as policymakers aim to bring inflation under control. The prospects for the global economy largely depends on the successful implementation of weighed monetary policy, the course of the conflict in Ukraine and potential further disruptions on the supply side caused by the pandemic. Inflation is expected to peak at the end of 2022, but it will take longer than previously expected to stabilize. The priority of the fiscal policy should be the protection of vulnerable groups through targeted short-term support in order to alleviate the burden of the cost of living crisis felt around the world. In People's Republic of China (hereinafter, China), frequent “lockdowns” due to the zero-tolerance policy of COVID- 19 (hereinafter pandemic) have further slowed down economic activity, and the real estate sector is facing an accelerated weakening. Given the size of the Chinese economy and its importance to global supply chains, this will have a significant negative impact on global trade and economic activity. In order to mitigate the materialization of greater risks, intensive international cooperation, finding a peaceful solution to the Ukrainian conflict, harmonizing monetary and fiscal policy, as well as long-term solutions to climate problems are necessary.

After the pandemic, the global economy continues to face sharp challenges arising from the conflict in Ukraine, the rising cost of living caused by persistent and increasing inflationary pressures, as well as the slowdown in economic growth in China. According to the IMF's October projections, global growth will be 3.2% in 2022, which is 0.4 pp less compared to the April projection, while for the year 2023, economic growth was revised downwards by 0.9 pp and will amount to 2.7%. A significant number of countries, which account for more than a third of world GDP, face a “technical recession” in 2022 or 2023. The main reasons for revising the projected path of economic recovery are the conflict in Ukraine and the spillover effects of the crisis on other countries. Persistent and growing inflationary pressures triggered a rapid and synchronized tightening of monetary policy, with a strong appreciation of the US dollar against most other currencies. The risks to the realization of the projections are still elevated, while the implementation of appropriate policies to address the accelerated growth in the cost of living has become a serious challenge. At a time when the world economy is extremely vulnerable, the risk of applying the wrong combination of monetary, fiscal and financial policies has increased sharply. Increasing price pressures remain the most immediate threat to the current and future recovery due to the reduction of real incomes and disruption of macroeconomic stability. Although a decline in inflation is predicted in the medium term, there is a risk of its prolonged duration caused by price shocks on the food and energy market, and especially due to a possible further escalation of the conflict. Also, the reappearance of the virus and potential “lockdowns”, the worsening of the real estate crisis in China, the cessation of the delivery of Russian gas to European countries, geopolitical tensions, as well as frequent weather, climate and natural disasters, are some of the present risks to global growth and stability.

The growth of the group of developed countries for 2022 and 2023 has been revised downwards to 2.4% and 1.1%, respectively. The fall in real disposable income in the United States of America (hereinafter USA) continues to affect lower consumer demand, while the rise in interest rates further limits consumption, especially in the real estate sector. Although in 2022 the slowdown in growth in the euro area was less pronounced than in the USA, due to good results during the first half of the year, in 2023 a significant decrease in growth is expected, to 0.5%. Also, there are striking differences

in economic activity among the member countries themselves, and the predicted slowdown will hit Federal Republic of Germany (hereinafter Germany) and Republic of Italy (hereinafter Italy) particularly hard, recording a decline of 0.3% and 0.2%, respectively. In contrast to the increasing slowdown in developed economies, the growth of emerging countries is expected to be 3.7% in 2022 and to remain stable during 2023. The decline of the Russian economy is less sharp than previously predicted, due to the redirection of oil exports to Asian markets and the strengthening of domestic demand, which is supported by fiscal and monetary policy, as well as the restoration of confidence in the financial system. The appearance of new hotspots of the virus and the lockdown of the main economic centres, as well as the crisis in the real estate market, caused China to record the lowest growth in the last four decades (with the exception of 2020 due to the initial shock caused by the pandemic), while growth is expected to accelerate in 2023. The growth in the Middle East and Central Asia is forecast to be 5.0% in 2022, largely reflecting the favourable prospects for oil exporters and the unexpectedly mild impact of events in Ukraine, but will slow next year due to an expected drop in oil prices. The growth of the Latin American region has been revised slightly upwards in 2022 due to favourable commodity prices and financing conditions; however, due to the slowdown in the economies of the most important foreign trade partners and the tightening of monetary policy, growth is expected to weaken in 2023.

According to the autumn forecast of the European Commission (hereinafter EC), economic activity in the euro area has been at a turning point and severely affected by the factors such as the conflict in Ukraine and the sudden inflation jump. After the growth of GDP in 2022 of 3.2%, the economic growth will slow down to 0.3% in 2023, followed by a slight recovery at 1.5% in 2024, when the containment and normalization of inflation is expected. The risks to the realization of the projection are extremely high and relate to the potential escalation of the armed conflict in Ukraine, the availability and prices of energy resources (especially gas) and supply difficulties and the creation of bottlenecks on the supply side.

With the improvement of the epidemiological situation and the relaxation of restrictive measures, the growth of private consumption and the reduction of household savings in the EU led to GDP growth in the first half of the year. The sharp jump in demand mostly favoured service industries such as tourism, but it continued in industrial branches as well. On the other hand, multiple shocks in the form of price pressures, reduction in household purchasing power and uncertainty will lead to a decline in economic activity in the last quarter of 2022. It is also expected that at the beginning of 2023, the EU will enter a technical recession, which, although it will not be particularly pronounced, may affect a larger number of member countries. Economic indicators confirm these predictions, supported by strong inflationary pressures, tightened financing conditions and an uncertain external environment.

Due to the effects of the aforementioned unfavourable factors, the euro area growth projection for 2023 has been revised significantly downwards compared to the previous one, from 2.3% to 0.3%. A drop in the inflation rate is expected for 2024, which, along with the expected strong growth in wages, will push the growth of private consumption and thus lead to a moderate recovery. The revision of Germany's GDP growth projection to -0.6% in 2023, (a deterioration of as much as 3.0 pp compared to the spring projections), can be explained by a significant drop in the private consumption of the population and an overall rise in prices. The Italian economy will record growth of 3.8% in 2022, while economic activity will be significantly slower in 2023 due to energy price shocks and the reduction in the volume of investments.

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

	Current projection ¹			Previous (spring) projection ¹		Previous (autumn) projection*	
	2022	2023	2024	2022	2023	2022	2023
GDP	3.2	0.3	1.5	2.7	2.3	4.3	2.4
Private consumption	3.7	0.1	1.5	3.2	2.6	5.5	2.2
Government consumption	1.4	0.3	0.8	0.8	0.5	0.9	0.8
Gross fixed capital formation	2.8	0.5	2.3	3.1	3.6	4.4	3.9
Exports	6.6	2.0	3.4	5.2	4.7	7.3	5.2
Imports	6.8	1.9	3.5	5.2	4.8	7.2	5.1
Employment	1.8	0.1	0.5	1.3	0.8	1.0	0.7
Unemployment rate, labour force percentage	6.8	7.2	7.0	7.3	7.0	7.5	7.3
Inflation	8.5	6.1	2.6	6.1	2.7	2.2	1.4
Unit labour costs	3.0	4.8	2.7	2.3	2.1	0.2	1.0
General government fiscal result, % GDP	-3.5	-3.7	-3.3	-3.7	-2.5	-3.9	-2.4
General government gross debt, % GDP	93.6	92.3	91.4	94.6	92.6	97.9	97.0
Current account balance, % GDP	1.5	1.9	2.4	2.4	2.9	3.2	3.4

Source: EC, Autumn forecast, November 2022

¹ Projections refer to 20 euro area countries (including the Republic of Croatia), except for the item "Current account balance, % GDP", which refers to 19 euro area countries.

* EC, Autumn forecast, November 2021. The projection refers to 19 euro area countries.

Although the recession is slowly looming, the EU economy is supported by the strongest labour market in the last few decades. Unemployment rates are record low, and activity and employment rates are record high. Demand for labour will definitely react to the slowdown in economic activity, albeit with a certain delay. The EU unemployment rate is therefore forecast to increase only slightly from an all-time low annual average of 6.2% in 2022 to 6.5% in 2023, before falling again to 6.4% in 2024. Earnings increased at above-average rates in 2022 and this trend is expected to continue, but in 2023 the growth rate will remain below the inflation rate.

Price pressures continued to intensify, and inflation reached new records. Inflation in the euro area accelerated further during the third quarter, reaching 10.6% in October, which is a new historical maximum. Energy continues to make the main contribution to overall inflation, food prices are growing strongly at the same time, and the depreciation of the euro has also contributed to the further spread of price pressures. As the rise in prices spilled over and encompassed other goods besides food and energy, there was a noticeable shift in focus to base inflation, which recorded significant growth and became the main source of inflationary pressures. The inflation rate in the euro area is expected to record a maximum in 2022, and then a gradual decline and normalization is forecast due to the strong influence of the base effect and lower energy prices during 2023 and 2024 (6.1% and 2.6%, respectively).

Faced with persistent inflationary pressures, the tightening of the monetary policy is expected to continue. The European Central Bank (hereinafter ECB) has raised the reference interest rate four times since the beginning of the year, and the most recent increase in December 2022 reached a level of 2.50%. In line with market expectations, it is assumed that the ECB will continue to increase the reference interest rate during 2023.

Strong nominal growth in the first three quarters and the gradual withdrawal of support related to the pandemic led to a further reduction of the fiscal deficit of the general government in 2022, despite new measures adopted to mitigate the impact of rising energy prices on households and businesses. After the reduction to 4.6% of GDP in 2021, it is predicted that the general government deficit in the EU will further decrease, by more than 1 pp in 2022. As the economic activity weakens, there will be an expansion or introduction of new discretionary measures to mitigate the impact of high energy prices, and the EU deficit for 2023 will increase, but only by about 0.2 pp to 3.6% of GDP. In 2024, it is predicted that the total deficit in the EU will decrease to 3.2%, due to the projected recovery of economic activity. High inflation supports the reduction of the share of debt in GDP in the short term, and the growth of the GDP deflator will have a significant impact on the predicted decline in public debt (from a record 99% in 2020 to around 91% in 2024 in the euro zone).

There are significant risks and uncertainties regarding the realization of the projection. One of the main risks relates to the further development of the situation in Ukraine, the escalation of which would lead to strong negative consequences for European and global economic activity. The consequence of the current events in Ukraine are also the unfavourable developments on the gas market and the associated risk of large shortages, which can be especially pronounced during the winter. Apart from gas, the EU is still directly and indirectly exposed to shocks on the goods market due to high inflation. The formation of a spiral of wage and price growth, along with the potential insufficient adjustment of financial markets to high interest rates, also represent a risk factor. In addition, an additional risk is represented by the potential conflict between the goals of monetary policy, which would oppose inflation, and fiscal policy, which would continue to be expansive. Pandemic risks are still present, as is the global threat of unstoppable climate change.

3.2. RECENT ECONOMIC DEVELOPMENTS

Real sector. Macroeconomic trends at the beginning of 2022 were generally at the projected level, but the outlook worsened as a result of the new global shock caused by the conflict in Ukraine and additional escalation in recent months. Although the solid economic growth was achieved in the first two quarters of 2022, in this period there were no significant negative effects of geopolitical events on the dynamics of domestic economic activity. However, the additional escalation of conflicts and the tightening of international economic and political relations, accompanied by record energy prices and the consequent reduction in global trade and foreign demand, began to reflect on domestic economic activity over time.

According to Statistical Office of the Republic of Serbia, GDP growth in the first quarter of 2022 was 4.3% y-o-y while in the second quarter an increase of 3.9% was recorded, which resulted in an average growth of GDP in the first half of the year of 4.1%.

Viewed from the production side, economic growth in the first half of 2022 was led by the service sector. The increase in economic activity was recorded in all service activities, and the most significant contribution came from trade, transport, tourism and ICT services, which determine about half of the total GDP growth in this period. Despite the significantly lower volume of electricity production, the total industrial production recorded a positive contribution, recording an increase of 3.3% y-o-y, as a result of good developments in the manufacturing sector and mining due to the effect of investments from the previous period. A slight negative contribution to economic growth came from construction partly due to the high base from the same period of the previous year, but also due to a strong increase in the price of construction materials. Unfavourable agro-meteorological conditions were reflected in the below average agricultural season, so a 5.3% drop was recorded in this sector in the first two quarters.

Observed by aggregates of use, GDP growth in the first half of 2022 was entirely driven by domestic demand, while the contribution of net exports was negative. The increase in the disposable income of the population primarily as a result of favourable trends in the labour market, along with significantly better epidemiological conditions, was reflected in the strong growth of private consumption, which amounted to 5.3% y-o-y. Despite the unfavourable developments in the international environment, investments recorded a positive contribution with a growth of 1.4%. The effect on the supply side, along with solid external demand in this period, resulted in real export growth of 19.9% y-o-y. At the same time, the import activity recorded a strong growth of about 22.3% due to the increased import of raw materials for the needs of the economy, as well as energy sources in order to ensure the security of supply to domestic consumers and ensure a certain level of stocks for the winter period. At the same time, this was reflected in the significant positive contribution of inventories to GDP growth.

The monthly dynamics of economic activity continued to grow year-on-year and during the summer months, but as expected, due to the negative impact of the conflict in Ukraine, at lower rates than in the first half of the year. This is confirmed by the Indicator of Economic Activity (IPAS), which the Ministry of Finance prepares for the purposes of reviewing the monthly dynamics of total economic activity, according to which GDP growth in July, August and September amounted to 1.1% y-o-y, 2.1% y-o-y and 0.8% y-o-y, respectively. The slower dynamics of the economy in this period is a

consequence of the smaller volume of industrial production, which recorded a decline of 1.6% y-o-y in July and a modest growth of 0.3% in August, only to enter the negative zone again in September (0.3%). It is also the consequence of a smaller positive contribution of the service sector due to the slower growth of certain service activities compared to their dynamics during the first half of the year. Construction activity continued in this period at a slower dynamics that began in early 2022, while unfavourable agrometeorological conditions during the summer additionally influenced an even greater decline in agriculture than originally estimated. Slower economic dynamics in the third quarter of 2022 was also confirmed by the flash GDP estimate of the Statistical Office of RS, according to which the economic growth was estimated at 1.1% y-o-y. Thus, in the first nine months, according to the estimate of the Ministry of Finance, the economic growth was 3.0%.

The solid dynamics of industrial production continued during 2022, but with a present slowdown during the third quarter. In the first nine months, total industrial production increased by 1.9% y-o-y despite the reduced volume of electricity production of 11.5% y-o-y. This was significantly contributed by the solid growth of the manufacturing industry of 2.7%, as well as the increase in mining production of 25.0%. In these two sectors, there are significant effects on the supply side due to the implementation of foreign direct investments (FDI) from the previous period and the activation of new production capacities. However, the tightening of geopolitical relations and the materialization of negative risks from the international environment caused the industrial activity to enter the negative zone during the third quarter, achieving a drop of 0.5% y-o-y, followed by a drop in the manufacturing industry of about 1%, as well as by a smaller positive contribution from mining due to the depletion of the influence of the low base from the same period the previous year. The production of electricity is still lower year-on-year, but stabilized and during September it remained at an unchanged level compared to the same month of the previous year. Observed by divisions of the manufacturing industry, the growth was achieved in 14 out of 24 industries in the first nine months. The most significant positive contribution to the year-on-year growth of this sector came from the oil industry (growth of 16.6% y-o-y), defining three fifths of the total growth. The activity of other transport equipment has been growing since the beginning of the year, with the volume of production in the first nine months being higher by 47.4% y-o-y. In the same period, the industry of machinery and equipment recorded a growth of 8.6% y-o-y, while paper production increased by 9.8%. In addition, the physical volume of the pharmaceutical industry is higher by 6.4% y-o-y, with significantly slower growth during the third quarter. These four activities provided an approximately equal positive contribution to the movement of the manufacturing industry, accounting for slightly more than half of the total growth of this sector.

The favourable dynamics of the service sector continued during 2022, but with slightly slower movements during the third quarter compared to the first half of the year. In the first nine months, the retail trade turnover increased by 7.1% in real terms. This was contributed by the growth of the population's disposable income, primarily due to the growth of real wages and employment supported by additional benefits to certain categories of the population, but it is also partly a consequence of impulse buying following the outbreak of the conflict in Ukraine. Despite rising prices, there was a noticeable increase in consumer demand for motor fuel and food products (food, beverages and tobacco), so that the turnover of these categories was in real terms higher by 13.4% and 2.8% y-o-y respectively, while the turnover of non-food products increased by 9.0%. The sector of information and communication technologies, which grew strongly during the two pandemic years, achieving a cumulative growth of gross value added (hereinafter GVA) of 14.1%, continued with good dynamics in the first half of the year (growth of 5.1% y-o-y). In addition, the export of services is continuously growing, driven by the increasingly important role of the ICT sector, whereby its export in the first nine months was higher by 45.1% y-o-y. Transport activity measured by the physical volume index in the first half of 2022 is 23.4% higher year-on-year, with growth in passenger and freight transport by 39.7% and 7.9%, respectively. After two extremely difficult pandemic years, tourism activity continues to recover during 2022. In the first 11 months, the total number of tourist arrivals and overnight stays increased year-on-year by 53.9% and 36.5%, respectively, followed by the growth in the activities of domestic and foreign tourists. The foreign currency inflow from tourism also increased, so that in the first 11 months of 2022, the export of tourist services was 51.6% higher year-on-year.

Despite the achievements at the beginning of 2022, which were generally at the projected level, and bearing in mind the additional deterioration of international economic and political relations, the deepening of the energy crisis, as well as the slower dynamics of high-frequency indicators during the third quarter and the agricultural season significantly weaker than previously expected, the Ministry of Finance revised the GDP growth projection for 2022 downwards to 2.5%. Observed by aggregates of use, economic growth in 2022 and in the new estimate will be entirely driven by domestic demand. The still present favourable trends in the labour market accompanied by the growth of employment and real wages supported by one-off benefits to the population will be reflected in a stable growth of private consumption of almost 4%, while the contribution of government consumption will remain almost neutral. Growing geopolitical tensions and investors' aversion to risk, along with the increase in input prices, affect the slower growth of fixed investments than previously projected, hence stagnant movements are now expected instead of the previously estimated growth. The realization of FDI from the previous period and the associated significant effect on the supply side will result in higher exports by 12.3%, despite slightly lower external demand than previously expected and restrictions on the export of certain products. On the other hand, the increased import of energy and raw materials is reflected in the higher growth of real imports in 2022, which according to the new projection amounts to 12.8%. Observed from the production side, extremely bad agrometeorological conditions during the summer months were reflected in significantly lower yields of corn, sugar beet and soybeans, so the original assessment of agricultural production, which assumed an average season and growth of 0.5%, was corrected downwards to -8.0%. Trends more unfavourable than originally expected will also be recorded in the construction industry, primarily as a result of growing global uncertainty and a smaller volume of private investments, but also due to a strong increase in the price of construction materials. Despite weaker external demand, industrial production will provide a positive contribution to GDP growth in 2022, but to a lesser extent compared to previous expectations. The service sector retains its role as the dominant source of economic growth in the new projection, primarily as a result of solid trends in the trade, transport, tourism, as well as ICT and financial services sectors.

Labour market. The trends in the labour market largely remained resistant to the slowdown in the dynamics of economic activity, primarily due to the macroeconomic stability established in the previous period. Thus, positive trends continued in 2022, which are primarily reflected in the growth of employment and earnings, but at a somewhat slower pace, under the influence of geopolitical tensions. According to data from the Central Register of Mandatory Social Insurance, in the period January-September, the average number of employees was 1.6% higher, compared to the same period of the previous year, which was primarily the result of an increase in employment in the private sector by 1.9 %, while in the public sector the growth was 0.9%. At the same time, the strongest sectoral contribution to employment growth comes from ICT, administrative-service and scientific-technical activities. According to the data of the National Employment Service, in the same period, the number of people actively looking for employment decreased by 13.0%. According to data from the Labour Force Survey in the second quarter of 2022, the unemployment rate (15 and above) was 8.9%, which is lower if compared to the same period in 2021 when it was 11.1%, while the rate of the population outside the labour force decreased by 1.5 pp. At the same time, total employment was higher by 4.3%, with formal employment growing by 74.9 thousand and informal employment by 47.5 thousand people. In addition to the significant reduction in the unemployment rate and the growth in the total number of employees, structural improvements in the labour market were also recorded. The position of the more sensitive categories of the population, i.e. the population of young people and women, has improved. Thus, the youth unemployment rate decreased from 22.2% to 18.7%, while the unemployment of the female population decreased by 1.6 pp to 10.2%. Also, the long-term unemployment rate decreased by 0.9 pp, to 4.5%. In the same period, there was also an increase in the employment rate in the informal part of the economy by 1.1 pp, to 14.3%. In the period January-August, the average net wage was 73,265 dinars, which is a real increase of 3.0%, y-o-y, and represents a slightly slower growth compared to the previous period.

The growth of wages was entirely determined by the growth of wages in the private sector, which in the same period amounted to 5.4%, in real terms. The increase in the minimum wage by 9.4% to 201.22 dinars per working hour from 2022 also affected the general increase in wages. Despite the increase in wages in the public sector introduced by the Government's decision in the range of 7% to 8%, their nominal growth was completely neutralized by the growth of inflation, so that in real terms a decrease of 2.6% was recorded. Observed by activities, the most significant wage growth was in ICT, trade and scientific and technical activities.

External sector. During the first nine months of 2022, the current account deficit was around EUR 2.8 billion (6.5% GDP) and was almost entirely financed by the net inflow of foreign direct investments (99.2% coverage). The rise in global prices of energy products, and partly the larger quantity of imports needed to ensure energy security, led to an increase in the current deficit by 1.5 billion euros compared to the same period in 2021. At the same time, an increased commodity deficit (by 2.3 billion euros y-o-y), which was entirely the result of higher energy imports, as well as the growth of the primary income deficit (by 0.6 billion euros y-o-y), were partly compensated by the growth of the surplus of secondary income (by EUR 1.2 billion y-o-y) and services (by EUR 0.3 billion y-o-y).

Despite the slowdown in external demand, the exports of goods and services continued to achieve high growth rates in 2022, primarily due to the investments in tradable sectors from the previous period. Exports of goods during the nine months of 2022 recorded a growth of 29.4% y-o-y³, and the largest contribution came from the growth of exports of the manufacturing industry (24.8% y-o-y, 21.9 pp contribution), whereby the export growth was recorded in all 23 divisions of the manufacturing industry. Observed by markets, the recovery of goods exports was largely influenced by the growth of exports to the countries of the European Union (26.2% y-o-y, 17.1 pp contribution), CEFTA (28.1% y-o-y, 4.4 pp contribution), as well as in China (45.4% y-o-y, 1.7 pp contribution). The drivers of exports observed by an activity were: metal ore exploitation (199.3% y-o-y, contribution 5.6 pp), food products (26.1% y-o-y, contribution 2.6 pp), electrical equipment (23, 3% y-o-y, contribution 2.4 pp), chemicals and chemical products (33.9% y-o-y, contribution 2.3 pp), rubber and plastics (20.2% y-o-y, contribution 1.8 pp), as well as base metals (18.1% y-o-y, contribution 1.6 pp). On the other hand, during this period there was also a decline in exports of crop and animal production, hunting and related service activities (4.5% y-o-y, contribution -0.3 pp).

In the nine months of 2022, the import of goods increased by 35.4% y-o-y, as a result of the increase in the import of intermediate goods (growth 46.3% y-o-y, contribution 25.5 pp), which was largely influenced by the increase in global energy prices. The biggest contribution to the growth of imports came from the growth of imports of crude oil and natural gas (161.6% y-o-y, contribution 8.8 pp), chemicals and chemical products (43.3% y-o-y, contribution 4.2 pp), base metals (36.8% y-o-y, contribution 2.8 pp), coke and petroleum products (80.0% y-o-y, contribution 2.2 pp), as well as food products (30.1% y-o-y, contribution 1.5 pp). A decline in imports was recorded for metal ores (40.8% y-o-y, contribution -0.6 pp). The import of energy products amounted to 4.3 billion euros, and compared to the same period in 2021, it was 2.5 billion euros higher.

The deficit on the primary income account increased by 47.3% y-o-y, primarily due to higher outflows of income from direct investments (by 57.6% y-o-y). The increase in the surplus of secondary income (by 39.0% y-o-y) was mostly influenced by the growth of the inflow of remittances to Serbia (by 46.0% y-o-y).

A net inflow of EUR 2.3 billion was recorded in the financial account (without change in foreign exchange reserves) in the period January-September 2022. The net inflow based on foreign direct investments (FDI) in the observed period amounted to EUR 2.8 billion. The FDI inflow into Serbia amounted to EUR 3.0 billion euros, which is even slightly higher than during the nine months of the last record year. After a temporary slowdown in inflows in March and April 2022, monthly inflows of FDI into Serbia between 450 and 600 million euros have been recorded since June. The FDI inflow

³ Data on total export and import of goods are given according to the balance of payments methodology, while detailed data (by different classifications) are given according to the foreign trade methodology.

remained project-diversified, and was mostly directed to tradable sectors (over 50%). Observed by activities, the most investments were made in the manufacturing industry, construction, trade, real estate and transport. Observed by a country, the largest part of the inflow of direct foreign investments continues to come from EU countries (around 46%).

In the period January-September 2022 a net inflow of portfolio investments amounted to EUR 0.1 billion. This indicated the confidence of foreign investors in the macroeconomic fundamentals of the Republic of Serbia, given that despite the tightening of global financial conditions and greater shift of portfolio investment flows from countries on the rise to developed countries, foreign investors did not largely withdraw from dinar government securities. When it comes to financial loans, residents net borrowed EUR 1.3 billion from abroad, with the private sector net borrowing EUR 0.9 billion and the public sector EUR 0.4 billion.

The foreign exchange reserves of the National Bank of Serbia (without cross-currency changes and asset prices changes) in this period were reduced by only EUR 280.4 million and remained significantly above the level estimated to provide adequate protection against external shocks. The foreign exchange reserves in October in nominal terms increased by EUR 369 million and at the end of October they amounted to EUR 16.9 billion. This has been the highest level so far, covering about five months of imports of goods and services, close to 150% of the money supply M1 and about 287% of the debt⁴, maturing in the next year.

Exchange rate. During the first four months of 2022, depreciation pressures prevailed primarily due to the increased demand of energy importers for foreign exchange in the conditions of rising energy prices on the world market. In addition, March saw a record foreign currency cash demand by citizens due to the global uncertainty caused by the conflict in Ukraine. In order to maintain the relative stability of the exchange rate of the dinar against the euro, during the first four months, the National Bank of Serbia sold EUR 2,270 million on the foreign exchange market. Despite the continued increased demand for foreign currency by energy importers, appreciation pressures have prevailed since May, due to numerous factors: an increase in the supply of foreign currency by other (non-energy importers) domestic companies based on the FDI and exports, a high net purchase of foreign cash from authorized exchange offices and natural persons, continuing growth of euro-indexed loans, and a significant inflow of foreign currency from tourists, especially during the summer season - all in the absence of a portfolio investments outflow. From May to the end of October 2022, the National Bank of Serbia made a net purchase of EUR 2,370 million, thus fully compensating for the net sale of foreign exchange from the first four months. In ten months, the National Bank of Serbia was a net buyer of foreign exchange in the amount of EUR 100 million, and the dinar nominally strengthened by 0.2% against the euro.

As is the case in most other countries, the *inflation* in Republic of Serbia during 2022 moved on an upward trajectory and in October amounted to 15.0% year-on-year. The biggest contribution to inflation comes from food prices (7.3 pp in October), due to high global prices of primary commodities, energy, packaging, and other inputs that increase production and transport costs, as well as the negative effects of drought on the domestic market and in most of Europe. The contribution of prices from the energy group in October amounted to 2.88 pp, resulting from the higher prices of petroleum products, solid fuels, as well as the correction of regulated electricity and gas prices for households. The increased manufacturing and import prices influenced the core inflation (after excluding food, energy, alcohol and cigarettes) to record growth to 9.5% year-on-year in October, but it remained below the total inflation. The preserved relative stability of the exchange rate in extremely uncertain international circumstances continued to contribute to the lower level of base inflation.

⁴ With the situation in June 2022.

Credit activity and monetary developments. Despite the increase in borrowing costs, credit activity in 2022 continued to record double-digit y-o-y growth, which, excluding the effect of exchange rate changes, amounted to 10.7% in October. Since July, this growth has gradually slowed down under the influence of the high base from the previous year and the maturity of guarantee scheme loans that have been approved since May 2020.

The results of surveys on credit activity conducted by the National Bank of Serbia show that banks tightened credit standards for the corporates throughout the year, and for the households from Q2. The tightening of credit standards is influenced by the increase in the cost of loan funding and the increased risk aversion of banks. The corporates' demand for loans grew all the time, driven mostly by the need to finance current assets and capital investments, while the population's demand grew up to Q3 under the influence of refinancing of existing liabilities, the purchase of real estate and the procurement of consumer durables. Growth in the corporates' demand for loans is also expected in the forthcoming period, while for the households it is predicted that the decrease in demand that began in Q3 will continue until the end of the year.

A y-o-y growth in corporate loans in October was 12.7%, and their share in GDP was 23.8%, which is the same as at the end of 2021, indicating that loans grew in line with the growth of economic activity. At the beginning of the year, the growth of loans was driven by the approval and working capital loans, and investment loans, whose shares in total corporate loans in October accounted for 47.5% and 39.5%, respectively. Observed by the size of enterprises, loans granted to the segment of micro, small and medium enterprises accounted for 60.0% of total corporate loans. Driven by the approval of housing and cash loans, the growth of household loans in October amounted to 7.7% y-o-y, and their share in GDP was 21.1%. Due to the more pronounced growth, the share of housing loans in total household loans increased to 40.1% in October, while the share of cash loans decreased to 43.7%.

The dinarization of total corporate and household receivables in October amounted to 35.5% (20% in the corporate sector and 53.7% in the household sector), which is 2.8 pp lower than at the end of 2021, due to maturing of loans approved from the guarantee scheme (mostly approved in dinars), and the faster growth of euro-indexed housing loans compared to household loans for other purposes (mostly in dinars). However, compared to the end of 2012 (28.0%), i.e. the period when the dinarization strategy was adopted, it is still a significantly higher level, confirming that the dinarization strategy has yielded results.

The slowdown in the growth of credit activity will most likely continue in the forthcoming period, which, in addition to the high base, will also reflect the effects of the tightening of the monetary policy of the National Bank of Serbia and the European Central Bank (in the segment of foreign currency indexed lending). According to the estimate of the National Bank of Serbia, at the end of 2022, loans will be higher by about 9% y-o-y, and in 2023 by about 6% y-o-y, whereby a slightly larger contribution to credit growth will still come from corporate loans compared to the household loans.

Observed on y-o-y level, the slowdown in the growth of monetary aggregates, which was also present during 2021, continued in 2022, mostly as a consequence of the high base due to extensive packages of government aid to the economy and citizens in the fight against the negative effects of the pandemic, and the abstinence from consumption in the environment of the undertaken epidemiological and health measures. This was primarily reflected in the reduction of demand deposits and, partially, of citizens' dinar savings (in the period March-June) in conditions of increased global uncertainty after the outbreak of the conflict in Ukraine, so that in October the dinar monetary aggregates M1 and M2 recorded nominal y-o-y growth of 1.0% and 5.1%, respectively. The slowdown in the growth of the dinar component was also reflected in the fact that M3 (which also includes foreign currency deposits) slowed down to 8.0% y-o-y. At the end of October, dinar savings of citizens amounted to RSD 88 billion and accounted for 5.6% of total savings (compared to 1.9% at the end of 2012). The dinarization of corporate and household deposits in October amounted to 38%, compared to 19.3% at the end of 2012.

Financial sector. There were no significant changes in the structure of the financial system of the Republic of Serbia during 2022 - the banking sector is still dominant with a share of over 90% in the total assets of the financial sector. As of 30 September 2022, the banking sector of the Republic of Serbia included 22 banks, of which 17 are majority-owned by foreign persons (members of banking groups from 12 countries), 2 banks are majority-owned by the Republic of Serbia, while 3 banks are majority-owned by domestic legal entities. The market is dominated by banks majority owned by foreign persons, which account for 83.9% of total balance sheet assets, 87.4% of total gross loans and 82.7% of total deposits of the banking sector. The values of Herfindahl-Hirschman Index (HHI) show the absence of the concentration in the key balance sheet categories, which indicates a high degree of competition among banks.

At the end of September 2022, the total assets and capital of the Serbian banking sector amounted to RSD 5,307 billion and RSD 713 billion, respectively. The solid capital reserves that banks have built up over the past few years have made them more resilient to the risks in the situation of still present uncertainties in the international environment. The capital adequacy ratio for the banking sector was 19.47%, and the leverage ratio (according to "Basel 3") 10.34% at the end of September 2022, which all together confirms the high solvency of the banking sector.

Liquidity reserves of the banking sector in Serbia are more than sufficient to cover potential needs for liquid assets, which is confirmed by the movement of key liquidity ratios and the maturity structure of assets and liabilities. The monthly liquidity ratio, which is calculated in accordance with domestic regulations, amounted to 2.04 at the level of the banking sector in September 2022 (the regulatory minimum is 1.0) and was around 2 throughout 2022. Liquid assets accounted for 34.77% of total balance-sheet assets and 45.10% of total short-term liabilities, while the liquidity coverage ratio (according to "Basel 3") was 166.63% at the end of September 2022.

Despite the continuing global inflation rise and increase in the cost of financing sources, and due to the stable growth trend of credit activity, the banking sector managed to maintain satisfactory profitability in 2022 as well. The total net profit before tax realized from the beginning of the year to the end of September amounted to RSD 58.3 billion, with ROA profitability ratios of 1.50% and ROE 10.85%.

Although it has implemented all the activities from its Action Plan for the Implementation of the NPL Resolution Strategy ("Official Gazette of RS", No. 72/15), the National Bank of Serbia has continued to take regulatory measures within its competence and use available supervisory instruments and mechanisms to encourage banks to solve NPLs more efficiently and establish a system to prevent their re-accumulation. Also, in accordance with the *Decision on Accounting Write-off of Bank Balance Sheet Assets*, which is applied from 30 September 2017, banks are obliged to transfer to off-balance sheet records all NPLs that are fully impaired.

Seven years after the adoption of the Strategy for Solving Problem Loans ("Official Gazette of RS", No. 72/15), the share of NPLs in total gross loans of the banking sector decreased by 19.06 pp to 3.19%, as it was at the end of September 2022. This has been the lowest level so far and it indicates that even after the cessation of the application of numerous measures of monetary and fiscal incentives undertaken in the first phase of the pandemic, there was no increase in the indicators of problem NPLs. The balance of gross NPLs decreased by 74.87% in the same period (from RSD 427.3 billion to RSD 107.4 billion). The most significant channels for reducing NPLs were the direct write-off and sale of receivables, and since 2022, the payment as well (full or partial, if the conditions for exiting the problematic status are met). Since September 2022, the total reduction of NPLs due to direct write-offs amounted to RSD 243.3 billion and is present in all banks. The total amount of receivables sold since the introduction of the Strategy amounts to RSD 100.9 billion⁵. At the end of September 2022, the share of NPLs in total loans to the economy amounted to 2.70%, while their share in total loans to individuals was 4.14%. At the end of September 2022, 57.15% of NPLs were covered by provisions s made in accordance with International Financial Reporting Standards. The concentration risk indicator introduced at the end of 2018 with the aim of reducing the share of cash,

⁵ Calculated on the basis of data from the NPL 3 report that banks submit to the National Bank of Serbia.

consumer and other non-purpose loans to the households, with longer maturities in regulatory capital and long-term liabilities, as well as with the aim of encouraging the practice of sustainable lending to the households, was reduced at the level of the banking sector by nearly 17 pp in the period January 2019 - September 2022 (from 25.19% to 8.23%).

The National Bank of Serbia regularly reviews the obligation to maintain capital buffers that limit systemic risks in the financial system of the Republic of Serbia. In March 2022, the National Bank of Serbia reviewed the obligation to maintain the systemic risk buffer. It was decided that the obligation to maintain the aforementioned the systemic risk buffer should be kept at the level of 3% of the bank's total foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic of Serbia. The capital buffer for systemically significant banks is reviewed at least once a year. In June 2022, nine banks were identified as systemically important for the domestic economy⁶, five of which are required to maintain additional Common Equity Tier 1 in the amount of 2% of their risk-weighted assets, and the remaining four in the amount of 1% of their risk-weighted assets.

The analysis of credit activity when determining the rate of the countercyclical capital buffer rate as of June 2022 indicates that the credit activity measured by the share of total real loans in real GDP is slightly below its long-term trend (-0.002 pp). At the same time, the results of the analysis show that there is no excessive credit growth neither in the corporate, nor in the households sector. In September 2022, the National Bank of Serbia decided to keep the rate of the countercyclical capital buffer rate at the level of 0%, as to mitigate the consequences of increased inflationary pressures and the global tightening of monetary policies on the domestic financing conditions of the corporate and the household sector. In September 2022, the banks maintained a total of RSD 185.1 billion of Common Equity Tier 1 capital, or 5.8% of risk-weighted assets, for the purpose of all prescribed capital buffers (combined buffer requirement).

Most of the measures adopted during 2020 and 2021 in order to preserve the stability of the financial system and support the economy and citizens in condition of pandemic were implemented until December 31, 2021. Until the end of 2023, only regulatory options provided for in the Decision on Temporary Measures for Banks to facilitate access to financing for natural persons ("Official Gazette of RS", Nos. 108/22, 119/21 and 137/22), were extended. They included the encouragement of facilitated access to housing loans with regard to the real estate with a lower level of construction, the possibility of extending the repayment period of housing loans for maximum of five years from the maturity date of the final instalment of that loan, and temporary facilitation of the procedure for the population's access to short-term dinar loans up to a certain amount.

Bearing in mind the various negative factors from the international environment, the application of measures that discourage the approval of new, non-purpose and non-investment, foreign exchange-indexed loans and foreign currency loans to debtors from the non-financial and non-state sector in the part related to the bank's capital, was postponed for an additional 12 months, by adopting the Decision amending to the Decision on Capital Adequacy of Banks in June 2022.

With the aim of enabling banks to mitigate the negative effects of changes in the prices of securities on capital, caused by disruptions in the global financial markets, the ***Decision on a temporary measure regarding the calculation of bank capital*** ("Official Gazette of RS", No. 72/22, and 124/22), was adopted in June 2022. The temporary measure refers to debt securities issued by the RS, an autonomous province or a local government unit of the RS, which are measured at fair value through other comprehensive income in accordance with IFRS 9. In addition to enabling the mitigation of the negative effects of changes in the price of securities on bank capital, the aim of the mentioned measure is to encourage banks to keep the purchased securities in their portfolios, as well as to encourage new investments in the mentioned securities. The temporary measure makes it possible to exclude 70% of the net unrealized losses and gains resulting from the valuation of the aforementioned debt instruments from the calculation of the CET1 until the end of 2022. Banks will

⁶ In accordance with the Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and Capital Buffer Rates for Those Banks from June 16, 2022.

be able to apply the mentioned temporary measure in the period from June 30, 2022 to December 31, 2023.

Considering the fact that in the period from January 1, 2021 the majority of banks operating in the Republic of Serbia significantly increased the price of the payment services they provide, especially services based on payment accounts, in order to avoid potential legal risks and protect citizens' standards, as well as to preserve the achieved stability of the financial system, the ***Decision amending to the Decision on risk management by banks*** ("Official Gazette of RS", No. 89/2022), was adopted in August 2022. Among other things, being an additional control mechanism for the actions of banks, in the event of an intended increase in fees for the provision of payment services, as well as when introducing new compensation, this Decision ensured that the National Bank of Serbia is informed in a timely manner about the planned changes to the banks' tariffs, thus enabling the timely identification of whether the banks' behaviour is appropriate, and the undertaking of appropriate activities.

In accordance with its established practice of preventive and timely reaction to all potential challenges from the international and domestic environment, and starting from the economic situation in which certain agricultural producers found themselves, as well as the strategic importance of agricultural production for citizens and the economy, the National Bank of Serbia adopted the ***Decision on temporary measures for banks aimed at adequate management of the credit risk in agricultural loans portfolio in conditions of aggravated agricultural production*** ("Official Gazette of RS", No. 11/22) in October 2022. This decision enabled the debtors of the bank from the agriculture segment (under the prescribed conditions related to the status of claims against that debtor) to reschedule their existing obligations.

By establishing the **instant payment system** - the IPS NBS system, the National Bank of Serbia enabled small payments to be made in real time 24/7/365. In addition to the development of the infrastructure for accepting instant payments at the merchants' points of sale via acceptance at POS terminals, the development of mobile applications for merchants and the development of internet sale points, the National Bank of Serbia, in order to provide additional support to the development of the *e-commerce* market and to further popularize electronic payments in the country improved the instant payment service on the Internet by implementing *deep-link* technology, thus enabling customers to complete the entire shopping process using only one device (e.g. mobile phone). Payment of invoices to issuers of a large number of invoices has also been made easier by scanning the NBS IPS QR code on bills/invoices, without going to the bank, which proved to be particularly effective during the pandemic. From September 2021, banks will be able to offer their users a new "Transfer" service, which enables citizens to send and receive funds simply, quickly, and securely just by using the payee's mobile phone number. Instant payment of fees and charges for services provided by public administration bodies on the eAdministration portal was also made possible by scanning the NBS IPS QR code from a single payment slip, thus contributing to the further digitalisation of public administration and the efficiency of public service provision.

In recognition of global trends, the Republic of Serbia adopted the **Law on Digital Assets**, ("Official Gazette of RS", number 153/20), which regulates in detail the issuance and secondary trading of digital assets, including the operation of platforms for trading virtual currencies and their exchange for money. This law regulates the business of persons who perform operations with digital assets in the Republic of Serbia, with the aim of regulating matter that has not been regulated in our country until now, except in the area of preventing money laundering and financing of terrorism in the case of service providers related to virtual currencies. The law began to apply on June 29, 2021.

3.3. MEDIUM - TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, the cumulative growth rate in the period 2023–2025 will amount to 10.3% and will be determined by the growth of domestic demand, and with the recovery of global trade it will also be supported by a slight positive contribution of net exports. This source of growth is determined by both the permanent increase in investment and the growth of household consumption due to the growth of the living standard of the population. On

average per year, the Serbian economy will grow at a rate of 3.3%, which is a downward revision of 0.9 pp compared to earlier expectations due to the assessed impact of events in the international environment. The increase in real private consumption will follow the growth of the economic activity and will average 3.0%. The stable growth of fixed investments is expected, though slower than previously projected and will average 4.5% per year. With the recovery of foreign demand and the activation of new production capacities, the volume of foreign trade will increase too. In addition, the effect of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while on the other hand, new sales channels will be activated and new market niches will be opened. Exports will grow at an annual rate of 8.1%, which is faster than the expected annual growth of imports, which will average 6.5%.

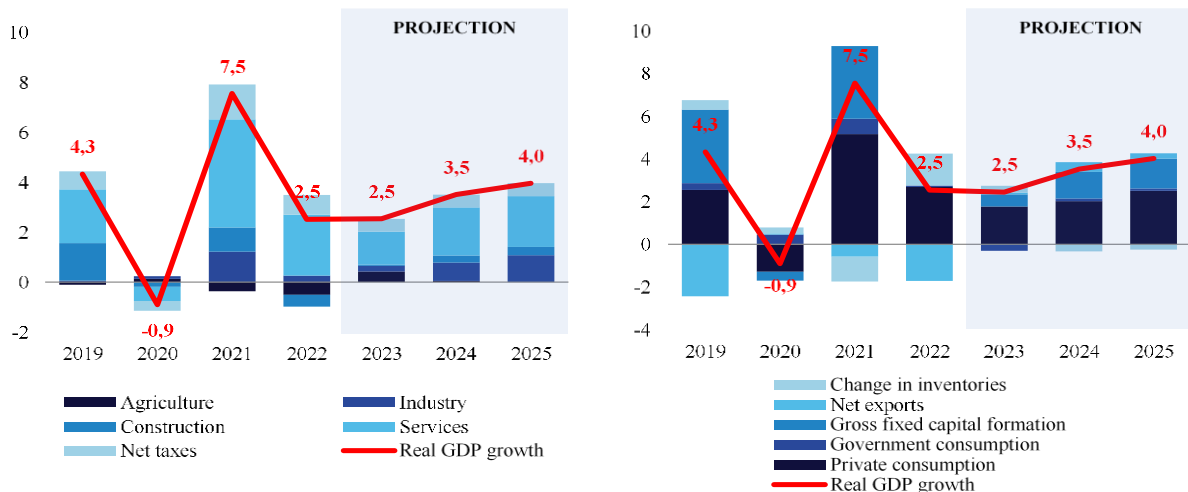
Table 2. Projection of basic macroeconomic indicators of the Republic of Serbia

	Estimate	Projection		
	2022	2023	2024	2025
GDP, billion dinars (current prices)	7,082.5	8,025.1	8,776.3	9,519.4
Real GDP growth, %	2.5	2.5	3.5	4.0
GDP deflator, %	10.2	10.6	5.6	4.3
<i>Real growth of individual components of GDP, %</i>				
Private consumption	3.9	2.5	2.9	3.6
Government consumption	0.4	-2.0	0.8	0.8
Gross fixed capital formation	0.0	2.4	5.2	5.8
Exports of goods and services	12.3	4.9	8.8	10.6
Imports of goods and services	12.8	4.0	6.8	8.8
Balance of goods and services, in EUR, % GDP	-12.2	-10.9	-9.4	-8.4
Current account balance, in EUR, % GDP	-9.0	-8.5	-6.7	-6.0
Inflation, period average, %	12.0	12.5	5.3	3.0

Source: Ministry of Finance

Viewed on the supply side, the service sector and industry will retain the role of dominant sources of growth and increase the generated GVA with average annual growth of 3.5% and 3.4%, respectively. A positive contribution will also come from the growth of construction activity, which will average 4.0%. Achieving European standards and raising competitiveness in agriculture will reduce the variability of production in this sector caused by agro-meteorological conditions.

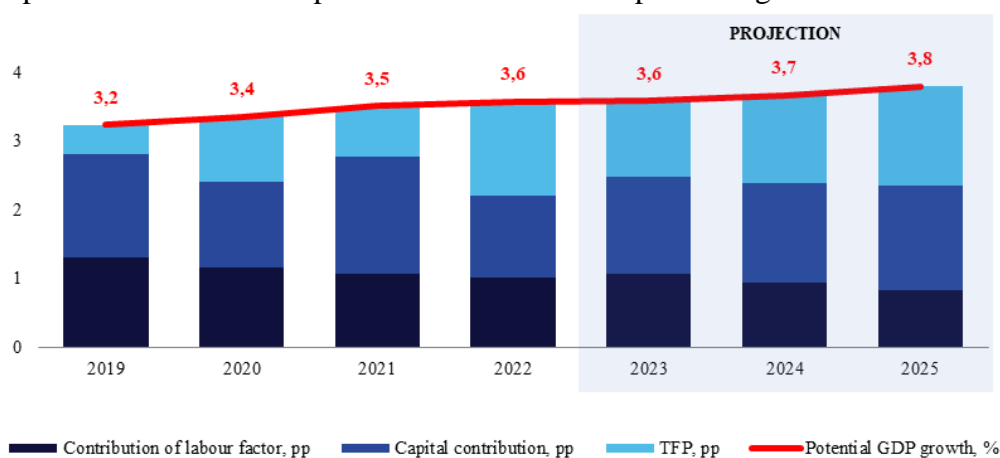
Graph 1. Contributions to the real GDP growth rate, production and expenditure approach, pp



Even with this three-year scenario, the Government remains committed to maintaining a model of economic growth based on investment and exports, which is supported by the growth of private consumption on real and healthy sources. The acceleration of all administrative procedures, tax relief of the economy in order to increase its competitiveness, signing agreements to ensure the preservation of existing and opening of new foreign markets, more intensive and efficient infrastructure works, maintaining energy stability, and implementation of green agenda projects are just some of the measures to provide sound foundations for GDP growth in the growing geopolitical tensions. The

digital transformation and construction of the digital ecosystem remain the strategic orientation of the Government. More efficient work of the state administration, shortening of procedures for the population and the economy with a focus on digitalisation will accelerate the convergence of our economy towards developed countries. The new fiscalization system and changes in customs regulations will reduce the share of the grey economy in total economic flows, thus ensuring affirmative economic environment. The FDI incentive mechanism will continue to aim at their sectoral and regional dispersion in order to ensure the conditions for even development and full utilization of comparative advantages. It is estimated that the following five structural reforms from ERP 2023-2025 will particularly contribute to economic growth based on knowledge and innovation: 3. Qualifications oriented to the needs of the labour market, 14. Establishment of infrastructure and environment for the creation and application of innovative IT solutions, 15. Support for the development of talents and creative industries by establishing a multi-functional innovative and creative centre Ložionica, 16. Development of the start-up ecosystem and 17. Creating conditions for the development of biosciences and bioeconomy through the construction of the BIO4 Campus.

Graph 2. Contributions of production factors to the potential growth rate



According to the central scenario, potential GDP growth is expected to accelerate in the medium term, but at slower pace than in the previous projection, as a consequence of the factors from international environment. Potential GDP in the period 2023–2025 will gradually increase at an average rate of 3.7%. The implementations of capital projects and the continuation of the ongoing investment cycle, supported by both stable FDI inflows and domestic innovative activities, will provide an increasingly strong contribution of capital and factor productivity to the potential GDP growth. Digitalisation will significantly speed up these processes and further increase the efficiency of the utilization of available capacities. Through significant planned investments in energy infrastructure, the Government will additionally influence the growth of the economy's potential. Adequate and synchronized monetary policy, further improvements of the financial system, increasing credibility and attractiveness among investors, transfer of knowledge and technology from the most developed countries should ensure a positive impact on both factors of production. On the other hand, strengthening the rule of law, reforming legislation in the field of economy and business, speeding up procedures and raising the efficiency of administration should ensure the maximization of factor productivity in the medium term. Favourable labour market developments will also contribute to the growth of potential GDP.

Labour market. The labour market is expected to maintain a positive trajectory of development, but at a slower pace, primarily due to the weaker growth of economic activity, and as a consequence of great uncertainties due to the conflict in Ukraine. In addition to the above, positive expectations are the result of continuous work on improving working conditions, improving labour market institutions, encouraging employment and inclusion in the labour market of hard-to-employ persons, as well as support for regional and local employment policies. Also, continuous work is being done on improving the workforce in terms of quality, as well as investing in human capital, with the aim of facilitating general employment, especially in that part of the economy that has greater added value.

The success of these measures so far has been confirmed by the data on the increase in the number of employees in the period from 2014 to 2021 in the ICT sector by 31,112 and in scientific and technical activities by 26,389 persons. Policies aimed at reducing the number of employees in the grey zone and transferring them to the contingent of formal employees will be continued, which would improve their working conditions, and the positive effect would also be reflected in budget revenues. In the mid-term period, positive results are expected from active measures of training, retraining and support for social entrepreneurship, which will facilitate the availability of jobs for socially vulnerable categories and thereby additionally ensure the inclusiveness of economic growth. It is also planned to increase the scope of education based on the dual model. Taking into account all of the above, a decrease in the unemployment rate and an increase in wages are projected in the medium term; however, under the influence of the current geopolitical uncertainties caused by the crisis in Ukraine, it is expected to be at a slower pace. For the sake of economic sustainability, wage growth should be based on productivity growth. Wage growth in the forthcoming period will be supported by the a 14.3% increase in the minimum wage in 2023, as well as by the announced 12.5% increase in wages in the public sector.

Monetary policy, exchange rate policy and inflation

Since 2009, the NBS has been applying the *inflation targeting regime* as a monetary strategy. Thanks to the achieved price stability, anchored inflation expectations and a significant improvement in macroeconomic indicators and the outlook of Serbia for the next period, and above all a sustainable reduction of external and internal imbalances, the inflation target has been reduced since 2017 **to the level of 3% ± 1.5 pp and it is established at that level until the end of 2025**. This confirms the determination of the NBS and the Government of the Republic of Serbia to take measures to keep inflation low, stable and predictable in the medium term.

The main instrument for achieving the inflation target is the interest rate applied in one-week reverse repo operations, while other monetary policy instruments (credit and deposit facilities, required reserves and foreign exchange market interventions) have a supporting role.

The reserve requirement policy is formulated in such a way that the differentiation of the reserve requirement rate, depending on the currency of liabilities and maturity, stimulates dinar and longer-term sources of bank financing. For dinar sources of funds with a contractual maturity of up to two years, it currently amounts to 5% and for sources of maturity over two years 0%. The required reserve rate for foreign exchange sources of banks for the agreed maturity of up to two years is set at 20% and for maturities over two years it is 13%.

In accordance with the chosen monetary strategy, the NBS **will continue to implement a managed floating exchange rate regime**. Interventions in the foreign exchange market will be carried out in order to mitigate excessive short-term oscillations of the dinar exchange rate against the euro, preserve price stability and the financial system and maintain an adequate level of foreign exchange reserves.

In conditions of increased inflationary pressures, mainly due to the supply factors from the international environment, the process of tightening monetary conditions began in October 2021. From October to April 2022, the National Bank of Serbia tightened monetary conditions by increasing the average weighted repo rate at one-week reverse repo auctions, which withdraw excess dinar liquidity from the banking system, and by April of 2022, this rate was increased by 84 bp. Given that the average weighted repo rate almost equalled the key policy rate, the cycle of increasing the key policy rate began in April, and it was increased by 400 bp to 5% by the end of December 2022.

Increases in the key policy rate in the observed period are the National Bank of Serbia's response to greater and more persistent cost pressures than expected, primarily from the international environment, especially after the outbreak of the crisis in Ukraine, as well as to the growth of imported inflation. The aim of tightening monetary conditions is to limit the secondary effects of rising food and energy prices on other prices through inflationary expectations, as well as to prevent additional inflationary pressures from demand-side factors. Thus the National Bank of Serbia strives to ensure

that inflation in Serbia is on a downward trajectory and that it returns to the target tolerance band by the end of the projection period. At the same time, the National Bank of Serbia contributes significantly to limiting the spillover effects of import price growth on domestic prices, as well as macroeconomic stability in conditions of increased global uncertainty, by maintaining the relative stability of the dinar exchange rate against the euro.

Medium-term inflation projection. According to the November central projection of the NBS, year-on-year inflation will continue to rise slightly at the beginning of 2023, due to the correction of electricity and gas prices for households in January, when it should move on a downward trajectory. A stronger decline in inflation is expected in the second half of 2023, while it should return to the target range ($3 \pm 1.5\%$) in the second half of 2024. Cost pressures from the international environment, primarily energy prices, will continue to be transferred to consumer prices for some time. However, the fall in inflation should be influenced by the weakening of the effects of global cost pressures and the end of the transmission to retail prices, the assumed fall in global prices of primary commodities, the fall in imported inflation, as well as weaker aggregate demand and more tightened monetary conditions. The beginning of the new agricultural season should also contribute to the drop in inflation in 2023, assuming that it will be more favourable than previous year's season. The expected increase in regulated prices will act in the opposite direction.

Aggregate demand started to slow down in Q3 2022 under the influence of factors from the international environment - the slowdown in the economic activity of Serbia's most important trading partners and the tightening of financial conditions in the euro zone - but also more restrictive monetary conditions in the Republic of Serbia. According to the current projection, the output gap will continue to deepen in the forthcoming period, driven by the same factors, and will reach its lowest negative level in the middle of 2023, after which it will gradually recover.

The key risks of the inflation projection come from the international environment, and primarily relate to the effects of the conflict in Ukraine, the availability of energy sources and their prices on the world market, as well as the prospects of global economic growth, which will largely determine the global prices of primary commodities. When it comes to factors from the domestic environment, the risks of the projection mostly relate to the outcome of the next agricultural season, the inflow based on foreign direct investments, the speed of recovery of the energy sector and the dynamics of the adjustment of energy prices on the domestic market for the economy and the population, as well as possible additional measures that the Government could take to protect vulnerable categories of the population.

External sector and its medium-term sustainability

Due to FDI inflow into export-oriented sectors, supported by attained macroeconomic stability, as well as a more stimulating business environment, the diversification of exports has increased in the past few years - both in terms of products and markets. This is indicated by the decrease in the value of the *Herfindahl-Hirschman index (HHI)* by products from 0.22 in 2013 to 0.20 in 2021, and by partner countries from 0.26 to 0.22. In spite of the difficult situation in trade in goods due to the escalation of geopolitical tensions and the crisis in Ukraine and the introduction of temporary measures banning the export of certain products, as well as present delays in global supply chains, which was reflected in shortages of certain inputs in production, the degree of concentration observed both by products and by country in nine months of this year, remained almost unchanged (0.20 and 0.23, respectively).

Broken by *processing stages*, in the structure of goods exports, the products of the middle stage of processing have the largest share in the first nine months of 2022 (30.7%). Resource based products are in second place (30.1%), followed by products of lower stages of processing with a share of 20.0% (flat-rolled products, furniture, plastic products, footwear), while primary products accounted for 11.0% of total exports. The share of high-technology products (mainly electrical machines) in total exports was 6.4% during the first nine months in 2022, which represents a growth of almost 2 pp compared to 2013, when the share was 4.8%.

When it comes to *price competitiveness indicators*, it is important to emphasize that the real effective exchange rate of the dinar (calculated on the basis of consumer prices according to the basket of currencies consisting of the euro and the dollar⁷) in the previous eight years, cumulatively observed, remained almost unchanged. In the nine months of 2022, a mild average real effective dinar appreciation of 0.4% y-o-y was recorded. Calculated on the basis of unit labour costs, the dinar has depreciated against the euro in real terms since 2017, due to the rapid growth of unit labour costs in the Republic of Serbia when compared to EU, and partly due to the mild nominal appreciation of the dinar against the euro. During the nine months of 2022, earnings in the Republic of Serbia (with more pronounced growth in the private sector) grew faster than the economic activity, so that unit labour costs in the Republic of Serbia continued to grow, which, in addition to the decline in unit labour costs in the euro zone and the unchanged value of the dinar against the euro, resulted in a real appreciation of the dinar of about 9% y-o-y. The cost competitiveness is not a factor which significantly affects the FDI inflow. FDI inflow is rather affected by preserved macroeconomic stability and achieved structural improvements, which is shown by the fact that the FDI inflows since 2017, ending in September of this year, amounted to nearly EUR 20 billion euros (an average of about 7.3% of GDP annually), despite the pandemic and crisis in Ukraine.

International investment position. At the end of Q2 2022, the negative international investment position (IIP) amounted to 83.0% of GDP (EUR 47.0 billion) and compared to the end of 2021, the share was slightly reduced (by 0.2 pp), as a result of faster growth of nominal GDP. On the assets side, trade credits, deposits and direct investments of residents abroad increased, which almost completely compensated for the decrease in foreign exchange reserves, while on the liabilities side, there was primarily an increase in foreign direct investments and financial loans. **At the end of Q2 2022, net FDI accounted for about 92% of net IIP, indicating an extremely favourable structure of IIP from the point of view of external sustainability.**

On the liability side of the IIP, the share of debt instruments was about 50.0%, of which intercompany loans accounted for 22.5%. Almost half of the *total external debt* refers to the public sector (50.9%). Observed by the remaining maturity, about 93% of public sector external debt (which consists of the external debt of the Government and the National Bank of Serbia) is long-term, and about 68% is contracted at the fixed interest rate. The public external debt is dominated by three currencies - the euro (69.2%), the dollar (17.4%) and the dinar (5.7%). It is also important to point out that the participation of the euro and the dollar in the foreign exchange reserves is aligned with the currency structure of the public external debt.

In the structure of external debt of the private sector, the largest part refers to the corporate debt (about 72%). Over 90% of corporate debt is euro-denominated, and the fact that over 90% of export payments are made in euros contributes to the reduction of currency risk of the external corporate debt. Also, 54% of the debt is contracted at the fixed interest rate. Observed by the remaining maturity, almost 85% of corporate debt is long-term. Over 90% of banks' external debt is denominated in euros, and almost 90% is contracted at a variable interest rate. Observed by the remaining maturity, almost 50% of the external debt of the banking sector (excluding deposits) is long-term.

Medium-term external sustainability. The projected movement of the current deficit in the medium term of around 6-7% of GDP is largely determined by structural factors and movements in the international environment. It is expected that investments, under the influence of strong FDI inflows, as well as the expected continuation of the investment cycle in the field of traffic and utility infrastructure, will continue to positively influence the growth of imports, primarily of equipment and intermediary goods. On those grounds, it is estimated that the real growth of the import of goods and services will average around 6.5% per year in the next three years. On the other hand, as a result of investments in exchangeable sectors from the previous period and the expansion of the export base

⁷In scale 80:20.

(both by product and geographically), as well as a result of the gradual recovery of external demand and the weakening of the effects of the energy crisis, the real growth of exports of goods and services will be faster than imports. Hence, in the next three years, it is projected at an average annual rate of about 8%. This will result in a gradual reduction of the share of the deficit of goods and services in GDP from 12.2% of GDP this year to around 8% by 2025, which will crucially contribute to the reduction of the current account deficit from around 9% of GDP this year to 6% of GDP in 2025. In the medium term, it is expected that the current deficit will move within the limits of external sustainability (6-8% of GDP) and that it will be mostly financed by the net inflow of foreign direct investments.

On the other hand, the growth of the direct investment inflows into the Republic of Serbia will affect the fact that the yield based on their ownership remains a solid outflow item on the primary income account, while on the secondary income account a stable inflow of around 7% of GDP is expected in the medium term, primarily due to the inflow of remittances.

The structure of capital inflows will be dominated by FDI (around 5% of GDP on average per year), which is expected to continue to be mostly directed at tradable sectors. Foreign exchange reserves are expected to remain at an adequate level in the medium term as well. It is estimated that the coverage of average monthly imports of goods and services by foreign exchange reserves will be about five months, with an increase in the coverage of short-term debt (observed by remaining maturity) by foreign exchange reserves.

When it comes to the movements of the external debt in medium term, the external debt sustainability analysis shows that under all macroeconomic scenarios (which assume a different GDP growth rate, different interest rates and different exchange rate), except the scenario with real depreciation of 30% in 2023, **in the medium term there will be a reduction in Serbia's external debt. According to the baseline scenario, the Republic of Serbia's external debt would be around 60% of GDP at the end of 2027.** One of the main factors that will contribute to this reduction is the increase in the openness of the economy (measured as a percentage of exports and imports of goods and services in GDP) from 116% GDP in 2021 to over 130% of GDP in 2027. The increase in the openness of the economy and its greater integration into global trade chains was certainly influenced by the high FDI inflow, which is this year projected at the level of about EUR 3.8 billion, which is near the last year's record level. Given that most of these investments were directed to tradable sectors, mostly foreign-owned companies are among the largest exporters in the Republic of Serbia. Continuation of EU integration, along with bilateral free trade agreements (e.g. with Russia, Turkey, Belarus and Kazakhstan) and agreements with economic groups (CEFTA, EFTA, Eurasian Economic Union) concluded by the Government while maintaining the achieved macroeconomic stability, will lead to further improvement of the business climate, which will enable greater international exchange and continued growth of FDI.

3.4. ALTERNATIVE SCENARIO AND RISKS

The medium-term scenario of economic activity in the Republic of Serbia is still under the influence of numerous risks from the international environment. The risks of the macroeconomic framework mostly stem from the uncertainty regarding the development of the situation in Ukraine and the impact of new international economic and political relations. Fluctuation of energy sources prices, global trade restrictions, as well as greater uncertainty compared to the current expectations can have a significantly greater impact on the domestic economy. In accordance with that, an alternative scenario was created, implying the materialization of risks from the international environment and consequently lower economic growth rates, especially in 2023.

In this scenario, we started from the assumption of an additional decrease in external demand, due to less production activity in the euro area as a result of insufficient quantities of energy sources, especially gas, which would cause interruptions in production, as well as disruptions in supply chains. In addition, geopolitical tensions would be more acute than in the baseline scenario, leading to additional financial disruptions and deepening uncertainty. Such developments would be reflected in

the increase in production costs and the decrease in the potential of business entities to invest in new production capacities, which would result in a lower investment growth than expected. Consequently, there would also be a reduction in the expected volume of foreign trade exchange. In addition, higher price growth would have a negative impact on the real disposable income of the population and a slower growth of private consumption than originally expected. The materialization of these risks would result in a lower GDP growth rate of 2.0 pp in 2023 from that in the basic scenario, since the above-mentioned factors would mostly be reflected on export activity, the dynamics of the investment component of GDP, as well as on private consumption. In 2024 and 2025, the differences compared to the original expectations would be smaller due to the gradual recovery of the economy from shocks as well as due to a lower base.

Graph 3. Projection of GDP trends, year-on-year growth rates, %

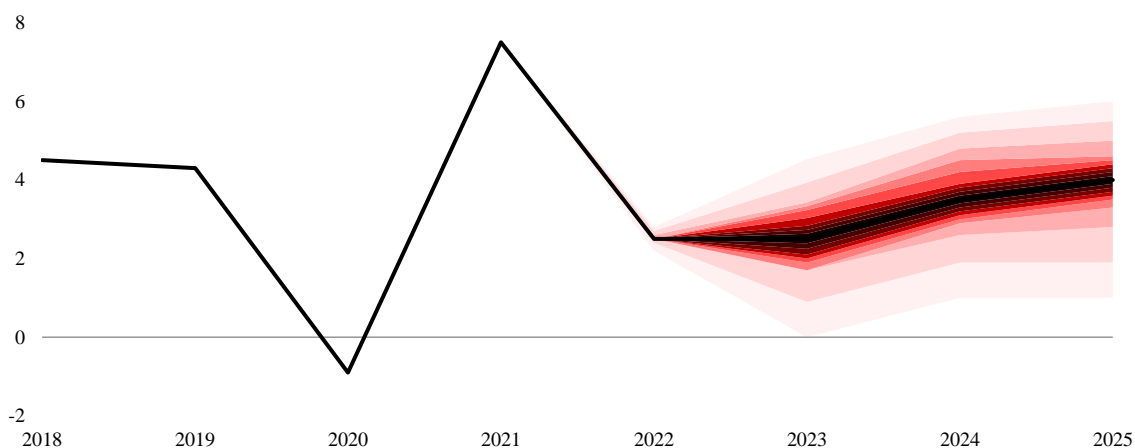


Table 3. Alternative macroeconomic scenario

	Estimate	Projection		
	2022	2023	2024	2025
GDP, billion dinars (current prices)	7,082.5	7,929.9	8,527.0	9,120.3
Real growth of GDP, %	2.5	0.5	2.5	3.0
GDP deflator, %	10.2	11.5	4.9	3.9
<i>Real growth of individual components of GDP, %</i>				
Private consumption	3.9	1.3	2.5	3.3
Government consumption	0.4	-2.4	0.6	0.7
Gross fixed capital formation	0.0	-1.0	4.3	4.8
Exports of goods and services	12.3	2.8	7.5	9.0
Imports of goods and services	12.8	2.7	6.7	8.2

4. FISCAL FRAMEWORK FOR THE PERIOD FROM 2023 TO 2025

4.1. PUBLIC POLICY STRATEGY AND MEDIUM-TERM GOALS

The calming of the corona virus pandemic, high inflation caused by the crisis in the international energy and raw materials markets and the conflict in Ukraine marked the year 2022, with the danger that uncertainty and crisis will last over a longer period of time. In such a situation, the task of economic and fiscal policy is to ensure the stability of economic flows and preserve the standard of citizens.

During 2022, certain measures have already been initiated in the direction of preventing major shocks that would be caused by the increase in the prices of energy and food, such as subsidizing the price of gas, temporarily reducing excise duties on petroleum products and controlling the prices of basic food staples.

The planning of economic and, especially, fiscal policy in the forthcoming period will primarily depend on the assessment of the effects of the Ukrainian crisis on the international environment and domestic circumstances. It is determined that, despite the unfavourable situation, balance and stabilization of public finances will be pursued in order to reduce the share of public debt in GDP and create the basis for stable economic growth. Parallel to that, it is necessary to provide space for a timely reaction of fiscal policy to economic shocks. Any fiscal intervention of the government in order to minimize the effects of the crisis will certainly be combined with efforts not to stop development Programmes and infrastructure projects financed from the budget of the Republic of Serbia.

The medium-term fiscal framework envisages a moderate abandonment of expansionary fiscal policy which was present during the pandemic, with the fact that in the coming period, a significant part of the budget funds will be allocated to alleviating the energy crisis. Given the uncertain economic situation, the budget of the Republic of Serbia will certainly be a “safety net” in case of escalation of unfavourable trends. On the one hand, the continuity of development and social Programmes will be ensured, and on the other hand, the sustainability of public finances and the continuation of the reduction of the level of public debt in terms of participation in GDP will be ensured. Given the expected macroeconomic developments, the projected annual fiscal deficits allow for a reduction in the share of general government debt in the forthcoming period.

In accordance with the available fiscal space, fiscal policy in the forthcoming period will be focused on continuing reduction of the overall tax burden on labour, which further relieves the economy, i.e. increases the competitiveness of the private sector. On the expenditure side, priority will be given to infrastructure and capital projects, as well as pension and salary policies. At the same time, care will be taken not to go beyond the planned sustainable framework by increasing these two largest categories of expenditures.

The amendments to the Budget System Law will contribute to the stability of public finances and a sustainable fiscal framework, which, among other things, redesign a set of fiscal rules, general and special, and define special measures and consequences in case of non-compliance. Special emphases are placed on amending the general fiscal rules related to public debt and the general government deficit, as well as special fiscal rules related to the sustainable level of expenditures for salaries and pensions.

4.2. BUDGET EXECUTION IN 2022

The fiscal framework for 2022 is planned in the circumstances of a gradual exit from the health-economic crisis caused by the pandemic. At the end of 2021, very good results were recorded in the collection of almost all forms of income, which caused significant upward revisions of the projection during the year. Nevertheless, the projection of income for 2022 was approached cautiously. During 2021, a Programme of economic assistance to the population and the economy was implemented, as well as the changes in consumer behaviour. Hence, compared to the pre-pandemic period, the cross-border movement of the population decreased, consumption on the domestic market increased, habits in the use of means of transport changed, and the consumption of products where the grey economy is less pronounced increased. The estimated effects of the collection of deferred tax liabilities, as well as the effects of the continuation of the process of reducing the tax burden on earnings, were also taken into account. In the end, due to the uncertainty regarding the further course of the pandemic, revenues were conservatively projected so that in the event of negative risks being realized, the downward deviation would be minimal.

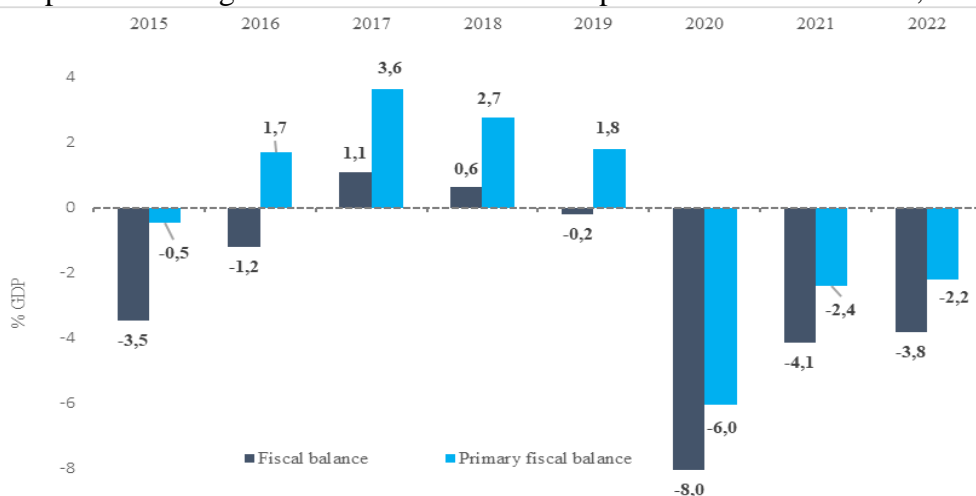
The political and economic environment in which the fiscal framework for 2022 is planned has changed significantly. The armed conflict in Ukraine led, among other things, to an increase in uncertainty in business, as well as to the interruption of traditional economic flows, especially in the field of energy supply. The trend of increasing prices of natural gas, electricity and oil was already present in the second half of 2021, but during 2022 it escalated significantly. Increased uncertainty is also introduced by the irregularity of energy supply, which additionally affects prices. There is a general increase in prices at the international level, with monetary authorities deciding to tighten

policy and raise general interest rates. In the future, this will affect the unfavourable growth prospects of economic activity.

Changes in the international environment affect economic activity and public finances in the Republic of Serbia. The estimate of economic activity growth in 2022 has been revised downwards by 1.5 pp compared to the original plan, and the growth was revised downwards in the medium term as well. Despite the slowdown in economic activity, there are no pronounced negative tendencies on the labour market, which results in stable labour tax collection. Inflation has immediate effects on the trend of the nominal amount of consumption taxes in terms of their faster growth. At the same time, the growth of revenue collection is influenced by the much faster growth of the population's income, which is confirmed by the real growth of consumption during the first three quarters of 2022. The budget revenues in 2022 are higher than expected, and the excess revenue was used for the procurement of energy products and curbing price growth with minimal impact on the standard of the population, as well as measures to reduce the excise duty on petroleum products. At the same time, population policy measures adopted at the beginning of 2022 are operationalized, subsidies in agriculture have been increased, as well as benefits paid to certain categories of the population.

The main goal of changing the revised fiscal framework for 2022 is adjusting to the newly emerging negative global economic flows, to the world energy crisis unprecedented in the last few decades and to the consequent significantly higher price growth. The fiscal deficit of the general government in 2022, according to the latest estimates, will amount to 3.8% of GDP, which is 0.8 pp more than originally planned for the current year. In addition to changes in the level of the planned outcome, there are significant changes in the level and structure of the income and expenditure side. It is estimated that the share of public debt in GDP will decrease to 56.9% at the end of 2022. In the coming period, the path of the public debt is expected to be continuously decreasing, due to the planned development of the fiscal result in the medium term.

Graph 4. General government fiscal result in the period from 2015 to 2022, % of GDP



Source: Ministry of Finance

The pandemic throughout 2020 and 2021 had extremely negative health, economic and wider social consequences, both globally and in the Republic of Serbia. During these two years, several packages of economic support measures for the companies and the population were implemented to overcome the crisis caused by the pandemic. Measures totalling 15.6% of GDP (planned 17.3% of GDP) were implemented, which significantly mitigated the negative effects of the crisis, a smaller decline in economic activity was recorded compared to other European economies, and turbulence on the labour market was avoided.

At the end of 2021 and the beginning of 2022, the pandemic weakened. With the exit from this crisis, a calmer period was expected that would allow the economic, and primarily fiscal policy, enough time to return to a sustainable path. However, not all the negative economic consequences caused by the crisis ended with the end of the health crisis. Rapid price growth fuelled by earlier expansive global monetary and fiscal policy, still damaged supply chains and logistical problems, and gradual

and then accelerated growth in energy prices, are just some of the pressing problems that pose new challenges to economic policy makers. The conflict in Ukraine further intensified existing and brought new challenges, especially in the field of energy and food products. Transient inflationary pressures become permanent, while the tightening of monetary policy in the world further complicates the possibilities for financing growing fiscal deficits, which will in the future affect the prospects for the growth of economic activity.

With the adoption of the Fiscal Strategy for 2023 with projections for 2024 and 2025, during the spring part of the budget cycle, the fiscal framework for 2022 was significantly revised in terms of the amount and structure of revenues and expenditures, whereat the assessment of the fiscal result in GDP of 3% of GDP was not changed. At that moment, factors could be seen that could significantly influence the materialization of negative risks for economic trends in 2022. There was a certain amount of uncertainty regarding the duration and extent of the impact of the emerging crisis on overall fiscal trends, especially on the expenditure side. The innovated fiscal framework for 2022 reflects the overall consequences, but also the responses to the mentioned challenges, and foresees a revised fiscal deficit of 3.8% of GDP. Compared to the originally planned, the revenue estimate has increased by RSD 236.4 billion, while expenditures are higher by RSD 307.4 billion, with significant changes in the structure.

Table 4. Revenues, expenditures and results of the government sector in 2022, in billion dinars

	budget 2022	estimate April 2022	new estimate 2022	New/budget difference	% change	2022 new est. % GDP
PUBLIC REVENUES	2,804.1	2,901.0	3,040.5	236.4	8.4	42.9
Current revenues	2,778.2	2,875.1	3,018.8	240.6	8.7	42.6
Tax revenues	2,526.7	2,609.4	2,740.5	213.8	8.5	38.7
Personal income tax	274.5	283.4	294.7	20.2	7.4	4.2
Corporate income tax	145.0	145.0	208.5	63.5	43.8	2.9
VAT	684.1	750.7	777.0	92.9	13.6	11.0
Excises	337.6	327.6	336.8	-0.8	-0.2	4.8
Customs	63.3	75.0	79.5	16.2	25.6	1.1
Other tax revenues	96.4	96.2	96.2	-0.2	-0.2	1.4
Contributions	925.8	931.5	947.7	21.9	2.4	13.4
Non-tax revenues	251.5	265.7	278.3	26.8	10.7	3.9
Donations	25.9	25.9	21.7	-4.2	-16.1	0.3
PUBLIC EXPENDITURE	3,004.3	3,107.7	3,311.7	307.4	10.2	46.8
Current expenditures	2,489.9	2,556.8	2,620.8	130.9	5.3	37.0
Expenditures for employees	673.1	674.9	688.4	15.3	2.3	9.7
Purchase of goods and services	511.2	529.9	549.0	37.8	7.4	7.8
Repayment of interest	118.6	118.6	115.5	-3.1	-2.6	1.6
Subsidies	165.6	166.9	183.4	17.8	10.7	2.6
Social assistance and transfers	914.7	916.1	922.0	7.3	0.8	13.0
of which pensions	645.7	636.1	638.6	-7.1	-1.1	9.0
Other current expenditures	106.7	150.4	162.5	55.8	52.3	2.3
Capital expenditures	485.8	496.8	519.3	33.5	6.9	7.3
Net budget lending	13.4	38.9	153.4	140.0	1,044.8	2.2
Activated guarantees	15.2	15.2	18.2	3.0	19.7	0.3
Fiscal result	-200.2	-206.7	-271.2	-71.0		-3.8
Fiscal result in % of GDP	-3.0	-3.0	-3.8	-0.8		

Source: Ministry of Finance

The most important factors that led to the change in the level and structure of the general government income are:

- base effect (better performance at the end of the previous year) and performance in the period January-September;
- careful planning of certain categories of tax revenues, primarily value added tax;
- higher consumption of certain excise products;
- payment of unplanned non-tax revenues as well as strong growth of regular non-tax revenues (mineral raw materials and games of chance);
- more favourable trends in the labour market than predicted;

- positive impact of additional measures aimed at helping the population on personal consumption;
- higher inflation growth than predicted, as well as a significant increase in import prices;
- strong nominal growth of foreign trade exchange;
- strong growth in the profitability of the economy in 2021 (corporate income tax);
- adopted measures to mitigate inflationary effects by reducing the excise duty on oil derivatives.

The projected revenue from personal income tax has been increased by RSD 20.2 billion compared to the original amount. The original estimates of the revenue from personal income tax took into account the estimates of average wages and employment, the estimates of the early return of a part of deferred taxes during 2020, as well as the estimates of the effects of reducing the tax burden on wages in 2022. The same assumptions are used for the estimated revenue from social contributions, which constitute the largest individual revenue at the level of the general government. The collection of this form of tax at the end of 2021 was somewhat higher than planned, but the main reason for the increase in the income tax projection is the extremely high growth of wages, primarily in the private sector. The acceleration of wage growth in the private sector began at the end of 2021 and continued throughout 2022. The estimate of deferred taxes and contributions repayment during 2022 was slightly adjusted downwards due to the fact that most of the smaller taxpayers, according to the accelerated dynamics, already settled their obligations on this basis during the previous year. Estimated revenue from income tax and social contributions have been revised upward in the total amount of RSD 35.2 billion.

The rest of the income tax consists of other forms such as dividend tax, interest income tax, annual income tax, real estate rental income tax, etc. Income from dividends and other forms of income tax generally follow the trend of general economic activity and earnings from the previous year, but are also significantly influenced by the companies' business decisions regarding dividend and investment policies. The significant increase in the projected amount compared to the original is primarily the result of a strong jump in the collection of the two largest tax forms from this group, namely the annual personal income tax and dividend income tax. Under the influence of the growth of average wages and other forms of income in the previous year, as well as the achieved profitability and distribution of dividends of companies, there was an increase in tax liabilities on this basis.

The revenues from corporate income tax were relatively the most revised compared to the original projection (43.8%), and in absolute terms by RSD 63.5 billion. There is an uncertainty regarding the projecting of this tax category, even under regular circumstances, because the final data on profitability are not known at the time the budget is drawn up. Also, the extremely high collection of this tax form in 2021 led to an increase in the share of this tax form in GDP above the average values recorded in the previous period. Guided by the principle of prudence, during the original projection, it was foreseen to return the share of this tax form in GDP to the average level. After the payment of the CIT in accordance to the final financial statement for the 2021 (end of June of the current year), the annual estimate of this tax was also revised. The net profit of the economy in 2021, according to the published data of Serbian Business Registers Agency, amounted to RSD 945 billion and is 42% higher than in 2020.

The value added tax is estimated at RSD 777 billion, which represents an increase of RSD 92.9 billion compared to the original estimation. This significant increase is partly a consequence of conservative planning, due to the uncertainty surrounding the trend of personal consumption after a period of strong growth in the previous year, and partly as a consequence of the government's stimulating measures. Another reason for the revision is slightly better execution at the end of 2021 than expected (RSD 5 billion). The most significant reason for the revision of income is the significantly faster nominal growth of private consumption than planned. At the same time, the real component of private consumption growth was also revised upwards. There is also a slight change in the structure of consumption. The prices of energy products directly and indirectly affected the rate of inflation (its import component), and to a large extent they spilled over to the food product market, which make

up a significant part of the consumer basket. The same applies to oil products whose prices are showing higher growth.

By limiting the prices of certain products, the unfavourable effects of the increase in import inflation were partially mitigated. The level of disposable income of the population and its faster growth compared to the prices influenced the real growth of trade turnover, which recorded a growth of 7.1% in the first nine months of 2022.

Customs revenues are estimated in the amount of RSD 79.5 billion, which represents an increase of RSD 16.2 billion (25.6%) compared to the original estimation. Customs revenues mostly, although not completely, follow the dynamics of VAT from imports, so in accordance with the change in the structure of VAT, the volume of foreign trade exchange and customs trends in the first part of the year, the estimation of this form of income was revised. As in the case of VAT, the reasons are the extremely high growth of import prices, but also the procurement of larger quantities of energy due to uncertainty on the global market. During the previous part of 2022, foreign trade exchange recorded extremely strong nominal growth, especially on the import side. In the period January-September, the growth of imports in dinars amounted to 36.8%, of which about three quarters can be attributed to the effect of the increase in import prices.

The excise tax revenue estimation was slightly reduced compared to the original one. At the same time, excise duties on petroleum products were reduced by RSD 9.2 billion, excise duties on tobacco products were increased by RSD 5 billion, while the estimation of revenue from other excise duties was increased by RSD 3.4 billion. In order to prevent an excessive increase in the prices of petroleum products, the government postponed the regular indexation of excise rates with inflation from the previous year. After that, at the end of the first quarter, the legal possibility of temporarily reducing the amount of excise taxes was used. In order to limit the rise in the price of derivatives on the domestic market, due to the rise in oil prices on the world market, this measure was used during the year, ranging from 10% to 20%, which is the legal maximum. In the first quarter, a high level of collection was recorded, partly due to increased demand due to uncertainty regarding future prices. In the second half of the year, a moderate growth in the consumption of derivatives was recorded, which indicates a lower price elasticity of these products.

The revenue increase from excise taxes on tobacco is the result of better collection than initially expected during the previous part of the year. When creating the original estimate, we assumed that there will be a natural decline in consumption, already present for several years, as well as from the assumption that in the previous year the market stabilized at the level before the pandemic. Analysing the data on the tobacco products market, it was concluded that reaching that level of turnover was not achieved in 2021, and that the process of market recovery was carried over to 2022, which was also reflected in the trend of tobacco excise revenue. The estimation of revenue from other excise products was increased primarily due to the significant growth in electricity consumption, in the commercial supply sector, but also due to the increase in electricity prices with the expected effects in the last quarter of this year. The rest of the increase refers to the payment of arrears on the basis of excise duties on alcohol, collected from bankruptcy proceedings, as well as the continuation of the recovery of the market for these products.

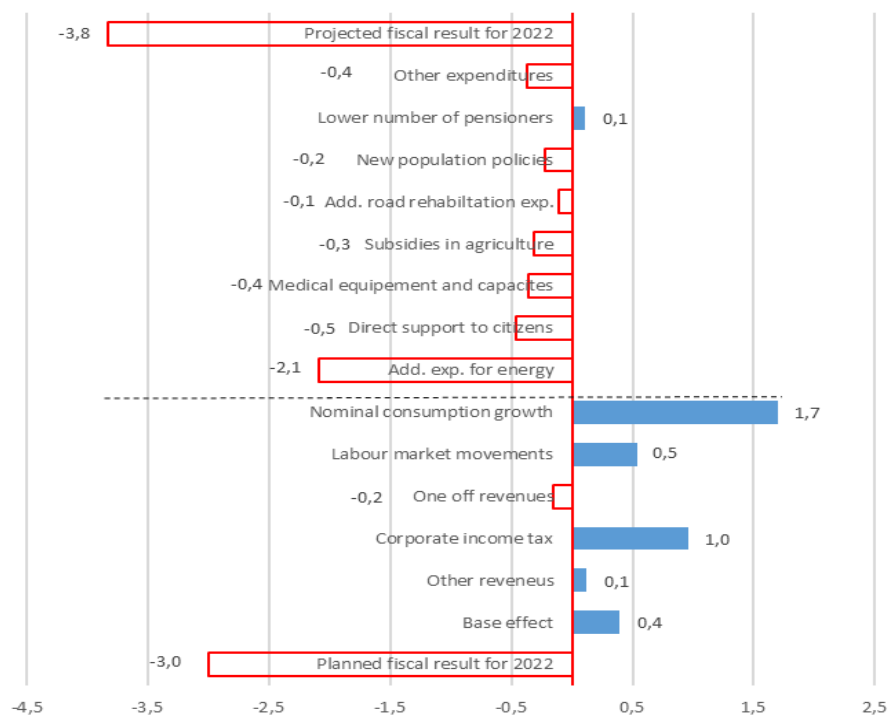
Non-tax revenues have been increased by RSD 26.8 billion, primarily due to the growth recorded in regular non-tax revenues. Regular non-tax revenues are various fees, charges, penalties, revenues of bodies and organizations and all other revenues that are generated at a steady pace during the year in approximately similar amounts on a monthly basis with certain seasonal variations.

The first reason for the increase in the projected amount is the better performance at the end of the previous year, while the second reason is the extremely good collection during the previous part of the year.

Regular non-tax revenues were estimated at a higher amount compared to the original ones, mostly due to the increase in the collection of revenues from games of chance and fees for the use of mineral resources. The growth of fees for mineral raw materials is the result of higher sales volumes and prices of raw materials on the international market.

Extraordinary non-tax revenues include payments of profits of public companies and agencies, budget dividends, revenues based on collected receivables of AOD, bond issuance premiums, etc. Extraordinary non-tax revenues were adjusted upwards due to the payment of previously unplanned amounts of profit belonging to the budget of the Republic of Serbia (NBS revenues and budget dividends).

Graph 5. Contribution of individual factors to the correction of the fiscal result in relation to the plan for 2022, % of GDP



By this fiscal framework, the estimate of general government expenditures has increased by RSD 346 billion in relation to the original budget. The largest part of this increase relates to the implementation of the additional measures aimed at the procurement of energy sources, additional support to population and the implementation of new population policy measures. The rest consists of expenditures related to the purchase of goods and services, as well as the increase in capital expenditures.

Expenditures for employees have increased by RSD 15.3 billion. Most of this growth refers to the increase in healthcare wages (increase in the number of employees and working hours), judiciary wages, as well as additional benefits paid to employees in education.

Expenditures for goods and services have increased by RSD 37.8 billion. The largest part of the increase goes to the increase of expenditures for the purchase of medicine and medical equipment and funds by the National Health Insurance Fund (NHIF), and the other part of the increase refers to the current maintenance of roads by the Public Enterprise "Roads of Serbia" (PE "Roads of Serbia"). Subsidies were also increased compared to the original plan by RSD 17.8 billion, with the subsidies in agriculture increased by RSD 10.5 billion, and the rest of subsidies referring to energy projects.

Expenditures for social protection increased by RSD 7.3 billion compared to the original plan. However, there was a certain change in their structure. The estimated expenditures for pensions in 2022 will amount to RSD 638.6 billion. Although the original pension indexation plan implied their growth in accordance with the "Swiss formula", an additional permanent adjustment of pensions by 9% was planned during November.

Within the expenditures intended for social protection, there is also one-time assistance paid to pensioners in the amount of about RSD 34 billion. On the other hand, the adopted measures of population policy (increased parental allowance, new subsidies for mothers to buy housing) affected

the increase of expenditures within this category. An additional RSD15 billion are planned for these purposes.

Other current expenditures were increased by RSD 55.8 billion compared to the original plan, primarily due to extraordinary payments of direct cash assistance to the population aged 16 to 30, in the total amount of RSD 31 billion.

The intervention procurement of necessary energy sources influenced the growth of budget expenditures in the amount of RSD 140 billion.

The realization of public investments is expected in a larger volume than planned by RSD 33.5 billion. In addition to the increase in expenditures for the road network construction, the allocations for the strategic procurement of energy sources and other essential goods have also been increased. It is estimated that the capital expenditures will reach the level of 7.3% of GDP in 2022.

The estimated fiscal deficit of 3.8% of GDP in 2022 is at the level of estimated fiscal result expected in EU countries as well. The measures implemented by EU countries to mitigate the energy crisis have significant fiscal implications. The predicted fiscal result enables the implementation of intervention policies aimed at mitigating the crisis, while maintaining the trend of reducing the share of public debt in GDP. The structural analysis of the fiscal result in 2022 identified that about 2.9% of GDP refers to one-time and temporary measures.

Table 5. Revenues, expenditures and result of the government sector, January-September, in billion dinars

	I-IX 2021	I- IX 2022	I-IX growth rate in %	2022/2021 growth rate in %
PUBLIC REVENUES	1,969.3	2,253.1	14.4	12.1
Current revenues	1,957.4	2,243.3	14.6	12.1
Tax revenues	1,764.5	2,033.6	15.3	13.2
Personal income tax	187.3	219.4	17.2	15.2
Corporate income tax	125.7	166.8	32.7	30.8
VAT	473.9	579.1	22.2	17.9
Excises	243.7	251.2	3.0	2.1
Customs	43.5	57.4	32.0	28.3
Other tax revenues	66.4	72.0	8.4	4.8
Contributions	623.9	687.9	10.2	9.9
Non-tax revenues	192.9	209.7	8.7	2.1
Donations	11.9	9.8	-17.6	12.5
PUBLIC EXPENDITURES	2,037.3	2,204.8	8.2	11.5
Current expenditures	1,755.8	1,874.6	6.8	7.2
Expenditures for employees	466.4	510.4	9.5	9.4
Purchase of goods and services	325.7	360.2	10.6	12.0
Repayment of interest	98.1	97.0	-1.1	6.2
Subsidies	142.2	104.2	-26.8	-11.1
Social assistance and transfers	633.4	692.8	9.4	8.5
of which pensions	456.7	474.4	3.9	4.9
Other current expenditures	90.0	110.0	22.2	0.8
Capital expenditures	264.5	292.6	10.6	11.3
Net budget lending	11.6	26.1	125.1	197.9
Activated guarantees	5.4	11.5	114.5	137.8
Fiscal result	-68.0	48.3		

Source: Ministry of Finance

The arrears (over 60 days of delay)* of budget users and organizations of compulsory social insurance (OOSO) on the last day of September 2022 amounted to RSD 2.8 billion (about 0.04% of GDP), and increased compared to the end of 2021 by RSD 1.4 billion. Budget users and PE “Roads of Serbia” created arrears of RSD 1.4 billion, while the state of arrears of organizations of obligatory social insurance is RSD 1.4 billion.

Table 6. Arrears of budget users and OOSO, end of 2021 and September 2022, in billion dinars

	31/12/2021	30/9/2022
Budget users and PE “Roads of Serbia”	1.2	1.4
OOSO	1.3	1.4

TOTAL

2.5

2.8

Source: Ministry of Finance

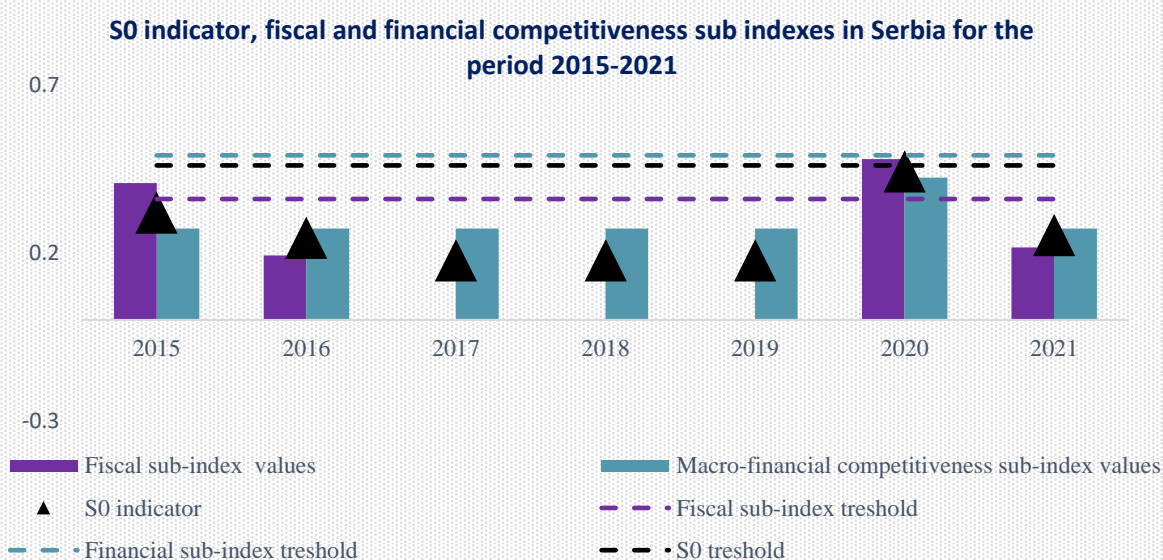
* In accordance with the definition used in the purposes of monitoring the implementation of the arrangement with the IMF.

S0 indicator of short-term fiscal sustainability

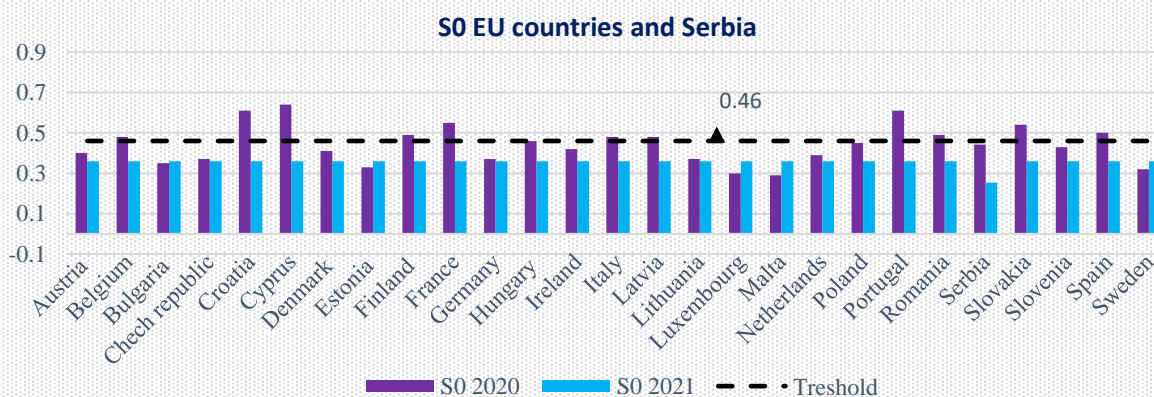
To assess short-term fiscal sustainability, the European Commission has designed a composite S0 indicator which, through the identification of potential short-term risks in the current year, seeks to anticipate fiscal stress in the forthcoming year. If the value of the S0 indicator exceeds the defined threshold, the country is considered to be at short-term risk of fiscal stress. In addition to the values for the entire indicator, in order to locate the source from which the risk originates, the values of the sub-index and their components are also considered. The S0 composite indicator consists of two sub-indices, which contain a number of variables of fiscal and macro-financial sustainability. The value of these sub-indices below the defined threshold indicates the absence of short-term fiscal risk.

In 2021, the value of S0 indicator (0.22), as well as the financial sub-index (0.27) for the Republic of Serbia were within the defined threshold, which indicates in principle that there was no short-term danger of any macroeconomic instability in the forthcoming medium period. Successfully preserved macroeconomic and fiscal stability established in the previous period provided space for rapid and significant fiscal and monetary support measures.

Graph 6. S0 indicator for the Republic of Serbia in the period 2015–2021



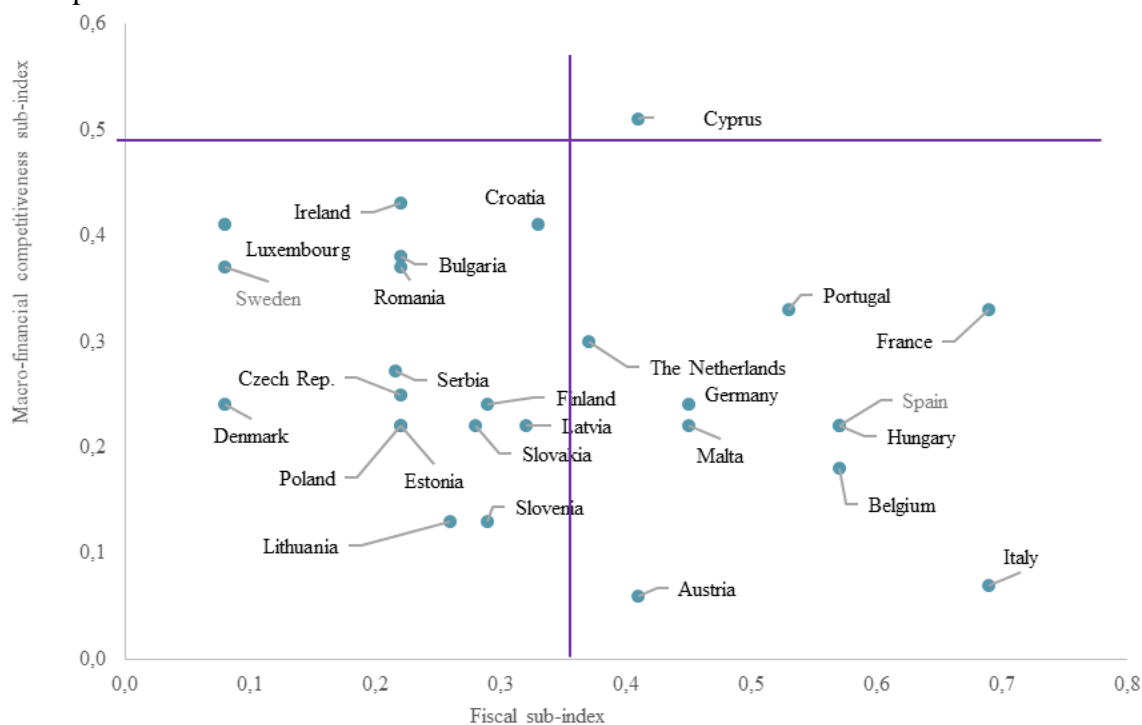
Graph 7. S0 EU countries and the Republic of Serbia



The calculation of S0 indicator for the Republic of Serbia was done by the Ministry of Finance and is based on the EC methodology.

Based on EC data for EU countries for 2021 and the calculation of the Ministry of Finance for the Republic of Serbia, we conclude that none of the observed countries, including the Republic of Serbia, was exposed to short-term risk of fiscal stress, since the value of S0 does not exceed the defined threshold. Some countries faced fiscal and macro-financial challenges, while the Republic of Serbia, together with most EU countries, was still within the defined thresholds of S0 indicators. Minimizing the potential risks for the occurrence of fiscal stress in the observed countries will contribute to the creation of space for the adoption of economic policy measures, in response to the health crisis that spread into all spheres of the economy.

Graph 8. Fiscal sub-index and sub-index of macro-financial competitiveness for EU countries and the Republic of Serbia in 2021



4.3. FISCAL PROJECTIONS IN THE PERIOD 2023–2025

Fiscal policy objectives are aimed at maintaining fiscal stability and reducing the share of public debt in GDP. The medium-term fiscal framework envisages a gradual reduction of the general government deficit to 1.4% of GDP by 2025 and a decline in the share of public debt to 54% of GDP. Projections of fiscal aggregates in the period from 2023 to 2025 are based on projections of macroeconomic indicators for that period, planned tax policy which implies further harmonization with EU laws and directives and fiscal and structural measures, including further reform of large public companies.

Thanks to the measures of fiscal consolidation in the previous period, a fiscal space was created which enabled a rich package of measures within the fight against the effects of the crisis caused by the pandemic during 2020 and 2021. The easing of the pandemic this year led to the creation of fiscal space, which is necessary in the newly emerging unfavourable circumstances. The situation in Ukraine and the international relations that are formed as a reaction to it strongly influence economic trends. In 2022, the measures that should amortize the shocks resulting from this crisis have already started to be implemented. The fiscal policy response in the forthcoming period, the created measures and their fiscal implications will be designed not to jeopardize the stability of public finances and the pace of public debt reduction, to maintain the living standards of the population and help economic development, but also to ensure flexibility in responding to possible new crises.

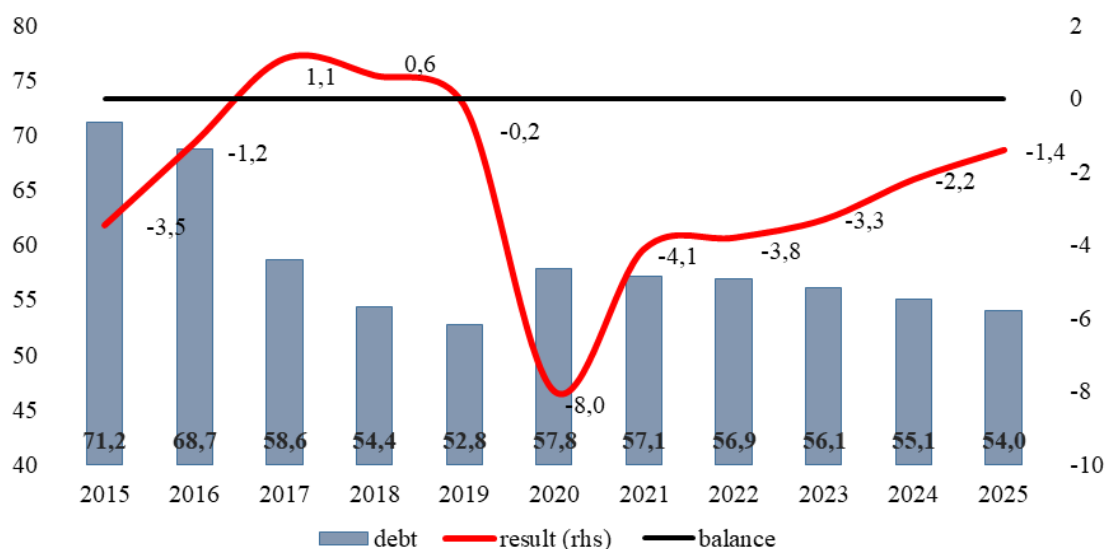
Table 7. Fiscal aggregates in the period 2021–2025, % GDP

Description	Execution	Estimate	Projection		
	2021	2022	2023	2024	2025
Public revenues	43.3	43.0	40.9	40.4	39.6
Public expenditures	47.4	46.8	44.2	42.5	41.0
Consolidated fiscal result	-4.1	-3.8	-3.3	-2.2	-1.4
Primary consolidated result	-2.4	-2.2	-1.5	-0.1	0.5
General government debt	57.1	56.9	56.1	55.1	54.0
Real GDP growth rate	7.4%	2.5%	2.5%	3.5%	4.0%

Source: Ministry of Finance

The goals of fiscal policy in the next medium-term period will be the stabilization of public finances and the declining trajectory of public debt. The reduction of the share of debt is closely related to the reduction of the deficit as the main factor of borrowing, so that the dynamics of reducing the deficit also determines the change in the movement of debt. The growing costs of borrowing on the international financial market also require caution and restrictive fiscal policy.

Graph 9. General government fiscal result and debt, % of GDP



Expansive fiscal policy during 2020 and 2021 mitigated the negative economic consequences of the pandemic. In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy for timely and efficient reaction to possible external shocks through fiscal policy. This, above all, refers to the expenditure side, in the form of increased funds intended for energy policy, as well as still high investment in infrastructure. On the revenue side, the priority will remain to further reduce the tax burden on wages and continuous fight against tax evasion and grey economy.

The projection of revenue in the period from 2023 to 2025 was made on the basis of:

- projections of the most important macroeconomic indicators: GDP and its components, inflation, exchange rate, foreign trade, employment and wages;
- valid and planned changes in tax policy;
- estimated effects of fiscal and structural measures in the forthcoming period.

Table 8. Total revenues and donations in the period 2021–2025, % of GDP

Description	Execution	Estimate	Projection		
	2021	2022	2023	2024	2025
PUBLIC REVENUES	43.3	43.0	40.9	40.4	39.6
Current revenues	42.9	42.7	40.3	40.0	39.3
Tax revenues	38.6	38.7	36.6	36.4	35.8
Personal income tax	4.1	4.2	4.1	4.0	4.0
Corporate income tax	2.5	2.9	2.6	2.5	2.4
VAT	10.5	11.0	10.8	10.8	10.7
Excises	5.3	4.8	4.1	4.2	4.0
Customs	1.0	1.1	1.1	1.1	1.1
Other tax revenues	1.5	1.4	1.3	1.3	1.2
Contributions	13.7	13.4	12.6	12.5	12.4
Non-tax revenues	4.3	4.0	3.7	3.6	3.4
Donations	0.3	0.3	0.7	0.4	0.4

Source: Ministry of Finance

The declining trend of revenue in terms of share in GDP is expected considering the projected structure of medium-term growth of the Serbian economy. The collection of deferred liabilities from 2020 increased the revenue level above the trend in 2021 and 2022, but will also increase the effect of the decline in the share of revenue in GDP in 2023. The projection of tax revenues implies the maintenance of the current level of collection.

The reduction of contributions for pension and disability insurance at the expense of the employer by 1 pp is planned in 2023. The effect of this measure is estimated at RSD 30 billion. Additionally, the 12.5% increase in the non-taxable revenue will have the effect of reducing revenues in the amount of RSD 11 billion.

The predominant form of income tax is the wage tax, so the movement of the wage bill and employment are the main factors influencing the movement of this tax form. In 2022 (as in 2021), these revenues were increased by the collection of the part of the deferred wage tax from 2020 as part of the package of measures in the fight against the pandemic. The increase in the minimum wage (14.3%) will have a positive effect on the growth of the total wage bill in the economy, and thus on this tax category as well, and an increase in the tax-free census will reduce income on this basis.

Other forms of personal income tax (dividend tax, interest income tax, annual income tax, etc.) will grow more slowly, i.e. in line with the movement of general economic activity, so that a stable level of income based on tax income is expected, in terms of share in GDP. In the case of wage taxes, the fight against the grey economy is crucial, given the significant number of undeclared workers and the payment of wages “under the table”. In recent years, controls have been intensified and sanctions have been strengthened, which has yielded results in combating the grey economy in the field of labour and employment, but it is important to continue with continuous engagement in this field in the future.

The movement of the share of this tax form in GDP has a similar trajectory as the movement of the share of the wage tax, considering that the same assumptions on the movement of wages and employment were used for their projection. Part of the revenue from the collection of deferred contributions from 2020 will not be at disposal in 2023, which will, in addition to the reduction of pension and disability contributions at the expense of the employer, contribute to the lower level of these revenues in terms of the share in GDP in the next year.

Revenues from corporate income tax in the period 2023-2025 will depend on the path of economic growth, the relative stability of the dinar exchange rate and the general profitability of the economy. Estimates of income on this basis may be uncertain due to economic factors, as well as the possibility of using a tax credit or refund, as well as differences in accounting and tax balances. The growth in the profitability of the economy in 2021 contributed to a significant jump in revenue from corporate income tax in 2022, considering that the corporate income tax is paid in the following year according to the final calculation. The stabilization of the corporate income tax collection is expected in the period 2023–2025, in line with the GDP trends.

The main determinant of VAT trends is domestic demand driven by disposable income of the population. Disposable income as the largest determinant of consumption depends on the movement of wages in the public sector, pensions, social assistance, the movement of wages in the private sector and other forms of income, including remittances, as well as the dynamics of banks' lending to households.

As with personal income tax, the risks to the VAT projection in the forthcoming period, in addition to general uncertainty of international economic environment, relate to the movement of wages in the private sector, growth of economic activity, as well as the degree of grey economy, i.e. efficiency in reducing it.

The results of more efficient collection and control of taxpayers were evident in the previous period and it is expected that this trend will continue, with the effects of the fight against the grey economy not explicitly included in the medium-term projection of public revenues. The increase in the level of VAT collection in terms of the implementation of independent anti-evasion measures in the field of VAT has given certain results in the previous period. In this segment, there is room for further improvements, through strengthening and modernizing the tax administration.

The projection of excise revenues is made on the basis of the valid excise policy and projected consumption of excise products. In 2022, excise taxes are not indexed to the growth of consumer prices in 2021, and excise taxes on petroleum products have been further reduced, ranging from 10% to 20%. These measures were adopted in order to limit the rise in prices of petroleum products on the domestic market, due to the rise in oil prices on the world market. With these assumptions, the assessment of excise tax revenue for the year 2023 was also made. In the forthcoming years, due to prudence, no growth in the consumption of petroleum products is assumed.

Within the excise policy for tobacco products, further gradual harmonization with EU directives is expected in accordance with the medium-term plan of gradual increase of the excise burden. In the case of cigarettes, it will be directed through a gradual increase in excise duties, in order to reach the EU minimum of EUR 1.8 per pack in RSD equivalent in a reasonable time, calculated according to the official middle exchange rate of the National Bank of Serbia. In the forthcoming period, for the needs of the projection of excise revenues, due to prudence, a further natural decline in the market of tobacco products is planned, on average of about 3% per year.

Revenues from excises on alcoholic beverages, coffee and electricity are projected in accordance with the existing consumption structure. Harmonization of excises on alcoholic beverages with EU directive had no significant fiscal effects.

Customs revenues will stabilize at 1.1% of GDP in the forthcoming period. The projection of the collection of customs revenues was made on the basis of the projected movement of imports, the exchange rate and consumption.

Stabilization of the share of other tax revenues in GDP is projected. The most significant tax revenue in this category is the property tax, which accounts for about 70%. A nominal increase in this revenue can be expected based on the expansion of the base. The increase in the level of collection, through the increase in the coverage of real estate on which tax is paid (i.e. based on the expansion of the tax base), is not included in the projections in the medium term and represents a positive risk. In addition to property taxes, other tax revenues include taxes on the use, possession and carrying of goods, and other forms of taxes at the local level. They are projected in line with inflation trends, as the inflation component is embedded in a significant portion of these tax forms.

The share of non-tax revenues in GDP is projected to decrease, from 4.3%, as was earned in 2021 to 3.4%, as expected in 2025. The reason for reducing the projected share of non-tax revenues in GDP is the exclusion from the base 2022 of all those revenues that are not considered structural, i.e. permanent, and primarily refers to extraordinary categories of non-tax revenues. Extraordinary non-tax revenues are mostly one-time, to some extent uncertain, both in terms of amount and the time of payment. The largest part of these revenues are extraordinary payments of profits of public companies and agencies, budget dividends, revenues based on collected receivables of AOD, bond issue premiums, etc. Regular non-tax revenues include various fees, charges, penalties, revenues of bodies

and organizations and all other revenues that are generated at a steady pace during the year. These non-tax revenues are indexed to the realized inflation in the previous year or follow the change in the value of the basis on which they are applied and as a result are adjusted by projected inflation.

The process of bringing the country closer to EU membership increases the available funds from IPA and IPARD funds, which make up the predominant part of grant revenues. The projected amounts based on donations also include funds based on EU sectoral budget support. In 2023, exceptionally, an inflow in the amount of RSD 18.4 billion is expected from the EU, on the basis of aid for mitigating the energy crisis. Revenues from donations are neutral in relation to the result, since they are equal to expenditures on this basis.

Responsible fiscal policy in combination with good macroeconomic performance in the next medium term will ensure the relaxation of wage and pension policy and a significant increase in capital investment as an important component of economic development. Special attention will be paid to improving the efficiency of state capital investments. The social component of the budget has been improved by better targeting of social assistance Programmes and greater allocation for health and education functions. The method of indexation of pensions has also been defined. Salaries and pensions together account for over 40% of general government expenditures and their stabilization is crucial for the sustainability of public finances.

Table 9. Total expenditures in the period 2021–2025, % of GDP

Description	Execution	Estimate	Projection		
	2021	2022	2023	2024	2025
PUBLIC EXPENDITURES	47.4	46.8	44.2	42.5	41.0
Current expenditures	39.0	37.1	35.6	35.2	34.6
Expenditures for employees	10.0	9.7	9.6	9.6	9.6
Purchase of goods and services	7.8	7.8	7.2	6.9	6.7
Repayment of interest	1.7	1.6	1.8	2.1	1.9
Subsidies	3.3	2.6	2.7	2.2	2.1
Social assistance and transfers	13.6	13.0	13.0	13.2	13.1
<i>of which pensions</i>	9.7	9.0	9.6	9.9	9.9
Other current expenditures	2.6	2.3	1.4	1.3	1.2
Capital expenditures	7.4	7.3	6.8	6.4	6.1
Net budget lending	0.8	2.2	1.5	0.7	0.1
Repayment based on guarantees	0.1	0.3	0.3	0.3	0.2

Source: Ministry of Finance

In 2020 and 2021, there was a change in the trend in public expenditures, given the scale of the crisis caused by the pandemic. The measures were significant on the expenditure side, which led to a one-time increase in the share of the expenditure side of the budget in GDP.

The expenditures for employees, which reached the share of 10.5% of GDP in 2020, was influenced by, among other things, the extraordinary increase in salaries for employees in the health care system, as well as the increased payments of other forms of income such as overtime work, bonuses and an increase in the number of employees in this sector. Given the limited fiscal space in the forthcoming period, wages will increase in a moderate and controlled manner, taking into account the share in GDP.

The Law on Amendments to the Law on the Budget System ("Official Gazette of RS", No. 138/22),, as a part of the new fiscal rules, stipulates that the level of total expenditures for employees be harmonized with nominal GDP growth, and that it does not exceed the level of 10% of GDP. The average level of wages at the general state level in the EU, before the pandemic, amounted to about 10% of GDP, while during 2020 it was raised to almost 11% of GDP, and in 2021 it amounted to 10.5% of GDP. Just like in all EU countries, during 2020, the share of expenditures for employees in GDP increased in the Republic of Serbia.

Expenditure on goods and services will gradually decrease in the medium term in terms of the share in GDP, given that nominal growth is projected to be slower than nominal GDP growth. The jump in 2021 and 2022 is largely the result of higher health expenditures.

The reduction of interest expenditures is one of the best indicators of a successful fiscal and monetary policy. Good fiscal results in the previous period reduced the need for borrowing, which, together with the easing of monetary policy, led to a decline in interest rates. Bearing in mind the growing cost of borrowing and the need for financing the deficit, it is estimated that the level of interest expenditures will be around 2% of GDP in the forthcoming period.

Social assistance and transfers to the population represent the largest expenditure category of the general government budget. The largest single item of this group of expenditures, and at the same time the largest item of all expenditures, are pensions, which in 2020 will reach the level of 10.6% of GDP. From 2020, pensions have been harmonized with the so-called “Swiss formula”, in order to simultaneously ensure the growth of the living standard of pensioners and the sustainability of the pension system and the public finance system. The “Swiss formula” implies indexation, i.e. an increase in pensions equal to the sum of half the growth rate of the average salary and half the growth rate of consumer prices.

From 2023, a different method of indexation of pensions will be applied, that is, the adjustment of pensions will also take into account the share of pensions in GDP, in order to additionally protect the living standard of pensioners⁸. Other forms of social benefits and transfers to the population in the forthcoming period will be harmonized by applying the prescribed indexation, current and planned policy changes in this area and with the projected number of beneficiaries. The share of expenditures for social benefits in GDP decreases from 13.6% in 2021 to 13.1% in 2025. In 2022, one-time assistance was paid to all pensioners in the amount of RSD 20,000 each, or about RSD 34 billion in total, which was also reflected in the dynamics of the share of social protection expenditures in GDP.

The reduction of subsidies that serve to help inefficient segments of the public sector enables an increase in the part of subsidies that represent real incentives to the economy, primarily agriculture and small and medium enterprises, and which lead to an acceleration of economic activity. The goal is to redirect subsidized funds to development Programmes in the economy and agriculture. The high level of subsidies in 2020 and 2021 is the result of the implementation of measures to overcome the problems caused by the pandemic crisis. In 2023, the temporary increase in subsidies in terms of share in GDP is explained by expenditures intended to overcome the negative effects of rising energy prices, which will be covered by a donation from the European Union.

Categories of other current expenditures consist of various expenditures, such as grants to associations, political parties, religious and sports organizations, fines, damages, etc. As with subsidies, the one-time growth was caused by the fiscal response to the crisis, given the fact that fiscal stimuli to the population were paid from this position, so that a reduction in these expenditures in GDP is expected in the forthcoming period.

During the previous three years, the efficiency of public investment was significantly improved. Capital expenditures have increased to 5.3% of GDP in 2020 thanks to the start of a new cycle of infrastructure projects, and in 2021 they reached 7.4% of GDP, despite the problems caused by the pandemic. In the next medium-term period, the preservation of the reached level of investments in public infrastructure is expected. The most significant infrastructural works are on road, railway and water infrastructure, which are mainly financed from international loans. In addition to the transport infrastructure, funds have been provided for additional capital investments in health, energy, environmental protection, education, culture, defence and other areas that represent the most important functions of the state. This is all part of a new investment cycle at the national level that is made possible by the creation of fiscal space and supported by favourable conditions for borrowing in the international financial market in the previous period.

The general commitment of fiscal policy in the medium term is to increase investment in infrastructure at all levels of government. When it comes to the local level of government, it primarily refers to investments in water supply and sewerage infrastructure, waste management, local road

⁸ The method of indexing pensions is explained in more detail in the section Structural measures for improving the stability and sustainability of public finances.

infrastructure and others. It is expected that the City of Belgrade will begin the metro construction project more seriously next year, with the help of the government.

In the medium-term fiscal framework, by the end of 2025, a balanced overall fiscal position of local self-government is projected. This means that in total, all cities and municipalities have an approximately balanced budget. The projection was made on the basis of trends in the previous period, in which the collective local self-government units (LGUs) were usually in surplus. This situation at the level of all local governments is a consequence of deleveraging in the previous period. This does not mean that individual local self-government units cannot go into deficit, which primarily depends on the fiscal position of each individual municipality and city.

The category of budget loans has changed the most compared to previous Programmes. The reason for that is the fact that most of the funds necessary for overcoming the negative consequences of the energy crisis are booked here. In 2022, funds in the amount of about 2% of GDP are expected to be disbursed from this category for the aforementioned needs, in 2023, about 1.5% of GDP, and in 2024, 0.7% of GDP is estimated from these funds.

Repayment on the basis of issued guarantees and payment of guarantees on commercial transactions are obligations based on the debt of public companies that the republic budget has assumed, since those companies could not execute them independently. These expenditures have been a major burden on the budget given the long-term inefficiency of a large number of state-owned enterprises and companies. In the previous period, these expenditures were significantly reduced, and the repayment plan envisages that by 2025, these expenditures will have amounted to only about 0.2% of GDP.

4.4. CYCLICALLY ADJUSTED FISCAL BALANCE SHEET

Cyclically-adjusted fiscal balance is the fiscal balance from which the isolated impact of the business cycle is excluded, and the identity from which it starts is the following⁹:

$$FB = CB + CAB$$

The part of the fiscal balance (FB) that is not affected by cyclical fluctuations is called cyclically adjusted fiscal balance (CAB), and the goal of this procedure is to isolate the cyclical component of the fiscal balance (CB) which is the result of the output gap. The actual fiscal balance will be equal to the cyclically adjusted one in case the output gap is equal to zero, i.e. if the real GDP growth rate is equal to the potential one. The structural fiscal balance is further calculated by eliminating one-time effects on the revenue and expenditure side, and thus shows the structural (permanent) fiscal position.

The fiscal space created in the previous period and the significantly structurally improved fiscal position of the country made the relaxation of the fiscal policy in times of crisis possible.

With the outbreak of the pandemic at the beginning of 2020 and the introduction of measures for the health protection of the population, the global economy entered an unprecedented crisis. The impact on the fiscal position was visible through reduced budget revenues, which are a consequence of the slowdown in economic activity due to the pandemic, and dramatically higher expenditures due to higher health care costs and the adoption of an extensive assistance package for the economy and citizens. In such a situation, the usual analysis of the economic cycle, quantification of fiscal multipliers and assessment of the elasticity of the fiscal balance in relation to the output gap does not reflect a completely correct assessment of the country's fiscal position. The response of the fiscal policy to the complex economic situation caused by the coronavirus pandemic in 2020 and 2021 is represented by a comprehensive package of measures to help the economy. In the absence of measures to support the economy and the population, the fall in GDP in 2020 and a strong recovery in 2021 would be absent, and a greater contraction of the economy would affect a significantly slower recovery in the forthcoming medium-term period.

⁹ A more detailed description of the methodology and results used can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or via the link https://www.mfin.gov.rs/upload/media/jzsbpL_601ab1585ca02.pdf

Table 10. Fiscal balance and components for calculation of cyclically adjusted balance in the period 2005–2025, % of GDP*

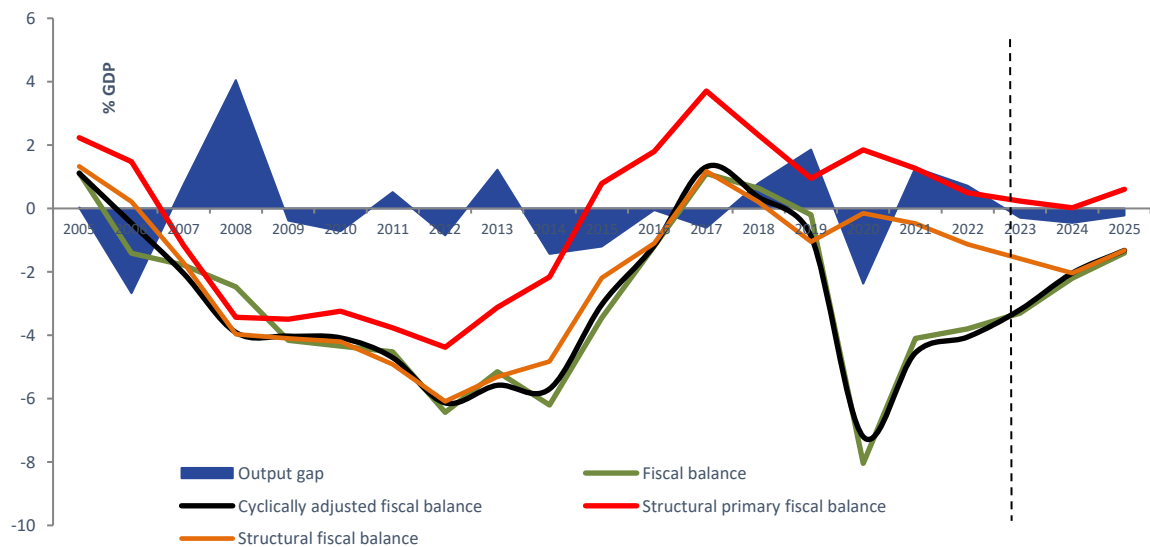
	Output gap	Fiscal balance	Primary fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural fiscal balance	Structural primary fiscal balance**	Fiscal impulse
2005	0.0	1.1	2.0	1.1	2.0	1.3	2.2	
2006	-2.7	-1.4	-0.1	-0.5	0.8	0.2	1.5	1.2
2007	0.8	-1.8	-1.2	-2.1	-1.5	-1.7	-1.2	2.3
2008	4.0	-2.5	-1.9	-3.9	-3.4	-4.0	-3.4	1.9
2009	-0.4	-4.2	-3.6	-4.0	-3.4	-4.1	-3.5	0.0
2010	-0.7	-4.3	-3.4	-4.1	-3.1	-4.2	-3.2	-0.3
2011	0.5	-4.5	-3.4	-4.7	-3.6	-4.9	-3.8	0.4
2012	-0.8	-6.4	-4.7	-6.1	-4.4	-6.1	-4.4	0.9
2013	1.2	-5.1	-3.0	-5.6	-3.4	-5.3	-3.1	-1.0
2014	-1.4	-6.2	-3.5	-5.7	-3.0	-4.8	-2.2	-0.4
2015	-1.2	-3.5	-0.5	-3.0	0.0	-2.2	0.8	-3.0
2016	-0.1	-1.2	1.7	-1.2	1.7	-1.1	1.8	-1.8
2017	-0.6	1.1	3.6	1.3	3.8	1.2	3.7	-2.1
2018	0.8	0.6	2.7	0.4	2.5	0.2	2.3	1.4
2019	1.9	-0.2	1.8	-0.9	1.1	-1.0	0.9	1.3
2020	-2.4	-8.0	-6.0	-7.2	-5.2	-0.2	1.8	6.3
2021	1.3	-4.1	-2.4	-4.6	-2.8	-0.5	1.3	-2.4
2022	0.7	-3.8	-2.2	-4.1	-2.4	-1.1	0.5	-0.4
2023	-0.3	-3.3	-1.5	-3.2	-1.4	-1.6	0.2	-1.0
2024	-0.4	-2.2	-0.1	-2.0	0.0	-2.0	0.0	-1.4
2025	-0.2	-1.4	0.5	-1.3	0.6	-1.3	0.6	-0.6

* For the period 2022–2025 the projected values are shown.

** The structural primary balance was obtained by excluding estimated one-time revenues and expenditures. The results showing the change in the structural primary deficit do not explicitly exclude the effects of increasing the efficiency of revenue collection, so the assessment of structural adjustment in 2015 and 2016 differs in part from the previously presented effects.

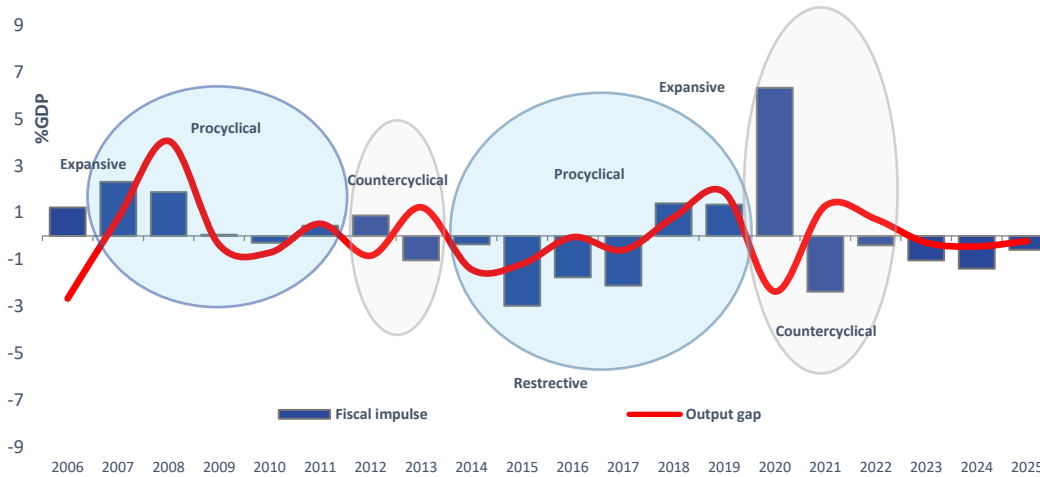
Source: Ministry of Finance

Graph 10. Output gap, cyclically adjusted, and structural fiscal balance in the period 2005– 2025, % of GDP *



*For the period 2022–2025 the projected values are shown

Graph 11. Character and effects of fiscal policy in the period 2006–2025, % of GDP*

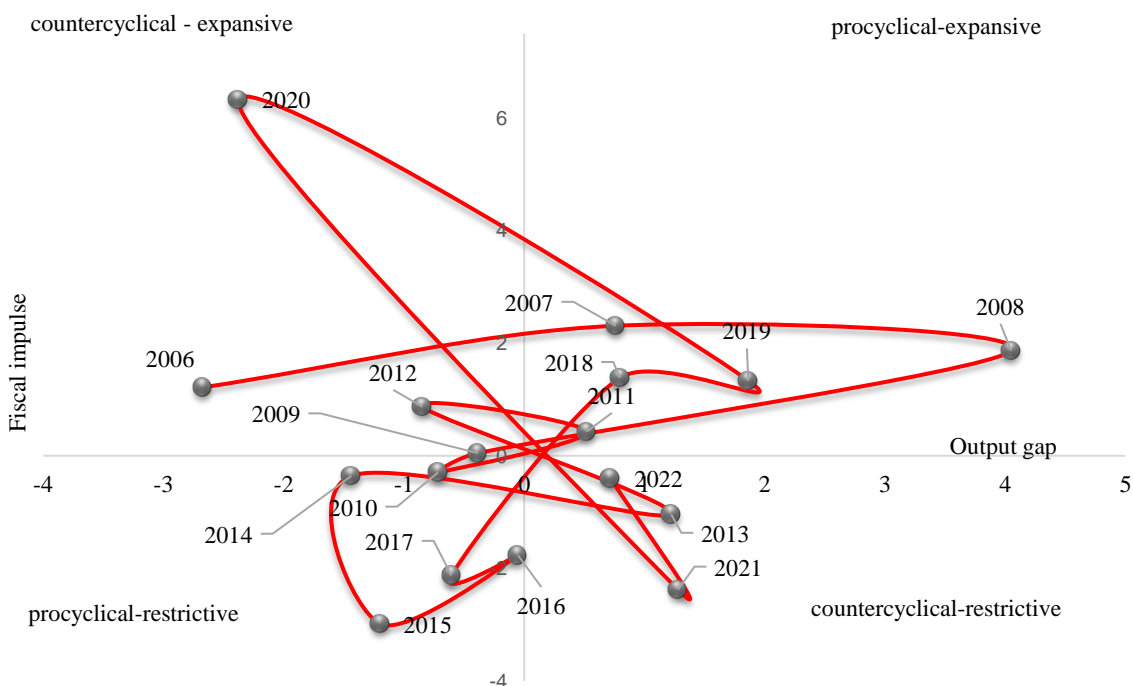


* For the period 2022–2025, the projected values are shown.

The structural fiscal position of the country was not significantly impaired in the period between 2020 and 2022, due to the fact that the implemented measures to help the economy from the fiscal policy domain were time-limited. During 2022, a certain amount of funds is foreseen as a form of assistance to the population in the amount of 0.92% of GDP. In addition, the energy crisis caused significant government interventions in the domain of ensuring energy stability. Apart from the increased expenditures for energy products, assistance to the population and the companies, the reduction of excise duties on oil derivatives was also provided.

As the fiscal impulse is defined as the difference between two consecutive cyclically adjusted (primary) results, we estimate that the fiscal policy during 2020 was extremely expansive-countercyclical, aimed at the mitigation of the negative economic cycle. Due to the slightly smaller scope of the package of economic support measures in 2021, the fiscal policy is more restrictive than the previous year, and also counter-cyclical in character. For 2022 to 2023, it is estimated that the fiscal policy will remain slightly restrictive, despite significant allocations to alleviate the energy crisis.

Graph 12. Character and effects of fiscal policy in the period 2006–2022, % of GDP



4.5. PUBLIC DEBT MANAGEMENT

In accordance with the international practice and according to the Law on Public Debt (“Official Gazette of the RS”, No. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20), Public Debt Management Strategy should be supported and consistent with the government’s overall medium-term macroeconomic framework and is an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on the principles that define the need for a transparent and predictable borrowing process, with the permanent development of the government securities market and an acceptable level of exposure to financial risks.

At the end of September 2022, the total general government debt amounted to RSD 3,839.8 billion, or 54.2% of GDP. Out of that, RSD 3,803.4 billion referred to the obligations of the central government, while RSD 31.2 billion referred to the non-guaranteed debt of LGUs and RSD 5.3 billion to the non-guaranteed debt of PE Roads of Serbia and Koridori Srbije ltd. Beograd. Direct liabilities of the central government amounted to RSD 3,614.9 billion, and indirect liabilities of the central government amounted to RSD 188.5 billion. The internal public debt of the central government amounted to RSD 1,368.7 billion, and the external public debt RSD 2,434.7 billion. According to the data from 30 September 2022, the largest percentage of the general government debt of the Republic of Serbia is still denominated in euros and amounts to 57.6%. Then the most represented are the dinar with 25.2% and the US dollar with 12.4%. The rest of the debt is denominated in special drawing rights 4.0% and other currencies 0.7%. As of 30 September 2022, the largest part of the general government debt of the Republic of Serbia is with a fixed interest rate – 81.8%, while the public debt with a variable interest rate is 18.2% of the total public debt. Among the variable interest rates, Euribor is the most represented, accounting for 74.7%, followed by the interest rate for special drawing rights 20.9%, Belibor 2.6%, Libor against the US dollar 1.3%, while the share of liabilities with other interest rates is 0.5%.

Fiscal framework in the period 2023-2025: Economic policy in the forthcoming period is shaped by exiting one and entering a new crisis. Coming out of the two-year crisis caused by the pandemic, a calmer period was expected that would allow economic, primarily fiscal policy, enough time to return to a sustainable path. However, the conflict in Ukraine intensified existing and brought new risks that completely change both the international environment and the economic policy in the country. Global, growing inflation, and intensified energy crisis pose great challenges to economic policy makers.

Having in mind the projected result of the budget of the Republic of Serbia for the period 2023-2025, including the volume of withdrawal of credit funds for project financing from budget users, the effects of changes in the exchange rate of the dinar against the euro and the US dollar, in the basic macroeconomic scenario, the central government debt should be at 53.0% of GDP by 2025.

Table 11. Basic projection of the government debt of the general level until 2025

	2022 p	2023 p	2024 p	2025 p
Public debt (central government), RSD billion	3,973.9	4,419.1	4,745.1	5,041.1
Central government debt, in% of GDP	56.1%	55.1%	54.1%	53.0%
Non-guaranteed debt of local self-government units*, in% of GDP	0.8%	1.0%	1.0%	1.0%
General government debt, in% of GDP	56.9%	56.1%	55.1%	54.0%

*and other government sector

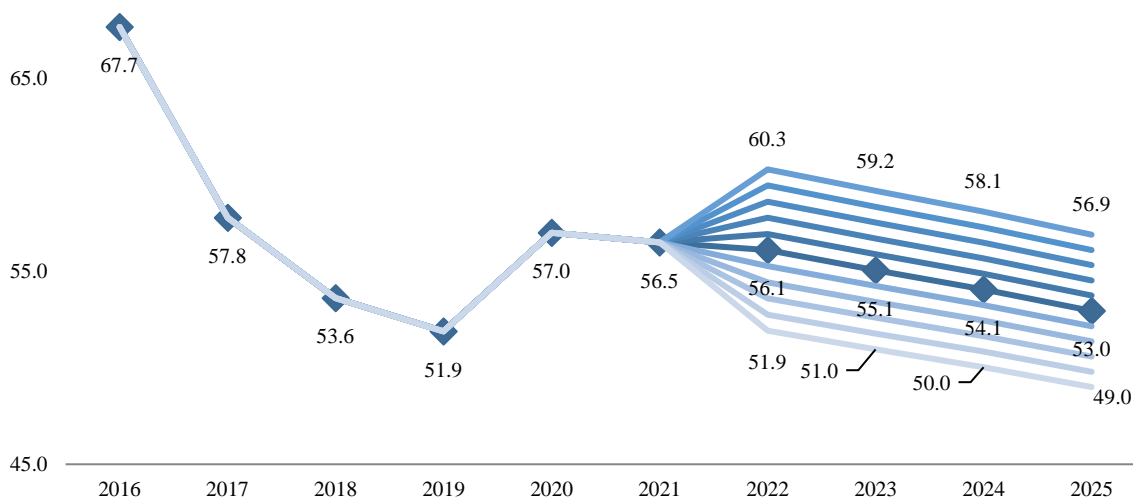
Source: Ministry of Finance

It is predicted that the non-guaranteed debt of the local level of government will be at a relative level of about 1.0% by the end of 2025. At the end of 2025, the general government debt of should be at the level of 54.0% of GDP.

Financial and fiscal risks can lead to an increase in public debt higher than anticipated in the baseline scenario. Risks that are present and that can lead to an increase in indebtedness and public debt service costs are: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit and operational risks and risks related to the distribution of servicing costs (debt structure, concentration of liabilities).

Due to the high share of debt denominated in foreign currency (74.6%), it is evident that foreign exchange risk will determine the behaviour of public debt/GDP ratios in the forthcoming period and significantly condition the success of fiscal policy measures on consolidating public finances and reducing public debt share in GDP.

Graph 13. Impact of changes in the dinar exchange rate against the basket of currencies from the public debt portfolio on the change in the public debt ratio and GDP - Central level of government



Source: Ministry of Finance

The graph presents the movement of public debt ratios of the central government and GDP depending on the change in the dinar exchange rate against a certain basket of currencies. The basic projection is presented with alternative scenarios depending on the appreciation, i.e. depreciation of the dinar exchange rate in the range from 10% appreciation to 10% depreciation of the dinar in relation to the currency basket. Applying the above scenarios, it can be seen that the ratio for 2025 would range from 49.0% to 56.9%, while for the baseline scenario it would be at the level of 53.0%.

In order to reduce the exposure to variable interest rates, contracting new liabilities will be done at fixed interest rates, where possible, especially in the field of loans financing investment projects.

In order to optimize the portfolio and more efficient public debt management, a cost-risk analysis of alternative borrowing strategies was performed, using the World Bank model (Medium Term Debt Strategy Model - MTDS), in the conditions of the baseline scenario, but also in the conditions of shocks that may lead to changes in the baseline scenarios: exchange rate, change in interest rates on the international and domestic market, combined shock.

The public debt management strategy in the next medium-term period is based on the assumption that financing will be provided by borrowing on both the domestic and international financial markets. Flexibility in the domain of the choice of the market in which the borrowing will take place, the borrowing currency and the financing instrument are the conditions necessary for ensuring the financing of the budget expenditures of the Republic of Serbia. The decision on the annual borrowing is made within the budget law for a particular fiscal year. Depending on the change in the basic fiscal aggregates, it is possible to adjust the borrowing plan during the fiscal year.

During 2022, the work was actively carried out on the harmonization of legal regulations and IT infrastructure for the establishment of an international link (i-Link) between the Central Registry, Securities Depository and Clearing and Euroclear Bank, in order to facilitate the balancing transactions of state benchmark bonds at the beginning of 2023 through the Euroclear provider of post trade transactions. The main advantages of joining the Euroclear system are the expansion of the investor base through the easier availability of domestic securities to foreign investors, which further reduces costs in the reduced chain of participants in the purchase of securities, and thus the drop in yields on securities and lower borrowing costs for issuers. Also, the liquidity of the secondary market increases by expanding the investor base.

4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

Fiscal risks represent the exposure of public finances to certain circumstances that may cause deviations from the projected fiscal framework. Deviations can occur in revenues, expenditures, fiscal result, as well as in the assets and liabilities of the state, in relation to what is planned and expected. External risks, such as natural disasters or global financial crises, cannot be influenced by the government, but it is possible to define exit strategies that would mitigate their effects (maintaining stability in good times so that fiscal policy has room for adequate response in times of recession or crisis, insurance in case of natural disasters, etc.). Internal risks, i.e. their materialization, are a consequence of activities in the public sector, and the probability of their realization can be influenced by decisions and policies of the Government.

Identification of the biggest fiscal risks that can affect government finances in the medium term is the starting point for better management of fiscal risks. There are detailed data on certain fiscal risks and it is easy to identify whether, and with what probability, they will affect the fiscal aggregates in the medium term. On the other hand, there is not enough detailed data for other fiscal risks; however, even their identification raises awareness of the possibility that they may lead to deviations from the planned fiscal framework in the forthcoming period.

The Ministry of Finance has a leading role in managing fiscal risks. As a key institution for medium-term macroeconomic and fiscal planning, budget formulation and management, the Ministry of Finance must also play a leading role in establishing the institutional and legal structure and building the capacity necessary to manage fiscal risks. Fiscal risk monitoring sector, the organizational unit for fiscal risk management in the Ministry of Finance, was established with the aim of strengthening legal regulations and methodological framework, capacity building, and developing technical tools and models necessary for monitoring and assessing fiscal risks. The intention of these activities is to identify and assess risks and propose exit strategies, as an aid to the Government in maintaining the stability of public finances, which is a key goal of fiscal policy and one of the basic preconditions for more dynamic economic growth.

In order to implement the aforementioned process of monitoring fiscal risks, in October 2021, the Unified Methodology was adopted, prepared with the help of the World Bank, and which includes four basic methodologies, namely:

- 1) Methodology for monitoring fiscal risks arising from the operations of public enterprises;
- 2) Methodology for monitoring fiscal risks to the budget of the Republic of Serbia arising from the exercise of the competence of local self-government units;
- 3) Methodology for monitoring fiscal risks based on court proceedings;
- 4) Methodology for monitoring fiscal risks that occur as a result of natural disasters.

The aforementioned methodology, adopted in October 2021, was based on the draft methodology prepared by the World Bank.

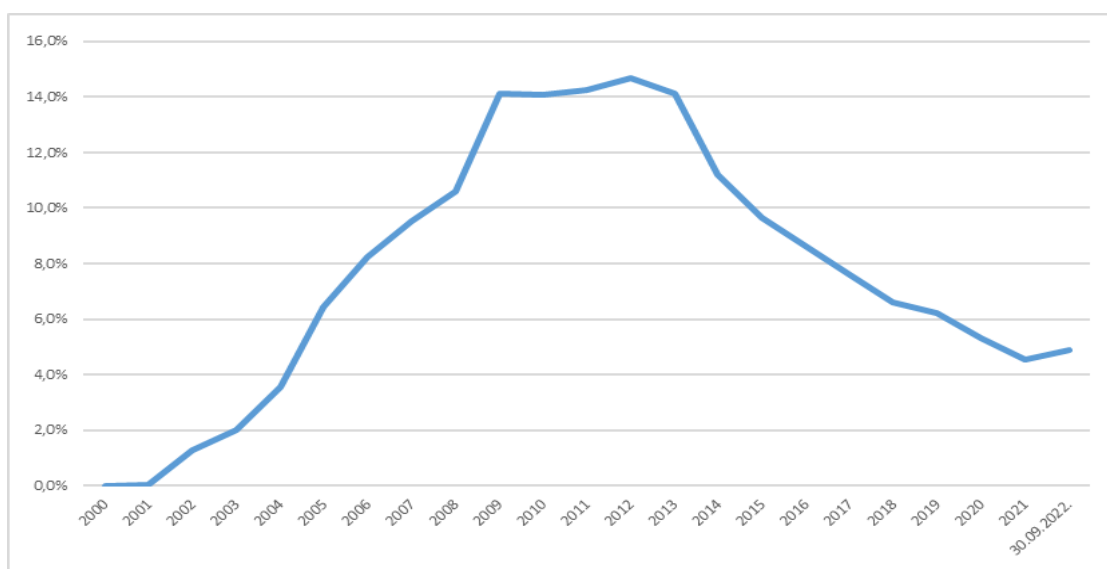
In order to reduce fiscal risks and maintain expenditures within the planned (projected) framework in the forthcoming medium-term period, the following activities have been undertaken:

- Limiting the issuance of new guarantees: Amendments to the Law on Public Debt prohibit the issuance of new guarantees for loans for liquidity purposes. Amendments to the Law on the Development Fund of the Republic of Serbia made it impossible to further provide counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.
- Structural reforms of public and state enterprises: A large number of enterprises, which are the biggest users of guarantees and subsidies, in order to be trained for market competition and financial sustainability, and able to repay loans, are in the process of restructuring, i.e. implementing restructuring plans.
- Continuation of the reforms in the field of state financial institutions, banking institutions and deposit insurance started in 2012 and 2015 respectively.
- Risk monitoring based on court proceedings and risks arising as a result of natural disasters.

Guarantees issued by the state affect the amount of public debt, but also the amount of the deficit, if the repayment of the loan is taken over by the state instead of the original debtor. According to the definition determined by the Law on Public Debt¹⁰, issued guarantees are part of indirect liabilities and are included in the total amount of public debt ("Official Gazette of RS", No. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20). Restrictions on the issuance of new guarantees have yielded results and the share of indirect liabilities in total public debt is declining. Indirect liabilities (guarantees issued by the Republic of Serbia) participated with 4.5% in the total public debt, according to the national methodology, at the end of 2021. The share of these liabilities in public debt is approximately at the same level, and at the end of September 2022, these liabilities account for 4.9% of total public debt. The largest share of these liabilities in public debt, just over 14% on average, was recorded between 2009 and 2013.

At the end of 2021, the debt on the basis of issued guarantees amounted to EUR 1.4 billion, or 2.6% of GDP. The debt on this basis was reduced by nearly EUR 41 million compared to the end of 2020. By September of the current year, the debt related to guarantees increased by EUR 224.8 million, compared to the end of 2021, and amounts to EUR 1.6 billion on 30 September 2022.

Graph 14. Share of indirect debt in the total public debt of the Republic of Serbia



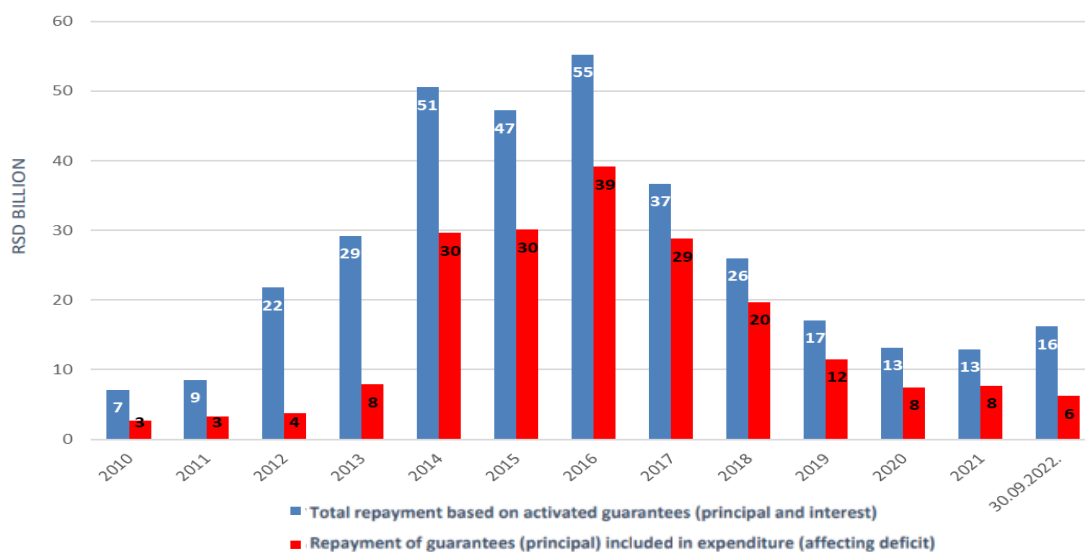
The total repayment of the principal on the basis of guaranteed loans in 2021 amounted to RSD 11.3 billion, of which RSD 7.7 billion affect the deficit. Until 2014, the accounting methodology did not include guarantee repayments in expenditures¹¹. Since 2014, part of these expenditures has been included in budget expenditures¹². Regardless of the budget and accounting presentation, the debt paid by the state instead of the main debtor increases the total borrowing needs.

¹⁰ The definition of debt, according to the Maastricht criteria, among other things, treats issued guarantees differently, compared to the definition of public debt according to domestic legislation. According to the Maastricht criteria, only activated guarantees are included in the public debt (debt of the general government). The domestic legislation has a more conservative approach in this matter, and includes all issued guarantees in the public debt.

¹¹ Repayment on the basis of guarantees from the republic budget is included in expenditures on a cash basis. International standards, which are based on an accrual basis, include the entire amount of the remaining debt in expenses, at the moment the guarantee is activated, while the debt repayment itself is treated as a financial transaction on that basis.

¹² Part of the expenditures on the basis of repayment under guarantees for PE "Roads of Serbia" is not included in budget expenditures, because this company is part of the general government sector, and expenditures financed by guaranteed loans were part of general government expenditures at the time of spending, while repayment itself is treated as a financial transaction ("below the line").

Graph 15. Debt repayment based on activated guarantees, in billion dinars



The repayment plan based on guarantees (total principal and interest) in the RS budget revision for 2022 amounts to RSD 24 billion, of which RSD 18.2 billion are included in the expenditures that affect the result for the repayment of principal under guarantees.

The indirect debt, the inclusion of part of the repayments on the basis of guarantees in budget expenditures and the increase in the deficit on that basis, have increased awareness of the growing fiscal risks arising from the issued guarantees. Therefore, actions have been taken to limit the issuance of new guarantees for loans for liquidity purposes and prevent further issuance of counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to restrictions on the issuance of state guarantees, a key step in reducing and eliminating fiscal risks on this basis is to reform state and public companies, beneficiaries of guarantees, in order to be able to repay their loans. A large number of companies, which are also the largest beneficiaries of guarantees, are in the process of restructuring, i.e. the implementation of restructuring plans made in cooperation with international financial institutions.

With the rebalance of the budget of the Republic of Serbia for 2022, it is planned to issue guarantees up to a maximum of RSD 143.1 billion, for loans intended for the realization of infrastructure projects. In the forthcoming years, no significant growth of this expenditure category is envisaged. The share of these expenditures in GDP is around 0.3 % of GDP on average, in the medium term.

Structural reforms of public and state-owned enterprises, making them prepared for market competition and financial sustainability, on the one hand, and limited and targeted issuance of new guarantees on the other hand, will contribute to reducing fiscal risks on this basis and maintaining planned expenditures, i.e. projected frameworks in the next medium term.

The operations of public companies represent a significant source of fiscal risks, both on the side of budget revenues and on the side of expenditures. Public companies face numerous problems in their business, from the collection of receivables, to the regular settlement of liabilities towards creditors, the state and employees, etc. The state as the founder and their sole owner is responsible for the business and is their last refuge in case of illiquidity. There are several channels through which fiscal risks related to the operations of public enterprises can materialize. The biggest, but not the only risk, refers to state guarantees given for loans to public companies. Sustainability, efficiency and profitability of public companies affect the budget revenues, i.e. the amount of profit they pay into the budget. The quality of products and services provided by public companies affects the efficiency and profitability of the private sector and ultimately the level of taxes they pay to the budget.

Public companies represent a significant segment of the economy that employs about 68,000 people. Public companies are established as companies for performing activities of general interest. Their work is regulated by the Law on Public Enterprises ("Official Gazette of RS", No. 15/16 and 88/19),

which was adopted in February 2016, as well as sub-sectoral laws that define specific areas that are not covered by the Law on Public Enterprises (Law on Energy, ("Official Gazette of RS", No. 145/14, 95/18 - other laws and 40/21), Law on Companies, ("Official Gazette of RS", No. 36/11, 99/11, 83/14 - other laws, 5/15, 44/18, 95/18, 91/19 and 109/21) etc.).

During the autumn of 2021, there were disturbances in the energy market in the world. The crisis in the energy sector only added to the already existing crisis caused by the pandemic. Due to increased demand caused by the post-pandemic development of the economy and supply problems, i.e. insufficient supply and insufficient stocks, natural gas prices have reached historical maximum level. This boosted the demand for coal, so its prices rose dramatically. High prices of gas and coal, as well as reduced production from wind power plants and high prices of permits for CO₂ emissions in Europe caused the price of electricity to rise, also to historical highs. In such conditions, electricity production from coal increased, because it was more favourable than production from gas.

So far, it has been shown several times that the growth of some of the basic energy sources, such as oil and gas, leads to the growth of other prices on the market. This already difficult situation was followed by the crisis in Ukraine, so the energy security and European dependence on Russian fossil fuels appeared as one of the key problems. This sequence of events influenced the prices of electricity and natural gas in the world to reach prices significantly higher than usual in the last few years. The energy crisis inevitably spilled over to Serbia, mostly affecting energy companies, PE "Elektroprivreda Srbije" and PE "Srbijagas". Due to the higher prices of electricity, which would threaten the operations of economic entities in the RS, as well as energy entities performing the activity of transmission and distribution of electricity (in connection with the purchase of electricity for losses), it was recommended that PE EPS supplies these entities at prices significantly lower than the market ones, thus exposing PE EPS to financial risk, i.e. the risk of price growth is completely transferred to PE EPS.

Throughout the 2022, the Republic of Serbia struggled to provide and secure the supply of key energy sources, both through financial and strategic measures. In addition, as of September 1, an increase in the price of electricity has been in effect, and the effects of such a decision will be visible in the upcoming period. Also, negative economic and hydrological trends influenced the necessity of returning to the production of electricity from coal, and maximum attention was paid to the procurement of this energy source.

As for PE "Srbijagas", the proactive work regime ensured additional storage capacities for natural gas in Hungary, and we enter the winter season with more than 650.0 million cubic meters of gas in storage, which is significantly more than the situation in the same quarter of the previous year.

Since the financial position of natural gas distributors has significantly worsened due to unfavourable market trends, the Republic of Serbia financed the procurement of reserve quantities of gas, and co-financed regular purchases.

The effects of the energy crisis in the world did not spare PE "Roads of Serbia". This public company was identified as a bearer of high fiscal risk. The fact is that this company is not able to cover its high costs from its own income, generated primarily from tolls. Also, the prices of basic energy sources and the main raw materials needed to perform the basic activity have an increasing trend, which could further worsen the financial position of this public company, thus increasing reliance on the budget of the Republic of Serbia for the purpose of further operation and functioning. In addition to the amount of subsidies determined by the Law on the Budget for 2022, an additional RSD 12.0 billion has been allocated for the company by the Law on Amendments to the Law on the Budget for 2022. The burden on the budget has been reduced compared to 2021; however, high operating costs still exist that the mentioned company is unable to cover from its own income.

A similar situation was identified at "Koridori Srbije" Ltd Beograd, due to the high expenditures for capital investments that are under the jurisdiction of this company, and therefore, changes in basic raw materials can significantly increase the costs of implementing projects and increase reliance on the budget of the Republic of Serbia, with the aim of continuous implementation of projects.

The total assets of the national public enterprises at the end of 2021 amounted to RSD 3,217 billion, while the net loss in the amount of RSD 12.7 billion was realized as the final result.

Table 12. Main financial indicators of public companies, billion dinars

Description	2020	2021
Total assets	2,654	3,217
Owner equity	1,033	1,140
Total revenue	536.4	776
Net profit	15.2	-12.7
Subsidies	66.7	67.3
Subsidies, without PE "Roads of Serbia"	39.8	38.1

Source: Financial reports for 2020 and 2021.

In 2021, subsidies, expressed as a percentage of total revenues, are at a slightly higher level compared to the previous year and account for 8.7% of total revenues of public companies. Certain subsidies have a capital character, such as subsidies for the PE "Roads of Serbia", intended for the reconstruction of the road infrastructure.

The total net result determined in the first half of 2022 is a loss in the amount of RSD 42.9 billion. The result of the current year is overestimated for depreciation costs of PE "Roads of Serbia", because the company records these costs only at the end of the year in the entire amount for the given year. In the first half of the current year, 24 companies made a profit in the total amount of RSD 10.4 billion, which is less than planned (the envisaged amount is RSD 19.5 billion). The biggest influence on the positive net result in the observed period is "Elektromreža Srbije" a.d., which achieved a net profit in the amount of RSD 3.8 billion. In the first half of the current year, twelve companies made a net loss in the total amount of RSD 53.3 billion, which is better than planned the planned value that is negative and amounts to RSD 60.7 billion).

In order to reduce the fiscal risks associated with the operations of public companies, restructuring processes of the largest public companies (groups of companies dealing with railway traffic - "Železnice Srbije" a.d., "Infrastruktura železnice Srbije" a.d., "Srbija Voz" a.d., "Srbija Kargo" a.d., PE EPS and PE "Srbijagas") are underway. The entire process is carried out in cooperation with the world's leading financial institutions - the IMF, the World Bank and the EBRD, in order to put these companies on a sound basis and function according to the market principle, as well as to reduce potential fiscal costs that may arise from their operations.

Income from public enterprises and dividends of state-owned companies represent a significant part of non-tax revenues. The liability of public companies to pay at least 50% of the profit realized in the previous year is also prescribed by the Law on the Budget of the Republic of Serbia for the year 2022.

Prior to the period of fiscal consolidation, the Republic of Serbia had significant fiscal costs of rescuing state-owned banks. Total costs of government interventions in the banking sector in the period 2012-2015 amounted to about EUR 900 million. This is the amount set aside for the recapitalization of banks, various financial transactions when merging failed banks with more successful ones, including the payment of insured and uninsured deposits (for which the funds of the Deposit Insurance Fund were used).

Today, the Republic of Serbia has a direct share in the capital in the country's banking sector:

- JSC Banka Poštanska Štedionica Belgrade (72.64%),
- JSC Srpska Banka Belgrade (76.69%).

In order to consistently implement the exit strategy and reduce fiscal risks on this basis, reform activities in the area of state financial institutions, which began in 2012 and 2015, will continue.

With the support of the World Bank, the implementation of the strategy for the Banka Poštanska štedionica a.d. Beograd will continue, with an emphasis on redirecting business with households, entrepreneurs, micro-enterprises and small businesses; improving the bank's internal organization, corporate governance and risk management; strengthening the IT infrastructure, as well as the business plan for the period 2020-2022.

In accordance with the Government's strategy for state-owned banks, the Expert Working Group for the Transformation of Srpska Banka into a specialized financial institution for providing all types of financial services and support to the purpose industry of the Republic of Serbia was formed on 21 January 2019 and began formal work in March 2019 when the constitutive session was held.

The reform of regulations governing the financial system was implemented in February 2015. One of the characteristics of this reform is the transfer of competencies for monitoring the results of operations and work of management bodies in banks, insurance companies and other financial institutions whose shareholder is the Republic of Serbia, as well as organizing and conducting the sale of shares in them from AOD to the Ministry of Finance, starting from 1 April 2015. With the reform of regulations, the *Bank Recovery and Resolution Directive* (BRRD) was transposed into domestic regulations, and the function of bank restructuring was entrusted to the NBS. In December 2016, a set of regulations implementing the Basel III standards in the domestic regulatory framework was adopted, thus achieving a significant degree of harmonization of domestic regulations with relevant EU regulations in this area, and in 2017 activities continued to improve domestic regulations which regulate operations of banks, with the aim of their further harmonization with EU regulations. The main objectives of adopting these regulations are to increase the resilience of the banking sector by increasing the quality of capital and introducing protective layers of capital, better monitoring and control of bank exposure to liquidity risk, further strengthening of market discipline and transparency of banks in the Republic of Serbia by publishing all relevant information on the bank's operations, as well as adjusting the reporting system to new regulatory solutions.

One of the limiting factors for the growth of credit activity was the relatively high level of NPLs. In August 2015, the NPL Resolution Strategy was adopted, which is implemented through the implementation of two three-year action plans, one prepared by the Government and the other prepared by the NBS, in order to lower the level of NPLs. The key areas of implementation included strengthening the capacity of banks to resolve NPLs, improving regulations for assessing the value of collateral, developing the market for NPLs, etc.

Since the adoption of the mentioned strategy, a number of laws and bylaws have been adopted and amended, institutional capacity has been improved and numerous measures have been implemented to facilitate the write-off and transfer of uncollected receivables. By creating stable business conditions, the Serbian economy entered the investment cycle in 2015, and since then, investments by volume have represented a large part of the economy's growth. The profitability of the economy is growing in conditions of low and stable inflation and a relatively stable exchange rate. All of these were key factors for a sustainable solution to the issue of NPLs. This is clearly seen from the fact that the largest decrease in NPLs was recorded in the branches that are also the carriers of growth - which is evident in the manufacturing industry and construction.

Deposit insurance is a mechanism that contributes to the preservation of financial stability and provides protection for depositors. The deposit insurance system ensures that each protected depositor¹³ is paid the full amount of deposits in each bank up to the insured amount of EUR 50,000 in the event of bankruptcy or liquidation of the bank. Deposit insurance is regulated by the Law on Deposit Insurance ("Official Gazette of RS", Nos. 14/15, 51/17 and 73/19). The guarantee of payment of insured deposits by the state, either directly from the budget, or indirectly by issuing guarantees for borrowing by AOD, is a source of fiscal risks and possible fiscal costs. However, thanks to the achieved stability of the banking sector, since 2015 there has been no need to use the funds of the deposit insurance fund, nor the state on the basis of payments of insured deposit amounts.

Having in mind the situation created by declaring a state of emergency in the Republic of Serbia, in order to enable mitigation of economic and financial consequences caused by the pandemic, measures were taken to support the economy aimed at increasing the liquidity of business entities, including agricultural holdings, entrepreneurs, micro, small and medium-size companies, in accordance with the law governing the accounting.

¹³ Protected depositors are: natural persons, entrepreneurs, micro, small and medium legal entities, after the exclusion provided by the Law on Deposit Insurance.

One of the measures was the adoption of the Law on Establishing a Guarantee Scheme (adopted in December 2020), as a measure of support to the economy for mitigating the consequences of the pandemic of the disease caused by the SARS-CoV-2 virus.

The Republic of Serbia has recognized the need to approve an additional 500 million euros in aid, in order to maintain liquidity, which will bring the total amount of funds placed through the First Guarantee Scheme to EUR 2.5 billion. The contract on the guarantee of the Republic of Serbia has so far been signed by 24 banks, to whom the estimated EUR 2.5 billion have been placed, while the banks themselves have placed around EUR 2.3 billion to clients. In 2021, the Law on Establishing the Second Guarantee Scheme was passed, as a measure of additional support to the economy due to the prolonged negative impact of the pandemic caused by the SARS-CoV-2 virus ("Official Gazette of the RS", No. 40/21 and 129/21) which approved an additional 500 million euros in aid. In total, as part of both guarantee schemes, banks placed around EUR 2.4 billion in loans.

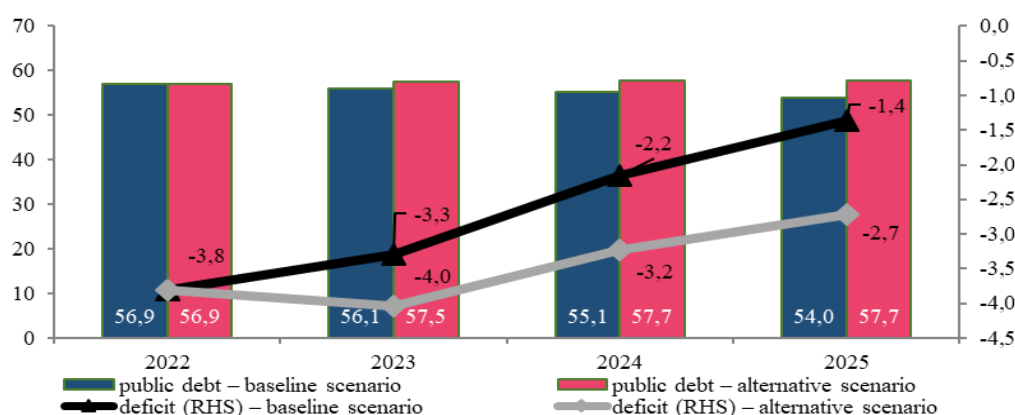
There are significant fiscal risks based on court decisions, domestic and international courts, penalties and damages by state authorities. The Republic of Serbia paid a total of RSD 121 billion from the republic budget in the period 2009-2020 based on fines and penalties according to court decisions and compensation for injuries or damage caused by state authorities, whereas in 2021, RSD 16.6 billion were paid from the budget of the Republic of Serbia on the same basis. The decision of the European Court of Human Rights obliged the Republic of Serbia to pay the public debt on the basis of unpaid foreign currency savings that citizens of the former republics of SFRY and citizens of the Republic of Serbia deposited with banks based in the Republic of Serbia and their branches in the former republics of SFRY. Also, potential liabilities may arise from decisions of the Constitutional Court on the basis of submitted constitutional appeals and decisions of the European Court of Human Rights on submitted complaints of employees of former socially-owned enterprises (unpaid salaries, contributions for compulsory social insurance, default interest, costs of proceedings, and claims on commercial transaction).

The constant risk of natural disasters implies obligatory investment in prevention Programmes in order to reduce potential fiscal costs for repairing damages caused on that basis. The prevention refers to the inclusion of a wider range of financial instruments (such as reserve funds, potential credit lines, and especially insurance) that should be available to the government. In 2014, the Republic of Serbia faced the catastrophic consequences of the floods, whose total damage (with losses) was estimated at more than EUR 1.7 billion. Within the National Programme, in November 2018, another umbrella law was passed that deals with the issue of natural disasters and catastrophes, i.e., the Law on Disaster Risk Reduction and Emergency Management ("Official Gazette of RS", No. 87/18). In 2019, the Republic of Serbia paid RSD 4.22 billion from the budget for damages for injuries or damages caused by natural disasters. In 2020, RSD 2.8 billion were allocated for this purpose, while in 2021, the amount spent for these purposes amounted to RSD 520.3 million. In 2022, for the first nine months, around RSD 94.2 million were allocated for this purpose.

Alternative scenario of fiscal developments in the period 2022–2025

The following graph shows the movement of the share of deficit and public debt in GDP based on the alternative macroeconomic scenario, which implies growth rates of 0.5%, 2.5% and 3.5% in the next three-year period.

Graph 16. Baseline and alternative scenario of fiscal developments in the period 2022–2025



Slower growth would affect, through its components, the realization of fiscal aggregates, primarily on the revenue side, and most of all on income from labour and consumption taxes. Such GDP dynamics would lead to higher levels of deficit and public debt, compared to the baseline scenario. The level of the deficit would fall more slowly, and the level of public debt would even increase compared to the level of 2022, before stabilizing somewhere below 58% of GDP. The assumption in this scenario is to keep the wage and pension trend policy, as well as the nominal amounts provided for capital investments, the same as in the baseline scenario.

Comparison with the previous Programme

The medium-term fiscal framework has changed significantly compared to the previous document¹⁴, due to the scale of negative effects affecting the price growth on the international market, as well as the Ukrainian conflict. The funds intended to mitigate these effects have increased the level of expenditures and deficits in the forthcoming period to the greatest extent. At the same time, revenues and expenditures will gradually decrease in terms of share in GDP, with the fact that, as long as the uncertainty related to the pandemic, the prices of energy, raw materials and food and the conflict in Ukraine lasts, fiscal interventions will be possible in order to mitigate the negative effects. Planned deficits enable further reduction of the share of public debt in GDP.

Table 13. Comparison of fiscal indicators of the two Programmes, in% of GDP

	2021	2022	2023	2024	2025
Economic Reform Programme 2022–2024					
Revenues	43.5	42.2	41.4	41.1	–
Expenditures	48.4	45.3	42.9	42.1	–
Fiscal result	-4.9	-3.0	-1.5	-1.0	–
Economic Reform Programme 2023–2025					
Revenues	43.3	43.0	40.9	40.4	39.6
Expenditures	47.4	46.8	44.2	42.5	41.0
Fiscal result	-4.1	-3.8	-3.3	-2.2	-1.4
Difference					
Revenues	-0.2	0.8	-0.5	-0.7	–
Expenditures	-1.0	1.6	1.3	0.4	–
Fiscal result	-0.8	-0.8	-1.8	-1.2	–

Source: Ministry of Finance

4.7. QUALITY OF PUBLIC FINANCES

After the successful conclusion of the arrangement with the IMF at the beginning of last year, the Republic of Serbia concluded a new advisory arrangement with this institution in June 2021. The new cooperation Programme - *Policy Coordination Instrument* (PCI) was confirmed on June 18, 2021 and was planned to last until the end of 2023, i.e. 30 for months.

The crisis in Ukraine is hitting supply chains hard and creating additional inflationary pressures on the food, energy, raw materials and other goods markets. The decrease in domestic electricity

¹⁴ Economic Reform Programme for the period from 2022 to 2024.

production increased the need to import energy sources at significantly higher prices, along with deteriorating conditions on the financial markets. In these extraordinary circumstances, the Republic of Serbia has decided to request a new arrangement with the IMF, which is confirmed at the end of 2022, for a duration of two years, which have the character of a precautionary arrangement. The Programme aims to: 1) preserve macroeconomic and financial stability by adapting policies to economic shocks; 2) strengthening the economy's resistance to energy shocks by implementing appropriate energy policies and reforms to face the challenges of the domestic energy sector, while protecting the most vulnerable ones; 3) providing incentives for faster, green and inclusive sustainable growth in the medium term by implementing comprehensive structural reforms. The goals of the Programme are compatible with the aspirations of the Republic of Serbia to join the EU.

In the forthcoming period, the continuation of reforms in the field of employment, personnel management and wage system in the government sector is expected. The goal of the fiscal policy in the medium term is to keep the expenditures for employees at a sustainable level, with an adequate structure of employees, in order to ensure a higher quality of the services provided. In the forthcoming medium-term period, the emphasis will be on structural measures, would contribute to increasing the efficiency and quality of the public services provided, through planning the number of employees on the one hand, and establishing a new wage system in the government sector on the other hand

The existing employment system, managed by the Government Commission for giving consent for new and additional employment with users of public funds, will continue to function in the in the transitional period until 2023, that is, until the new system becomes fully operational. At the end of 2020, amendments to the Law on the Budget System ("Official Gazette of RS", No. 149/20) were adopted to make it possible for institutions to hire new people in the transitional period up to the level of 70% of those who leave the institution or retire, while the permission of the Commission is required if the number of new employees exceeds 70%. The purpose of this measure is to provide greater flexibility in employment at the level of the institutions themselves, in accordance with their needs for new staff. Also, the limit of 1% was set for the increase of the total number of permanent employees compared to the level at the end of 2020. The creation of the electronic register of employees in the public sector "Iskra", which should be implemented by the end of 2023, is also underway, and the pilot project that includes employees in the Ministry of Finance is already operational. The essence of this system is better planning, execution and control of expenditures for employee salaries, greater transparency and better management of human resources. The system will cover over 450,000 employees in the public sector, and only employees in the defence, security and internal affairs sectors and institutions of and higher education will remain outside the system.

In order to reduce various forms of budget support to public and state-owned enterprises, reforms of the largest public and state-owned enterprises are continuing. Reducing budget support to these companies means: a) limiting direct and indirect subsidies, b) limiting the issuance of guarantees for new loans (except in case of ensuring the undisturbed supply of the energy sources for PE "Srbijagas" and PE EPS) and c) strengthening accountability and transparency in the operations of these companies, including control and reduction of late payments, especially to PE EPS and PE "Srbijagas", and the prevention of their accumulation in the future.

With the support of the EBRD, the Government adopted the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period from 2021 to 2027 ("Official Gazette of RS", No. 39/21), as a unique act that provides a strategic vision and instructions regarding ownership management goals, financial and public policy goals, as well as principles of corporate governance and supervisory practices in accordance with international standards and best practices.

For companies considered as strategic ones from the portfolio of the former Privatization Agency, the solution is either through privatization tenders, or through bankruptcy. Companies interested in privatization or strategic partnership will be sought for the transport company "Lasta" AD Belgrade. With the support of the World Bank, an action plan was defined for PE PEU "Resavica". The implementation of that plan includes finding a solution for the closure of economically unsustainable

mines and a rationalization plan, with the possibility of voluntary departure with provided funds for the social Programme and funds for business support in order to avoid accumulation of late payments, especially to PE EPS. In case of HIP – Petrohemija a.d. Pančevo, the privatization agreement was reached in December 2021 with the company NIS, and the completion of the procedure is planned by the end of this year.

For a certain number of state-owned companies, strategic partners or other privatization models are sought, i.e. the implementation of pre-prepared reorganization plans (PPRP).

Improving public financial management is necessary not only as support for fiscal consolidation measures and structural reforms, but also as a process that raises the quality of public administration and provides an environment that is an attractive and desirable ground for investors. New Public Financial Management Reform Programme 2021–2025 ("Official Gazette of RS", No. 70/21) was adopted in June 2021. There is a plan for a revision of action plan in 2023 which would include different activities related to green transition.

The area of public financial management, to which serious attention has been paid and which is being improved, is the management of public investments. Strengthening the public investment management framework intensifies new infrastructure projects and raises the quality of existing infrastructure. Capital projects, i.e. project loans have become an integral part of the budget. In April 2018, the Law on the Planning System of the Republic of Serbia ("Official Gazette of RS", No. 30/18) was adopted, which established the national planning framework and defined the Development Plan and the Investment Plan. The public investment management system, which is developing with the support from the World Bank, includes an integrated database of investment projects, which is currently being developed, and a single list of priority projects (*Single Project Pipeline*). The system will have become completely functional by the beginning of 2023 for the projects in the implementation phase. In the forthcoming period, the system will also include projects that are in the phase preceding the implementation, and during 2024 and 2025, it will expand its scope to the national level, including local information systems.

Public-Private Partnerships – PPP, as a specific type of cooperation between the government and the private sector, require special attention and caution. Therefore the Ministry of Finance will continue to monitor projects of special importance during their implementation and inform the Government about it.

New Transformation Programme of the Tax Administration for the period 2021-2025, adopted by Government Decision 05 No. 021-4298/2021-3 of May 20 2021, defines strategic guidelines and deadlines in which the activities necessary for the creation of a modern tax administration will be implemented, which will, with the use of modern electronic processes, provide better and more comprehensive service to taxpayers and better control and collection of revenues, i.e. accelerate the fight against the grey economy, together with the reform and modernization of inspection supervision. The organizational separation of basic activities from those that are considered secondary was carried out, with the basic activities now being performed in a smaller number of organizational units, i.e. their consolidation was performed. Analysis of business processes and necessary resources will enable the development of an adequate organizational structure and management, the improvement of project management and the design of an adequate structure of employees. The next phase of reforms is focused on information systems. In May 2022, a new model of fiscalization (e-fiscalization) was introduced, which will enable control in real time, reduce costs, increase efficiency and create a better business environment. The system for electronic exchange of invoices is the next step and is expected to be implemented at the beginning of 2023. With the adoption of the Law on Determining the Origin of Property and Special Tax ("Official Gazette of RS", No. 18/20 and 18/21) and the formation of a special organizational unit of the Tax Administration, conditions were created for cross-analysis of property and income of persons, and the first audits are expected by the end of the year.

4.8. FISCAL GOVERNANCE AND BUDGET FRAMEWORKS

In order to ensure the stability and sustainability of public finances in the long run, a functional system of fiscal rules is needed. The fiscal rules were introduced in the Budget System Law 2010. The Republic of Serbia was one of the first countries to establish national fiscal rules by law, as well as the independent institution, the Fiscal Council, which evaluates the Government's economic and fiscal policy, as well as compliance with the rules. As the rules became valid during the world economic crisis, the numerical rule for debt was violated already in the first year of application. In the meantime, fiscal rules were introduced by more countries. In addition to national fiscal rules, EU member states also apply rules defined at the EU and EMU level. European fiscal rules have been changed and redefined on several occasions, taking into account the application and the effects that the application of the rules led to. As twelve years have passed since the introduction of fiscal rules in the Republic of Serbia, the conditions have been created for their change, taking into account the experiences of other countries, the directions in which EU fiscal rules were changed, the consequences and reactions of fiscal policy to the great economic crisis from 2008, and the experience of the most recent, health and the economic crisis, caused by the coronavirus pandemic, followed by the crisis caused by the conflict in Ukraine.

The changes to the Budget System Law were adopted at the end of 2022, with a new set of fiscal rules, prescribing the level of the general government deficit depending on the level of the public debt of the general government, to be applied from 2025. The reason is that deficit levels for 2023 and 2024 are prescribed at a higher level, due to the energy crisis and external factors, and the path of fiscal recovery is determined in accordance with the new arrangement with the IMF and the fiscal rules that regulate the level of expenditures for general government salaries and pensions, which entered into force along with the Budget Law for 2023. Deviation from these rules is possible only exceptionally and temporarily, and in cases of natural disasters and external shocks that affect the endangerment of people's health, national security and a significant drop in economic activity.

New set of fiscal rules:

General fiscal rules:

- government sector debt, including liabilities arising from restitution, shall not exceed 60% of GDP.
- target medium-term deficit shall be 0.5% of GDP.

If the government sector debt is above 60% of GDP, the fiscal position of the government sector must be balanced, so that the deficit amounts to a maximum of 0% of GDP.

If the government sector debt is between 55% and 60% of GDP, the deficit amounts to a maximum of 0.5% of GDP

If the government sector debt is between 45% and 55% of GDP, the deficit amounts to a maximum of 1.5% of GDP.

If the government sector debt is under 45% of GDP, the deficit the deficit shall not exceed the amount of 3% of GDP.

Specific fiscal rules:

- share of government sector wages in GDP up to 10%.
- pension indexation, depending on their share in GDP.

If the total expenditures for pensions and the monetary amount as an increase for pension are less than 10% of GDP, the pension will be adjusted according to the change in the average earnings without taxes and contributions, in the manner defined by the law, governing pension and disability insurance.

If the total expenses for pensions and the monetary amount as an increase for the pension are from 10% to 10.5% of GDP, the pension will be adjusted to the sum of half the percentage of the change in the average salary without taxes and contributions and half the percentage of the change in consumer price, in the manner defined by the law governing pension and disability insurance.

If the total expenses for pensions and the monetary amount as an increase for the pension are equal to or greater than 10.5% of GDP, the pension will be adjusted according to the change in consumer prices, in the manner defined by the law, governing pension and disability insurance.

Improving the quality and transparency of national statistics is done through the promotion of comprehensive, timely and automatic data exchange between competent institutions. In April 2018, a list of institutions that make up the general government sector, as well as other sectors, was published, in accordance with the European System of Accounts (ESA) 2010 and GFSM 2014, based on which the SORS (in cooperation with the Ministry of Finance and the National Bank of Serbia) started submission of data to the Extended General Data Dissemination System (e-GDDS). These data will be in line with the GFSM 2014 methodology. The Sector for Macroeconomic and Fiscal Analysis and Projections of the Ministry of Finance, in cooperation with the IMF, was the first to initiate the process of converting public finance data from the national methodology into the GFSM 2014 methodology and the preparation of the consolidated reports, for the general government level and all the levels of government, and their publishing via the *National Summary Data Page – NSDP*, available at the SORS website, as well as in the *IMF Dissemination Standards Bulletin Board – DSBB*.

5. STRUCTURAL REFORMS IN THE PERIOD FROM 2023 TO 2025

5.1. IDENTIFICATION OF THREE KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH AND RELATED STRUCTURAL REFORMS

Key challenge no. 1: Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty

The growth of economic activity and the economic support package have contributed to stable movements on the labour market of the Republic of Serbia. Jobs and earnings have been preserved, both in the private and in the public sector, and all the main indicators of the labour market in 2021 record values that are better than the pre-pandemic level. Positive trends in the labour market will continue in 2022, primarily through the growth of employment and real wages, but somewhat slower compared to the previous period due to the influence of geopolitical tensions.

The employment rate (15+) amounts to **50.8%**¹⁵ in **Q3 of 2022**. (EU-27: 54.3% for the population 15+, Q2 2022, Eurostat) which represents **an increase of 0.8 percentage points** in relation to the same quarter of the previous year, while **the number of employed is 2.94 million** (increase of 17.5 thousand year-on-year). **The unemployment rate (15+)** amounts to **8.9% in Q3 of 2022** (EU-27: 6% for the population 15-74, Q2 2022, Eurostat) which represents **a decrease of 1.6 percentage points** in relation to the same quarter of the previous year, while **the number of unemployed is 288.9 thousand** (decrease of 52.6 thousand year-on-year¹⁶).

The status of young people (15-24) on the labour market in the Republic of Serbia has been improving in the recent years, although the indicators are still below the average indicators for young people in the EU countries. The share of young people in the labour force is very low by European standards - the youth activity rate (15-24) amounts to 34.1% in Q3 of 2022, which is 6.4 percentage points lower than the EU average (EU-27: 40.5%, Q2 2022, Eurostat). The youth employment rate (15-24) amounts to 25.4% in Q3 of 2022, which is 9.3 percentage points lower than the EU average (EU-27: 34.7%, Q2 2022 Eurostat). The youth unemployment rate (15-24) amounts to 25.4% in Q3 of 2022, which is 11 percentage points higher than the youth unemployment rate in EU (EU-27: 14.4%, Q2 2022, Eurostat). In addition to not being employed, a significant number of young people are also outside the education and training process - in the Republic of Serbia the **NEET¹⁷ youth rate (15-24)** is **13.5%** in Q3 of 2022, which is higher than the EU average (EU-27:10.2%, Q3 2022, Eurostat).

The Republic of Serbia **will support the youth employment**, in addition to other activities and measures, by **gradually establishing and implementing the Youth Guarantee¹⁸** in cooperation with all relevant ministries, social partners and other stakeholders, in accordance with the confirmed Western Balkans Declaration on the Sustainable Integration of Youth into the Labour Market¹⁹. The implementation of the Youth Guarantee will enable planning and implementation of the series of public policy reforms in the Republic of Serbia – in the area of education and training, employment and labour market, necessary for improving the transition from school to work in a medium- and long-term plan. The Youth Guarantee Implementation Plan in the Republic of Serbia for the period from 2023 to 2025 is currently being prepared, and its adoption is expected by the end of the second quarter of 2023.

¹⁵ Source: Statistical Office of RS, Labour force survey – since 2021, it has been conducted according to the new methodology. In order to ensure the comparability of the basic indicators for the period before 2021, the Statistical Office audited the most important indicators. Given the fact that the retrospective data audit includes only basic indicators and that the set of collected data is from a pilot study of limited scope, there is no possibility of a deeper and more precise structural analysis of changes in the labour market.

¹⁶ The Corona virus pandemic contributed to the increase in unemployment in 2021, i.e. the increase in the number of unemployed was due to the “return” of persons from the inactive contingent (individuals who could not look for work or were unable to start working due to measures aimed at preventing the spread of the Corona virus) in contingent of the unemployed (trend started in Q3 2020).

¹⁷ NEET - Youth not in employment, education or training

¹⁸ The Youth Guarantee Programme, which is implemented in EU member states, is an example of an intervention in which inactive and unemployed youth are approached through the cooperation of various sectors and social partners, including civil society organizations, with the aim of long-term sustainable integration into the labour market.

¹⁹ The declaration was confirmed at the Second EU Ministerial Meeting - Western Balkans, which was held on July 8, 2021 in Slovenia.

Allocations for active labour market policies (ALMP), in 2021 amounted to 0.1% of GDP. For the implementation of the planned measures of active employment policy, the total of RSD 6.55 billion (EUR 54.6 million) has been provided in the 2022 financial plan of the National Employment Service. In addition, funds for the implementation of the active labour market policy measures, within the local planning documents in the field of employment, are provided annually by local self-government units (in the projected amount of RSD 900 million which is EUR 7.5 million).

Students do not have the practical and applicable knowledge and skills needed to work in a real work environment after graduating from vocational high school. In addition, **the lack of work experience is one of the most common obstacles for the employment of youth.** It is therefore necessary to enable young people **to make some contact with the labour market during the process of formal education.** Acquisition, improvement and development of competencies in accordance with the needs of the labour market are provided by **dual education**, a model of secondary vocational education in which theoretical and practical classes are realized in schools, along with learning through work in companies. Over 13,500 students has been covered by the dual education system so far. The number of dual education profiles has grown to 65 in the academic year 2022/2023²⁰, and approximately 168 secondary vocational schools participate in this type of education. Of the total number of students in the first grade of secondary vocational school in the academic year 2021/2022, **5.16% are in the system of dual education.**

The introduction of dual education in higher education²¹ was ensured by the adoption of the *Law on the Dual Model of Studies in Higher Education* (“Official Gazette of the RS”, No. 66/19), in response to the real needs of national and foreign companies operating in the Republic of Serbia for adequate, highly educated staff with practical and applicable knowledge. The first accredited **dual study Programmes in higher education** were implemented in the academic year 2021/2022. Currently, there are **36 accredited study Programmes at 10 higher education institutions**, as well as 95 accredited companies involved in this model of education. On November 10, 2022, the Government of the Republic of Serbia established the Office for Dual Education and the National Framework of Qualifications. In this way, tasks related to dual education and the National Qualification Framework are moved out of the purview of the Ministry of Education

Monitoring the harmonization of labour market and education needs, as well as planning and conducting public policies in the field of education and employment, **has been made possible** by developing and publishing a single **List of Qualifications** and the application of the Occupation Codebook. The List of Qualifications is the basic database for registers set up within the Unified Education Management Information System (EMIS) and especially the **Register of NQFS**²², which currently brings together **4,654 qualifications and 83 qualification standards**. The development of qualification standards based on the needs of the labour market and society as a whole has been ensured by the work of 12 sectoral councils, and so far, 83 qualification standards have been developed in line with the new methodology.

In order to facilitate the transition from school to work, the “My First Salary” Programme²³ **has been created** as a measure of active employment policy with the aim of providing young people without work experience with the opportunity to be trained for independent work and increasing their employment opportunities. In the second cycle conducted in 2021, the Programme included 8,743 young people (6,108 persons with secondary education and 2,635 persons with higher education) who were trained for independent work with 5,194 employers. The implementation of the third cycle of this began during 2022 (application of employers and advertising of positions, application of candidates for positions, connection of candidates with employers) and in accordance with the *Decree*

²⁰ Source: Serbian Chamber of Commerce <https://pks.rs/strana/sekcija/dualno-obrazovanje-spisak-profila-u-dualnom-obrazovanju>

²¹ The goal of introducing the dual study model is to provide students with the opportunity to significantly increase their competitiveness on the labour market and have a greater chance of employment with employers where they have completed work-based learning, as well as with other employers from the same industry.

²² It consists of the Sub-Register of National Qualifications, the Sub-Register of Qualification Standards, as well as the Sub-Register of publicly recognized organizers of adult education activities with employers where practical work is carried out (Sub-Register NQFS). <https://noks.azk.gov.rs/>

²³ The Programme was created with the aim of training young people with secondary and higher education, up to the age of 30, without work experience, who are on the unemployment register of the National Employment Service for independent work. The implementation started in 2020.

amending the Decree on the Youth Employment Incentive Programme “My First Salary” (“Official Gazette of the RS”, No. 92/22) which increased the amounts of monthly compensation for the participants of this Programme. Young people who completed secondary education are provided with a monthly allowance in the amount of 25,000 dinars, while for those with completed higher education the allowance amounts to 30,000 dinars.

Given the existing skills mismatch in the labour market, there is a need for significant investment in adult education. The participation rate in education and training of the population aged 25-64 in the Republic of Serbia was **4.8% in 2021**²⁴ which is significantly lower (about 2.25 times) than the average rate in the EU (EU-27 10.8%). Quality assurance in non-formal education is achieved through a training system with a **publicly recognized organiser of activities for adult education**. This status was granted to **108 institutions** (21 schools and 87 other organizations) for the realization of **433 accredited non-formal education** at the end of 2021.

Since 2017, a **retraining Programme for the ICT sector** has been implemented, and so far, over 2,200 participants have attended it. Nearly 1,500 applications have been received for the Invitation to participate in the new online Programme “Retraining for IT”²⁵, which will be implemented in 2022 and 2023. The **“Digital Expedition” initiative**²⁶, which represents a caravan of digital skills, literacy and security, is the winner of this year’s **“Emerging Europe” award**²⁷, as one of three projects in the “Future-proof Education“ category.

The first decade of the 21st century (2000-2010) is characterized by the reform of education in the Republic of Serbia based on EU recommendations (the introduction of the Bologna Declaration in higher education in 2005), the growth of living standards, and the introduction of the visa-free Schengen regime in 2009. The effects of the mentioned factors were reflected in large migrations of quality workforce to EU countries as late as the second decade of the 21st century (2010-2019). Obtained higher education diplomas were internationally recognized, and the visa-free regime enabled greater cross-border labour force mobility from Serbia to EU countries, without additional institutional work permits.

The economy and the entire society face the negative effects of emigration. This is why it is necessary to implement the *Strategy on Economic Migration of the Republic of Serbia for the period 2021- 2027* (“Official Gazette of RS”, No. 21/20) and the *Action Plan for the period 2021-2023* for the implementation of the *Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027* (“Official Gazette of RS”, No. 89/21), since these documents envisage the creation of an economic and social environment for slowing down the departure of the working-age population, strengthening ties with the diaspora and encouraging their return, as well as attracting foreigners of various educational profiles.

Poverty is a significant problem in the Republic of Serbia. The poverty risk rate²⁸ was 21.2% in 2021²⁹, which is significantly higher than the EU-27 level (16.8%, SILC, 2021³⁰). A drop in the risk of poverty rate of 0.5 p.p. compared to the previous year is attributed, among other things, to incentive measures during the pandemic that were introduced with the aim of protecting jobs and income, although being in constant decline since 2015.

The risk of poverty varies depending on age groups, work status and household type. The most vulnerable are persons aged 18 to 24 - 27.7%, followed by persons over 65 - 22.7%, while the lowest rate of poverty risk was experienced by persons aged 25 to 54 - 19.1%. Depending on the work status, among persons over 18 years of age, the ones most exposed to the risk of poverty were unemployed

²⁴ Source: Eurostat, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=trng_ifse_01&lang=en

²⁵ The Programme will include a minimum of 250 hours of professional training focused on one of the five Programming languages (Java Script, PHP, Python, Java, NET) and system administration, 40 hours of soft skills training, as well as 120 hours of practice. Source: Ministry of Labour, Employment, Veteran and Social Affairs <https://www.minrzs.gov.rs/>

²⁶ In the period August-December 2021, events were organized in 16 cities of Serbia with the aim of improving citizens’ digital literacy.

²⁷ This is the part of the “Future-proof Education” Programme, which is implemented in 23 countries of Central, Eastern, South-eastern Europe and the South Caucasus. <https://emerging-europe.com/future-of-ee-awards/winners/>

²⁸ Percentage of persons whose equivalent income is lower than the poverty risk threshold (60% of median equivalent income)

²⁹ Source: Poverty and Social Inequality in 2021 <https://publikacije.stat.gov.rs/G2022/HtmlL/G20221287.html>

³⁰ Source: EUROSTAT: *At-risk-of-poverty rate* [At-risk-of-poverty rate - Products Datasets - Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg_8_10_1)

persons - 48.6%, whereas the lowest rate of poverty risk was among those employed by the employer - 5.4%. According to the type of household, the highest rate of risk of poverty was experienced by persons in single-member female households – 39,4%, followed by persons in households with two adults and three or more dependent children - 38.8%.

The poverty risk threshold was 24,064 dinars (205 euros) per month on average for a one-person household. **The inequality of income distribution** is high, because the indicator of the quintile ratio (S80/S20) was 5.9³¹ in 2021. This means that the richest 20% of the population had 5.9 times more income than the poorest 20%. The **Gini coefficient** in the Republic of Serbia was 33.3 in 2021, which is slightly above the EU-27 average value (30.1)³².

The share of public expenditures for social assistance and transfers from the budget to the GDP of the Republic of Serbia have been gradually decreasing in recent years, so that it amounts to 13.6%³³ of GDP in 2021. The structure of expenditures is dominated by pensions with 71.6% of total expenditures for social assistance and transfers, or 9.7% of GDP. **Expenditures for social assistance amount to 2.7% of GDP**³⁴ in 2021, which is insufficient to be systematically directed to those beneficiaries who need help the most. The average minimum consumer basket for a three-member household in the Republic of Serbia was 39,623.18³⁵ dinars (337 euros) in 2021, while the poverty risk threshold for a three-member household (two adults and one child under the age of 14) was 43,315 dinars³⁶ (368 euros). At the same time, **the amount of social assistance** received by a three-member family (right holder, adult allowance and child allowance) amounts to 17,244 dinars (147 euros), which is less than half of both the average minimum consumer basket and the poverty risk threshold.

Improving the adequacy of social benefits for the population below the poverty line and redistributing funds between existing Programmes has been a challenge for many years. A significant instrument in the actions of centres for social work is the implementation of the *Social Card Act* ("Official Gazette of RS", No. 14/21), which began on April 1, 2022, when the Social Card Register began operating. The register unites the databases of all necessary state bodies, thus enabling better control of social benefits and fairer distribution of money for the most socially vulnerable categories.

Drafting of the Law on Amendments to the Law on Social Protection, which plans to **reform social services**, is underway. Certain rights, types of services, institutions and service providers, user groups, quality control mechanisms, competences in establishment and financing, as well as financial social assistance and allowance for assistance and care of another person, will be redefined, **in accordance with the possibilities**. Redefinition of control and regulatory mechanisms (inspection and supervision) is also included. The planned reform of social policy in the Republic of Serbia will also include repealing the Law on Determination of Cadastral Income ("Official Gazette of the RS", number 49/92), which will contribute to administrative relief in the area of social protection, as well as a realistic assessment of needs and planning of cash social assistance for several categories of users.

It is necessary to adopt a strategic framework for the development of social protection policies. In this context, after the *ex-post* analysis of the *Social Protection Development Strategy* ("Official Gazette of the RS", number 108/05), *ex-ante* analysis of the effects of the new strategy was also carried out. In the forthcoming period, the formation of a working group will be started for drafting the new Social Protection Strategy, which will determine further directions of development in this area.

One of the strategic objectives of the Republic of Serbia is the **deinstitutionalization**, that is, the reduction of the number of people placed in home care centres and their integration into society. A necessary step towards this goal was the adoption of the *Strategy of Deinstitutionalization and*

³¹ Source: The Survey on Income and Living Conditions in 2021 <https://publikacije.stat.gov.rs/G2022/Html/G20221287.html>

³² Source: GINI Coefficient. <https://ec.europa.eu/eurostat/databrowser/view/tessi190/default/table?lang=en>

³³ Source: Ministry of Finance, Consolidated state balance sheet <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

³⁴ Source: Ministry of Finance, Consolidated state balance sheet <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

³⁵ Source: Ministry of Trade, Tourism and Telecommunication, <https://mtt.gov.rs/extfile/sr/36972/KUPOVNA%20MOC%20maj%2020221.pdf>

³⁶ Source: Statistical Office of RS, Poverty and Social Inequality, 2021. <https://publikacije.stat.gov.rs/G2022/Html/G20221287.html>

Development of Social Protection Services in the Community for the period 2022-2026. (“Official Gazette of the RS”, No. 12/22), which includes a set of special goals and activities that will prevent the placement of beneficiaries in institutions, through the development of services in the community, the provision of stable sources of financing and conditions for integration, that is, that will enable their return to local communities. This Strategy is primarily aimed at people with intellectual and mental disabilities who are at the greatest risk of institutionalization and social exclusion. The preparation of the *Action Plan for 2022 and 2023* for the implementation of this Strategy is underway. The framework for **improving the position of persons with disabilities** in the Republic of Serbia was defined by the adoption of the *Strategy for the Improvement of the Position of Persons with Disabilities in the Republic of Serbia for the period from 2020 to 2024* (“Official Gazette of the RS”, number 44/20), as well as the *Action Plan for the period from 2021 to 2022* for the implementation of the Strategy (“Official Gazette of RS”, No. 37/21). The defined priorities are the improvement of the overall social and economic position of persons with disabilities and their equal participation in society. It is envisaged that these priorities will be achieved by removing obstacles in the area of accessibility, participation, equality, employment, education and training, social protection, health and other aspects that contribute to equalizing their opportunities and achieving equality. For the first time, the establishment of a database on the total number of employed persons or number of employed persons with disabilities in the Republic of Serbia is foreseen.

The ***Law on Social Entrepreneurship*** (“Official Gazette of RS”, number 14/22) was adopted at the beginning of February 2022. The implementation of the Law began on November 16, 2022, when the first social economic entities were registered in the Republic of Serbia. The law defines the adoption of the *Programme for the Development of Social Enterprises*³⁷ as a public policy document that will determine in more detail the guidelines for the further development of the social economy as a very important area in the Republic of Serbia. . In this area, the key challenges are: the development of the solidarity economy as a sustainable and socially responsible business that is aligned with broader social interests, especially the interests of socially sensitive groups; further affirmation of social entrepreneurship through informative and educational measures and Programmes intended for the general public as well as for social entrepreneurship subjects, public administration, pupils and students; establishment of efficient and coordinated financial and non-financial support for the operations of social entrepreneurship entities in the domain of social economy from various sources.

The level of gender equality in the Republic of Serbia is still not satisfactory. The gender equality index³⁸ for Serbia is 58 points according to data from 2018³⁹, which represents continuous, albeit slow, progress in improving gender equality. The increase of the Index is 2.2 points compared to the data from 2016. Nevertheless, Serbia still records a lower index value compared to the EU-27 average, which is 68 points⁴⁰. Observed according to domains, the biggest gap between Serbia and the EU-27 is present in the domain of money (22.7) and time⁴¹ (16.2), then in the domains of power (8.5) and knowledge (6.7), and the smallest gap is present in the domains of health (3.7) and work (2.2). The domain of **knowledge** in the Republic of Serbia shows inconsistent trends⁴², and causes the greatest concern because the overall score shows a negative outcome, i.e. a drop in the value of the index of 1.3 points compared to 2016. The decline is due to the drop in the value of the index for the subdomain of educational achievement and participation (-0.9) and for the subdomain of segregation according to educational areas (-1.6). Inequalities are also visible in the domain of **money**, because women have lower income than men do, and certain groups of women are exposed

³⁷ The starting basis for the adoption of this Programme is the Analysis of the current situation in the field of social entrepreneurship in the Republic of Serbia, as well as the analysis of the legal framework on the significance and application of the Law on Social Entrepreneurship, which were prepared in the previous period.

³⁸ Source: Gender Equality Index in the Republic of Serbia 2021- an instrument used to measure progress in achieving gender equality in EU countries and candidate countries for EU membership. Equality is measured on a scale from 1, representing full inequality, to 100, representing full equality. https://www.stat.gov.rs/media/343261/indeks_rodne_ravnopravnosti_u_rs_2021.pdf

³⁹ Gender Equality Index 2021 does not show the impacts of the pandemic on the gender equality, because the data based on which the index was constructed refer to the period before the pandemic, i.e. to the year 2018.

⁴⁰ Source: Gender Equality Index EU 2021. Data used for this index is mostly from 2019. <https://eige.europa.eu/gender-equality-index/2021>

⁴¹ Since the first measurement of the Gender Equality Index, this domain has been based on the same data from 2015. The Eurofound, EWCS and EQLS surveys based on which this domain is measured, which were supposed to be conducted in 2020, were postponed to 2021 due to the pandemic.

⁴² Periods of index value growth alternate with periods of index value decline: 2014.-56.9; 2016.-57.3; 2018.-56.

to higher risks of poverty. Inequalities in the domain of **time** show how much of their time women spend taking care of the household and family, i.e. doing unpaid housework.

The gender gap in the economy in the Republic of Serbia is visible through the unequal position of women and men on the labour market, differences in earnings, pensions and income in general, differences in entrepreneurial activity, access to resources to support employment and self-employment, participation in the non-formal economy, differences in ownership of real estate and land, as well as participation in decision-making in the economy.

The gender gap in the **activity rate (15+)** on the labour market is **15.9 p.p.** in 2021⁴³. Gender data indicate that women have a lower rate of activity on the labour market (47%) than men (62.9%). Observed by age, women and men in the 25-54 age group have the highest activity rate, which is 78.9% for women and 90.4% for men.

The gender gap in the **employment rate (15+)** in the labour market is **15.2 p.p.** in 2021.⁴⁴ The employment status by gender shows that the employment rate of women is 41.3% and that of men is 56.5%. Observed by age, the employment rates for the 25-54 age group are the highest and amount to 69.3% for women and 81.5% for men. In the “over 55” age group among employees, the rates are 18.6% for women and 32.7% for men.

The improvement of women’s performance on the labour market, primarily in terms of activity and employment, was due to institutional changes, among other reasons. The immediate impact on the activity of women on the labour market is the legal change in the time limit for exercising the right to retirement, as well as the introduction of penalties for early retirement. The continuous increase in the retirement age has undoubtedly increased the activity and employment of women, prolonging, willingly or unwillingly, the attachment of cohorts of older women to the labour market.

Observed by the **length of working time**, among employees who work part-time, women make up the majority (58.3% for 1-14 hours of work; 51% for 15-35 hours of work) in 2021⁴⁵. The most common reasons why women work part-time are taking care of children or disabled elderly (97.9%), family or personal reasons (63.5%) and illness or disability (43.3%). The most common reasons why men work part-time are inability to find a full-time job (59.9%), education or training (57.7%) and illness or disability (56.7%).

Observed according to the **work status**, 22.9% of women and 77.1% of men have been self-employed (with or without employees) in 2021⁴⁶. When it comes to unpaid family work, women make up the majority with a participation of 67.8% in total unpaid family work, while the participation of men amounts to 32.2%.

In total employment, **women employed in informal sector** account for 6.2%, whereas informally employed men make 7% of total employment in 2021.⁴⁷ The largest percentage of informally employed women is in the over 55-age group (60%), whereas the highest percentage of informally employed men is among young people aged 15-24 (71.4%).

The gender gap in the **unemployment rate** on the labour market is **1.9 p.p.** in 2021.⁴⁸ The unemployment rate was 12.1% for women and 10.2% for men. During the corona virus pandemic, there was an increase in the contingent of the population outside the labour force because individuals, both women and men, could not look for work or were unable to start working due to the measures for preventing the spread of the corona virus. This resulted in the unemployment rate reduction for both women (10.2%) and men (9.4%), and as the rate reduction was greater for women, the gender gap in the unemployment rate was only 0.8 p.p. in 2020.⁴⁹

⁴³ Source: Statistical Office of RS, Labour force survey – since 2021, it has been conducted according to the new methodology. In order to ensure the comparability of the basic indicators for the period before 2021, the Statistical Office audited the most important indicators. Given the fact that the retrospective data audit includes only basic indicators and that the set of collected data is from a pilot study of limited scope, there is no possibility of a deeper and more precise structural analysis of changes in the labour market.

⁴⁴ Source: Statistical Office of RS, Labour force survey

⁴⁵ Source: Statistical Office of RS, Labour force survey

⁴⁶ Source: Statistical Office of RS, Labour force survey

⁴⁷ Source: Statistical Office of RS, Labour force survey

⁴⁸ Source: Statistical Office of RS, Labour force survey

⁴⁹ Source: Statistical Office of RS, Labour force survey

The **pay gap** was 8.8%⁵⁰ in 2018, which is how much women were paid less than men were in the Republic of Serbia. However, when the data is analysed by the level of education, the pay gap is much deeper, so for women without education and with incomplete primary school education, it amounts to 21.2%. Observed by occupations, the deepest pay gap is in the following occupations: craftsmen and related occupations (23.8%), engineers, professional associates and technicians (19.3%), experts and artists (19%), and in simple occupations (15.4 %). Observed by age, the deepest pay gap is for women aged 30–49. Even among young women and men aged 15–29, there is a pay gap of 4.6%.

The largest number of citizens who report that they have an annual income of more than three average annual salaries are men. Out of the total number of annual income tax applications (34,753) in 2021⁵¹, only 9% (3,128) were applied by women, and even 91% (31,625) were applied by men. Such data best reflect the so-called “glass ceiling effect”, which means that men reach higher levels in the company’s hierarchy faster than women, and even occupy higher positions, while women stop at some hierarchical level and cannot advance further.

Gender disparities and gender segregation in access to education still exist, especially among vulnerable groups. However, there is a visible positive progress in the domain of integrating the gender perspective in education⁵²: simplified procedures for the enrolment in a primary school and increasing the coverage of Roma women and men in primary education; affirmative measures for enrolment in secondary schools and increasing the scope of secondary education; individual educational plan; pedagogical assistants; training for teachers; scholarships, loans, accommodation and meals (10% of capacity for girls and boys from vulnerable groups); affirmative measures for enrolment of Roma girls and boys in higher education institutions.

Despite the significant increase in the capacity of **preschool institutions** and the increased number of facilities, 5,736 children remained unenrolled in preschool education due to the capacity being filled⁵³ in 2021. In the context of fairness, two negative phenomena are still noticeable: differences between local self-government units regarding the inclusion of children in general and the inclusion of children from Roma settlements⁵⁴. In the general population, 63% of girls and 58% of boys are covered by early childhood education, while in Roma communities only 8% of girls and 7% of boys are covered by these Programmes⁵⁵. Almost all children from the general population (96% of girls and 98% of boys) attend the preparatory preschool Programme, but gender differences exist among children from Roma settlements, with 73% of girls and 79% of boys included in this Programme.⁵⁶

There are more girls (60%) than boys (40%) among young people who graduate from **four-year secondary general education** (gymnasium), while twice as many boys than girls graduate from **three-year vocational secondary schools** (31% of girls compared to 69% of boys) in 2021.⁵⁷ The choice of future occupation is based on the present traditional male-female division of occupations. Thus, there are more girls in the following fields of education: textiles and leather, personal services and health and social protection, whereas there are more boys in the following fields of education: electrical engineering, mechanical engineering and metalworking, geodesy and construction, transport, forestry and woodworking, as well as geology and mining.⁵⁸

More women enrol and graduate from universities and colleges: 57% of students are women, 59% of graduates are women, and 57% of those with doctorates are women according to data from 2019.⁵⁹ Women are the majority in many fields of education, such as Health (71%), Art (68%) and Natural Science (66%), whereas men are majority in Engineering, manufacturing and construction (57%), Information and Communication Technologies (66%) and Services (56%).

⁵⁰ Source: Statistical Office of RS, Women and Men in the Republic of Serbia, 2020 https://www.stat.gov.rs/media/5806/zim-u-rs-2020_webopt.pdf

⁵¹ Source: Tax Administration of the Republic of Serbia

⁵² Source: Team for social inclusion and poverty reduction of the Government of RS, Analysis of the application of affirmative measures in the field of education of Roma men and Roma women and recommendations for improving the measures, June 2016.

⁵³ Source: Statistical Office of RS, Education Statistics

⁵⁴ Education and upbringing development strategy in the Republic of Serbia until 2030 (“Official Gazette of RS”, no. 63/2021)

⁵⁵ Source: Statistical Office of RS, Multiple Indicator Survey on the Position of Women and Children in Serbia 2019 (*Multiple Indicator Cluster Survey – MICS*), with the technical and the financial support from UNICEF, European Union, UNFPA and the Government of the Republic of Serbia

⁵⁶ Source: Statistical Office of RS, Multiple Indicator Survey on the Position of Women and Children in Serbia 2019 (*Multiple Indicator Cluster Survey – MICS*), with the technical and the financial support from UNICEF, European Union, UNFPA and the Government of the Republic of Serbia

⁵⁷ Source: Statistical Office of RS, Education Statistics

⁵⁸ Source: Statistical Office of RS, Women and men in the Republic of Serbia, 2020 https://www.stat.gov.rs/media/5806/zim-u-rs-2020_webopt.pdf

⁵⁹ Source: Statistical Office of RS, Women and men in the Republic of Serbia, 2020 https://www.stat.gov.rs/media/5806/zim-u-rs-2020_webopt.pdf

Systemic gender statistics on women's entrepreneurship still does not exist⁶⁰, but the prerequisites for progress have been achieved by the Law on **amendments to the Company Law**, ("Official Gazette of RS", No. 109/21), which included information on gender as the subject of registration in the Business Registers Agency. Some analyses show that the share of companies owned by women is significantly below their share in the overall economy. Women are the owners of only 31.7% of entrepreneurial shops and companies in the Republic of Serbia, and only one in five of the companies that receive funds at competitions to support business development are owned by them⁶¹. The facts indicate that the barriers faced by female entrepreneurs are often significantly greater than when it comes to men, because women have more difficulty accessing loans, finance and capital, they have fewer opportunities for networking, there is the gender segregation in education, it is more difficult to coordinate work, private and family life and they often find it difficult to do business due to prejudices and stereotypes about women in business, with no developed measures that would systematically remove these barriers. Currently, a study on women's entrepreneurship in the Republic of Serbia is being developed, which is supposed to analyse the position of female entrepreneurs and to propose measures that should be implemented in the future, as well as the conditions that must be created in order to get more women involved in entrepreneurship and operate successfully.

The gender imbalance is highly expressed in the **technological, i.e. ICT sector**, which represents the best prospects for advancement both economically and in terms of participation in the creation of the future. Data on the gender structure indicate the dominant participation of men in the ICT sector, making up two thirds of the employees in the entire sector.

The gender gap is still present in **political life**, especially in political parties, access to leadership positions in institutions, public institutions, the highest positions in local self-government units and local communities. **Quotas** for the less represented gender of 40% and reserved places on the electoral lists in the Republic of Serbia are regulated by the regulations governing the election of deputies, that is, councilors in local elections as well deputies in the Assembly of the Autonomous Province of Vojvodina in 2020. The current convocation of the National Assembly of the Republic of Serbia consists of 87 female deputies (36.6%) and 151 male deputies (63.4%). The National Assembly has 20 committees⁶²: women are the head of four (20%) and men the head of 16 (80%) committees. There are nine female ministers in the Government of the Republic of Serbia (32%), and a woman has been the Prime Minister since 2017.

Institutional mechanisms for gender equality in the Republic of Serbia exist at the national, provincial and local levels. They represent the key support for the gender mainstreaming and the implementation of the policy of equal opportunities. However, these institutions are not sufficiently developed and strengthened (first of all, taking into account the appropriate resources) to be able to carry out all the provisions prescribed by laws through coordinated action.

The area of gender equality in the Republic of Serbia is regulated by legal acts aimed at improving the situation in this area. The umbrella law that governs the field of gender equality and to the greatest extent affects the position of women in the Republic of Serbia, is the **Law on Gender Equality** ("Official Gazette of RS", number 52/21) **adopted in 2021**. The law represents another step towards the improvement of the position of women and prevention of discrimination in employment, exercising the right to earnings, social and health protection, including media content, which should not encourage gender discrimination, prejudices and stereotypes against women, while more precisely establishing obligations of public authorities. Also, the **Gender Equality Strategy for the period from 2021 to 2030** ("Official Gazette of RS", number 103/21) and the Action Plan for 2022 and 2023 for the implementation of the Strategy, which ensures continuity in planning through the application of the policy of equal opportunities and gender equality, were adopted.

⁶⁰ Annual reports on small and medium-sized enterprises and entrepreneurship do not include data on women's entrepreneurship.

⁶¹ Source: NALED, Gender analysis of economic Programmes and financial measures in Serbia, for the needs of the UN Women Office, 2018-2019

⁶² There are 9 women and 11 men among the vice presidents of the boards, and there are as many as 16 (80%) women among the secretaries of the boards.

Gender-sensitive statistics is vital for decision-making aimed towards achieving gender equality. Identifying the necessary data in order to **understand the problems and identify the goals** related to gender issues is essential for the production of gender statistics. The recently adopted *Law on Gender Equality* regulates the gender-sensitive data that should be collected, expressly stipulating that this is the obligation of public authorities, employers and bodies for gender equality; specifying which data is recorded by employers and public authorities, and which by bodies for gender equality; mandating that the data be expressed numerically and in percentages, that they cannot contain personal data and that they must be updated.

a) Reforms

STRUCTURAL REFORM 1: ESTABLISHMENT OF A FRAMEWORK FOR THE INTRODUCTION OF THE YOUTH GUARANTEE IN THE REPUBLIC OF SERBIA

1. Description of the structural reform

The goal of the structural reform is to provide young people with a quality job offer, continuing education, internship or training within four months of entering unemployment status or leaving/completing formal education, thus contributing to the easier transition of young people to the labour market and encouraging their employment.

The implementation of the Youth Guarantee implies a series of reforms and initiatives in several areas in phases related to: mapping and early intervention, inclusion, preparation/activation and offer, which require cross-sectoral cooperation and coordination. In the previous period, interdepartmental, expert and operational groups were formed for the purposes of establishing and managing the Youth Guarantee, an analytical basis was prepared for the creation of the Youth Guarantee Implementation Plan for the period from 2023 to 2025. It is expected that the Youth Guarantee Implementation Plan for the period 2023-2025. be drafted by the end of the first quarter of 2023 and adopted by the end of the second quarter of 2023.

The framework for the implementation of the Youth Guarantee is established in accordance with the Economic and Investment Plan for the Western Balkans, the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026 and the accompanying action plan for the period from 2021 to 2023 ("Official Gazette of RS", No. 18/21 and 36/21-correction).

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preparation and the adoption of the Implementation plan												
2.	Implementation of preparatory actions for the introduction of the Youth Guarantee in accordance with the Implementation Plan												
3.	Piloting the elements of the Youth Guarantee in the area of selected NES branches and monitoring the implementation of the Implementation Plan												
4.	Evaluation of piloting the Implementation Plan results												

3. Performance indicators

Indicator	Baseline value (2021)	Intermediary target	Target value
A model for outreach, registering and activating young people from the NEET ⁶³ category who are outside the institutions of the system has been developed	no	no (2022)	yes (2023)
The NES platform for registration and monitoring of the Youth Guarantee has been established	no	no (2022)	yes (2023)
NEET rate (15-29), in % (SDG indicator for the Goal 8.6)	20.4	15.7 (2023)	13.9 (2025)

⁶³ Youth not in employment, education or training

4. Expected impact on competitiveness

The implementation of the Youth Guarantee, i.e. removing systemic obstacles for better performance of young people in the labour market and continuous implementation of activities that improve their knowledge and skills and ensure the acquisition of recognized qualifications, shall enable acquiring work experience, develop youth entrepreneurship, prevent unfavourable migratory flows, and contribute to development and greater utilization of potential labour.

The reform contributes to the improvement of the quality of young workforce, which consequently affects their better productivity and the growth in GDP.

5. Estimated costs of activities and sources of financing

The Guarantee is planned to be financed from the RS budget and from donor funds. The largest part will be financed from the EU donation through the IPA 2020 direct grant "Implementation of innovative measures of active employment policy and support for the employment of less employable categories" in the amount of EUR 4,000,000 and EUR 1,500,000 of national co-financing (funds from the RS budget). In addition, a part of the funds intended for the financing of this structural reform is planned from the Technical Assistance project from IPA 2020, in a total value of EUR 1,500,000.

For the year 2023, IPA 2020 funds (Support for the implementation of active employment policy measures) are planned in the total amount EUR of 2,981,250, of which EUR 2,250,000 come from the European Union and the rest is the co-financing from the budget. These funds will be realized through a direct grant to the National Employment Service (subsidies and transfers) in the amount of EUR 2,681,250 and technical assistance (goods and services) in the amount of EUR 300,000. The funds for 2024 and 2025 are planned in a similar way.

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

By facilitating the transition of young people to the labor market and encouraging their employment, the reform will directly affect the increase in employment of this category of persons, while it will also indirectly affect the reduction of poverty. The structural reform will have a positive impact on gender equality, because the collection of data and the process of analyzing the needs of young people will enable the development of dedicated support lines to help remote young people become more active in the labor market and eventually join the Youth Guarantee service delivery system. For example, research on reconciling work and family life will provide information on family responsibilities, the use of childcare services and the impact of family responsibilities on employment, especially for young women who are inactive in the labor market.

7. Expected impact on the environment and climate change

The reform is neutral in terms of environmental impact.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Insufficient dialogue and coordination at a high level, necessary for the realization of the reform	Moderate	Regular dialogue within the established Coordination Body and Expert Group.
Insufficient capacities of institutions and relevant actors delegated for the implementation of activities on the establishment of the Youth Guarantee framework	Moderate	Increasing the number of employees in the Ministry of Labour, Employment, Veteran and Social Affairs, NES and training for all actors involved in the implementation of the activities planned in the Implementation Plan.

STRUCTURAL REFORM 2: THE YOUNG TALENT FUND REFORM

1. Description of the structural reform

The aim of the reform is to establish a more efficient scholarship model and a system for monitoring and employing scholarship talents, first of all in public administration, and then in the economy, in cooperation with partners. In this regard, during 2022, the reform of the Young Talent Fund was initiated (hereinafter the Fund), with the aim of establishing the Fund as a legal entity in 2024. The first activities imply the reform of the existing Fund Programmes, the work on the digital platform for application, evaluation and monitoring of the Fund beneficiaries, as well as the introduction of the new Programmes. This will ensure long-term planning and sustainability of investment in the development of young talents. Special attention will be paid to building the alumni network and the network of partners in order to provide additional sources of funding for the Fund's Programmes.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Analysis of the existing Programmem and the Fund reform proposal												
2.	Development of the digital platform												
3.	Announcement of the Programme and awarding scholarships according to the Programme for scholarship of talents for studying in RS												
4.	Establishing the Young Talent Fund as a legal entity												
5.	Announcement of the Programme and awarding scholarships for studying abroad												
6.	Announcement of Programmes for financing short study visits and professional internships												
7.	Announcement of Programmes and awarding scholarships according to the Programme for financing student projects in the field of science, innovation and art												

3. Performance indicators

Indicator	Baseline value (2022)	Intermediary target (2024)	Target value (2025)
Number of talents employed in public administration	0	10	25
Number of talents employed in the economy	0	100	200

4. Expected impact on competitiveness

This structural reform will have the greatest impact on increasing the competitiveness of the labour force, given that the target group is highly qualified staff, thus having a direct impact on increasing the employability of young people. In addition, through the support Programme for student projects, the structural reform will directly affect the increase of entrepreneurial competences among young people and empower them to enter the labour and business market.

5. Estimated costs of activities and sources of financing

The funds needed for financing the Young Talent Fund in the amount of 7.9 million euros are provided in the budget. In addition, the Westminster Foundation for Democracy provided the structural support in the amount of GBP 100,000 (over EUR 115,000) per year in the period October 2022 - October 2025. In the forthcoming period, it is expected that the Fund will attract other donors to finance individual Programmes (specifically, the student projects Programme).

In 2023, total costs will amount to nearly EUR 8.1 million exclusively for the implementation of the following activities no. 1. (Analysis of existing Programmes and reform proposal), 2. (Development of a digital platform), 3. (Announcement of Programmes and awarding of scholarships according to

the Programme for scholarship of talents for studying in the RS), 4. (Establishment of the Young Talent Fund as a legal entity). The costs will be covered from two sources: The budget of the central government in the amount of over EUR 7.9 million and other grants in the amount of over EUR 115.5 thousand (the support from the Westminster Foundation for Democracy GBP 100,000).

In 2024, total costs will amount to EUR 8.8 million exclusively for the implementation of the following activities no. 5. (Announcement of Programmes and awarding of scholarships for studying abroad), 6. (Announcement of Programmes and awarding of scholarships for financing short study visits and professional internships). The costs will be covered from two sources: The budget of the central government in the amount of over EUR 8.7 million and other grants in the amount of over EUR 115.5 thousand (the support from the Westminster Foundation for Democracy GBP 100,000).

In 2025, the costs will amount to EUR 9.7 million exclusively for the implementation of the following activities no. 5. (Announcement of Programmes and awarding of scholarships for studying abroad), 6. (Announcement of Programmes and awarding of scholarships for financing short study visits and professional internships), 7. (Announcement of Programmes and awarding of scholarships according to the Programme for financing student projects in the field of science, innovation and art). The costs will be covered from two sources: The budget of the central government in the amount of over EUR 9.6 million and other grants in the amount of over EUR 115.5 thousand (the support from the Westminster Foundation for Democracy GBP 100,000).

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

The implementation of the structural reform directly affects the employment of young talents, through managing the alumni network and helping students to find employment opportunities, first of all in public administration, and then in the field of the economy. The Fund will provide a platform for connecting with employers in the public and private sector, which will be used on a voluntary basis and in accordance with their needs (for students studying in the Republic of Serbia), i.e. the Fund will find a minimum of three job offers, with the priority of employment in the public administration (for students who have received scholarships abroad, with a contractual obligation to return to the Republic of Serbia) after completing their studies). Structural reform has a direct impact on poverty reduction and has a positive impact on gender equality.

7. Expected impact on the environment and climate change

This structural reform is neutral in terms of environmental impact and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Reputational risk – non-transparency, violation of the procedure, neglecting of established criteria	Low	Hiring a credible Board of Directors who will put their name behind the talent selection process for scholarships. Hiring an independent commission that will evaluate the candidates. A clearly defined procedure and transparent selection criteria. Open and transparent communication with potential users and the public.
Greater demand compared to the available budget - dissatisfaction of those who were rejected	Low	Active advocacy to increase the budget every year in accordance with the possibilities. Active search for alternative sources of funding, other than the budget, in order to provide additional opportunities.

STRUCTURAL REFORM 3: QUALIFICATIONS ORIENTED TO THE NEEDS OF THE LABOUR MARKET

1. Description of the structural reform

The implementation of dual education model provides more efficient response from the educational system to the needs of the economy and the labour market, technological changes and new competencies. In the forthcoming period, the activities will be undertaken with the aim of raising a digital dual promotional platform for key participants in the dual education system, the establishment of regional training centres will continue; also the activities will be carried out with the aim of improving the quality of career guidance and counselling services (CGC) in dual education. In order to attract foreign investments, an analysis of the key elements of the dual model of education in the Republic of Serbia will be made. Further implementation of the National Qualifications Framework in Serbia (NQFS) ensures the diversification and improvement of the relevance of the educational offer in the system of higher education and lifelong learning, as well as ensuring the transparency of the NQFS system, comparability and recognition of qualifications obtained in the Republic of Serbia with qualifications obtained in other countries.

2. Activities planned by year

No	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Expanding the network and improving the competencies of CGC team coordinators in order to improve the quality of CGC activities in dual education												
2.	Creating a digital dual promotional platform												
3.	Establishment, infrastructural arrangement and equipping of regional training centres												
4.	Implementation of the Monitoring and Evaluation System of the National Model of Dual Education and Dual Education Profiles												
5.	Analysis of key elements in the dual model of studies in the Republic of Serbia for the purpose of attracting foreign investments												
6.	Improving the methodology for the development of qualification standards in the part related to qualifications in the higher education system and piloting of methodology												
7.	Connecting the NQFS Register with the European qualifications portal												
8.	Digitization of the process of accreditation of non-formal education Programmes and creation of qualification standards, as well as the visualization of data from UEIS (Uniform Education Information System) for the purposes of improving the transparency of the education and qualification system												

3. Performance indicators

Indicator	Baseline value (2019)	Intermediary target(2023)	Target value (2025)
Number of developed study Programme according to the dual model of studies	0	34	38
Share of students enrolled in the first year in the dual education system in relation to the total number of students enrolled in the first year in secondary vocational education (%)	5.3	9.5	12
Number of established regional training centres	0	6	12 (2026)
Number of qualifications visible on the European qualifications portal	0	80	120

4. Expected impact on competitiveness

The dual model of studies contributes to the competitiveness of the economy of the Republic of Serbia, as well as to the reduction of the youth unemployment. By investing in education, employers solve the problem of the lack of competent staff in the long term. By learning through work, students have the opportunity to achieve all the learning outcomes foreseen by the qualification standard.

The implementation of NQFS system contributes to the development of a modern, market-relevant and flexible qualification system adapted to the requirements of both individuals and the society as a whole, enables the application of the concept of lifelong learning and facilitates mobility of the workforce.

5. Estimated costs of activities and sources of financing

Funds from the projects will be provided for the implementation of the activities **1, 2, 4, 7 and 8**, in the amount of EUR 210,664 for 2023, EUR 67,364 for 2024 and EUR 29,100 for 2025.

Funds for the construction and reconstruction of regional training centres (activity **3**) in 2023 will be provided through a loan from the European Investment Bank (EIB) in the amount of EUR 15,400,000, and for 2024, through an EIB loan as well, in the amount of EUR 6,923,000. Funds for equipping regional training centres in 2023 will be provided through an EIB loan in the amount of EUR 12,900,000, and for 2024, through an EIB loan as well, in the amount of EUR 595,700.

For the analysis of key elements in the dual model of education in the Republic of Serbia with the aim of attracting foreign investments (activity **5**), funds will be provided from the budget of the RS, in the amount of EUR 50,000 for the year 2024.

For the implementation of activity **6**, no additional funds are needed for the year 2023, and for the years 2024 and 2025, funds should be provided from the projects.

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

The structural reform has a direct impact on employment because it enables the acquisition, improvement and development of the competencies of pupils and students in accordance with the needs of the labor market, facilitates employment after graduation, the development of entrepreneurship, innovation and creativity of each individual, which significantly increases their competitiveness on the labor market and facilitates finding a job. Structural reform directly affects the reduction of poverty. Dual education is based on the principle of equal opportunities - providing equal conditions for acquiring education without any discrimination, with regard to gender, race, nationality, culture, ethnicity and religion, language, sexual orientation, place of residence, financial situation, disability and other personal properties.

7. Expected impact on the environment and climate change

This structural reform is neutral in terms of environmental impact and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risk
Difficult implementation of adopted amendments to the Law on Dual Education due to the lack of information of relevant actors	Moderate	Organizing promotional activities in terms of conferences, workshops and round tables for the purpose of informing relevant actors and potential candidates in dual education
Insufficient motivation of higher education institutions to develop qualification standards.	Moderate	Organizing meetings and info-sessions to inform and motivate higher education facilities

STRUCTURAL REFORM 4: IMPROVEMENT OF THE ENVIRONMENT FOR ENCOURAGING, SUPPORTING AND MONITORING CIRCULAR AND ECONOMIC MIGRATION

1. Description of the structural reform

The goal of the structural reform is to create an environment for attracting the working age population, encouraging circular migration and relations with the diaspora, strengthening mechanisms for monitoring migratory flows and attracting foreigners in accordance with the Strategy on Economic Migration of the Republic of Serbia 2021-2027 and the accompanying Action Plan for the period from 2021 to 2023. During 2021, all the activities provided for in the Action Plan were implemented, cross-sectoral working groups were formed to monitor and implement the Action Plan, a lot of trainings were organized, educational and promotional activities were continued, and social dialogues and diaspora meetings were organized.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preparation of analyses and proposals for measures and activities foreseen in the Action Plan, as well as implementation of activities for the promotion of the return of the highly qualified Serbian diaspora and its inclusion in the Programmes												
2.	Identification and amendment of regulations aimed at facilitating the process of returning to the Republic of Serbia and attracting foreign citizens to live and work in the Republic of Serbia.												
3.	Development of communication, advisory and promotional activities aimed at the integration of returnees and foreign citizens, as well as the organization of the conference “Talent Meet-Up” and other conferences and events with the aim of building the trust with the diaspora.												
4.	Organization of events in the diaspora and presentation of support Programmes for diaspora return.												
5.	Improvement of the administrative framework in order to encourage the arrival of domestic and foreign citizens.												
6.	Preparation of studies on factors affecting internal migration of the workforce.												
7.	Analysis of labour market and workforce needs in the context of migration management.												
8.	Building the capacity of institutions responsible for monitoring migration trends, as well as the Point of Return organization for providing direct and mentoring support to the diaspora during their return and/or cooperation with the institutions of the Republic of Serbia.												

3. Performance indicators

Indicator	Baseline value (2019)	Intermediary target (2023)	Target value (2025)
Number of beneficiaries of tax and other incentives intended for returnees	0	900	1450
Number of citizens of the Republic of Serbia who used Programmes or services dedicated to returnees	0	3000	5000
Number of foreign citizens of Serbian origin who requested a stay in the Republic of Serbia	0	200	400
Number of mentors supporting the return of members of the diaspora	0	50	100

4. Expected impact on competitiveness

The economy of the Republic of Serbia is still facing the deficit in experienced staff who possess modern knowledge, who are the key to global competitiveness. The implementation of the structural reform will intensify activities focusing on attracting Serbian and foreign citizens who, in addition to knowledge and experience, can bring closer and can open many markets through their contacts. The reform also contributes to creating a stimulating environment that is desirable for all industries, especially for the development and application of high technology and innovation, as well as the environment attractive for scientists and engineers from all around the world. In that way, the economy will be more competitive through access to new technologies, and the most modern ways of managing complex business operations and large development projects. In addition, the measures are aimed at attracting staff for research and development centres of institutes and businesses in the Republic of Serbia.

5. Estimated costs of activities and sources of financing

Strengthening the capacity of institutions will be carried out with the support of the German Organization for International Cooperation (GIZ). Improving the environment for encouraging, supporting and monitoring circular and return migrations especially of highly qualified Serbian diaspora will be realized through the “Returning Point” activities, with the support of international donors (United Nations Development Programme – UNDP) and the donations obtained from the diaspora organizations and private sector.

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

Structural reform by providing the professional staff necessary for the economy and by attracting investors who locate their research and development capacities in the Republic of Serbia, directly affects the increase in employment, which also contributes to the direct impact on reduction of poverty. The measure is estimated as being gender neutral.

7. Expected impact on the environment and climate change

This structural reform is neutral in terms of environmental impact and climate changes.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Lack of resources for implementing measures and activities envisaged in the Action Plan for the period from 2021 to 2023 for the implementation of the Strategy on Economic Migrations of the Republic of Serbia for the period from 2021 to 2027 within the planned deadlines.	Low	Training of employees irrespective of the Action Plan based on the Implementation Agreement in connection with the “Migration for Development II” and “Migration & Diaspora” Programmes. Close cooperation with the Chamber of Commerce of Serbia, the National Employment Service and continuous consultations with representatives of the economy.
Reduced interest of the diaspora in return and cooperation with the Republic of Serbia	Low	Continuous dialogue with the diaspora in order to understand the needs of the diaspora and a proactive approach for solving identified key problems.

Key challenge no. 2: Improvement of the business environment more favourable for investments

The achieved macroeconomic and financial stability, the previous dynamics of growth, implemented structural reforms, the created fiscal space for a timely and comprehensive set of measures all enabled the Republic of Serbia to maintain the operations of Serbian companies during the two years of the crisis caused by the pandemic, while preserving the level of employment and achieving a cumulative GDP growth of 6.6%. Through packages of economic support measures for the economy and the population to overcome the crisis caused by the pandemic, 15.6% of GDP was invested in 2020 and 2021. The measures taken contributed to the increase in the liquidity of business entities and ease of doing business, while the benefits to the population stimulated domestic demand and indirectly influenced economic activity. In addition, there were some structural improvements. New and expanded existing export-oriented competitive production capacities were activated; road and railway infrastructure was improved, which permanently increased the potential of the domestic economy. As a result, the decline in economic activity in 2020 amounted to only 0.9% y-o-y, while preserving the level of employment (growth of 0.1 pp y-o-y in 2020), so that GDP would reach a growth of 7.5% in 2021 y-o-y, with an increase in the employment rate of 1.5 pp y-o-y. Nearly 30,000 more companies were founded than were closed, with around 91,000 more employees after the state of emergency in the period May 2020 - May 2022. On a global level, the Ukrainian crisis caused an increase in the prices of energy sources and certain raw materials and products, which led to rising production costs. In the conditions of growing global inflation, the World Bank corrected the projections of economic activity growth in the Republic of Serbia for 2022, from 4.4% to 3.2% (GDP growth of 4.2% in Q1, 3.8% in Q2 and 1% in Q3 2022⁶⁴). In order to facilitate the operation of the economy in the newly created conditions, the Government of the RS adopted the *Decision on the Conditions and Manner of Reducing the Customs Duties on Certain Goods, i.e. Exemption of Certain Goods from Customs Duties in 2022* ("Official Gazette of RS", Nos. 132/21, 9/22, 32/22, 77/22), enabling the import of certain goods at a customs rate of 0%. Also, excise duty prices on leaded and unleaded gasoline and gas oils are regulated through the amendments to the *Decision on temporary reduction of the amount of excise duties on oil derivatives from Article 9 paragraph 1 point 1), 2), 3) of the Law on Excise Taxes* ("Official Gazette of RS", Nos. 22/01, 73/01... 32/22 - decision, 46/22 - decision, 50/22 - decision, 62/22 - decision, 73/22 - decision, 84 /22 - decision, 89/22 - decision, 97/22 - decision, 110/22 - decision, 121/22 - decision, 130/22 - decision and 144/22 - decision) in accordance with the dynamics of price changes on the world market.

In addition to the noticeable progress in transparency and reliability of the regulatory framework, there are still structural challenges to be further improved. In the UN report on the development of e-Government for 2022 (*United Nations e-Government Development Survey 2022*), which contains an overview of the situation and monitors the development of electronic government in 193 UN member states, the Republic of Serbia is in 15th place according to the e-Participation index (a jump of 26 positions), and only three EU members (Denmark, Finland and Estonia) have a more participatory online interaction between the state and citizens. The obligation of transparency in the preparation of draft laws and other regulations and acts (new or amended) was determined through adopting of certain regulations. These are, among others, *The Law on State Administration* ("Official Gazette of RS", Nos. 79/05, 101/07, 95/10, 99/14, 30/18 – other law and 47/18), *Law on the Planning System of the Republic of Serbia* ("Official Gazette of RS", No. 30/18), *Regulation on the Methodology of Public Policy Management, Impact Analysis of Public Policies and Regulations, and the Content of Individual Public Policy Documents*⁶⁵ ("Official Gazette of RS", No. 8/19), the *Rulebook on Good Practice Guidelines for Exercising Public Participation in the Drafting of Laws and Other Regulations and Acts* ("Official Gazette of RS", No. 51/19), as well as the *Programme for Improving Public Policy Management and Regulatory Reform 2021-2025* (along with the Action Plan for the same period). The *Handbook for Public Participation in Planning, Developing and Monitoring the Implementation of Public Policies and Regulations*⁶⁶ was also prepared and made

⁶⁴ Source: RZS, National accounts - Quarterly national accounts <https://publikacije.stat.gov.rs/G2022/Html/G20221333.html>

⁶⁵ The drafting of two new regulations began in June 2022: on the Methodology of Public Policy Management and on the Impact Analysis of Public Policies and Regulations analysis.

⁶⁶ <https://rsjp.gov.rs/wp-content/uploads/Final-Public-Consultation-Manual-16-07-2020-for-publication-1.pdf>

publicly available, with the EU support. Although the consultative process was carried out in the manner provided by the regulatory framework for only 44.4% of the laws adopted in 2021, this is still almost 8.4 percentage points more than in 2020.⁶⁷ The **e-Consultation portal** (an integral part of the e-Administration portal) has been fully functional since December 2021 and it contributes to more equal participation of the public, primarily citizens, in the process of preparing and adopting regulations and public policy documents.

Further efforts are necessary to improve the quality and reduce the burden on the justice system. With the adoption of the *Act on Amendments to the Constitution of Serbia* (RS No. 9 of February 9, 2022), conditions were created for strengthening the independence and responsibility of the judiciary and further strengthening of the rule of law. However, the lack of personnel and the lack of continuous training of judges lead to a large number of unsolved cases and to inconsistencies in verdicts. In the Republic of Serbia, there are 160 courts with a systematized 3,073 judge positions (effectively 2,508 judges in 2021, whose average age is 52). The average number of cases resolved per one judge was 963 in 2021 (784 in 2020). 2.4 million new cases were received in 2021 (958 per judge), which is more than in 2020 (727 new cases per judge).

Although still high, the number of pending cases is continuously decreasing (less than 1.5 million in 2021 when compared to 3.2 million in 2012), as well as the time required to resolve cases (226 days in 2021 when compared to 274 in 2020, and 534 days in 2012). On average, 67.8% of cases are resolved in the first year, for 30.7% of cases, the resolution time is from one to three years, and 1.5% of court cases require more than three years to resolve⁶⁸. In order to reduce the number of pending cases, the Supreme Court of Cassation adopted the *Unified Programme for the Resolution of Backlog Cases in the Republic of Serbia 2021-2025*, which includes all cases older than three years from the date of submission of the initial act.

In addition to the noticeable progress in reducing the administrative burden on the economy in recent years, the business environment in the Republic of Serbia remains burdened with costs and complicated administrative procedures, which adversely affect investment and development and growth of the SME sector. The administrative burden on the economy in the Republic of Serbia has been reduced to 2.92% of GDP in 2021⁶⁹ from 4.07% of GDP in 2010. With the adoption of the *Law on Fees for the Use of Public Goods* (“Official Gazette of the RS”, No. 95/18 and 49/19), all fees paid for the use of natural resources, goods of general interest and goods in general use were consolidated in one place (these fees were subject to regulation in 19 special laws) and the establishment of a public register of non-tax levies is underway. About 2,600 administrative procedures in 93 public administration bodies in the period 2016-2021 were listed and analysed. Within the *Programme for the Simplification of Administrative Procedures and Regulations “e-Paper”* for the period 2019- 2021 (05 No. 021-6885/19-1 of July 11 2019) 64 public administration procedures were digitalized, and 380 administrative procedures (of which 21 were abolished) were optimized, thus achieving the savings for the economy of around EUR 33 million per year. Pursuant to the *Law on the Register of Administrative Procedures* (“Official Gazette of the RS”, No. 44/21), and the *Regulation on the Management, Functioning and the Establishing of Data entered in the Register of Administrative Procedures* (“Official Gazette of the RS”, No.84/22), the *Register of Administrative Procedures* has been established. On the publicly accessible Portal of the Register, you can currently find the necessary information for 2,317 procedures (request form and information on the necessary documentation to be attached, the amount of financial expenses and the account number to which the payment should be made, the address to which the request should be sent, the link to start electronic services and others), which enables the economy to save additional time and money and improves legal certainty, predictability and uniformity in the actions of the entire public administration.

⁶⁷ According to the records of the Public Policy Secretariat of the Republic of Serbia (Annual Report on the Implementation of the Improvement Programme issued by the Public Revenue Office and RR 2021.)

⁶⁸ Annual Report on the Work of Courts in RS for 2021, https://www.vk.sud.rs/sites/default/files/attachments/Publikacija%20srb_0.pdf

⁶⁹ The measurement of administrative costs in the Republic of Serbia for the year 2021 was completed at the beginning of October 2022. The report on the measurement of administrative costs in the Republic of Serbia for the year 2021 is available on the website of the Republic Secretariat for Public Policies.

The role of the state in the economy is declining, but it is still significant. The process of restructuring public companies in previous years has yielded results, but these enterprises (596 or 0.5% of the total number of enterprises) still had a large impact on the results of the nonfinancial sector in 2020. Thus, public companies record the following shares in 2020 (compared to 2015): 9.4% (11.6% in 2015) of employment, 20.9% (25,8%) of capital, 6.1% (6.4%) of total revenues, 5.4% (5.8%) net profit and 3.2% (5.8%) net loss. The pandemic and the energy crisis have slowed down the restructuring of large state-owned enterprises, primarily in the fields of energy, transport and mining. It is necessary to accelerate the implementation of measures from the *Action Plan for implementing the Strategy of State Ownership and Management of Business Entities owned by the Republic of Serbia for the period from 2021 to 2027* (“Official Gazette of the RS”, No. 9/21) in order to improve the corporate management of state enterprises, develop a centralized ownership model and a more transparent monitoring system and improve their efficiency.

The capital market in the Republic of Serbia is not sufficiently developed and currently fails to sufficiently fulfil its main function - the efficient allocation of financial resources of savings and investors to the development of companies. Traditional financing through banking products (deposits and loans) is prevalent, and the major obstacles to the development of capital markets in the Republic of Serbia are insufficient financial education of the population regarding opportunities and risks of investment of free funds in various financial instruments, which leads to a dominant orientation towards savings as the simplest form of investment, underdeveloped awareness of companies about the possibility of financing regular business and research and development through the capital market, as well as an inadequate supply of domestic financial instruments available to investors. *Capital Market Development Strategy for the period from 2021 to 2026* (“Official Gazette of the RS”, No. 102/21) and the accompanying *Action Plan for the period 2021 to 2023* (“Official Gazette of the RS”, No. 118/21), and the new *Law on Capital Market* (“Official Gazette of the RS”, No. 129/21) are the basis for the improvement of the Serbian capital market in the forthcoming period, creating the conditions for the use of a wider range of financial instruments by the private sector, at the same time reducing the dependence of small and medium enterprises on bank financing and state subsidies, thus achieving a significant contribution to accelerated economic growth, increased number of jobs as well as additional support for the investments in innovative industries.

Given the new and significant infrastructural needs of the Republic of Serbia, the necessity to provide sufficiently comprehensive investment projects, with appropriate feasibility studies, cost-benefit analysis and realistic environmental impact assessment, has been identified. Challenges that existed during the realization of capital investments (resolving property-legal relations, timely obtaining of project documentation, construction permits, breaking deadlines) still exist, but are gradually being overcome. To this end, it is necessary to regularly monitor changes in the legislative framework in the field of environmental protection, with an emphasis on the assessment of the impact of projects on the environment, as well as to plan in advance and in a timely manner the submission of requests for impact assessment. In order to avoid risks related to breaking deadlines, it is necessary to plan adequate time to complete the procedure. Total investments, according to the *Law on Budget of the Republic of Serbia for 2023* (“Official Gazette of the RS”, No. 138/22), are planned in the amount of about EUR 3.6 billion, or about 6.8% of GDP. The systemic procedure for evaluation and selection of public investment projects has been additionally improved by adopting a new *Regulation on Capital Project Management* (“Official Gazette of the RS”, No. 51/19 and 139/22) and accompanying rulebooks, and the amended Regulation entered into force on 24 December 2022, and will be effective starting from 1 April, 2023. The aim of making changes was to include parameters on the impact of the project on the environment in the criteria for identification, assessment of readiness and determination of the degree of priority for capital projects. In the Republic of Serbia, there is already a legal framework that governs the area of environmental impact assessment, but the process of managing capital projects governed by the Regulation on the Management of Capital Projects functioned in parallel with the process of environmental impact assessment prescribed by the Law on Environmental Impact Assessment (“Official Gazette RS”, No. 135/04 and 36/09). The Ministry responsible for the environmental protection, according to the

changes in the Regulation, will be involved in the process of assessment and monitoring of capital projects to the extent and in a manner that commensurate with the legal framework that regulates the area of environmental impact assessment, and a regulation will be adopted that will contain environmental protection criteria for the needs of the work of the Capital Investment Commission. In this way, a connection is made with the existing procedure, which is conducted based on the law governing the environmental assessment. The Commission for Capital Investments, established at the beginning of 2020, is responsible for confirming the strategic relevance of capital projects and for adopting a list of successfully evaluated projects. The commission met seven times until December 2022. The group for evaluation and monitoring of capital projects at the Ministry of Finance monitors 159 projects in accordance with the Regulation on the Management of Capital Projects, and is working on the establishment of the PIMIS information system, which is expected to be put into operation.

Significant efforts have been invested in combating informal business, but reforms are being slowly implemented. According to the Report on the Implementation of Measures from the Action Plan for Suppression of the Grey Economy 2019-2020⁷⁰, 49.2% of defined measures and activities is realized. The share of informal employment in total employment decreased from 22% in 2016 to 13.2% in 2021⁷¹, among other reasons, due to the implementation of the Law on Simplified Work Engagement in Seasonal Jobs in Certain Activities ("Official Gazette of RS", No. 50/18) which includes jobs in the field of agriculture. 38,500⁷² seasonal workers were legally employed in agriculture in 2021, 17% more than in 2020. Amendments to this law will include jobs in other industries (construction, catering, tourism, domestic help jobs for the needs of natural persons, cleaning for the needs of residential buildings). The draft of the new *Programme for the Suppression of the Grey Economy* is in progress (a public debate has been conducted⁷³), containing 24 measures for achieving three goals: strengthening of inspection supervision, improvement of the work of the Tax Administration and fiscal and administrative relief of the economy, which adoption is expected in the first quarter of 2023.

The transparency of the public procurement process has been strengthened with the adoption of the *Law on Public Procurement* in 2019, **but the level of competition should continue to increase.** Bearing in mind the provisions of the *Law on Public Procurement*, one of the key innovations is the **introduction of an e-platform.** The obligation of electronic communication and electronic data exchange in public procurement procedures was introduced, which represents a significant step forward in the process of digitization of public procurement procedures. The public procurement portal enables contracting authorities to compile and publish plans and notices on the Portal, publish tender documents and decisions in public procurement procedures, as well as many other options and functionalities such as: **e-submission of bids, e-auctions**, dynamic procurement system, **e-planning, e-complaints and e-catalogue.** The new Public Procurement Portal has facilitated collecting and recording data to the Office for Public Procurement related to all procedures initiated under the provisions of this law. 182,998 contracts were concluded in 2021 with a total value of RSD 559.7 billion (8.9% of GDP), which is the largest number of contracts since 2004. There were 91.3% of open procedures, and 7.7% of the negotiated procedures without publication of a public invitation⁷⁴ of the total number in 2021. The average duration of the open public procurement procedure was shortened to 48 days in 2021 (52 in 2020), but greater involvement of business entities in the public procurement process has not yet been achieved, i.e. the average number of bids per public procurement procedure has slightly decreased to 2.5 in 2021 (from 2.6 in 2020)⁷⁵.

⁷⁰ <https://naled.rs/htdocs/Files/08840/Izvestaj-o-realizaciji-mera-iz-Akcionog-plana-za-suzbijanje-sive-ekonomije-2019-2020.pdf>

⁷¹ SORS, LFS 2021., <https://publikacije.stat.gov.rs/G2022/Pdf/G20225682.pdf>

⁷² Source: Seasonal workers portal <https://www.sezonskiradnici.gov.rs/>

⁷³ https://www.mfin.gov.rs/upload/media/BERtr6_62308f091c3fc.pdf

⁷⁴ The data also includes procedures without publication of a public invitation pursuant to Article 62, paragraph 9 of the Law on Public Procurement 2019.

⁷⁵ Public Procurement Office, Annual Report on Public procurements in the Republic of Serbia 2021 <https://jnportal.ujn.gov.rs/annual-reports-ppo-public>

a) Reforms

STRUCTURAL REFORM 5: IMPROVEMENT OF THE QUALITY OF PUBLIC SERVICES THROUGH OPTIMIZATION AND DIGITALIZATION OF ADMINISTRATIVE PROCEDURES – e-PAPER

1. Description of the structural reform

Improving the quality of public service delivery is a multi-year reform process that takes place, among other things, through the optimization of administrative procedures (by elimination of redundant administrative procedures or their simplifying and digitalization), as well as through the establishment of a Register of Administrative Procedures. The Register represents a unique electronic database of all administrative procedures and other business conditions implemented by public administration bodies so that interested businesspersons and citizens can be informed in a simple and easy way about everything they need to exercise a certain right or fulfil a legal obligation. The Register also represents starting point for the formation of the Single Electronic Contact (PSEC), which is an obligation in accordance with the Services Directive 2006/123/EC, the transposition of which is provided for in Article 59 of the SAA. The reform has been defined by the Public Administration Reform Strategy in the Republic of Serbia for the period from 2021 to 2030 ("Official Gazette of RS", No. 42/21 and 9/22), whereas the Action Plan for the Implementation of the Strategy envisaged the adoption of the Programme for the Simplification of Administrative Procedures and "e-Paper" Regulations (hereinafter Programme) for the period after 2021.

The Register containing the data on almost 3,000 economy and citizens related administrative procedures has been established through e-Paper, and the list of administrative requirements that represent a condition for doing business and business residence in the Republic of Serbia is in progress too. 380 administrative procedures have been fully optimized and the optimization of additional 496 has been initiated; 64 public administration services for the economy have been digitalized and made publicly available, 27 of them are in the pre-production phase, with additional 30 administrative procedures for citizens are being prepared for digitization.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Listing of administrative procedures for citizens at the level of local self-government units												
2.	Optimization of administrative procedures for the economy and citizens												
3.	Digitization of administrative procedures for the economy and citizens and creating digital business episodes												
4.	Listing and optimization of administrative requirements (business conditions)												
5.	Improving the Register of Administrative Procedures and its portal												
6.	Establishing an online monitoring tool for searching measures and activities of importance for the business environment												

3. Performance indicator

Indicator	Baseline value (2018)	Intermediary target (2021)	Target value (2025)
The share of administrative burden for citizens and the economy in GDP, in %	3.11	2.95	2.75
Number of optimised administrative procedures	0	330	500
Number of digitised administrative procedures	0	52	220

4. Expected impact on competitiveness

In the previous period, the Republic of Serbia has made significant progress on international competitiveness lists in the field of e-government⁷⁶, which is, among other things, the result of numerous simplifications and digitalization of services provided by public administration to businesses and citizens. The establishment of the Register of Administrative Procedures, and a publicly available Register Portal with all the necessary information relevant for the economy in proceedings before public administration, has significantly contributed to the positive impact on competitiveness, thus creating a safer, more transparent and more predictable business environment. Having all the necessary information for business available in one place enables savings in time and money and at the same time increases the attractiveness of the Republic of Serbia as an investment destination.

5. Estimated costs of activities and sources of financing

The reform is implemented with the existing institutional and human capacities of the public administration, and technical support for the implementation of the measure is provided by the funds of the European Union (IPA funds), the World Bank within the project loan for the project "Enabling Digital Governance" and the EBRdonation. For the mentioned activities, in the period 2023-2025, EUR 2.2 million have been allocated from IPA funds (EUR 335 thousand for the optimization of procedures, EUR 1.35 million for digitization of procedures and business operation, EUR 290 thousand for the list of administrative requirements, EUR 120 thousand for the improvement of the Register administrative procedures and EUR 100 thousand for the development of an online monitoring tool for searching measures and activities of importance for the business environment that are provided for by valid public policy documents), EUR 2.8 million within the project loan for the project "Enabling Digital Governance" (EUR 72 thousand for optimization and EUR 2.75 million for the digitization of administrative procedures) and EUR 215 thousand of EBRD grants (for the digitization of administrative procedures in the field of renewable energy sources).

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

By establishing the Register of Administrative Procedures (all necessary information for business available in one place), an indirect impact on the increase in employment can be expected, due to the reduction of the costs of the economy (savings of almost about EUR 33 million per year), and the savings achieved can be directed to the creation of new jobs. In terms of the impact on gender equality, the part of the reform that refers to the **abolition and simplification of administrative procedures** (optimization) does not have the potential to contribute to the improvement of gender equality, because it shortens the time for the economy and citizens to exercise the rights established by law in proceedings before the public administration regardless of gender. On the other hand, the part of the reform that refers to the **digitalization of administrative procedures** will not affect the deepening of gender inequality in terms of the exercise of rights established by law, because it gives possibility of choosing the way of initiating and implementing the administrative procedure - electronically or through a paper submission to the competent authority. Also, all these processes/parts of the reform (abolition, simplification and digitization of administrative procedures) will have a positive effect on the employed both women and men in the public administration because it will make it easier for them to perform their work.

7. Expected impact on the environment and climate change

Optimization and digitization of administrative procedures significantly reduce the use of paper documents, which will have a positive impact on environmental protection and climate changes.

⁷⁶ Report: https://neighbourhood-enlargement.ec.europa.eu/serbia-report-2021_en; page 17: Report: <https://publicadministration.un.org/en/Research/UN-e-Government-Surveys?lrs=01712f7d-dc30-4e6a-bff9-90f2c477df5a&id=gx:2sm:3tw:4elevate:5awa:6oth;https://openknowledge.worldbank.org/handle/10986/36233>

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Failure to implement optimization of administrative procedures within the deadline	Moderate	A mechanism for monitoring the implementation of the optimization of administrative procedures is provided and the Government adopts a Programme with an Action Plan in order to ensure the dynamics of implementation.
Failure to implement digitization of administrative procedures within the deadline due to the need to improve the digital infrastructure	Moderate	A mechanism for monitoring the implementation of digitization of administrative procedures is provided and the Government adopts a Programme with an Action Plan to ensure the dynamics of implementation. ITE was transformed into a special organization from the Government service so that it could more quickly implement activities to improve the necessary infrastructure.

STRUCTURAL REFORM 6: SUSTAINABLE AND EFFICIENT MANAGEMENT OF BUSINESS ENTITIES OWNED BY THE REPUBLIC OF SERBIA

1. Description of the structural reform

The goal of the reform is the establishment of a more efficient monitoring and control system of business entities owned by the Republic of Serbia. The realization of the ownership rights of the state over economic entities in which the state has a share, according to OECD guidelines, should be clearly identified and, if possible, centralized. The Government adopted the *Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period 2021 to 2027* ("Official Gazette of RS", No. 36/21) and the *Action Plan for the period 2021 to 2023*, for the implementation of the aforementioned strategy ("Official Gazette of RS", number 68/21). The activities after 2023 will be determined in the next Action Plan, which will be adopted by the end of 2023.

In compliance with the aforementioned Strategy, the database of the business entities owned by the Republic of Serbia (EERS) has been formed in the previous period and is being updated daily, the analysis of the current legal framework related to the EERS management has been carried out and the draft of the law has been prepared, which will centralize and regulate the mentioned area in such a way as to improve the efficiency of monitoring and control of the EERS operations.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Implementation of the new legal framework, which applies to all EERS												
2.	Digitization of EERS monitoring and reporting processes												
3.	Analysis of the situation for the establishment of a unified system of corporate governance in EERS												

3. Performance indicators

Indicator	Baseline value (2020)	Intermediary target(2022)	Target value (2023)
Establishment of EERS database, with provision of daily updates	no	yes	yes
Number of public companies that are not corporatized	26	23	20

4. Expected impact on competitiveness

The uniform legal framework in which EERS operate creates the basis for the establishment of a centralized ownership function of the state, which will enable a more transparent system of monitoring and more efficient implementation of public policies, as well as the reduction of fiscal risks.

Having regard to the number of EERS, digitization of EERS monitoring and reporting will reduce the information asymmetry between the central ownership body and the management, thus strengthening the monitoring, facilitating the process of raising capital and contributing to strengthening the confidence in the financial system.

5. Estimated costs of activities and sources of financing

The implementation of this structural reform requires no additional funds from the budget of the Republic of Serbia.

Within the Project “Local Government Finance Reforms II” (RELOF 2) supported by the Government of Switzerland, the Agreement on the donation of the Information Platform has been signed in the amount of CHF 69,080, that is, EUR 68,504, which will implement the measure of digitization of the EERS monitoring and reporting process.

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

A more transparent system of EERS monitoring contributes to more efficient implementation of public policies, and thus, indirectly, to improving competitiveness and raising living standards. The proposed reform is gender neutral.

7. Expected impact on the environment and climate change

The proposed reform is environmentally and climate-neutral.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Challenges in the application of the new legal framework due to the existing disparity and scope of the legal framework governing the functioning of the EERS.	High	Cooperation with competent ministries and authorities
Technical limitations in digitalised monitoring and reporting of the EERS	Moderate	Cooperation with IT experts
The capacity and availability of resources in the EERS necessary for the establishment of a unified system of corporate governance	Moderate	Establishment of a training system in the field of corporate management of the EERS governing bodies.

STRUCTURAL REFORM 7: DEVELOPMENT OF THE DOMESTIC CAPITAL MARKET AND THE PROVISION OF A GREATER LEVEL OF INVESTOR PROTECTION

1. Description of the structural reform

In order to strengthen the capital market, improve the business environment and provide support to the private sector, the proposed structural reform will contribute to the development of a competitive, highly efficient, transparent and productive national capital market with a wide range of financial instruments and services, comparable to leading regional and European financial markets. The goal of this structural reform is to develop financial mechanisms on the capital market, to increase the attractiveness of the domestic market for both domestic and foreign investors and to activate the capital market in the function of the economic growth, employment and provision of the better life quality for citizens. Increasing the transparency and quality of financial mechanisms will restore

investor confidence in the market, which will consequently have a positive impact on increasing the number of participants in the domestic market and on the sustainable economic growth.

In December 2021, a new *Law on the Capital Market* ("Official Gazette of RS", No. 129/21) was adopted. The Ministry of Finance will continue further harmonization with the legal acquis of the EU, in cooperation with relevant institutions in the field of capital markets, through the preparation of a new law on the takeover of joint stock companies. This law will regulate the conditions and procedure for the takeover of joint stock companies whose seat is in the Republic of Serbia, the rights and liabilities of the participants in the takeover procedure and the supervision of the implementation of the takeover procedure.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Adoption of the Law on Takeover of Joint Stock Companies												
2.	Strengthening the institutional capacity to perform normative tasks in the field of capital markets												

3. Performance indicators

Indicator	Baseline value (2020)	Intermediary target (2023)	Target value (2024)
Increase in the market capitalization of the Belgrade Stock Exchange, in billion euros	4.36	6.25	8.33
Increasing the percentage of savings placed on the capital market (investing in investment/pension funds or through direct investment in securities), in %	2.32	5	5

4. Expected impact on competitiveness

It is expected that the improvement of the volume and diversity of the offer of financial mechanisms on the market will lead to the development of the domestic capital market, diversification of sources of financing, and thus to the increase in domestic and foreign investments in the economy. This structural reform is expected to contribute to the efficiency of both the private and public sectors.

By creating a more attractive economic environment and diversifying sources of financing, interested companies will provide the opportunity to raise capital to finance growth and development, at the same time ensuring a higher level of transparency and greater security of the financial system (enhanced monitoring over the application of regulations governing the operations of market entities; high quality of financial reporting, etc.), and thus the growth of investor confidence and their interest in investing.

5. Estimated costs of activities and sources of financing

In order to develop an adequate legal framework that will contribute to the development of a competitive, highly efficient, transparent and productive capital market, it is necessary to improve the existing administrative capacities of the Ministry of Finance by employing two additional civil servants in 2023 and 2024 in the Financial System Sector, in the Securities and Capital Market Group. This also represents the only additional cost necessary for the implementation of this reform.

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

The implementation of the structural reform activates the capital market which will contribute to the economic growth, employment and a better quality of life for citizens, which directly affects the reduction of the unemployment rate and the reduction of poverty. This structural reform is gender neutral.

7. Expected impact on the environment and climate change

Prescribing of new legal mechanisms in the Law on Capital Market results in creating the basis for introducing novelties on the market, and the proposed structural reform is expected to have a positive impact on the environment and climate change.

The implementation of the Capital Market Development Strategy for the period from 2021 to 2026 and the Action Plan of the strategy in question, on which the structural reform is based, will activate some hitherto unused financial mechanisms, such as green bonds, which will be used exclusively for financing projects in the field of ecology and environmental protection.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Creation of insufficiently attractive financial mechanisms and stagnation (or decline) in the number of capital market participants	Moderate	Preparation of a comprehensive analysis of the current situation on the capital market and a survey of the needs of market participants.
Insufficient capacities of the Ministry of Finance to perform the planned normative tasks	Low	Employment in an organizational unit that performs normative tasks in the field of capital markets.

Key challenge no. 3: Greening the energy sector and full opening of energy market

The conflict in Ukraine (end of February 2022) worsened the energy crisis in Europe and in most of the world and led to **rising energy prices**. The restriction of the export of natural gas from the Russia to Europe from July 27, 2022 to 33 million m³ per day (20% of the full capacity of the gas pipeline), influenced the increase in the price of this energy source on world markets to a record historical price. On the other hand, the Republic of Serbia is not able to import Russian oil⁷⁷ through the Adriatic Pipeline (JANAF) from December 2022, which is why it will have to turn to other ways of supplying oil, which will also affect the increase in the price of this energy source.

The energy sector in the Republic of Serbia accounts for about 4% of GDP. Over the previous years, many investments were made in the revitalization of the electric power system, but it is still characterized by low level of energy efficiency, outdated infrastructure, insufficient use of renewable energy sources and high dependence on fossil fuels. In order to increase the contribution of the energy sector to economic growth, it is necessary to improve energy efficiency, increase the volume of investments in the construction of new capacities, strengthen the internal market, increase the level of energy security, adjust energy prices, implement the decarbonisation process and use renewable energy sources (RES).

Of the total electricity generated in the Republic of Serbia, coal-fired thermal power plants produced 60.4%, hydropower plants 31.3%, wind power plants connected to the transmission system 2.8%, thermal power plants – heating plants 1.9% and other power plants 1.8% of electricity (PE EPS generates 95.05% of the total electricity)⁷⁸. Losses in the distribution network are still high and amount to 11.73% of the electricity taken into the distribution system in 2021. The reliability of electricity supply is at the five-year-level and amounts to SAIFI – 8.27 in 2021 (8.2 in 2020) and SAIDI – 892 in 2021 (804 in 2020)⁷⁹.

It is necessary to adopt long-term strategic documents in order to determine energy and climate goals. Two of the most important strategic documents for the energy sector are currently being drafted: *Integrated National Energy and Climate Plan of the Republic of Serbia for the period until 2030, with the projections until 2050*, as well as the *Energy Development Strategy of the Republic of Serbia for the period until 2040, with the projections until 2050*. The drafts of these documents envisage the greening of the energy sector, the construction of new infrastructure, environmental protection, greater use of RES and increasing energy efficiency. The realization of these strategic

⁷⁷ European Commission, The eight package of sanctions against Russia https://ec.europa.eu/commission/presscorner/detail/en/ip_22_5989

⁷⁸ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

⁷⁹ EDS, http://epsdistribucija.rs/pdf/GI_ODS_2021.pdf

goals requires the identification of the conditions necessary for the establishment of economically and socially sustainable transition.

Existing power plants emit large amounts of harmful gases including the greenhouse effect gases, which has an adverse effect on the environment and human health. The energy sector is one of the biggest air polluters in Serbia. Most of the energy is produced based on coal, while individual fireplaces largely use wood and coal as fuel. The energy sector contributes to the creation of about 80% of greenhouse gases at the national level. Sulphur dioxide (SO₂) emissions in 2020 amounted to 417.6 kilotons (Gg), which is 5.1% more than in 2019 (20.4% in comparison to 2018). The largest emission of SO₂ originates from the Electricity, Gas and Steam Supply Sector (primarily thermal power plants within EPS that use lignite) with a share of 91.3%, and the growth of 5.4% compared to 2019⁸⁰ ⁸¹. TPP “Kostolac B” is the only thermal power plant in the Republic of Serbia with the plant intended for the flue-gas desulphurization (FGD). It is necessary to intensify the work on the construction of FGD in the thermal power plants Nikola Tesla A and B. NO_x reduction equipment was installed in the thermal power plant Nikola Tesla B1 and the plant was put into operation. There are low-nitrogen burners on both blocks of the thermal power plant "Kostolac B", and the work on introduction of secondary denitrification measures is underway through the addition of ammonia to reduce further emissions. The practice of charging fees for the protection and improvement of the environment in accordance with the *Law on Fees for the Use of Public Goods* (“Official Gazette of RS” No. 15/21) continued.

Implementing energy efficiency measures and establishing an institutional approach to financing is a priority given the extremely high-energy intensity. Energy intensity in the Republic of Serbia is four times higher than the average in the OECD countries. About 34% of total energy consumption in households is consumed in the form of electrical energy (in EU it is about 25%).⁸² The average consumption of thermal energy per household in the Republic of Serbia is estimated as 2.5 times the average consumption in EU. In order to reduce the energy intensity, the *Regulation on the Obligors of the Energy Management System* (“Official Gazette of the RS”, No. 59/22) determined savings in the current year at the level of 1% of the primary energy that was used in the previous year. In the forthcoming period, the capacities of the *Administration for Financing and Encouraging Energy Efficiency* will be created and improved.

The Regulation on the Minimum Requirements in terms of Energy Efficiency that New and Reconstructed Facilities Must Fulfil (“Official gazette of RS”, No. 44/22) was adopted, in order to improve the energy efficiency of the facilities for the production, transmission and distribution of electrical and thermal energy. In the previous decades, insufficient attention was paid to the energy efficiency of residential buildings and houses (lack/inadequacy of thermal insulation on buildings, installation of low-quality wooden windows, use of non-standardized, energy-inefficient and outdated coal and wood heating devices), which represents one of the causes that can lead to energy poverty. Consequently, the individual energy consumption in households has a significant share in the emission of harmful gases responsible for creating the greenhouse effect. The implementation of measures that increase energy efficiency in the housing sector is a key factor for starting the energy transition, achieving energy policy goals and reducing energy poverty. This requires the installation of thermal insulation in residential buildings, the replacement of windows and external doors, the replacement of coal and biomass boilers with more energy-efficient heating methods and the installation of solar collectors for water heating, as well as the installation of rooftop solar photovoltaic panels (PV). The realization of the project of awarding subsidies for the installation of solar panels for the production of electricity for own needs, in which 37 LGUs participate, has begun in 2021. The expected energy saving is 1,956,000 kWh per year and the reduction of CO₂ emissions is 1,082.11 tons per year. Sixty-seven LGUs participated in the project of increasing the energy efficiency through the improvement of the thermal envelope, the improvement of thermo-technical

⁸⁰ Statistical office of RS, Announcement, Calculation of air emissions, 2020. <https://publikacije.stat.gov.rs/G2022/Html/G20221262.html>

⁸¹ TPP Kostolac B emitted 95,096 tons of SO₂, and TPP Nikola Tesla B 85,756 tons of SO₂ in 2020, European Environment Agency, https://cdr.eionet.europa.eu/rs/eu/energycommunity/envygmfea/LCP_Energy_Community_Serbia_2020_final.xlsx/manage_document

⁸² Eurostat, https://ec.europa.eu/eurostat/databrowser/view/t2020_rk210/default/table?lang=en

systems and the installation of solar collectors in the installation for the central preparation of domestic hot water, and subsidies will be provided to about 4,200 households. The energy savings of 38,054,413 kWh per year, which will reflect in the reduction of electricity bills by 20-30% at the household level, as well as the reduction of CO₂ emissions by 12,452.20 tons per year, are expected. The 2022 budget of the Administration for Financing and Encouraging Energy Efficiency (hereinafter EE Administration) provides close to two billion dinars for the implementation of the Programme of co-financing of energy efficiency measures. Available budget funds for 2023 will be additionally increased by the World Bank and EBRD loans. In March 2022, contracts were signed with 151 LGUs for the financing of the *Programme for Energy Rehabilitation of Residential Buildings, Family Houses and Apartments*, implemented by local self-government units as well as city municipalities, with the expected subsidies for about 20,000 households. The expected energy saving is about 196,276,070 kWh per year, and the reduction of CO₂ emission is 87,913 tons per year. The co-financing model for energy rehabilitation measures is that the Ministry/EE Administration and LGUs provide up to a maximum of 50% of the funds (MRE 25%, LGUs 25%), while citizens participate with the other half. In July 2022, contracts were signed with 38 LGUs for the financing of energy efficiency improvement projects in facilities of public importance in local self-government units, as well as city municipalities. The model by which this Programme is implemented is: the maximum amount of funds allocated by the EE Administration is 30 million dinars, the maximum of 70% of the total value of the project; devastated LGUs had the possibility to receive 100% of the funds, with a maximum of 30 million dinars; for the measure of modernization of public lighting, the maximum participation of the EE Administration is 20%, and the maximum is 4,500,000.00 dinars. It is estimated that the realization of these projects will save about 9 million kWh on an annual basis, and the reduction of CO₂ emissions will be about 4,500 tons per year.

Through the implementation of the “Clean energy and energy efficiency for citizens in Serbia” project, energy savings of about 5.5 TWh are expected with the expected participation of about 25,000 households, of which about 2,500 socially vulnerable households and about 3,000 households that will switch from solid fuels heating to another type of heating. In addition, the Programme envisages the installation of rooftop solar panels in households with a capacity of around 4 MW.

It is necessary to build new production capacities along with the transfer to the use of renewable sources of energy. The share of renewable sources in gross final energy consumption is increasing to the level of 26.3% in 2020 (21.4% in 2019)⁸³. The average age of production capacities is over 30 years, which limits the development of the electric power sector, the energy market and regional cooperation. The domestic demand for electricity is increasing, which indicates the necessity of building new infrastructure capacities. The share of the production from the renewable sources was 30.70% in 2020 (30.11% in 2019). The construction of two reversible hydroelectric power plants (“Bistrica” 628 MW and “Đerdap 3” 2.400 MW) in the forthcoming period, along with the increase in the produced energy, will create the conditions for the integration of new RES capacities with a higher installation power. Thermal power plant-heating plant (TE-TO) Pančevo with a capacity of 200 MW was put into operation, as the first highly efficient heating plant in the Republic of Serbia and the region, which will use natural gas as a fuel for the production of electrical and thermal energy. The construction of the new block B3 in “Kostolac B” thermal power plant with a capacity of 350 MW continued.

So far, a total of nine wind power plants with a total power of about 400 MW have been built. The construction of the wind farm “Kula 2” with a capacity of 10 MW has started. The works on the construction of the Pupin wind farm with a capacity of 95.5 MW and the Crni vrh wind farm with a capacity of 150 MW are planned to begin. The works on the construction of the Pupin wind farm with a capacity of 95.5 MW and the Crni vrh wind farm with a capacity of 150 MW are planned to begin. The works have begun on the construction of a wind power plant in Kostolac with a total capacity of 66 MW, the investor of which is PE EPS. The works continued on the construction of biogas power plants, which will provide about 75 MW of installed capacity. New biomass heating plants were built

⁸³ Statistical Office of RS, <https://data.stat.gov.rs/Home/Result/SDGUN070201?languageCode=sr-Cyrl>

in Priboj and Mali Zvornik, the works are underway in Novi Pazar and are expected to begin in Majdanpek.

The implementation of the district heating system rehabilitation project, which is being implemented together with the German development bank KfW, continued. The rehabilitation and modernization of existing heating plants is being carried out with the aim of switching to district heating and greater use of RES. The project is implemented in 7 cities with a total value of EUR 32 million.

State projects related to solar power plants would be implemented on state-owned land dominated by more than 200,000 hectares of parched agricultural land on which the construction of about 2,000 MW of solar power plants is possible (as part of this plan, a cooperation agreement was signed with the company UGT Renewables LLC, with negotiations on the construction of solar panels with a total power of about 1,000 MW, on the area of about 2,000 hectares and a dozen locations throughout the Republic of Serbia, which would provide an additional capacity of one gigawatt of electricity and reduce carbon dioxide emissions by 1.9 million tons per year). On the land owned by PE EPS (thermal power plant landfills), it is possible to build about 400 MW of solar power plants with a total value of about 300 million euros, as well as the additional construction of solar power plants at surface mine disposal sites (estimates in progress). As part of the implementation of the state project to promote the new buyer-producer institution, an assessment of the total area of roofs in the Republic of Serbia was made, amounting to about 600 km². Installation of roof solar panels on 10% of this area would provide an installed power of 6,000 MW (70% of the total installed power today), i.e. an annual production of 7 TWh (about 20% of the total current annual production). Households that have acquired the status of buyer-producer (*prosumer*) that produce electricity for their own consumption using solar panels are allowed to “store” the excess of produced energy in the power grid during summer⁸⁴, and to withdraw this excess during the winter when the production of the facility is lower.

The installation of modern equipment and introduction of the modern management system are necessary in order to improve the energy distribution network. Additional investments in the distribution system (modernization of the low-voltage network) are needed in order to ensure a reliable supply of electricity and reduce network losses. Total losses in the transmission and distribution of electricity in relation to the gross consumption of electricity amount to 12.7% in 2021 (13% in 2020)⁸⁵ and cost about EUR 200 million per year. Implementation of the *Smart Metering* project and automation of the medium voltage distribution network is expected in the forthcoming period. The construction of the Trans-Balkan Corridor for the transmission of electricity will contribute to the reduction of electricity losses and the reduction of the load on existing transmission capacities. So far, the transmission line between Kragujevac and Kraljevo has been built in the length of 60 kilometres, thus completing the second section of this corridor. In the gas sector, total losses in delivery, distribution and for own consumption amount to 30 million m³ in 2021 (22 million m³ in 2020)⁸⁶.

In the electricity sector, there is an **increase in the degree of liberalization and market building**. The procedure for the separation of AD Elektromreža Srbije as the operator of the electricity transmission system (EMS) and its certification by the Energy Agency of the Republic of Serbia (AERS) according to the ownership separation model has been completed. The founder of Elektrodistribucija Srbije Ltd. Belgrade with a 100% share is the Republic of Serbia, to which AERS issued a license for the performance of the energy activity of electricity distribution and management of the electricity distribution system in 2021. In the same year, AERS also approved the Compliance Programme of Elektrodistribucija Srbije Ltd., and in 2022, AERS gave approval to the conditions for the appointment and duration of the mandate of a person responsible for compliance monitoring and prior approval for the appointment of this person.

⁸⁴ Considering the open electricity market in the Republic of Serbia, buyers-producers can contract the supply with other suppliers (other than PE EPS).

⁸⁵ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

⁸⁶ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

It is necessary to intensify activities related to functional separations in the natural gas sector.

In the gas sector, the restructuring of PE Srbijagas has not been fully implemented, nor has the access been enabled to a third party. The Energy Agency of the Republic of Serbia (AERS) issued a certificate to GASTRANS Ltd. Novi Sad as an independent gas transport operator. The certification of Transportgas Srbija Ltd. Novi Sad as a transmission system operator has not been completed. AERS suspended the certification procedure due to the withdrawal of the company Transportgas Srbija Ltd. Novi Sad from the request in 2022, while the company Yugorosgaz-Transport Ltd. did not apply for certification. The implementation of the reorganization plan of PE Srbijagas continued. PE Srbijagas operates on 59.39% of the total distribution network in the Republic of Serbia. PE Srbijagas sold to end customers 80.9% of the total amount of gas sold in 2021.

Due to the shutdown of the B1 and B2 TENT blocks, the accident in Kolubara and the insufficient amount and calorific value of coal, additional amounts of electricity⁸⁷ were imported in early 2022. During December 2021 and early 2022, 15-20% of the total electricity consumption was imported. It is expected that from 2024, EPS will produce electricity that would meet the needs at the national level.

It is necessary to increase the degree of gasification and to diversify the direction and source of gas supply.

About 60% of the territory of the Republic of Serbia is gasified, while only 10% of households are connected to gas⁸⁸. There is a 15% increase in natural gas consumption in 2021. Domestic production meets only 7.6% of total natural gas needs, while the rest of the gas was obtained from the Russia. The work began on the construction of a gas interconnection between the Republic of Serbia and the Republic of Bulgaria in February 2022, which gives the possibility of diversifying supply routes and sources and connection to the Southern Gas Corridor. This connection will enable the Republic of Serbia to supply natural gas from the Caspian region, the Middle East and from the LNG terminal in the Republic of Greece. The new gas pipeline will have a capacity of 1.8 billion m³ of gas and will be operational from September 2023. The works are carried out with the support of IPA funds and EIB loans. Through the planned construction of the transport gas pipeline Mokrin - Romanian border (in length of 12.8 km), the Serbian gas pipeline will be connected with the gas system "Transgaz" and the gas pipeline "Brua" in Romania by the end of 2023. The planned expansion of the warehouse in Banatski Dvor, the start of the construction of a new underground warehouse in Itebej by 2025, the creation of a regional crisis plan and the creation of strategic reserves of this energy source would ensure the security of gas supply⁸⁹. In order to preserve stability on the gas market in the conditions of the energy crisis, the *Regulation on the temporary measure of limiting the price of gas and compensating the difference in the price of natural gas procured from imports or produced in the Republic of Serbia in the event of a disruption in the natural gas market* ("Official Gazette of the RS", No. 30/22) was adopted, in order to mitigate the fluctuation of gas prices and provision of uninterrupted gas supply.

The Government also adopted a new *Regulation on Conditions of Delivery and Supply of Natural Gas* ("Official Gazette of the RS", No. 49/22), which more closely prescribes the conditions of delivery and supply of natural gas to customers, as well as the measures taken in the event of the threatened security of natural gas delivery to customers due to disruptions in the operation of the transport or distribution system or disruptions in the market.

A high level of compliance with the EU acquis regarding security of supply has been achieved, including minimum oil reserves. The regular supply of oil and oil-based energy products via the Adriatic pipeline continued. Gas is delivered regularly via the Balkan stream. There are additional quantities of gas in the underground gas storage facility Banatski Dvor. Energy sources reserves are increasing so that, in accordance with EU regulations, the Republic of Serbia will have energy sources reserves for more than 60 days of average daily consumption by the end of 2022.

⁸⁷ The import of electricity coincided with the record high stock prices of electricity.

⁸⁸ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

⁸⁹ Ministry of Mining and Energy, <https://www.mre.gov.rs/aktuelnosti/saopstenja/mihajloviceva-regionalni-krizni-plan-i-strateske-rezerve-gasa-ce-doneti-stabilnost-srbiji-i-zemljama-regiona>

It is necessary to set the price of electricity so that it reflects the costs of regulated activities (network charges), as well as market prices for electricity⁹⁰, taking into account the standard of living and protection of energy-vulnerable customers. The price of electricity for households is 8.01 eurocents per kilowatt-hour in 2021 (22.86 is EU-27 average)⁹¹. On average, it is 20-45% lower than the price in other SEE countries. The price of electricity for industry is slightly higher and amounts to 10.01 eurocents per kilowatt-hour in 2021 (16.75 is EU-27 average). The unregulated market accounted for 50.1% of total electricity consumption and 82.7% of total gas consumption by end consumers in 2021.⁹² The number of protected customers who exercised the right to reduce their electricity bill was at the level of around 68,000 in 2021 (it is estimated that more than 300,000 users can exercise this right)⁹³.

The price of electricity has been increased by 8% (compared to the previous average price) since January 1, 2023. Starting from January 1, 2023, all public suppliers of natural gas were approved a new price of natural gas for the small consumption group including households, which is 108% higher compared to the previous average approved price of gas for households. An additional increase in the price of electricity is expected in the forthcoming period, due to the increase in the price of energy products on the world market. A new *Regulation on Energy-Vulnerable Customers* ("Official Gazette of RS", No. 137/22), has been adopted, with the increased household income limits for acquiring free kilowatts of electricity, thermal energy and gas, which will cover, according to estimates, about 200,000 households that use electricity, about 15,000 households that consume gas and 50,000 households that use thermal energy. It is estimated that around 500,000 households are exposed to the risk of energy poverty⁹⁴.

Due to the increase in the price of energy products on the global market, according to the *Regulation on Limiting the Price of Oil Derivatives* ("Official Gazette of the RS", starting with number 32/22) and the Rulebook on calculation of the average wholesale price of oil derivatives Euro diesel and Euro premium BMB 95 ("Official Gazette of RS", 98/22), Euro diesel and gasoline prices are harmonized every seven days in order to protect consumers and the economy. Excise taxes were reduced by 20% on fuel. The price of fuel for farmers is limited to around 1.5 euros per litre, which ensures the smooth running of agricultural work. In order to strengthen regional cooperation, the first regional power exchange for Central and Eastern Europe was established.

The procedures for exercising rights in the field of energy have been accelerated and simplified. The *Law on amendments to the Law on Energy* (Official Gazette of RS", No. 40/21) provides faster and simpler issuance of permits and approvals through the electronic business system (**e-Energy**). A legal basis for e-energy has been introduced, as well as a measure to obtain documentation from official records, which will significantly accelerate procedures and reduce costs for the economy and citizens. The *Law on Amendments to the Law on Mining and Geological Surveys* (Official Gazette of RS", No. 40/21) created the basis for faster submission of requests and more efficient issuance of permits, monitoring and control of geological surveys and exploitation of mineral raw materials, groundwater and geothermal resources (**e-mining**). With the introduction of e-mining, it is planned to reduce the time for issuing permits from the current 150 days to 15-20 days.

In December 2022, the Government of the Republic of Serbia adopted the "Road Map for Energy Support", thus creating the conditions for signing the Financial Agreement for IPA 2023, which will provide 165 million euros of direct sectoral budget support for energy. The road map is focused on

⁹⁰ The long-term policy of non-economic electricity prices is the cause of high specific consumption of electricity per social product and the irrational share of this (expensive) type of energy in meeting the total final consumption of energy in the Republic of Serbia. PE EPS sold electricity to customers with the right to guaranteed supply at regulated prices, which are the lowest in the region, and far below the level to cover operating costs. In accordance with the recommendations of the RS Government, prices for commercial customers are limited, and far below market prices. Also, PE EPS delivers electricity to EDS and EMS at below market prices.

⁹¹ Eurostat, https://ec.europa.eu/eurostat/databrowser/view/nrg_pc_204/default/table?lang=en

⁹² AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

⁹³ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

⁹⁴ AERS, Report on the Work of the Energy Agency of the Republic of Serbia for 2021, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202021.pdf>

supporting the most deprived households and small and medium-sized enterprises, as well as on the continuation of the energy transition and further improvement of energy stability.

a) Reforms

STRUCTURAL REFORM 8: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH CREATING CONDITIONS FOR APPLICATION OF ENERGY LABELLING AND ECO-DESIGN, AS WELL AS THROUGH THE INCENTIVES FOR ENHANCING ENERGY EFFICIENCY

1. Description of the structural reform

The aim of the structural reform is to improve energy efficiency in the Republic of Serbia. In the previous period, the Law on Energy Efficiency and Rational Use of Energy (Official Gazette of RS", number 40/21) (LoEERUE) was adopted, a large number of by-laws were prepared and the Directorate for Financing and Encouraging Energy Efficiency (EE Directorate) was established. The reform will include activities that contribute to the implementation of energy labeling of products and eco-design through the adoption of technical regulations in accordance with LoEERUE and EU regulations. For the implementation of this reform, it is of great importance to strengthen the capacities of market surveillance bodies over the implementation of these regulations, as well as to support the establishment and development of the capacities of conformity assessment bodies, so the structural reform will focus on providing technical assistance for capacity building including pilot testing of products on the market. Special attention will be devoted to raising the awareness of all market participants, especially the end buyers of products, about the benefits of introducing technical regulations aimed at achieving an energy consumption reduction and a reduction of the negative impacts of energy use on the environment, as well as a longer product life. In addition, the reform will also include strengthening the capacity of the EE Administration for awarding incentives for energy efficiency and providing larger incentives with a special focus on the building sector, as well as the rehabilitation of residential buildings and the installation of solar panels in the household sector. To strengthen the capacity of the EE Administration, technical assistance will be provided that should enable further improvement of the incentive mechanisms implemented by the EE Administration with a special focus on the rehabilitation of residential buildings and the installation of solar panels in the household sector.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Adoption of technical regulations in the field of energy labelling of products and eco-design												
2.	Strengthening the capacity of the state administration and conformity assessment bodies for the implementation of technical regulations in the field of energy labelling of products and eco-design I and the implementation of pilot testing of products on the market												
3.	Improvement of procedures and mechanisms for awarding incentives of the EE Administration and implemented pilot activities with new mechanisms												
4.	Conducted analysis on the necessary steps for the accreditation of the EE Administration for the use of EU funds												

3. Performance indicators

Indicator	Baseline value (2022)	Intermediary target(2023)	Target value (2025)
Maximum permitted consumption of final energy in households in Mtoe	3.478	/	3.534

The number of new households that received subsidies for the improvement of energy efficiency on an annual basis	5000	5000	5000
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4. Expected impact on competitiveness

Improving energy efficiency is one of the key policy measures in the fight against climate change. The goals in this area will be determined within the framework of the Integrated Energy and Climate Plan. Improving energy efficiency in the industrial and the commercial sector leads to a reduction in energy consumption per unit of product, which means that it also contributes to their competitiveness. Given that the energy intensity in the Republic of Serbia is about 4 times higher than the EU average (the Republic of Serbia consumes 4 times more energy to create a unit of GDP), it is evident that there is a great potential for improving energy efficiency.

5. Estimated costs of activities and sources of financing

For the implementation of activity 1 in 2023, technical assistance was provided through the "PLAC" project. To implement activities 1 and 2, it is necessary to provide EUR 1 million from IPA or other funds in 2024.

To implement activities 2 and 3 in the forthcoming period, the following funds are necessary:

- in 2023 for the EE Administration funds are provided from the Budget in the amount of EUR 4.28 million and about EUR 1.6 million as a contribution from local self-government units (LGUs) that are involved in the implementation of the Administration activities, funds in the amount of EUR 1 million from IPA 2121 funds, implemented by the EBRD, a part from development funds from the World Bank loan in the amount of EUR 6.735 million (SURCE Project), and a part of EUR 5 million from the EBRD loan ("Energy efficiency in residential and public buildings connected to district heating").

- in 2024, it is necessary to plan funds for the EE Administration from the Budget in the amount of at least EUR 4.025 million and about EUR 1.6 million as a contribution from local self-government units (LGUs) that will be involved in the implementation of the activities of the Administration, funds in the amount of EUR 2.5 million from IPA 2021 funds, implemented by the EBRD, a part of EUR 8.98 million from the development funds from the World Bank loan (SURCE), and a part of EUR 10 million from the EBRD loan.

- in 2025, it is necessary to plan funds for the EE Administration from the Budget in the amount of at least EUR 4.28 million and around EUR 1.6 million as a contribution from local self-government units (LGUs) that will be involved in the implementation of the activities of the Administration, funds in the amount of EUR 1.5 million from IPA 2021 funds, implemented by the EBRD, a part in the amount of EUR 11.225 million from the development funds from the World Bank loan (SURCE), and a part of EUR 25 million from the EBRD loan (for the project "Energy efficiency in residential and public buildings connected to district heating").

In the forthcoming period, it is expected that additional funds will be provided from donations and IPA funds that can contribute to the implementation of the reform.

The World Bank loan agreement for the SURCE project was negotiated in February 2022, confirmed by the Law on Confirmation of Loan Agreements (SURCE Project) between the Republic of Serbia and IBRD ("Official Gazette of RS - International Contracts", No. 6/22) and the law came into force and became effective on December 20, 2022. The realization of the project is expected to last 5 years, and the first investments are expected in 2023. The project will provide grants to households for improving energy efficiency.

The ratification of the loan with the EBRD in the amount of EUR 50 million is expected in 2023. The funds intended for the improvement of the energy efficiency in buildings with several apartments connected to the district heating system will be provided through the project.

Funds in the amount of EUR five million from IPA funds will be provided for the realization of the capacity building activities of the EE Administration. The implementation of this project will be

realized through the EBRD. The start of implementation is planned for 2023. Expected duration of the project is 30-36 months.

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

The structural reform indirectly affects the reduction of unemployment, because its implementation has the potential to increase the need of workforce in order to implement a greater number of energy efficiency projects. It is estimated that for every million euros of investment in the rehabilitation of residential buildings, seven new jobs can be created. In addition, the implementation of energy efficiency projects reduces energy costs and thus contributes to the fight against poverty.

7. Expected impact on the environment and climate change

The goals for energy efficiency until 2030 will be determined within the framework of the Integrated National Energy and Climate Plan. With an annual investment of about EUR 150 million in the rehabilitation of buildings in the household sector, it is estimated that energy savings of 120,000 tons of CO₂ per year can be achieved.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Lack of funds in the budget	Moderate	Provision of MFI loans and donations from IPA, WBIF and other donors
Insufficient capacity of the body for assessing compliance with the requirements of energy labelling and eco-design	Moderate	Technical assistance provided
Insufficient capacities of market surveillance	Moderate	Provided technical assistance, as well as a larger budget for this purpose

STRUCTURAL REFORM 9: INTEGRATION OF RENEWABLE SOURCES OF ELECTRICAL ENERGY THROUGH THE PROJECT “BeoGrid 2025”

1. Description of the structural reform

The goal of the BeoGrid 2025 project is to enable greater integration into the transmission system of electricity produced from renewable sources (wind farms), located in the South Banat region, as well as to relieve the load of TS 220/110/35 kV Belgrade 5, which supplies electricity to a large part of Belgrade, especially parts of Novi Beograd and Zemun.

The project consists of six functional units (Lot 1 - Lot 6), i.e. projects that will be implemented simultaneously in accordance with the *Law on Planning and Construction*, namely the construction of: TS 400/110 kV Beograd 50; - two-system 400 kV transmission line TS Beograd 50 – PRP Čibuk 1 with equipping the 400 kV field in PRP Čibuk 1; - single-system 400 kV transmission lines for the introduction of DV no. 450 (RP Mladost – TS Novi Sad 3) in TS Beograd 50; - two two-system 110 kV transmission lines for the introduction of DV no. 104/8 (TS Stara Pazova – TS Indija 2) in TS Beograd 50; - two two-system 110 kV transmission lines for the introduction of DV no. 1178 AB (TS Belgrade 5 – TS Belgrade 9) in TS Belgrade 50; - two-system cable 110 kV TS Belgrade 50 – TS Belgrade 49 (Airport).

The project is a part of the wider North CSE corridor project, which, in addition to the above, includes the duplication of the existing interconnecting 400 kV transmission line Đerdap 1 - Portile De Fier (Romania). Along with the strengthening of the electricity transmission corridor across the Balkan Peninsula in the direction from east to west and the consequent contribution to the integration of the electricity market in the Southeast Europe region, this project will also enable the connection of a large number of new RES producers in the South Banat area. This, along with the transformation of 400/110 kV into TS Beograd 50, will significantly contribute to the safety of power supply in the Srem area, which will create a suitable environment for the arrival of new investors and further

industrial development of this region. In addition, the construction of TS 400/110 kV Belgrade 50 will significantly relieve the existing TS 220/110/35 kV Belgrade 5, which currently supplies a large part of Belgrade's consumption. The Northern Corridor project is a part of the European ten-year transmission system development plan TYNDP 2020, regional investment plan (RgIP 2020), it is supported by the Romanian transmission system operator (Transelectrica), as well as the German development bank KfW. Based on Article 15a of the Law on Energy, the Government adopted a Conclusion dated 2 December 2021, for the project in question which defining it as a project of special importance for the Republic of Serbia.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preparation of the necessary urban-planning and project-technical documentation for the construction of buildings												
2.	Obtaining permits												
3.	Signing of contracts for performance of works and procurement of equipment												
4.	Construction												

3. Performance indicators

Indicator	Baseline value (2022)	Intermediary target (2024)	Target value (2026)
Increasing the output power of RES power plants in the South Banat region, which can be integrated without restrictions	0 MW	0 MW	>1000 MW
Reduction of energy losses in the transmission system on an annual basis	0 GWh	0 GWh	33 GWh

4. Expected impact on competitiveness

The Beogrid 2025 project is a priority infrastructure project of the RS and as such directly affects the increase of the country's competitiveness while improving the overall energy efficiency of the Republic of Serbia.

5. Estimated costs of activities and sources of financing

The estimated total value of the "Beogrid 2025" project is EUR 80 million, and its implementation is planned for the period from 2022 to 2026. The costs are exclusively from the "capital expenditure" category.

The implementation of the BeoGrid 2025 project will be financed with funds from the budget of the Republic of Serbia in the period from 2023 to 2025, according to the Government Conclusion 05 number 312-10334/2022-1 of December 2, 2021:

- 2023 – EUR 2,275,320;
- 2024 – EUR 21 million;
- 2025 – EUR 33 million.

It is to be noted that in the Annual Business Programme of EMS AD for 2023, the financing dynamics of this project in accordance with its current status is innovated.

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

Structural reform does not directly affect social goals and is gender neutral. However, the increase in transmission capacity and the consequent increase in system reliability create favorable conditions for the potential connection of new users in the future, which can lead to the creation of new jobs.

7. Expected impact on the environment and climate change

At a voltage level of 400 kV, electric discharges (corona effect) are expressed, which can create the sound of a specific frequency (100 Hz). In addition, at this voltage level, the level of the electric field is close to the limit values.

The measures that will be applied in order to reduce the corona effect are the application of more conductors per phase and the increased height of the conductor above the ground in zones of increased sensitivity (WBIF Infrastructure Project Facility Technical Assistance 7 (IPF 7), WB25-SRB-ENE-01 Technical Assessment Report). The measures for better visibility of power lines are also planned, due to the impact that power lines can have on fauna.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Unsecured funds for financing the project	Low	Timely planning and provision of financial resources from the budget of the Republic of Serbia
Solving property legal issues	Moderate	Timely communication with local communities
Change in prices and terms of delivery of materials and services on the market due to the pandemic of the Covid-19 virus and the conflict in Ukraine	High	Regular monitoring of prices and market conditions. Timely response to changes through project management.

STRUCTURAL REFORM 10: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION

1. Description of the structural reform

The Trans-Balkan Corridor project (Phase I) consists of four sections and is aimed at increasing the transmission capacity of the Western Serbia network, increasing security and reliability of electricity supply to consumers in the Republic of Serbia, as well as the construction of new interconnecting transmission lines (on the borders with Romania, Bosnia and Herzegovina and Montenegro). The section I (two-system transmission line 400 kV Pančevo – state border with Romania) was already built and put into operation on the Serbian side at the end of 2017. The section II, consisting of the 400 kV transmission line TS Kragujevac 2 - TS Kraljevo 3 with raising the voltage level in TS Kraljevo 3 to 400 kV, was built in June 2022.

Section III consists of the double line 400 kV TS Bajina Bašta - TS Obrenovac and the extension project of TS Bajina Bašta at 400 kV voltage level. All the necessary construction permits have been obtained. Property-legal issues are currently being resolved. The commencement of the construction is scheduled for the second quarter of 2024, while the completion is scheduled for 2026.

Section IV consists of a two-system 400 kV transmission line TS Bajina Bašta - the state border with Montenegro – the state border with Bosnia and Herzegovina. The construction permit was issued in October 2022. The commencement of the construction is scheduled for the second quarter of 2025, while the completion is scheduled for 2027.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preparation of tender documentation with technical specifications for the pre-qualification phase and the final phase of contractor selection (section III)												
2.	Construction (section III)												
3.	Implementation of the tender procedure for the selection of consultants (section IV)												

4.	Preparation of tender documentation with technical specifications for the pre-qualification phase and the final phase of contractor selection (section IV)									
5.	Construction (section IV)									

3. Performance indicators

Indicator	Baseline value (2022)	Intermediary target (2024)	Target value (2027)
Increase in the value of net transmission capacity (NTC) on the border with Bosnia and Herzegovina	0 MW	0 MW	710 MW
Increase in the value of net transmission capacity (NTC) on the border with Montenegro	0 MW	0 MW	430 MW
Enabling the connection of new production capacities for the needs of balancing the system	0 MW	0 MW	>700 MW
Reduction of energy losses in the transmission system on an annual basis	0 GWh	0 GWh	11 GWh

4. Expected impact on competitiveness

This measure can have the effect of reducing the differences in the wholesale price of electricity between the Western Balkans and Italy. The dynamics of the construction of the second core of the submarine cable between Montenegro and Italy also has a great influence on the reduction of price differences. The first phase of construction of this cable has been completed, and the 600 MW cable was put into operation in November 2019.

5. Estimated costs of activities and sources of financing

The construction of the electricity transmission project Trans-Balkan Corridor (sections 3 and 4) will be financed from AD “Elektromreža Srbije”, EMS AD’s own funds, WBIF donation and loans.

The total cost of the construction project for sections 3 and 4 is EUR 130.5 million (section 3 EUR 89.68 million, and section 4 EUR 40.8 million).

Until 2023 – planned own funds AD “Elektromreža Srbije” EUR 950,000, donation EUR 4.174.000;

Total costs for the realization of sections 3 and 4 in the period from 2023 to 2027 will amount to EUR 125.3 million according to the proposal of the Annual Business Programme of AD “Elektromreža Srbije” (EMS AD) for 2023, with the costs estimated for the next three-year period as follows:

- 2023 – planned AD “Elektromreža Srbije” own funds in the amount of EUR 298,739;
- 2024 – planned loan funds in the amount of EUR 23,698,886, donation funds in the amount of EUR 7,511,704;
- 2025 – planned AD “Elektromreža Srbije” own funds in the amount of EUR 336,134, credit funds in the amount of EUR 36,158,891, donation funds in the amount of EUR 10,399,705. The costs belong exclusively to „capital expenditures“ category.

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

Structural reform does not directly affect social goals and is gender neutral. Nevertheless, the increase in transmission capacity and the consequent increase in system reliability create favorable conditions for the potential connection of new users in the future, which can lead to the creation of new jobs.

7. Expected impact on the environment and climate change

At a voltage level of 400 kV, electric discharges (corona effect) are expressed, which can create sound of a specific frequency (100 Hz). In addition, at this voltage level, the level of the electric field is close to the limit values.

The measures that will be applied in order to reduce the corona effect are the application of more conductors per phase and the increased height of the conductor above the ground in zones of increased sensitivity. Because of the impact that power lines can have on fauna, measures are also planned for

better visibility of power lines.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Failure to secure project financing	Moderate	Own financing with the signing of a loan agreement
Securing credit funds	Low	Diversification of requirements towards international financial institutions
Solving property legal issues	Moderate	Timely communication with local communities
Change in prices and terms of delivery of materials and services on the market due to the pandemic of the Covid-19 virus and the conflict in Ukraine	High	Regular monitoring of prices and market conditions. Timely response to changes through project management

5.2. ANALYSIS OF OBSTACLES IN OTHER AREAS (NOT COVERED IN SECTION 5.1) AND RELATED STRUCTURAL REFORMS

5.2.1. Area PUBLIC FINANCIAL MANAGEMENT

a) Analysis of main challenges

Despite the unfavourable situation at the global level (pandemic, energy crisis and rising inflation, Russian-Ukrainian conflict), the stability of public finances has been preserved, with the share of public debt of 53.4% in GDP at the end of August 2022 (3.1 p.p. less compared to the end of 2021). Total tax revenues are higher by 26.1% (VAT revenues by 31.2%) in the first 5 months of 2022 compared to the same period in 2021 (due to the collection of deferred tax liabilities), while total current expenditures in the same period decreased by 1.1% (with a growth of capital expenditures of 42.5%⁹⁵), which strengthened the fiscal position. Further government fiscal interventions in order to minimize the effects of the crisis will try not to affect development Programmes and infrastructure projects financed from the budget, in order to ensure stable economic growth. The improvement of the public finance management system is necessary, not only as the support for fiscal stabilization measures and structural reforms, but also as a process that contributes to the reform of public administration as a whole and ensures an attractive environment for investors.

By implementing the *Public Finance Management Reform Programme (PFMRP) for the period from 2021 to 2025* ("Official Gazette of RS", No. 70/21) along with the Action plan, the capacities of competent institutions in this process were further strengthened, and the PFMRP itself contains a number of measures in the area of digitalization of public finances. In the previous period, the coordinated development and the progress were made in all areas covered by the PFMRP, as evidenced by the successful implementation of 11 out of 12 planned activities (realization rate 92%) from the PFMRP 2021-2025 Action Plan for 2021⁹⁶. The improvement of Programme budgeting, medium-term planning, management of capital projects and monitoring of fiscal risks, transformation of the Tax Administration and improvement of the work of other administrations within the Ministry of Finance, digitization in public finances, improvement of the public procurement system, strengthening of budget inspection, management responsibility and application of accounting standards, are key focuses PFMRP.

Activities intended to improve the quality of Programme budgeting at all levels of government continued. Since performance reporting, whereby users must report on the realization of performance indicators, Programmes and Programme activities, was seen as one of the priorities, one of the important steps was the analysis of the Programme structure, as well as the goals and performance

⁹⁵ Ministry of Finance <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

Table 2. Revenues and expenditures of the budget of the Republic of Serbia from 2008 to 2021, according to the Budget Law, August 4, 2021

⁹⁶ MF, Report on the implementation of the public finance management reform Programme 2021-2025 for 2021, https://www.mfin.gov.rs/upload/media/iSISqL_62612e2c1ea88.pdf

indicators of individual ministries. Recommendations were formulated for the beneficiaries of public funds to be applied when defining priority areas of financing in the period from 2023 to 2025, which will lead to more effective planning of budget resources. The capacities of line ministries in the process of creating Programme budgets were strengthened, and the linking of the budgets of public funds beneficiaries with relevant planning documents was improved. The adopted medium-term plans enabled a better overview of multi-year obligations from planning documents, focusing attention on the achievement of performance indicators and reporting based on indicators, better planning of public policies and more efficient implementation of the budget.

The management of public investments is one of the priorities of public finance management, with a focus on the procurement and establishment of the PIMIS information system, based on the full implementation of the *Regulation on capital project management and more comprehensive monitoring of capital projects regardless of the source of funding*.

Further reform of the Tax Administration, along with the full transparency and predictability of the changes in tax regulations, is a key factor in the process of increasing budget revenues and improving public financial management, as well as of reducing grey economy and improvement of the business environment. Although significant reform activities have been implemented in the previous period, reflecting in higher collection of public revenues, further modernization of tax administration and automation of procedures were planned. The work of the Tax Administration was mostly focused on the reengineering of business processes, processes of centralization, digitization, automation and the development of IT systems. Within the framework of the new fiscalisation model, a centralized digital platform was established and within it, an advanced analytical platform (AAP) in the Tax Administration, as well as the transfer and verification of data sent from fiscal cash registers to the Tax Administration in real time, which enabled higher VAT collection, as well as more efficient tax control process. In the forthcoming period, the adoption of the detailed redesigned business model is planned, as well as its implementation, along with the procurement of an information system that will support such new business processes. The negotiating position for Chapter 16 - Taxation was prepared and adopted.

In 2023, the implementation of PFMRP activities related to the further improvement of the budget process is planned through the analysis of the budget preparation process of EU member states and the obligations of the Republic of Serbia during budget preparation, i.e. mentoring support for the preparation of medium-term plans of medium-term planning obligees at the national level. In addition, the creation of the electronic register of employees in the public sector "Iskra", which should be implemented by the end of 2023, is underway. In the area of capital project management, the emphasis will be on creating a training Programme for relevant participants in the process and creating a manual on the UKP methodology, as well as further improvement of the fiscal risks monitoring model based on the Unified Methodology. The continuation of the reforms includes the introduction of the electronic dispatch notes system - an analysis of the legal and administrative framework, and the introduction of an IT system for the management of immovable assets of the Ministry of Finance and its administrations. The implementation of import and export automated systems (AIS-AES) and decision management system (CDMS) projects is planned in the Customs Administration. Also, in the field of public procurement, it is planned to improve further administrative capacities related to clients and bidders, as well as to create and adopt a public policy document for the development of public procurement for the period 2024-2028. It is also planned to start developing software for internal financial control in the public sector and to improve the certification of internal auditors. The modernization of the training of the Central Unit for Harmonization has begun, as well as the adoption of improved Regulations in the field of internal audit. The Treasury Administration will be focused on improving the completeness and scope of accounting data through the adequate introduction of accounting standards. Finally, the creation of new procedures, methodological guidelines and additional auxiliary tools for the institutions responsible for managing EU funds is foreseen, with the aim of increasing the efficiency of the performed controls and reducing the administrative burden.

In order to further improve the management of public finances, for the purpose of the adequate response to the challenges of green transformation in the current circumstances, the Republic of Serbia is dedicated to the reforms of public finance management in the field of green transition. The goal is to apply "green" criteria in the systems of strategic planning, budgeting, management of capital investments, as well as in the field of public procurement, as key expenditure elements of the budget cycle. In 2023, the revision of PFMRP is scheduled in order to include, among other things, activities in the field of public finance management related to the green transition.

By continuing the implementation of the planned reform measures, the public finance management system will be further strengthened, which will contribute to its stability, predictability and resilience, which is very important in crises. In this way, a stable basis for the reform of public administration and the implementation of structural reforms in other areas is achieved, and the economy is provided with a stable business environment.

b) Reforms

STRUCTURAL REFORM 11: TAX ADMINISTRATION TRANSFORMATION

1. Description of the structural reform

This reform implies the implementation of the *Tax Administration Transformation Programme for the period from 2021 to 2025*, which represents the framework and defines the path leading to a modern and efficient Tax Administration of the Republic of Serbia (TARS) in 2025 - providing sustainable and predictable public finances, so that it is present, accessible and integrated into a taxpayer's natural environment; an institution that articulates the interests and needs of the business community to the Ministry of Finance and the Government. Working with the modern TARS will simplify the fulfilment of tax obligations for taxpayers, which, along with adequate management of the tax policy, is a basic prerequisite for the growth of voluntary compliance with tax regulations, suppression of the grey economy and healthy and competitive economic development in the Republic of Serbia.

The Transformation Programme has three strategic goals: 1. Establishing business processes and organization in accordance with the best international practice, all in order to increase the collection of public revenues; 2. Improvement of the quality of existing and introduction of the new types of services tailored to the needs of taxpayers and 3. Development of human resource function aimed at profiling a new tax officer of exceptional professionalism and competence, which will set the foundations of a new TARS architecture visible through three "products", i.e. components: 1. Integrated information system based on ready-made commercial solution (COTS), which crosses references and checks the data of the Tax Administration and third parties in order to detect taxpayers who do not operate in accordance with regulations; 2. Personal e-Portal of a taxpayer, which represents a module for direct communication of an individual with the Tax Administration and basically refers to a digital service adjusted to a taxpayer, and 3. Creating the new profile of tax officials of exceptional professionalism and competence.

2. Activities planned by year

No.	Planned activities	2023				2024				2025*			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Business process reengineering in tax issues, including training of trainers for the introduction of the new functions in the operational units of the TARS												
2.	Implementation the TAMP Procurement Plan (TARS Modernization Project)												
3.	Analysis and introduction of a modern record management system through a comprehensive information management model												
4.	Procurement of systems for the new ICT platform												

5.	Institutional development of the human resources function - through the implementation of activities that include the reengineering of the business processes of the human resources function, the development of policies and management practices											
6.	Improvement of the existing centralized information system for human resources management to complete centralization and automation of the human resources management process											
7.	Improvement of the special professional training of tax officials, with the support of an appropriate organizational form for building the capacity of tax officials.											

*The implementation of the activities in 2025 is not indicated in the Gantt chart, given that the deadline for the completion of the TAMP project is 31/10/2024, with a note that there is a possibility that the implementation of the TAMP project will be extended in 2025 as well.

3. Performance indicators

Indicator	Baseline value (2014)	Intermediary target (2021)	Target value (2025)
Newly registered taxpayers in a calendar year (in %)*	96.77	110.31	104.63
Growth of newly discovered revenues by years (in %) **	56.42	139.06	104.01
Degree of realization of billing task (in %) ***	101.3	107.8	101

* The indicator represents the index of the year we observe in relation to the previous year calculated based on actual values, the total number of newly registered taxpayers, while the target value represents the index of two consecutive years based on the forecasted number of newly registered taxpayers.

**The indicator represents the index of the year we observe in relation to the previous year calculated based on recorded newly discovered revenues, while the target value represents the index of two consecutive years calculated based on forecasted newly discovered revenues.

***The indicator represents the ratio of the realized collection of the most important revenues of the budget of the Republic of Serbia in a given year, in relation to the budget-planned amounts for that year.

4. Expected impact on competitiveness

One of the significant effects of the implementation of the structural reform is the creation of conditions for fair business and loyal competitiveness of economic entities. The implementation of this reform indirectly strengthens the competitiveness of national companies. Through automatic/electronic, simple and free tax procedures, the administration of tax liabilities leaves companies more resources and time to devote to improving the quality of products and services, which directly affects the increase of competitiveness. The reduction of the grey economy increases the competitiveness of economic entities that operate in compliance with tax regulations.

5. Estimated costs of implementing the structural reform and anticipated sources of financing

The structural reform has been carried over from the previous years. All planned activities will be funded from the World Bank Loan (TAMP). The estimated costs in the amount of about EUR 8.3 million were planned for 2023, as follows: EUR 190 thousand for the reengineering of business processes, EUR 4.3 million for the procurement of the system for new ICT platform, EUR 1.7 million for the implementation of the activities relative to the TAMP procurement plan; EUR 1.6 million for the analysis and introduction of a modern system for records management and about EUR 500 thousand for the Institutional Development of the human resource function. In addition, the costs of EUR 32 million are envisaged in 2024, of which for the implementation of the following activities: EUR 5.6 million for the analysis and introduction of a modern records management system, EUR 19 million for the procurement of a new ICT platform system, EUR 7.3 million for the implementation of activities from the TAMP procurement plan and EUR 135 thousand for the Institutional Development of the human resource function.

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

The structural reform introduces clear tax rules that encourage citizens to start their own business, and indirectly affects the increase in employment, as well as the overall social growth, that is, the reduction of poverty. Better tax collection increases the possibilities of budgetary allocations for social protection, education and health. The reform will have an equally positive impact on both genders.

7. Expected impact on the environment and climate change

TARS successfully implements and monitors project activities that are subject to environmental risks and manages their impacts. This includes the preparation of specific environmental management plans (including plans for subprojects for mitigation and monitoring the state of environment) in order to ensure effective environmental protection, and occupational health and safety.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Delays in new legislative framework based on ICT and the needs of TARS reform, or non-acceptance of amendments to the existing ones	Moderate	Improved cooperation with all relevant institutions
Lack of coordination/ communication between state institutions	Moderate	Work on improving coordination/ communication between state institutions
Taxpayers' distrust due to fear of novelties	Moderate	Education and information of taxpayers
Insufficient IT resources and skills to implement the reform	High	Increasing the number of IT employees and more active cooperation with the Strategic Project Implementation Unit
Lack of human resources and knowledge necessary for the functioning of the reformed TARS	High	Additional hiring in 2023 and training of the staff for the under capacitated functions

5.2.2. Area GREEN TRANSITION

a) Analysis of main challenges

The sensitivity of economy to climate change and high level of environmental pollution adversely affect overall competitiveness of the Republic of Serbia at the global market. While the global temperature increased by about 1°C, the average temperature in Serbia increased by almost 2°C, and the increase is expected to reach a value of about 3°C by the middle of the 21st century. *The Law on Climate Change* ("The Official Gazette of RS", No. 26/21) enables the legal framework for the establishment of a system for reducing greenhouse gas emissions (GHG) in a cost-effective and efficient way, in order to minimize adverse effects of altered climate conditions. This Law envisages the adoption of the *Low Carbon Development Strategy with the Action Plan*, as well as the *Programme for Adaptation to Changed Climate Conditions* (the development of these documents is underway), as well as the monitoring and reporting of GHG emissions. Based on the established *National and Local Register of Pollution Sources*⁹⁷, which contains a set of systematized information and data on sources of environmental pollution, competent local institutions adopt measures to prevent and reduce environmental pollution and preserve natural resources.

Concentrations of air pollutants in cities, especially suspended particulate matter, regularly exceed the levels recommended in the WHO guidelines on air quality. The emissions of sulphur dioxide (SO₂) is increased by 5.1%, and carbon monoxide (CO) 29.3% in 2020 (the household sector emits 84.8% of total CO, mainly due to heating). Nitrogen oxides (NO_x) recorded a growth of 4.4%, and the largest emission comes from the Electricity, Energy, Gas and Steam Supply sector (41.6% of the total amount of NO_x)⁹⁸. Low energy efficiency and outdated energy infrastructure in the electricity, gas and steam supply sector are the reasons why this sector contributes the most to air pollution.

Untreated sewage sludge and wastewater that are directly discharged into rivers throughout the country are still the main source of water pollution. Of the total amount of wastewater discharged into the public sewer system (308 m³) in 2021, only 18.8%⁹⁹ was treated (an increase of 3.8% compared to 2020), and the most common method of wastewater treatment was secondary

⁹⁷ The Rulebook on the Methodology for Creating the National and Local Pollution Sources Register, as well as the Methodology on Types, Manner and Deadlines of Data Collection, "Official Gazette of RS", no. 19/16 <https://www.paragraf.rs/propisi/pravilnik-metodologiji-izrada-registra-izvora-zagadjivanja.html>

⁹⁸ Statistical Office of RS, Calculation of air emissions for 2020, <https://publikacije.stat.gov.rs/G2022/Html/G20221262.html>

⁹⁹ Statistical Office of RS, Drinking water supply and waste water from settlements, 2021, <https://publikacije.stat.gov.rs/G2022/Html/G20221129.html>

treatment (55.2%). Although the household sector emits 73.6% of wastewater, the industrial sector pollutes watercourses the most (especially with phosphorus and nitrogen). The waste water collection and purification project of the central sewage system of the city of Belgrade envisages the installation of the interceptor networks for the reception of waste water and storm sewers and building a waste water treatment plant, which will reduce the number of discharges into the Sava and Danube rivers by 80%. In addition, the construction of more than 60 wastewater treatment plants is planned in the next 4 years.

Improvement of waste management and eliminating illegal landfills are key factors for preserving the environment. Economic activities created 69.6 million tons of waste in 2021 (23% more than in 2020), of which 79.6% is non-hazardous and 20.4% is hazardous waste¹⁰⁰. Most waste is created in mining (85.5%). Of the total generated waste, 96% was disposed of, and only 4% was reused. With 324 kg of waste generated per 1,000 euros of GDP in 2020, the Republic of Serbia is very far from the EU average (66 kg)¹⁰¹. Of the 3,500 illegal landfills registered, around 500 were cleaned in 2021, while in 2022, 233 illegal landfills were removed through a public competition for the allocation of funds for the co-financing of projects to prevent illegal dumping. The establishment of the primary separation of municipal waste in four regions is underway: Duboko, Srem-Mačva, Pančevo and Pirot, which will contribute to the increase in recycling, i.e. to the reduction of the amount of waste ending up in landfills. *Waste Management Programme in the Republic of Serbia for the period from 2022 to 2031 with AP* ("Official Gazette of RS", No. 12/22) envisages the prevention of waste generation, the reduction of the amount of recyclable waste disposed of in landfills, the reduction of the share of biodegradable waste in disposed municipal waste, the reduction of the negative impact of disposed waste on the environment, climate and human health and the management of generated waste according to the principles of the circular economy.

In order to increase the resistance of the land to changes in climatic conditions, further investment through the agricultural policy is necessary regarding the construction of new irrigation infrastructure, as well as the modernization of the existing one, anti-hail networks, subsidizing insurance premiums, afforestation, etc. In the territory of the Republic of Serbia, only 4.6% of used agricultural land are currently irrigated, (7-8% in Europe). Through the initiated and planned investment projects, the conditions are created for the irrigation of nearly 100,000 ha of additional agricultural land by 2025. About 25% of the territory of the Republic of Serbia (2.26 million ha) is covered in forests, which is significantly below the EU average (39%, source Eurostat), and the area of forested land increased by 3% in 2020 compared to 2017.¹⁰² However, the volume of afforestation works was reduced by 52% y-o-y in 2020 and 19% y-o-y in 2021.¹⁰³ Also, the provisions of the European Green Agreement should be implemented in the legal framework in the field of agriculture, through activities aimed at reduced use of pesticides, artificial fertilizers and antibiotics, i.e. reduced risk of their use on the one hand, and preservation of biodiversity on the other.

Green transformation process requires additional investments, both for the state and the economic sector. The funds from the Republic of Serbia budget, bilateral donations, IPA funds, WBIF and loans of international financial institutions are used to fund the green transition. In compliance with the *Law on Fees for the Use of Public Goods* ("Official Gazette of RS" 95/18, 49/19, 86/19, 156/20, 15/21) polluters pay the fees for the protection and improvement of the environment depending on the type and amount of pollution. *Revenues from environmental fees* amounted to EUR 1.86 billion (4% of GDP) in 2020, which is 2.6% more than in the previous year.¹⁰⁴ Energy taxes have the largest share in the revenue (87%), as well as the taxes in the field of transport (7.5%), while pollution charges and fees for the use of resources participated with 4.2% and 1.4%, respectively. *The total costs for environmental protection*¹⁰⁵ amounted to EUR 515 million in 2021,

¹⁰⁰ Statistical Office of RS, Generated and treated waste, 2021, <https://publikacije.stat.gov.rs/G2022/Html/G20221184.html>

¹⁰¹ Eurostat, https://ec.europa.eu/eurostat/databrowser/view/cej_pc032/default/table?lang=en

¹⁰² Statistical Office of RS, Forestry in the Republic of Serbia, 2021, <https://publikacije.stat.gov.rs/G2022/Pdf/G20225684.pdf>; Research on the changes in the forest area is conducted every three years.

¹⁰³ Statistical Office of RS, Raising and Cultivating Forests 2021, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221128.pdf>

¹⁰⁴ Statistical Office of RS, Calculation of fees in the field of environment, 2020, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221097.pdf>

¹⁰⁵ Statistical Office of RS, Environmental protection costs 2021, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221291.pdf>

which is 32.3% more than the previous year. As per the structure of these costs, investments for environmental protection account for 55.4% (of which 64.7% in the field of air protection), while the share of current expenditures is 44.6%. Investments in environmental protection of EUR 285 million (0.48% of GDP) in 2021 are nominally higher by 85.2% y-o-y. Although the revenues from fees are mostly not used for projects in the field of environmental protection, the investments from the budget of the Republic of Serbia in the environmental protection sector have been increasing over years (planned budget funds in the amount of EUR 185 million (0.33% of GDP) in 2022 are 83.8% higher than in 2020). In addition to financial support for the implementation of the green transition, further strengthening and coordination of institutional and administrative capacities at the national and local level are necessary, as well as the harmonization with EU policies and obligations in the process of European integration.

A unique **ecological information system** was established in 2022. Through this system, citizens can report environmental problems they encounter. This system also envisages monitoring the locations of cleared illegal landfills where cameras have been installed. In this way, the information necessary for more efficient mapping and solving environmental problems in the Republic of Serbia will be collected. About 70% of citizens' reports received through the system refer to locations where there is a problem with solid waste.

Circular economy development Programme in the Republic of Serbia for the period 2022-2024. ("Official Gazette of RS", No. 137/22) with an action plan for the same time period was adopted in December 2022. The circular economy is recognized as an important strategic concept for the green transition of the Republic of Serbia, which has been placed high on the priority list in recent years. The Programme covers the most important areas relevant for the circular economy: waste management; water management; renewable energy sources and energy efficiency; chemical management; green public procurement and voluntary instruments; economic policy; innovations and raising public awareness. One of the proven mechanisms by which the government can promote and accelerate the transition of the economy to a circular economy model is the **application of green public procurement**. By setting requirements regarding the consumption of raw materials and energy sources and the impact on the environment in the procurement documentation, support can be effectively provided to business entities that adopt the principles of the circular economy in their operations and develop products and services in accordance with them. The analysis of the data available on the Public Procurement Portal conducted by the Public Procurement Office showed that during 2021, 650 green public procurement procedures were carried out in the Republic of Serbia.

b) Reforms

STRUCTURAL REFORM 12: IMPLEMENTATION OF THE CIRCULAR ECONOMY IN CREATING FAVOURABLE ENVIRONMENT FOR THE GREEN TRANSITION

1. Description of the structural reform

The concept of circular economy, which connects many areas, aims to initiate a green economic transition of the Republic of Serbia, with efficient use of resources and energy and preservation and improvement of the environment and people's health. The development of innovative design, digitization and new technological achievements will contribute to the creation of a modern, competitive and climate-neutral society. The circular economy is one of the key tools for reaching the UN Sustainable Development Goals - Agenda 2030 and the goals of the Paris Agreement. The circular economy significantly contributes to reducing the impact of climate change, i.e. preventing the temperature from increasing by more than 1.5°C compared to the pre-industrial period, which is required by the UN Convention on Climate Change and the Paris Agreement. *2022-2024 Circular Economy Development Programme in the Republic of Serbia* (with a three-year action plan), was adopted on December 1, 2022. The adoption of the planning document for the area of circular economy is foreseen in the Green Agenda for the Western Balkans, within column 2, which refers to the circular economy. The structural reform includes support for business entities and local self-governments in the field of circular economy, improvement of cooperation between the business and

academic community, and the provision of support to the public sector and the economy for the successful implementation of green public procurement in Serbia.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Support for business entities in the transition to business models based on circular economy principles												
2.	Support to local self-governments in the creation of local roadmaps for the circular economy												
3.	Improving cooperation between business and the scientific-research sector through the allocation of circular vouchers for technological innovations that contribute to the application of the concept of circular economy												
4.	Support for the application of green public procurement												

3. Risk indicators

Indicator	Baseline value	Intermediary target	Target value
The number of business entities that switched to business models based on circular economy principles	0 (2022)	5 (2023)	10 (2024)
The number of local governments for which local roadmaps will be created	0 (2022)	5 (2023)	10 (2025)
The number of circular vouchers awarded	0 (2021)	10 (2022)	20 (2025)
The number of annual additional trainings/seminars and expert consultations in the field of green public procurements held for contracting authorities	1 (2022)	2 (2023)	3 (2024)

4. Expected impact on competitiveness

Applying the circular economy concept saves resources and energy, which can lead to new investments and encourage the development of the business sector. The circular economy contributes to the creation of a more prosperous and competitive society through incentives for the establishment of micro, small and medium enterprises and the development of technologies that save resources and energy and do not pollute the environment. Companies oriented towards a circular business model can become more competitive, because the new method of production leads to raw material and energy efficiency and a reduction in waste generation. Green public procurement, as a tool for the circular economy, can also contribute to the increase in competitiveness, because the increase in the request of the client during public procurement for ecological criteria will affect the increase in the number of companies that meet these criteria. By applying green public procurement, the contracting authorities (to which the *Law on Public Procurement* applies), as the largest buyers, encourage the development of the offer of goods, services and works with better environmental performance, encourage the introduction of voluntary environmental instruments, as well as the creation of new "green" jobs, innovation and creation of new business models.

5. Estimated costs of the implementation of this structural reform and sources of financing

For the implementation of the activity "Support to business entities in transition to a circular business model" for the year 2023, funds will be provided by international donors through ongoing projects. Estimated funds for 2023 are EUR 60,533.3, and for 2024, EUR 50,175. The implementation of the activity "Support to local governments for the introduction of the concept of circular economy through the creation of local roadmaps for the circular economy", will be financed from the international project of the Global Environmental Fund (GEF) "Reducing the carbon footprint of local communities by applying the principles of circular economy", which is implemented by the United Nations Development Programme - UNDP and the Ministry of Environmental Protection as an implementation partner. Funds for 2023 are planned in the amount of EUR 13,333.00 and for 2024

in the amount of EUR 14,166.00. Funds for 2025 will be determined later. For the implementation of the activity "Improving cooperation between business and the scientific research sector through the award of circular vouchers for technological innovations that contribute to the application of the concept of circular economy", funds from an international donor in the amount of EUR 120,000.00 have been secured for 2022. For the realization of the mentioned activity, funds for 2023, 2024 and 2025 will be provided by international donors, and the amount will be defined later.

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

The structural reform potentially affects the increase in employment due to the development of the circular economy and the increase in economic growth, depending on the level of public investment required for the implementation of this concept. The ultimate outcome of this reform is the improvement of the quality of the environment and the quality of life of all citizens, which has a positive impact on people's health.

7. Expected impact on the environment and climate change

The application of the circular economy concept directly affects the realization of strategic goals and the achievement of appropriate standards in the field of environmental protection in the short, medium and long term. The circular economy plays an important role in the development of a competitive economy that saves resources and affects the reduction of all types of pollution, especially the reduction of greenhouse gas emissions, which further affects low-carbon development, which is sought at the global level. By applying green public procurement, resources are used more efficiently and purposefully, while achieving appropriate savings and better performance for the environment through all phases of the life cycle of goods, services and works.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Failure to recognize the benefits of applying the circular economy concept by business entities, local self-governments, the scientific-research sector and the civil sector for the green transition of the Republic of Serbia	Low	The circular economy development Programme defines the direction of action of the RS in the area of circular economy and sustainable development. It is planned to involve all identified actors in recognizing the benefits that the circular economy can bring to them.
Insufficient incentives for the economy to integrate circular business models	Low	It is planned to provide incentives to the economy through several activities in order to adopt circular business models. The activities that will be carried out are trainings and the creation of action plans for the transition to a circular business model.

5.2.3. Area DIGITAL TRANSFORMATION

a) Analysis of main challenges

The most dynamic sector in the Republic of Serbia in the past 10 years is the ICT sector, which makes this sector the driving engine of the development and economic growth. Export of ICT services records a continuous growth of over 20% in the period from 2015-2019.¹⁰⁶ The outbreak of the global pandemic led to a decrease in demand in all sectors, and thereby the export of ICT services increased by only 1.2% in 2020¹⁰⁷ as a result of attachment to foreign markets. However, after the relative normalization of the situation at the international market, the increase in the ICT export of 29% y-o-y (1.86 billion euros) was recorded in 2021, and its share in the total export of services accounts for 23.8%. The generated surplus in the exchange of ICT services of 1.3 billion euros represents an increase of 45% compared to 2020 (we should take into account the fact that 2020 was

¹⁰⁶ The export of ICT services amounted to: 611 million euros in 2015 (25.5% growth y-o-y), 740 million euros in 2016 (21.1% growth y-o-y), 899 million euros in 2017 (21.6% growth y-o-y), 1.13 billion euros in 2018 (26.2% growth) and 1.4 billion euros in 2019 (25.4% growth y-o-y). Source: NBS, Balance of Payments of RS, wider scheme; item "Telecommunications, computer and information services"

¹⁰⁷ Source: NBS, Balance of Payments of RS, wider scheme; item "Telecommunications, computer and information services"

the year of the pandemic). Despite the decline in revenues and the number of projects, IT companies in the Republic of Serbia managed to preserve liquidity and human resources, so that the export of ICT services recorded a growth of 43.1% in the period January-August 2022 compared to the same period last year. Although employees in the ICT sector represent only 2.9% of total registered employment¹⁰⁸, the number of employees in this sector is growing significantly from year to year (14% in 2021, 12% in 2020, 7% in 2019 and 10% in 2018).

According to the **Network Readiness Index 2020**¹⁰⁹, as an indicator of the development of the digital economy, i.e. **the country's readiness to join the IT sector**, in 2021 the Republic of Serbia ranked 57th out of a total of 134 ranked countries, which represents a drop in five ranks. The highest progress has been made in the digital transformation in the area of contributions to the area of contribution to the Sustainable Development Goals and trust, while the biggest downward trend was observed in the segment of availability and business environment.

The Republic of Serbia is committed to the development of digital transformation, which can be seen through the extraordinary improvement of the legislative¹¹⁰ and strategic¹¹¹ framework in the previous period, due to which the Republic Serbia became the leader of digital transformation in the region. In order to complete the harmonization with the EU regulatory framework in the field of electronic communications, it is necessary to adopt the new *Law on Electronic Communications*, which includes the transposition of the provisions of the European Electronic Communications Code. *e-Government Development Index*¹¹² of the Republic of Serbia was rated the highest in 2021, as "very high", which placed Serbia in 40th place (out of 193 countries) and ranked it among the three countries with the greatest progress in the field of e-Government in Europe (Serbia's position was improved by 18 places when compared to the 2020 report). In the same report, according to the value of the index of online services, the Republic of Serbia was ranked as 26th.

Global trends, such as the digital transformation of business models, are increasingly affecting all industries and sectors in the Republic of Serbia. The support to digital transformation of small and medium enterprises has been provided by **StarTech Programme**¹¹³ with the aim of accelerating the growth of Serbian companies and the traditional economy based on agriculture and processing industry into a digital, export-oriented economy based on knowledge and innovation¹¹⁴. The second annual public call¹¹⁵ for the grant in the amount of USD 1 million (the amount of individual grants from 15,000 to 100,000 dollars) and up to 1,000 hours of expert support for the implementation of business plans, was published in March 2022¹¹⁶.

The communication infrastructure in Serbia needs to be further improved. The development of communication infrastructure in rural areas ("white or grey zones") takes place through the project "Construction of broadband ICT in rural areas of the Republic of Serbia - Phase 1". Until July 2021, contracts were concluded with electronic communications operators for the construction of broadband access communication infrastructure for 400 settlements, which created the conditions for the construction of access communication infrastructure with a total length of 1,500 km. **The information and communication infrastructure in all primary and secondary schools** in the Republic of Serbia, which is taking place through the "Connected Schools" Project, will be **improved by introducing fast and reliable internet in about 1,800 schools.**

¹⁰⁸ Source: Statistical Office of RS, registered employment, annual average 2020; item Telecommunications, Computer Programming and consulting activities, Information service activities <https://publikacije.stat.gov.rs/G2021/Pdf/G20211014.pdf>

¹⁰⁹ Network Readiness Index 2020, <https://networkreadinessindex.org/wp-content/uploads/reports/serbia.pdf>

¹¹⁰ Law on Digital Assets ("Official Gazette of RS", no. 153/20); Law on Electronic Invoicing („Official Gazette of RS“, no. 44/21 and 129/21); Law on Amendments to the Law on Electronic Document, Electronic Identification and Trust Services in Electronic Business („Official Gazette of RS“, no. 52/21)

¹¹¹ Strategy for the Development of Digital Skills in the Republic of Serbia for the period from 2020 to 2024 ("Official Gazette of RS", no. 21/20); Programme for the Development of Electronic Administration in the Republic of Serbia for the period from 2020 to 2022 with the Action Plan for its implementation ("Official Gazette of RS", no. 85/20); Strategy for the Development of the Information Society and Information Security in the Republic of Serbia for the period from 2021 to 2026 ("Official Gazette of the RS", no. 86/21) with the Action Plan for the period from 2021 to 2023 for its implementation.

¹¹² Source: United Nations Report - United Nations eGovernment Survey 2022

¹¹³ The Programme worth 5 million euros is implemented by NALED in cooperation with the Government of the Republic of Serbia and with the support of Philip Morris International.

¹¹⁴ Source: NALED <https://naled.rs/projekti-startech-Program-podrske-za-inovaciju-i-transformaciju-malih-i-srednjih-preduzeca-4697>

¹¹⁵ Three segments are foreseen within the public call: Support for start-ups with innovative ideas; Support for small and medium-sized businesses for the development of innovations and/or digital transformation and Support for small and medium-sized businesses for the development of innovations or digital transformation, with the aim of exporting or increasing jobs.

¹¹⁶ <https://www.startech.org.rs/konkurs2022>

Electronic services recognized as key catalysts of the digital transformation of public administration - "**Signature in the cloud**" and **Portal for Administrative Fees Payment**, were developed by the IT Office and e-Government of the Republic of Serbia. For the development of these services, the Office received the **Public Administration Awards 2022** from ReSPA and OECD/SIGMA¹¹⁷ as the organizers of this initiative.

The focus of the Government is on the positioning of the national e-Government portal as a central place for the provision of e-services. In a short period, the Office for IT and e-Government managed to contribute to the intensive development of e-Government services and infrastructure, the digital transformation of public administration, the progress of the digital economy, but also the recognition and trust of citizens in e-Government.

The complex of the State Data Centre in Kragujevac was rounded off by the opening of facility 2 with special technical functionalities in accordance with the needs of the security services in July 2022, in addition to the already existing facility 1, which is intended for state administration, local self-government, as well as commercial users. Its construction, as well as the implementation of many electronic services (Bebo, dobro došla na svet (Baby, welcome to the world); eVrtić (eKindergarten); eUpis (eEnrolment); Moja srednja škola (My high school); eSanduče (eBox); electronic signature in the cloud and others), ensured further accelerated development in the digitization of public administration in Serbia. 1,498,908 citizen orders (eGrađani (eCitizens)) have been registered on the electronic administration user authentication portal (eID) until November 2022 (on average, 1,316 citizens register daily).

Serbia is the fourth in Europe (after Estonia, France and Lithuania) and 11th in the world according to the **GovTech index of maturity of technologies in public administration** determined by the World Bank, which measures the improvement of all aspects of state administration through digitization. In just two years, the Republic of Serbia advanced 40 positions on this index, which ranks it among the most successful in the world.

Since the beginning of 2022, the central information system in the field of catering and tourism - **e-Tourist**, has been the source of data on tourist traffic (the number of arrivals and overnight stays) and accommodation capacities, published by the Statistical Office of RS. A total of 21,690 facilities with 66,389 accommodation units and 158,587 beds were registered by December 2022.

The Republic of Serbia has started working on the **digitization of the process of preparing the ER document** through a pilot project. The **ERP Portal** will digitize the document creation process, from analysing the main obstacles by area, and proposing structural reforms, to defining costs and funding sources. It is expected that the portal will be operational by the next ERP cycle.

The **eKonsultacije (eConsultancy) portal** (an integral part of the eAdministration portal) contributes to more equal participation of the public, primarily citizens, in the process of preparing and adopting regulations and public policy documents. (More details can be found in *Key Challenge 2: Improving the business environment more favourable for investments*, p.81)

The necessity of electronic communication and electronic data exchange in public procurement procedures (**e-submission of bids, e-auctions, e-planning, e-complaints, and e-catalogue**) represents a significant step forward in the process of digitization of public procurement procedures. (More details can be found in *Key Challenge 2: Improving the business environment more favourable for investments*, p. 83)

Digital transformation in the field of energy brings simplification of procedures relevant to exercising rights in this field. A legal basis for e-energy and e-mining was introduced, which enabled faster and simpler issuance of permits through the electronic business system. (More details can be found in *Key Challenge 3. Greening the energy sector and fully opening the energy market*, p. 94.

The establishment of a comprehensive science information system, **eScience**, will enable greater visibility and availability of scientific results and research infrastructure to the academic and business community in national and international frameworks. (More details can be found in the field of *Research, development and innovation*, p. 120).

¹¹⁷ Public Administration Awards 2022

The significance of the **digitization process in trade** was particularly evident in the conditions of the state of emergency due to the pandemic. Electronic commerce continues to record significant growth in 2021. (More details can be found in the field *Agriculture, industry and services*, p. 134).

Digitization in the field of education provides the basis for implementing the most significant reforms in this sector. The **Unified Information System of Education (JISP)** was put into operation in March 2022. (More details can be found in *Education and skills*, p. 146).

The significance of the **digitization process of health care services (e-Record, eSickLeave, ePrescription)** came to the fore especially due to the Kovid-19 pandemic, but also later. (More details can be found in the field *Health Care System*, p. 149).

b) Reforms

STRUCTURAL REFORM 13: DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL INFORMATION AND COMMUNICATION INFRASTRUCTURE

1. Description of the structural reform

The most important goals of the implementation of this structural reform are the development of broadband networks for access, creation of detailed maps of broadband access service availability in the Republic of Serbia and improvement of the conditions of education and increasing the use of e-government service. The implementation of this structural reform through the „*Project for the construction of broadband communication infrastructure in rural areas of the Republic of Serbia*“ will improve the broadband communication infrastructure through the construction of the missing access infrastructure in rural settlements and the connection of public institutions (primarily elementary schools) and households to the broadband network by 2025. Through the "*Connected School Project*", which is in its final phase, the complete digitalization of the education system will be enabled, including digital classrooms and digital teaching aids, thus creating the prerequisites for a completely modern approach to education.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Connecting educational and cultural institutions to Academic Network of the Republic of Serbia (hereinafter AMRES network (improvement of quality and speed))												
2.	Activities on the improvement of IC infrastructure in primary and secondary schools in the Republic of Serbia - “Connected schools” – phase 3												
3.	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia – phases 1 and 2												
4.	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia - phase 3												

3. Risk indicators

Indicator	Baseline value	Intermediary target	Target value
Number of rural settlements with enabled access to broadband internet	0 (2022)	250 (2023)	1000 (2025)
Number of school facilities with a wireless local computer network installed	0 (2018)	1900 (2023)	1900 (2025)
Number of school facilities connected to AMRES network (improvement of quality and speed)	1700 (2021)	4000 (2023)	4000 (2025)

4. Expected impact on competitiveness

The positive effect of the implementation of the reform is reflected in the development of rural areas, the connection of economic regions, the development of industrial zones, as well as the increase in the use of new technologies and innovations in business and education. The development of information and communication infrastructure is the basis of the development of the digital economy, which creates prerequisites for faster, safer and more efficient operations of business entities, which in turn leads to an increase in the competitiveness of all participants in the sphere of business.

5. Estimated costs of the implementation of this structural reform and sources of financing

In 2023, EUR 1,925,663 of budget funds will be secured to connect educational and cultural institutions to AMRES (improving quality and speed), and EUR 5 million will be allocated from the project loan for the implementation of the project “Connected Schools” - phase 3. The activities on the preparation and the construction of optical broadband network in rural areas - phases 1 and 2 will be funded from the project loan and EU financial aid (WBIF grant) in the amount of EUR 84,800,000. The funds needed for financing the preparation and the construction of optical broadband network in rural areas - phase 3 will be allocated from the project loan and EU financial aid in the amount of EUR 15 million.

In 2024, budget funds in the amount of EUR 2,207,734 are planned for connecting educational and cultural institutions to the AMRES network (improving quality and speed). The funds needed for financing the preparation and the construction of optical broadband network in rural areas – phases 1 and 2, will be allocated from the project loans and EU financial aid in the amount of EUR 49,000,000. The funds needed for financing the preparation and the construction of optical broadband network in rural areas - phase 3 will be allocated from the project loan and EU financial aid in the amount of EUR 77,500,000.

In 2025, budget funds in the amount of EUR 2,207,734 are planned for connecting educational and cultural institutions to the AMRES network (improving quality and speed). The funds needed for financing the preparation and the construction of optical broadband network in rural areas – phase 3, will be allocated from the project loans and EU financial aid in the amount of EUR 92,500,000.

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

The construction of broadband communication networks creates the conditions for unhindered work over the Internet and an increase in the number of jobs practically in all sectors, including the information and communication technology sector. Raising the level of knowledge, competence and skills in the field of information and communication technologies contributes to employment opportunities in the IT field, but also in other areas where the introduction or increase in the use of new technologies in business occurs, taking into account the reduction of the gender gap in these areas. By providing broadband access of the new generation, regional differences between rural and urban and suburban settlements would be reduced and uniform development of all regions of the Republic of Serbia would be enabled, which would support the measures to reduce the depopulation of rural areas and affect the reduction of poverty.

7. Expected impact on the environment and climate change

The implementation of project activities will enable the connection of public facilities, especially educational institutions, and the improvement of electronic administration services. Digitization preserves living space and the environment. The construction of the planned communication infrastructure does not pose a danger to human health and has no negative impact on the environment as well as on climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
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Untimely finding of stable sources of financing,	High	Timely planning and application to international financial institutions
Low level of cooperation of operators in terms of providing data on the availability of broadband services	Low	Hiring a supplier to do online and field data collection in rural areas/enacting regulations establishing the obligation of operators to submit data to the relevant ministry
Insufficient interest of operators in common infrastructure building	High	Increasing the share of the ministry in funding the common infrastructure building
Timely obtaining the necessary building permits	High	Hiring a consultant to coordinate with the other state authorities and local self-government units

STRUCTURAL REFORM 14: SETTING THE INFRASTRUCTURE AND ENVIRONMENT FOR THE CREATION AND APPLICATION OF INNOVATIVE IT SOLUTIONS

1. Description of the structural reform

The digitisation Programme is mostly implemented through the project “*Serbia at your fingertips - Digital Transformation for Development*”, which includes support for the implementation of large infrastructure projects. The proposed reform consists of two components: *Smart City* Project and Phase 3 – “Innovation District” within the State Centre for Data Management and Storage in Kragujevac (DSC – Data Storage Centre). The implementation of the *Smart City* project will enable better and high-quality functioning of local self-government units with innovative IT solutions. Smart sensor networks and predictive control algorithms are some of the tools that will transform urban environments into more attractive and sustainable ones, more attractive for the innovative economy and investments, with the increase of the quality of life of citizens. Priority will be given to those solutions that deal with social inclusion and environmental protection, and that will affect the overall socio-economic growth. The “Innovation District” as the third phase of the DSC construction project (the first two phases of the project, which entailed the construction of two separate facilities, the installation of cloud technology and the platform for artificial intelligence, as well as other capacities, have been completed) is currently in the planning phase, and includes the construction of a facility on 3.5 hectares of area. The “Innovation District” will enable the development of pupils and students, provide the opportunity to test and promote their ideas, and to connect with domestic and foreign business entities that already use or will use the capacities of DSC in the future (cloud, AI platform, etc.). On the other hand, business entities will be able to come up with new ideas and solutions and get to know the potential of talented pupils and students.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Conducting Public Call for towns/LSGs for participation in the <i>Smart City</i> project, in partnership with the economy and the academic community, on an annual basis												
2.	Phase 3 Innovation District - Design and construction of the facility 3 of the DSC												

3. Risk indicators

Indicator	Baseline value (2021)	Intermediary target (2024)	Target value (2025)
Number of realized solutions for smart cities (cumulative)	0	2	3
Number of education institutions and business entities that use the capacities of the “Innovation District”	0	0	10

4. Expected impact on competitiveness

All the activities of this reform are aimed at creating a stimulating environment for the development of innovative IT solutions through the necessary technical infrastructure. The above has a significant

impact on competitiveness in this area, given that technological progress is inevitable, and IT services and products are increasing their share in GDP, year after year. All activities foreseen by this measure aim to provide the necessary technical infrastructure, as well as to create a stimulating environment for the development of innovative IT solutions. The export of IT services and products in the previous year amounted to EUR 1.5 billion. Estimates are that this sector will soon have a share in GDP of around 10%, and that it will overtake the agricultural sector.

5. Estimated costs of the implementation of this structural reform and sources of financing

The total planned funds for the implementation of the Smart City project, which began in 2022, amount to EUR 13.79 million, by year: EUR 1.29 million for 2023, EUR 6.25 million for 2024, and EUR 6.25 million for 2025. The total planned funds for the implementation of the project Phase 3 "Innovation District" of the State Centre for Data Management and Storage in Kragujevac, which will begin in 2023, and whose implementation will last until the end of 2025, amount to EUR 22.95 million, by year: EUR 6.29 million for 2023, EUR 5.83 million for 2024 and EUR 10.83 million for 2025. The source of funding for both projects and all planned activities is the RS budget. There are two baseline years – 2018 and 2022.

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

The reform creates conditions for increasing the volume of work and employment, especially in the field of IT services and products because it directly affects the development of the talents of pupils and students who can market their ideas and knowledge and get adequate employment. Therefore, this reform indirectly affects the reduction of poverty, primarily through the reduction of unemployment in the mentioned categories. Through the strengthening of competitiveness and the application of innovative solutions, the quality of life is also affected. The measure has a positive effect on gender equality.

7. Expected impact on the environment and climate change

Priority will be given to innovative IT proposals that will deal with environmental protection and that affect the comprehensive socio-economic growth.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Difficulties in procuring the necessary equipment	Low	Compliance with contractual provisions and procurement procedures. Resumption of production at foreign suppliers and uninterrupted distribution of equipment to the place of delivery will depend upon the Covid-19 pandemic
Long-term installation works and dependence on readiness of contractors for other process steps	Low	Intensified monitoring of the implementation of planned activities in accordance with the foreseen deadlines

STRUCTURAL REFORM 15: SUPPORT TO THE DEVELOPMENT OF TALENTS AND CREATIVE INDUSTRIES BY ESTABLISHING THE MULTIFUNCTIONAL INNOVATIVE-CREATIVE CENTER LOŽIONICA

1. Description of the structural reform

The goal of this measure is to establish the unique space designed to provide all necessary (technical) support to the development of talents and creative industries (CI). This future multifunctional centre is designed to enable local and international networking, education through knowledge transfer, presentation of examples of good practice and the possibility of testing ideas and solutions, as well as their presentation to interested business entities, individuals, groups and organizations. The concept of urban revitalization, which includes the reconstruction of the existing Ložionica building with a

water tower and the construction of a new annex office building as part of the whole "Belgrade Waterfront", will create a multifunctional public space dedicated to promoting innovation and creativity with the possibility of connecting and realization of sustainable business ideas, while the annex office building will be intended for the IT industry. In addition to the reconstruction works, it is also planned to launch a Programme to support professional associations and educational Programmes for professionals in the field of creative industries, then launching of a talent hub - educational Programmes for elementary and high school students, as well as the establishment of an incubator for creative industries. The heritage narrative and association with the avant-garde nature of the railway during the period of its construction in Serbia, in addition to contributing to the authenticity of the facility, also provide significant potential for its branding at the national, regional and global level.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Reconstruction of the Ložionica facility with the water tower and the construction of the annex office building												
2.	Providing support for the development of professional associations, as well as educational Programmes in the field of creative industries, talent hub (educational Programmes for elementary and high school students), incubator for creative industries and GovTech hub by equipping the „Ložionica“ facility.												

3. Risk indicators

Indicator	Baseline value (2021)	Intermediary target (2024)	Target value (2025)
Number of new, innovative enterprises in the CI incubator	0	2	10
Number of new, innovative enterprises in the GovTech hub	0	1	5

4. Expected impact on competitiveness

This structural reform will have the greatest impact on increasing the competitiveness of domestic export products from the field of creative industries. Through work with individuals and companies on product development and presentation, Ložionica will increase the competitiveness of domestic products on the foreign market, at the same time contributing to strengthening the domestic market of creative industries and attracting foreign investment in this area.

5. Estimated costs of the implementation of this structural reform and sources of financing

The total planned funds for the implementation of this measure, which started in 2022, amount to EUR 62.5 million, by year: EUR 15.42 million for 2023, EUR 27.08 million for 2024, and EUR 20 million for 2025. The source of funding for this project, i.e. for all planned activities is the RS budget.

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

Structural reform has a positive impact on the creation of new products and services, the development of talents, social and economic networks, that is, networking, regional research and innovative organization models, which can directly affect the increase in employment. Through the strengthening of the competitiveness of domestic companies and the application of innovative solutions, the quality of life of citizens is indirectly affected, that is, the reduction of poverty. The measure is neutral in terms of gender equality.

7. Expected impact on the environment and climate change

The impact on the environment is neutral.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Long-term installation works and the readiness of contractors for other process steps	Low	Intensified monitoring of the implementation of planned activities in accordance with the foreseen deadlines
Difficulties in obtaining the necessary permits	Low	Compliance with legal provisions and procedures. Good time planning.

5.2.4. Area BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY

This area and relevant reforms have been analysed in the Chapter 5.1 under the *Key Challenge 2. Improvement of the business environment more favourable for investments.*

5.2.5. Area RESEARCH, DEVELOPMENT AND INNOVATIONS

a) Analysis of main challenges

The innovation ecosystem in the Republic of Serbia has improved to a significant extent, and this is supported by the data of international innovation indices, on which Republic of Serbia is generally progressing.

The Republic of Serbia is seen as an **emerging innovator** measured by the summary innovation index¹¹⁸ (*European Innovation Scoreboard 2022*¹¹⁹), which is 61.8 in relation to the EU average in 2022. The Innovation Index for the Republic of Serbia increased for 15.6 p.p. in the period from 2015 to 2022 (compared to the results of the EU in 2015), which is more than the increase of this index for the EU which is 9.9 p.p. for the same period, thus **reducing the difference in the performance of the Republic of Serbia compared to the EU average.**

The Republic of Serbia is in 55th place, out of 132 countries, as measured by the global innovation index¹²⁰ (*The Global Innovation Index 2022*¹²¹) in the report for the year 2022. Compared to the previous year, there is a drop of one place. However, Republic of Serbia is in 32nd place in Europe, out of 39 countries, which is a solid score because this is the part of the world with the highest concentration of countries with highly developed innovation ecosystems – 15 global innovation leaders come from here. **In the category of upper middle-income countries, which consists of 36 countries, Serbia is in the top 10 countries.**

Reforms of the scientific research and innovation system in the Republic of Serbia in previous years were supported by the adoption of the relevant legislative framework¹²², strategies and action plans¹²³. Recognized weaknesses and threats in this domain are eliminated by changing the system of financing science and research, significant investments in scientific research

¹¹⁸ An instrument of the European Commission that deals with the comparative assessment of innovation in the member states of the European Union and several other countries, including Serbia. 2 indicators classified into 12 categories (innovation dimensions) are analysed.

¹¹⁹ European innovation scoreboard 2022 https://research-and-innovation.ec.europa.eu/system/files/2022-10/ec_rtd_eis-2022-main-report.pdf

¹²⁰ The annual ranking list of countries by capacity and success in innovation, published by the World Intellectual Property Organization. It consists of 81 indicators, grouped in innovation inputs and innovation outputs.

¹²¹ Global Innovation Index 2022, WIPO <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2022-en-main-report-global-innovation-index-2022-15th-edition.pdf>

¹²² The Law on the Science Fund of the Republic of Serbia („Official Gazette of RS“, no. 85/18); The Law on Science and Research, („Official Gazette of RS“, no. 49/19); The Law on Innovation Activity („Official Gazette of RS“, no. 129/21).

¹²³ The Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2021 to 2025 "The Power of Knowledge", an integral part of which is the Action Plan of the Strategy for Scientific and Technological Development for the period from 2021 to 2023 ("Official Gazette of RS", no. 10/21); Smart Specialization Strategy in the Republic of Serbia for the period from 2020 to 2027 ("Official Gazette of RS", no. 21/20) and the Action Plan for the period from 2021 to 2022 for the implementation of the Smart Specialization Strategy in the Republic of Serbia for the period from 2020 to 2027 ("Official Gazette of RS", no. 42/21); The Strategy for the Development of the Startup Ecosystem of the Republic of Serbia for the period from 2021 to 2025 ("Official Gazette of RS", no. 125/21) and the Action Plan for the period until December 31, 2022 for the Implementation of the Strategy for the Development of the Startup Ecosystem of the Republic of Serbia for the period from 2021 to 2025; Artificial Intelligence Development Strategy in the Republic of Serbia for the period from 2020 to 2025. ("Official Gazette of RS", no. 96/19) and the Action Plan for the period from 2020 to 2022 for the implementation of the Artificial Intelligence Development Strategy in the Republic of Serbia for the period from 2020 to 2025 ("Official Gazette of RS", no. 81/20).

infrastructure, as well as greater orientation of scientific research towards the economy.

Funds for integrating the research network of the Republic of Serbia into European and global networks are still insufficient, although the investments in research and development have been increasing in recent years. Total allocations for science in the Republic of Serbia amounted to 0.99%¹²⁴ of GDP in 2021 (by 0.08 p.p. more when compared to the previous year) and are twice lower than the EU-27 average (2.27%¹²⁵ of GDP in 2021). Business sector investments amount to 0.45% of GDP, which is significantly below the EU-27 average (1.5% of GDP in 2021).

Numerous opportunities are open to institutions and companies in the Republic of Serbia to participate in the Horizon Europe¹²⁶ Programme and other EU Programmes (EUREKA and COST). Horizon Europe provides numerous opportunities to combat climate change, to digitize Europe and achieve the UN Sustainable Development Goals, such as responsible consumption and production and encouraging growth and competitiveness. Since the beginning of the implementation of the Horizon Europe Programme, 161 institutions/organizations from the Republic of Serbia have received funding for 128 projects with a total budget of EUR 41.58 million, while the success rate is 20.69%.

The introduced combined institutional-project financing model enabled multi-year planning of the activities of scientific research institutions. Support for scientific research is provided through the activities of the **Science Fund**, which **manages competitive project calls** on the basis of which 282 projects have been supported so far with EUR 74.5 million and 1,737 researchers. The Science Fund is currently implementing 8 Programmes, 5 of which are in the implementation phase, and 3 are in the phase of administrative review and evaluation of project proposals¹²⁷: *Programme for Excellent Projects of Young Researchers (PROMIS)* - 59 basic and applied research projects with a total value of around EUR 9 million; *Programme for the Development of Projects in the Field of Artificial Intelligence* - 12 projects worth EUR 2.2 million; *Serbian Science and Diaspora Collaboration Programme* - 92 projects worth EUR 798 thousand; *Special Research Programme on Covid-19* - 14 projects worth about EUR 2 million; *Programme IDEAS* - 105 projects (1,064 researchers) worth EUR 30 million. When it comes to the *IDENTITY Programme*, intended for the development of scientific research in the field of humanities and social science, the first phase of the evaluation of the project proposals is ongoing¹²⁸, while the administrative verifications of project proposals for the *PRIZMA Programme*¹²⁹ and the *Green Programme of Cooperation between Science and Economy*¹³⁰ are in progress.

Creating innovations, strengthening the connection between science and business, establishing new and strengthening existing companies with innovative potential, is supported by the Fund for Innovation Activities with various financial instruments. Since its inception, the fund has supported over 1,465 projects with almost EUR 60.6 million.¹³¹ The following were approved: EUR 50 million for 351 innovative projects; EUR 4.4 million for 907 innovation vouchers; EUR 0.9 million to support 27 start-ups in the earliest phase of development, EUR 2 million for 19 participants in the Acceleration Programme - Catapult, EUR 2.8 million to support 149 technology transfer projects; EUR 0.5 million for 12 projects on the solution against Covid-19 pandemic.

Investing in innovation infrastructure expands the network of science and technology parks that provide infrastructural and professional support to innovation activities. Innovators have at their disposal laboratories for product development, a network of mentors, an environment of high-tech companies, connections with potential partners and investors, exchange of knowledge and other necessary assistance for faster development in four state-of-the-art science and technology parks in Belgrade, Novi Sad, Niš and Čačak.

¹²⁴ Source: Statistical Office of RS: <https://data.stat.gov.rs/Home/Result/100109?languageCode=sr-Cyrl>

¹²⁵ Source: Eurostat <https://ec.europa.eu/eurostat/databrowser/view/tsc00001/default/table?lang=en>

¹²⁶ Horizon Europe is a new EU Programme aimed at research and innovations (2021-2027), with the budget of 95.5 billion euros.

¹²⁷ Source: Science Fund

¹²⁸ Public call for the IDENTITY Programme was open from 14 March to 20 May, 2022.

¹²⁹ Project applications were submitted by 14 October 2022.

¹³⁰ Project applications were submitted by 11 October 2022.

¹³¹ Source: Fund for Innovation Activity, <http://www.inovacionifond.rs/cir/o-fondu/rezultati>.

The Research and Development Institute for Artificial Intelligence of Serbia, which is fully operational, **aims to connect science and economy** and contribute to the development and transfer of technology in the field of artificial intelligence and mechanical learning in the Republic of Serbia. In order to improve public health in the Republic of Serbia, research and application of artificial intelligence in medicine will be carried out in cooperation with the Institute for Public Health of Serbia "Dr. Milan Jovanović Batut". The cooperation with the companies *Continental Automotive Serbia* (development of the most innovative technologies for the automotive industry) and *NTT Data* (global innovator of IT and business services) was also launched. A cooperation agreement was signed with the City of Belgrade, aiming at joint work on development projects. In addition, the **National Artificial Intelligence Platform**¹³² began operating in the SDC in Kragujevac, in December 2021.

The Centre for the Fourth Industrial Revolution in the Republic of Serbia was founded¹³³ **in May 2022** with a focus on two priority areas - biotechnology and artificial intelligence in healthcare. This Centre will enable fundamental research in the field of biotechnology, molecular biology and medicine to be used for the development of the economy.

The Republic of Serbia became a member of the European high-performance computing organization (EuroHPC JU) in 2022, which brings together members of the European Union, European countries, as well as private partners with the aim of developing the supercomputing ecosystem in Europe. Joining this initiative enables the scientific and research community to use the resources of this organization, as well as to participate in new projects with the aim of further development of artificial intelligence and supercomputing.

The construction of the BIO4 Campus¹³⁴ **made Belgrade a recognizable point of research and development in Southeast Europe.** The conceptual solution was created during 2022, while the beginning of the construction is expected in 2023. BIO4 Campus will enable a faster and more efficient transition of the healthcare system towards modern, innovative diagnostics and treatments, based on data and the latest scientific knowledge. The campus will house four faculties, nine scientific institutes, and the extension of the Science and Technology Park Belgrade and research and development centres of domestic and foreign companies. Negotiations are underway with several other institutions seen as potential tenants of the Campus.

The establishment of the **comprehensive science information system "e-Science"** began in December 2021. The system will enable greater visibility and accessibility of scientific results and research infrastructure to the academic and business community in national and international frameworks. The key framework for the establishment of the future information system has been defined, the models for the accreditation procedures of scientific research organizations and the procedures for selection into scientific positions, which are carried out by the competent bodies, as well as the appearance and content of the Register of scientific research organizations and the Register of researchers have been determined. The activities of obtaining data on the responsible persons of scientific research organisations and others are being carried out. The team of contractors is actively working on improving functionality.

The improvement of the framework for start-up business involves, among other activities, the **establishment of the Register of Subjects of the National Innovation System**, which will be managed by the Innovation Activities Fund. The function of this register is to keep records of subjects of the national innovation system, as well as to facilitate the financing of innovative activities, the implementation of economic incentive measures and stimulating processes and procedures. The development of a software solution for the register has been contracted, which is expected in the second half of 2023. According to Startup Genome data from 2022, the value of the startup ecosystem

¹³² This platform represents a supercomputer of the latest generation, with high performance, ready to process a huge amount of information in a short period. It is available to the state, local self-government, universities, science and technology parks and startup companies.

¹³³ It was mutually founded by the Government of the Republic of Serbia and the World Economic Forum under the auspices of the Office for Information Technologies and Electronic Administration of the Government, with the support of the United Nations Development Programme.

¹³⁴ Biotechnology, Biomedicine, Bioinformatics and Biodiversity

in Belgrade and Novi Sad is estimated at 677 million dollars. According to Startup Genome's observation, the estimated value could be up to three times higher than stated.

Although the orientation of scientific research towards the economy is relatively low, the cooperation of the academic community with the economic sector in the Republic of Serbia takes place through continuous dialogue with all stakeholders and institutions that implement measures from the *Smart Specialization Strategy of the Republic of Serbia for the period from 2020 to 2027* (“Official Gazette of the RS”, No. 21/20), that is, the *Action plan for the period from 2021 to 2022* for its implementation (“Official Gazette of the RS”, No. 42/20).

There is still a lack of human resources in the field of research and development, which limits economic growth and innovation. In the Republic of Serbia, there are 3,510 people employed in research and development¹³⁵ per million inhabitants in 2021, while their share in registered employment is 1.05%, which is less compared to the EU-27 average of 1.62%¹³⁶ in 2021. There are 16,962 researchers engaged in science (52.3% are women), which represents a share of 70.7% in the total number of employees in research and development. Only 10.4%¹³⁷ of researchers are employed in the business sector. Unregulated reintegration of returnee researchers is one of the reasons for the low competitiveness of the Republic of Serbia in the field of science.

b) Reforms

STRUCTURAL REFORM 16: DEVELOPMENT OF THE STARTUP ECOSYSTEM

1. Description of the structural reform

Start-ups, as a special type of innovative micro, small and medium-sized enterprises with the potential for rapid and large growth, have a multiple positive impact, on both the economy and the society in which they are founded and develop, and as such are the creators of new business models of the 21st century. The development of *Strategy of the start-up ecosystem of the Republic of Serbia for the period 2021-2025* (“Official Gazette of the RS”, No.125/21), with the accompanying *Action Plan for the period 2021-2025* (05 No.: 023-12110/2021-1 from 23. December 2021), along with other strategies and the *Law on Innovation Activities* (“Official Gazette of the RS”, No.129/21), lead to the improvement of the framework for start-up business. The Innovation Activities Fund (hereinafter IAF) has been successfully supporting the development of the economic sector through various Programmes for over 10 years.

During the previous period, IAF's call for co-financing of entrepreneurial capital funds and "business angel" investments was successfully implemented, and two teams were selected to be supported. The development of a software solution has been contracted and a framework was prepared for the establishment of the Register of Subjects of the National Innovation System. A comparative analysis was carried out in order to find the right solution for the ecosystem in the Republic of Serbia, and a foundation was created based on which the GovTech Programme will be implemented. Plans and a training Programme for civil servants, which should be implemented during 2023, have also been made.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Establishment of the Register of Subjects of the National Innovation System												
2.	Preparation and implementation of training for civil servants in work with start-ups												

¹³⁵ Source: Statistical Office of RS. Calculation by the Public Policy Secretariat of the Republic of Serbia, <https://data.stat.gov.rs/Home/Result/1005?languageCode=sr-Cyrl>

¹³⁶ Source: Eurostat https://ec.europa.eu/eurostat/databrowser/view/rd_p_perslfr/default/table?lang=en

¹³⁷ Source: Statistical Office of RS: Bulletin: “Scientific Research Activity in RS, 2021“.

3.	Implementation of GovTech Programme																		
4.	Connecting domestic start-up ecosystem actors with international ecosystems, with a special focus on mentors and investors																		
5.	Strengthening start-ups to attract investment through inclusion in the acceleration Programme of the Innovation Fund (SAIGE project)																		
6.	Development of the ecosystem for start-ups in the area of biotechnology																		

3. Risk indicators

Indicator	Baseline value	Intermediary target	Target value
Number of start-ups registered in the newly-established Register	0 (2020)	300 (2023)	700 (2025)
Amount of financial support generated by start-ups in the Republic of Serbia	EUR 23 million (2020)	EUR 40 million (2022)	EUR 80 million (2025)
The value of the start-up ecosystem (Start-up Genome)	USD 502 million (2020)	USD 677 million (2022)	USD 800 million (2025)

4. Expected impact on competitiveness

The increase in the number of start-ups stimulates economic growth, increases exports and GDP, and creates jobs necessary for the development of the knowledge-based economy. The reform encourages public and private investments in this area, enables the development of the domestic venture capital market, the development of a high-tech entrepreneurial culture and the increase of entrepreneurial capacities through educational Programmes and the strengthening of the capacities of support organizations.

5. Estimated costs of the implementation of this structural reform and sources of financing

The budgets of the Innovation Activity Fund, as well as IPA 2018 and IPA 2019 provide funds for activities 4, 5 and 6 in the amount of more than EUR 12 million for 2023, more than EUR 12 million for 2024, as well as EUR 9 million for 2025 for supporting innovative companies that encourage identification, development, improvement and cooperation. The FID budget will also provide funds to support entrepreneurial capital funds and other private investments. In addition, funds will be provided for the financing of the Acceleration Programme from the World Bank loan (Innovation Acceleration Project and Growth Encouragement of Entrepreneurship in the Republic of Serbia - *Project SAIGE*) in the amount of EUR 7 million.

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

By implementing structural reform, new markets are created that generate new jobs, especially for enterprising, young and educated people, and by investing in startups, human capital is created with the competencies and skills needed for a modern economy based on knowledge and innovation, which directly affects the increase employment, poverty reduction and positively affects gender equality.

7. Expected impact on the environment and climate change

The implementation of this reform measure will not have an adverse impact on the environment and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Insufficient interest of start-ups for entering the Register	Low	Continuous communication with start-ups in order to achieve the desired effect
Insufficient interest of start-ups for participation in support Programmes	Low	Intensive promotion of support.

STRUCTURAL REFORM 17: CREATION OF CONDITIONS FOR THE DEVELOPMENT OF BIO SCIENCE AND BIOECONOMY THROUGH THE CONSTRUCTION OF BIO4 CAMPUS

1. Description of the structural reform

The goal of this reform is to provide support to the intensified development in the fields of biotechnology, biomedicine, bioinformatics and biodiversity (hereinafter BIO4). It implies the construction of BIO4 Campus, which will be the first campus of this kind in the wider region and will represent the recognizable point on the global development map in this area. The construction of the BIO4 Campus will create an opportunity for concentration of experts, and multidisciplinary knowledge and development of the most modern technologies and infrastructure (faculties, institutes, Science and Technology Park, etc.) in the fields of biotechnology, biomedicine, bioinformatics and biodiversity.

During the previous period, a conceptual solution was made and work is being done to finalize the design and technical documentation. Until the infrastructure is built, the BIO4 campus will be used as a platform for connecting with different partners, in the country and globally, therefore, in the previous period, a lot of effort was invested in connecting with the international research and business community in these areas. Along with the establishment of the BIO4 campus, intensive work is being done on business transformation, creation of reform plans for scientific and research institutes, as well as raising their capacities, since their role in the future functioning of the BIO4 campus will be indispensable.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preparation of project documentation for construction of BIO4 Campus and providing sources for construction financing												
2.	Construction of BIO4 Campus, including the preparation of specification and procurement of the necessary equipment												
3.	Connecting BIO4 Campus users with international scientific and corporate partners												
4.	Implementation of transformation plans of scientific research institutes (BIO4 Campus members)												
5.	Preparation and adoption of the Action Plan for the Smart Specialization Strategy for the period 2023-2025												

3. Risk indicators

Indicator	Baseline value (2020)	Intermediary target (2024)	Target value (2026)
Number of institutions users of BIO4 Campus	0	8	12
Number of companies having their research divisions in the Campus (regulated legally)	0	5	7
Number of agreements signed between the research institutions / faculties	0	20	50
Number of agreements signed with the industry	0	5	20

4. Expected impact on competitiveness

It is estimated that the market of the BIO4 area in the world will be worth more two to four trillion US dollars in the next two decades, and it is important for the Republic of Serbia to be an active participant in that market. Bearing in mind that such a Campus opens up numerous opportunities for participation in various national and international projects, the number of researchers, domestic and international, as well as the number of companies in the mentioned fields, will show the attractiveness of the Republic of Serbia as a destination for research and development in the field that represents a combination of biosciences and IT technology. Also, biotechnology in the fields of pharmacy, agriculture and food production, energy solutions, as well as environmental protection will become an extremely potent economic branch through the translation of knowledge and discoveries from laboratories into products and services.

5. Estimated costs of the implementation of this structural reform and sources of financing

Funds for the project-technical documentation finalization are provided in the budget of the Public Investments Management Office for the year 2022, in the amount of 4.5 million euros. The estimated value of the project is EUR 300 million, and the construction will be financed from loans, while funds for the development of plans for the transformation of scientific and research institutes and their implementation are provided from the World Bank loan (Innovation Acceleration Project and Entrepreneurship Growth in the Republic of Serbia - *SAIGE Project*) in the amount of EUR 8 million.

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

The implementation of the planned activities will improve the quality of health care, and enable faster, high quality transition of health care system towards modern, innovative diagnostics and treatment based on data and the latest scientific findings. It will also enable the development of new biological medicine and preparations for pharmaceutical and food industry intended for the environmental and biodiversity conservation (Sustainable development goals (hereinafter SDG) 2, 3, 12, 15). The opportunity will arise for additional employment of highly qualified work force, preventing their departure from the country. The presence of faculties and institutes will enable higher quality education in accordance with rapid global changes (SDG, development of innovations SDG 9). Gender equality will be taken into account in the implementation of this reform measure.

7. Expected impact on the environment and climate change

During the construction of facilities and the implementation of plans for the transformation of the institute, the environment and energy efficiency (green construction) will be taken into account. The experts engaged in BIO4 Campus will deal with biodiversity, development of green technologies and eco-friendly products intended for agriculture and food and pharmaceutical industry, as well as with the monitoring the climate change impacts (Centre for Sustainability and Environment within the Campus), with the application of artificial intelligence. Unique EU principles that enable the improvement of health and well-being of people staying and working in BIO4 Campus will be applied during the construction. The urban planning tools of *Blue Green* solutions will be applied with a focus on water potentials (blue solutions including drainage, sewage) and on vegetation (green solutions, i.e. functional vegetation) in order to adopt solutions based on the principles of nature.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Delay in the preparation of project documentation	Low	Effective planning of all activities and connecting actors
Failure to meet deadlines in the implementation of planned activities and construction	Moderate	Continuous monitoring of progress and identification of potential bottlenecks
Insufficient interest of institutions and companies to be a part of the BIO4 campus	Low	Promotion and realization of partnerships through joint activities

5.2.6. Area REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS

a) Analysis of main challenges

The Republic of Serbia is not fully integrated into the international economic system, as it is not yet a member of the World Trade Organization (hereinafter WTO). Within the multilateral component of accession (systemic issues), currently the only open issue is the ban on foreign trade in products from genetically modified organisms (GMO) and the adoption of the Law on Amendments to the Law on Genetically Modified Organisms (“Official Gazette of the RS”, No. 41/09), which represents one of the obstacles to completing the WTO accession process. At the same time, several bilateral negotiations on market access within the WTO, which are being conducted with individual states members of the organization, including Russia and Ukraine, remain to be completed, which represents an aggravating circumstance.

Regional cooperation is one of the priorities of the Republic of Serbia, being the foundation for the economic growth, maintaining, and increasing stability. It is based on the Central European Free Trade Agreement – CEFTA. Continuous progress and deepening of regional cooperation, especially through regional initiatives and the improvement of CEFTA, also contribute to the integration of this part of Europe into the European Union. The implementation of the *Multi-Annual Action Plan for the Development of the Regional Economic Area* (MAP REA) equates the price of mobile roaming traffic with the prices in the national traffic of the Republic of Serbia, Montenegro, Bosnia and Herzegovina, Northern Macedonia and Albania from 1 July 2021. The *Common Regional Market Action Plan within the framework of the Berlin Process* was adopted at the Western Balkans Summit in Sofia on 10 November 2020. A number of activities are envisaged to be implemented by the end of 2024 in the following areas: a) promote four freedoms (through agreements of mutual recognition, removal of barriers and reduction of costs and time of movement of goods, services, capital and people), b) improve the region’s attractiveness for investments (through a campaign to promote regional investments, developing regional guidelines and procedures for screening mechanisms), c) integrate the Western Balkans into pan-European digital space (harmonization with the principles and practice of the EU Digital Single Market, cooperation in the field of data protection approaches, mutual recognition of electronic signatures) and g) upgrade the development of industrial base and innovation infrastructures (supporting youth entrepreneurship, start-ups and early stage firms by introducing mechanisms for diaspora knowledge transfer, fostering green and women entrepreneurship).

The joint initiative “Mini Schengen” of the Republic of Serbia, Albania and Northern Macedonia, signed in October 2019 in Novi Sad, aims at improving mutual economic integration through free movement of people, goods, services and capital, travel with an ID card, employment with a certificate of qualification, recognition of diplomas in the region, better co-operation in the fight against organized crime and assistance in the event of natural disasters. The name of the “Mini Schengen” initiative was changed to “*Open Balkans*” at the Forum for Regional Economic Cooperation in Skopje in July 2021, where the memoranda on cooperation in disaster protection, ease of import, export and movement of goods and free access to the labour market in the Western Balkans were signed. The establishment of the regime of free movement in the territory of the Republic of Serbia, Macedonia and Albania without borders is scheduled to start from 1 January 2023. At the meeting in Tirana held on December 21, 2021, a number of agreements were signed related to

employment and free access to the labour market, the integrated electronic service system, the improvement of phytosanitary and veterinary inspection, mutual recognition of approvals of authorized economic entities for security and safety and the cooperation of accreditation bodies. At the samite in North Macedonia, held on 7 and 8 June, 2022, the agreement was signed regarding the recognition of diplomas and scientific awards and certificates issued in higher education institutions and other authorized institutions, as well as memoranda on the cooperation of tax administrations, and the cooperation in the field of culture and tourism. For the first time, the summit was attended by the representatives of Montenegro and Bosnia and Herzegovina as observers.

After the outbreak of the pandemic caused disturbances on the international market and reduced the movement of people and the exchange of goods between countries, the improvement of the epidemiological situation influenced the increase in market activity. The total foreign trade of the Republic of Serbia increased by 25.5% in 2021 (EUR 50.2 billion).¹³⁸ Exports of EUR 21.6 billion in 2021 increased by 26.8% y-o-y, while imports increased by 24.6% (EUR 28.6 billion). The increase in Serbia's foreign trade is accompanied by the increase in the foreign trade deficit (EUR 6.98 billion) by 18.2% y-o-y, and exports covered 75.6% of imports in 2021, which is at the level of the previous year (74.3%). The wide dispersion of exports is ensured by the diversification of FDI into a large number of sectors that produce tradable goods. The recovery of foreign trade is indicated by higher exports of the Republic of Serbia by 28.2% y-o-y and imports by 38.8% y-o-y over eight months of 2022 (EUR 17.5 billion and EUR 24.9 billion, respectively), in relation to the same period in 2021¹³⁹.

The balance of payment account deficit amounted to 4.3% of GDP in 2021 and was higher by 21.5% mostly due to the increase of the trade deficit by 14% and the increase of the primary income deficit by 43.1%.¹⁴⁰ The current account deficit was fully covered by net FDI inflows (EUR 3.6 billion).

Serbia's most important foreign trade partners are those with which the Republic of Serbia has signed free trade agreements (EU-27, CEFTA, EFTA, Eurasian Economic Union and Turkey). By applying these agreements, a high degree of liberalization of Serbia's foreign trade was achieved, so that in 2021 about 80% of the total exchange of the Republic of Serbia with the world was done with partners with whom free trade agreements were signed, and almost 87% of Serbia's exports are placed in these markets. In the first 8 months of 2022, these shares are very similar, 79% of the total exchange of the Republic of Serbia was with the partners with whom free trade agreements were signed, i.e. 86.5% of the total export of the Republic of Serbia was placed in these markets.

60.3% of the total exchange of the Republic of Serbia in 2021 took place with EU – 27 member states. Exports to the EU increased by about EUR 2.87 billion in 2021 or 25.9% y-o-y, with a decrease in the trade deficit of 1.1% y-o-y. Over eight months of 2022, the EU's share in the total trade of the Republic of Serbia amounts to 58.5% (EUR 24.8 billion), which is 28.3% more than in the same period in 2021.¹⁴¹ Due to the faster growth of exports (30.1%) than imports (26.1%) in the same period, the trade deficit with the EU was increased by 54.5% y-o-y (EUR 2.26 billion). **The consequences of the introduction of protective measures (import quotas)** by the EU in January 2019 on certain groups of steel and iron products in duration of three years, and the decline in international demand for these products due to the outbreak of the Covid-19 pandemic, are still present. The export of iron and steel from the Republic of Serbia to the EU during 2021 decreased by 6% y-o-y when it comes to the amount; however, when it comes to the value, due to the increase in price, the export increased by 68% y-o-y, and the import by 46% y-o-y.¹⁴² In the first six months of 2022, the value of steel exports to the EU increased by 59.4% due to higher prices. The European Union increased Serbia's quotas for the export of certain types of steel by almost 30%. The

¹³⁸ Source: Statistical Office of RS, Foreign trade goods exchange, final data 2021, <https://www.stat.gov.rs/sr-latn/vesti/20220715-spoljnotrgovinska-robna-razmena-konacni-podaci-2021/>

¹³⁹ Source: Statistical Office of RS, Foreign trade goods exchange, August 2022, <https://www.stat.gov.rs/vesti/20220930-spoljnotrgovinska-robna-razmena-za-avgust-2022/>

¹⁴⁰ Source: NBS, Balance of Payments, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika

¹⁴¹ Source: Statistical Office of RS, Foreign trade goods exchange, August 2022, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221272.pdf>

¹⁴² Source: Trade map, https://www.trademapp.org/Bilateral_TS.aspx?nvpm=1%7c688%7c%7c%7c42%7cTOTAL%7c%7c%7c2%7c1%7c1%7c2%7c2%7c1%7c1%7c1%7c1%7c1%7c1%7c1%7c1%7c1

introduction of new regulations for the control of carbon dioxide emissions (decarbonisation) in EU may negatively affect the export of these products in the forthcoming period.

Serbia's second most important partners are **CEFTA parties**, with which the Republic of Serbia has a trade **surplus of EUR 2.1 billion** in 2021, higher by 16.4% in comparison to 2020, and is mainly the result of exports of: oil and oil products, cereals and cereal products, iron and steel, electrical machinery and apparatus, as well as beverages¹⁴³.

The agreement on free trade between the Republic of Serbia and the member countries of the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) entered into force at the end of June 2021. The agreement on partnership, trade and cooperation between the Government of the Republic of Serbia and the Government of the United Kingdom of Great Britain and Northern Ireland, as well as the accompanying joint declarations, were ratified in the period June-July 2021.

b) Reforms

STRUCTURAL REFORM 18: IMPROVEMENT OF CONDITIONS AND REMOVAL OF THE BARRIERS TO TRADE

1. Description of the structural reform

The goal of the reform is to intensify, improve, diversify and further enlarge Serbia's foreign trade at both regional and global level. Activities are also aimed at strengthening the competitiveness of Serbian companies in order to prepare for EU membership and easier inclusion in the market competition in single European market. This reform also improves the regional cooperation. The Republic of Serbia continues its activities aimed at achieving WTO membership, and especially at resolving the issue of the existing ban on foreign trade of GMO products in the Republic of Serbia and the end of open bilateral negotiations with certain WTO members, which are further complicated by the current situation in international relations. For the purpose of further trade integration in the region envisaged by the Action plan for the common regional market(hereinafter AP CRM), activities will be undertaken to implement obligations from the CEFTA Additional Protocol 5, CEFTA Additional Protocol 6, and to continue negotiations on CEFTA Additional Protocol 7. COVID-19 pandemic conditioned that certain activities, especially those related to negotiations, be redefined in time and adjusted to the new circumstances. Within the National Trade Facilitation Body (hereinafter NTFB), along with the participation of the private sector, drafting and implementation of the Action Plan for the period 2022-2023 will continue in order to remove barriers to trade, especially technical and phytosanitary measures, as well as facilitating customs procedures. The structural reform was transferred from the previous year, primarily bearing in mind that the envisaged activities imply a longer period for the implementation (reaching an agreement, harmonization of regional initiatives and agreements, ratification and implementation of the agreements).

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	WTO accession negotiations - bilateral negotiations, adoption of regulations harmonized with WTO rules and principles												
2.	AP CRM - CEFTA - Implementation of Additional Protocol 5 on Trade Facilitation												
3.	AP CRM - CEFTA: Implementation of Additional Protocol 6 on Trade in Services												
4.	AP CRM – CEFTA: Adoption and implementation of Additional Protocol 7 on Dispute Settlement												
5.	Implementation of activities defined in Action Plans for 2022 and 2023 within NTFB and the adoption of NTFB Action Plans for 2024 and 2025 and their implementation												

¹⁴³ Source:Statistical Office of RS, Foreign trade goods exchange, final data 2021, <https://www.stat.gov.rs/sr-latn/vesti/20220715-spoljnotrgovinska-robna-razmena-konacni-podaci-2021/>

3. Risk indicators

Indicator	Baseline value (2019)	Intermediary target (2022)	Target value (2025)
The volume of foreign trade of the Republic of Serbia - the world	EUR 41.4 billion	EUR 62 billion ¹⁴⁴	EUR 80 billion
Assessment of the fulfilment of trade facilitation measures that the Republic of Serbia received according to the UN Global Review on Digital and Sustainable Trade Facilitation ¹⁴⁵	61.3%	72.4% (2021) ¹⁴⁶	78%

4. Expected impact on competitiveness

WTO membership, trade improvement through the implementation of CEFTA additional protocols, as well as NTFB trade facilitation activities will have a significant impact on removing trade barriers, and thus increasing the competitiveness of Serbian companies in the regional market, as well as the growth and further development of Serbia's economy. The positive impact on competitiveness is reflected, among other things, in reducing the costs of foreign trade in goods, shortening the period for performing procedures at border crossings, as well as mutual recognition of documents and continued harmonization with the EU regulations in the field of free movement of goods.

5. Estimated costs of the implementation of this structural reform and sources of financing

The implementation of the above-mentioned activities affected the budget only in the part related to the increase in the number of employees engaged in these tasks, compared to 2019, which is taken as the baseline year. In this regard, the additional employment of two new employees was planned in 2020 and this was fully implemented. Additional funds have been provided to assist in the implementation of planned activities from the donation for the period from 2022-2024. In this sense, in 2023 and 2024, it is planned to spend the remaining amount of aid, EUR 55 thousand. The funds will be spent on improving capacities in the field of trade policy, which will horizontally encourage more efficient implementation of the above activities.

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

The structural reform has a positive impact on the increase in employment through the inclusion of the local market in the European market competition, which will indirectly affect the reduction of poverty. It has a positive effect on the realization of the principle of gender equality, while it is neutral regarding access to health care.

7. Expected impact on the environment and climate change

This structural reform is neutral in terms of environmental impact and climate change.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Crisis due to the current geopolitical situation in the world - potential introduction of extraordinary trade measures by the most important foreign trading partners and Republic of Serbia	Moderate	Coordination with the most important trading partners in order to amortize the negative effects of potential trade restrictions.
WTO accession implies multilateral negotiations, so the end of the process depends on other participants (WTO members, some of them being directly involved in the current situation in Ukraine)	High	Closing bilateral negotiations with WTO members. In that regard, passing the Law on GMOs will facilitate bilateral negotiations with some WTO members.
Introduction of EU safeguards (on certain steel products)	High	Activities to exclude Serbia from the list of countries to which EU protection measures are applied.

¹⁴⁴ Expert assessment based on the existing trend

¹⁴⁵ Global survey (UN Global Survey on Digital and Sustainable Trade Facilitation) is published every two years, and includes an overview of 143 economies around the world through the analysis of the implementation of measures related to the implementation of the provisions of the Agreement on Trade Facilitation of the World Trade Organization (WTO). Based on the information from the questionnaire, UN experts evaluate the progress achieved in individual countries.

¹⁴⁶ The last evaluation of the fulfillment of trade facilitation measures was published in 2021. The next report is expected in 2023.

5.2.7. Area REFORMS OF THE ENERGY MARKET

This area and relevant reforms are analysed in section 5.1 under *Key Challenge No. 3. Greening the energy sector and full opening of the energy market.*

5.2.8. Area REFORMS OF THE TRANSPORT MARKET

a) Analysis of main challenges

In the field of transport, there is a good level of alignment with the EU acquis. It is necessary to adopt a comprehensive traffic development strategy and general master plan, intelligent transport system strategy and the action plan, facilitate procedures at border crossings, establish the maintenance plans for road and railway infrastructure based on the estimated costs, improve the level of safety and quality of traffic infrastructure, strengthen the institutional capacities, and establish combined/intermodal transport.

In this regard, the **drafting of the *National Traffic Development Strategy for the period 2023-2030*** was started in the previous period within the Western Balkans Trade and Transport Improvement project. As a part of these activities, the ***National Strategy of a Smart Traffic System (ITS Strategy)*** will be prepared, which will include not only road traffic but also railroad traffic in terms of implementation of modern ITS technologies and innovations. The preparation of an adequate sector strategy, and especially the creation of the ITS Strategy, will lead to the creation of an appropriate legal framework for further improvement of infrastructure capacities, as well as the safety of the traffic system as a whole.

It is necessary to complete the reconstruction of the existing and build new road sections. The realization of infrastructure projects largely depends on the duration of expropriation procedures and the efficiency of the real estate cadastre. As part of the Ruma-Šabac-Loznica highway, work has begun on the construction of the 55 km long Šabac-Loznica road, and the completion of the work is planned by the end of September 2024. Work is underway on the Pojate-Kruševac section within the Morava Corridor (Pojate-Preljina 109.6 km), and the completion of the entire project is planned by March 2024. The construction of the Belgrade-Sarajevo highway (section Sremska Rača-Kuzmin 18 km) has continued, and work is currently underway on the bridge over the Sava River in the length of 1.3 km. Work has begun on the construction of section 1 (Žeželjev most - E-75 loop – Paragovo) of the Fruškogorski corridor. The construction of sector B5 as part of the Bypass around Belgrade has been completed and the completion of work on all sectors is planned by the end of March 2023. This bypass will significantly contribute to reducing the frequency of freight traffic and reducing air pollution in Belgrade. The plan is to build a continuation of the Bypass - Sector C, from Bubanj Potok to Vinča and Pančevo. Work has begun on the construction of the bypass around Novi Sad with a bridge over the Danube, and the planned completion is during 2024. The construction of a modern highway Belgrade-Temišvar is planned, which will contribute to the increase of cross-border cooperation in the field of transport

The utility infrastructure is outdated and additional investments are necessary. A total of 160 km of new sewage infrastructure was built in the first half of 2022, while a total of 300 km of new sewage infrastructure and 4 wastewater treatment plants are expected by the end of 2022. The implementation of the "Clean Serbia" project has continued and it is expected that most of the works will be completed by the end of 2023. The construction of 7,000 km of sewage infrastructure and more than 500 wastewater treatment plants is planned in the next five years.

It is necessary to adjust the toll price so that it corresponds to the costs required for the construction and maintenance of the road infrastructure and to increase the bandwidth of toll stations. The transition to a new performance-based regular road maintenance system is underway. The toll collection in the Republic of Serbia is carried out at 66 toll stations, on 830 kilometres of highways. A project to expand 26 toll stations is underway, with the aim of increasing capacity and smooth passage of vehicles through toll stations. The number of users of electronic toll collection is expanding (over 420,000 active users of TAG devices and more than 250 distribution points). Toll

revenues increased by 28.2% y-o-y, while the number of vehicles in the road traffic increased by 13.7 million (growth of 14.22% y-o-y) in 2021.¹⁴⁷ The number of electronic toll collections increased by 28.86% y-o-y in 2021. A greater volume of passenger (12.2% y-o-y growth) and net ton kilometres (30.6% y-o-y growth) was achieved in road traffic in 2021.¹⁴⁸ The total number of passenger vehicles that entered Serbia increased by 46.1% y-o-y, and the output of passenger vehicles from the Republic of Serbia increased by 51.1% y-o-y in 2021 (input growth by 5.1% y-o-y and output growth by 25.3% in Q1 2022).¹⁴⁹ In the forthcoming period, it is necessary to achieve a greater degree of regional cooperation regarding the interoperability of electronic toll collection.

Development of passenger and freight railway traffic is restricted due to the outdated railway network. In order to develop and improve the railway network, it is necessary to increase the degree of electrification of the railways, achieve greater axle load on the network, enable traffic on the network at a speed of more than 100 km/h and improve the management of railway assets. Improving the process of issuing licenses for train drivers and safety certificates for railway companies, along with additional strengthening of the mechanisms of mutual recognition of railway vehicles, would contribute to the further opening and liberalization of the railway market. It is necessary to adopt the implementation plan of the European Railway Traffic Management System (hereinafter ERTMS) with further harmonization of the Network Statement. Largely, it is necessary to use the capacities of railway traffic, which would contribute to the preservation of the environment and the implementation of the green transition process.

The total length of the railway network in the Republic of Serbia is 3,348.1 km (electrified 1,273.7 km).¹⁵⁰ Transportation on the public railway infrastructure was carried out by 14 railway carriers in 2021. “Srbija Voz” JSC and “Serbia Cargo” JSC have the largest share in the number of realized routes, (59.9%) and (28.8%) respectively, while private carriers have a share of 11.3%.¹⁵¹ The total of 191 million passenger km (21.7 % increase y-o-y) and 2.9 billion net tonne-kilometres (6.5% increase y-o-y) were achieved in the railway traffic in 2021.¹⁵² A total of 86 km of regional and local railways were reconstructed and built in 2021, while in 2022 works related to the reconstruction and construction of 52 km of regional and about 143 km of main lines were completed.

The works on the Belgrade-Novı Sad high-speed railway are completed, and the trains were put into traffic on March 19, 2022. The work on the modernization of the Jajinci-Mala Krsna railway, in the length of 68.8 km, are completed and commercial traffic was put into operation on June 22, 2022. The work is underway on the Novi Sad-Subotica-Horgoš railway (107.4 km), and the planned completion is by April 2024. The Subotica-Horgoš section was finished in August 2022. The reconstruction of 55 railway stations was planned in 2022. In order to enable the further development of railway infrastructure, it is planned to dismantle and remove about 435 km of old railways in the Republic of Serbia.

The *Law on Metro and City Railways* (“Official Gazette of the RS”, No. 52/21) was adopted as a legal framework for establishing a metro system. A Memorandum of Understanding was signed for the “Belgrade Metro” project. The first metro line is expected to be completed by 2028, while the planned completion date of the entire project is scheduled for 2033. The Belgrade metro will return up to 20% of energy to the system, which is particularly important from the aspect of environmental protection. It is planned that the first metro line will have 28 trains with three carriages each, which will transport 435 people.

¹⁴⁷ Annual report on the toll collection of PE „Roads of Serbia“, https://www.putevi-srbije.rs/images/pdf/suiss/UISS_godisnji_izvestaj_2021.pdf

¹⁴⁸ Source: Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221177.pdf>

¹⁴⁹ Source: Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221153.pdf>

¹⁵⁰ Source: Report on the regulation of the railway services market for 2021, https://www.raildir.gov.rs/doc/izvestaji/Izvestaj%20o_regulisanju_trzista_zeleznickih_usluga_za_2021.pdf

¹⁵¹ Source: Report on the regulation of the railway services market for 2021, https://www.raildir.gov.rs/doc/izvestaji/Izvestaj%20o_regulisanju_trzista_zeleznickih_usluga_za_2021.pdf

¹⁵² Source: Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221177.pdf>

It is necessary to facilitate the procedures at border crossings, and to improve traffic safety and strengthen the capacities of inspection services. The number of traffic accidents increased by 12.8% y-o-y, while the number of casualties increased by 11.4% y-o-y in 2021.¹⁵³ It is estimated that in 30% of deaths on the roads, the accident occurred because the traffic signalization was destroyed or stolen. There is an increase in traffic signals, especially in the zones of educational institutions and in places marked as "black holes". The technical inspection of vehicles was improved by the adoption of the *Rulebook on Safety Seats* ("Official Gazette of RS", no. 126/20) and the *Rulebook on Technical Inspection of Motor Vehicles* ("Official Gazette of RS", no. 31/18, 70/18, 62/22). The implementation of the Horgoš border crossing modernization project has begun, and the completion of the works is scheduled for the second half of 2023. The development of the *Traffic Safety Strategy from 2022 to 2030* is underway. During the next year, the installation of the security equipment was planned at 35 road crossings, which will contribute to increasing safety at the railway crossing. In the forthcoming period, it is necessary to adopt a new law on road traffic safety and to continue contracting road maintenance based on performance. It is necessary to expand the capacities of the Railway Directorate as a regulatory body and a body responsible for railway safety. There are still delays in: establishing a methodology for calculating track access charges, as well as in establishing a new model for setting prices for access to railway infrastructure and ITS in all types of traffic.

It is necessary to establish and strengthen the capacities of combined/intermodal transport. The construction of the Intermodal Terminal in Batajnica was initiated in September 2020. The construction of access roads and railways, areas for storage and manoeuvring, and an administrative facility is also planned. Financial resources are provided through support via IPA projects and the budget of the Republic of Serbia. In the forthcoming period, it is necessary to intensify the work on this terminal and to adopt technical specifications for interoperability.

In the areas of maritime and inland waterway transport, a high degree of alignment with the EU acquis has been achieved. The potential of inland transport has not been fully exploited and it is necessary to achieve higher interoperability with railway and road traffic. In order to strengthen regional cooperation, it is necessary to harmonize port tariffs and overcome administrative barriers. *The Rulebook on Minimum Port Tariffs* ("Official Gazette of RS", no. 29/22) was adopted, which establishes the minimum fees that port operators charge for certain types of services and cargo. The total volume of cargo transportation on inland waterways in the Republic of Serbia is 15.9 million tons in 2021, which represents a growth of 3.2% compared to 2020.¹⁵⁴ The most frequently transhipped type of cargo is gravel, sand and stone aggregates, which together make up 30.9% of transshipment. The increase in the volume of transshipment was mainly influenced by the increase in business activity in the construction sector. The implementation of RIS continued, as well as active participation within the framework of EU strategies for the development of the Danube region and the Adriatic-Ionian region.

The existing outdated infrastructure capacities in the field of inland water transport limit the speed of transshipment in Serbian ports and the level of competitiveness of Serbian goods in foreign markets, but they are continuously improving. It is necessary to continue investing in infrastructure and superstructure that will provide the conditions for receiving and serving the needs of individual vessels, as well as providing charters (*rent-a-boat service*). It is necessary to improve port capacities and include them in the Trans-European Transport Network (TEN-T) of river ports. The international passenger port Kostolac has been put into operation¹⁵⁵. The port was also established in Boljevci, in accordance with the *Decree on Establishing the Port Area of the Special Purposes for the Transshipment of Oil and Oil Derivatives in Boljevci* ("Official Gazette of RS", no. 77/22). Financial resources were provided for the reconstruction of the Đerdap 2 lock (60% EIB loan and 40% CEF fund - *Connecting Europe Facility Fund*). As a part of the project "Removal of the sunken German fleet from the Second World War from the Danube", the preparation of documentation has been completed and financial resources have been secured (EIB loan and grants

¹⁵³ Source: Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221071.pdf>

¹⁵⁴ Source: Port Governance Agency

¹⁵⁵ Source: Port Governance Agency

from the Western Balkans Investment Framework), while the contractor is currently being selected. Work has begun on the modernization of the port of Novi Sad, which will enable the increase in the capacity for storing goods. The construction of the marina in Veliko Gradište is underway.¹⁵⁶ The work on the reconstruction of the Port of Belgrade is expected to begin at the end of 2023. The beginning of the implementation of the project "Improving the conditions for the transfer of ships within the Tisa dam" is planned, which will increase the transport of goods on the Serbia-Hungary route. It is planned to create a pilot study, or masterplans for the development of ports in Prahovo, Bačka Palanka and Bogojevo.

In the field of aviation, a good level of alignment with the acquis has been achieved. International airports "Nikola Tesla" in Belgrade, "Constantine the Great" in Niš and "Morava" near Kraljevo are operational. The work is being carried out on the modernization of the airport "Nikola Tesla" in Belgrade, which will contribute to the increase of the annual capacity from 6 million to almost 14 million passengers per year. A new heating plant was built at the Belgrade airport, which will enable the reduction of CO₂ emissions by 3,000 tons.¹⁵⁷ The construction of a new terminal building at the "Constantine the Great" Airport in Niš has begun, which will increase the annual capacity to 1.5 million passengers, enable more flights and speed up cross-border procedures. At the "Nikola Tesla" Airport in Belgrade, the number of passengers increased by 73% y-o-y, and the number of commercial flights increased by 45% in 2021¹⁵⁸, while in the period from January to September 2022, the number of passengers increased by 71% y-o-y (4.2 million passengers) and growth in the number of flights by 37% y-o-y¹⁵⁹ (more than 49 thousand take-offs and landings). At the Airport "Constantine the Great" in Niš, the number of passengers was reduced by 5.1% y-o-y and the transported goods by 40.5% y-o-y in 2021.¹⁶⁰ In the period from January to June 2022 the number of passengers increased by 6.9 times and a 68.7% decrease in transported goods y-o-y was recorded.

b) Reforms

STRUCTURAL REFORM 19: IMPROVEMENT OF EFFICIENCY AND SAFETY IN THE RAILWAY TRAFFIC

1. Description of structural reform

Since 2015, the Republic of Serbia has been intensively implementing activities on the reform of the railway sector, starting from establishing new railway companies, establishing legislative framework, opening the market, improving operations, solving issues of debts and excess assets, optimizing the number of employees and rationalizing the network. At the same time, efforts are also being made to create conditions for sustainable business operations of the companies, further market opening and improvement of services in accordance with EU regulations, standards and practice. The railway infrastructure is being improved through projects of reconstruction, modernization and construction of tracks and other capacities, and in accordance with the programme of Public Railway Infrastructure (a planning document for the following period is being prepared).

The main activities in the forthcoming period, given that the harmonization of the law with the IV package of EU railway regulations and the adoption of a new Methodology for calculating the price of access to railway infrastructure are in the final phase, are: 1) the application of the new Methodology for calculating the price of access to railway infrastructure, which aims at calculation of access prices that are based on real costs, thus enabling more predictable market for railway services, 2) raising the level of safety at road crossings, which will lead to the improvement of railway traffic safety, i.e. reduction of the number of traffic accidents, and 3) creating the conditions for improving the efficiency of railway passenger traffic through an improved contractual relationship,

¹⁵⁶ Source: Port Governance Agency

¹⁵⁷ Source: Nikola Tesla Airport

¹⁵⁸ Source: VINCI Airoprts – 2021 traffic,

https://beg.aero/sites/belgrade/files/pdf/putnicki_saobracaj_i_komercijalne_avio_operacije_na_dan_31._decembar_2021._g.pdf

¹⁵⁹ Source: VINCI Airoprts – traffic on 30 September, 2022

¹⁶⁰ Source: Constantine the Great Airport Nis <https://ini.aerodromisrbije.rs/statistika/>

new services, promotional activities and improvement of business efficiency (sales network, energy efficiency, resource management).

All the investments in railways directly contribute to the implementation of the European Green Deal, given all the technical features and environmental benefits of this form of transport.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Application of the new Methodology for calculating the price of access to railway infrastructure,												
2.	Increasing safety in railway crossings												
3.	Creating the conditions for the improvement of the efficiency of passenger railway traffic												

3. Risk indicators

Indicator	Baseline value (2016)	Intermediary target (2021)*	Target value (2025)
Quantity of transported goods	11,896,000	9,337,300	13,070,200
Number of transported passengers	6,092,000	2,777,309	6,701,200
Number of railway accidents	253**	254	150
Kilometres of reconstructed (renewed) railways (cumulative since 2015)	36.3	1030	1,092.3

* The reason for the deterioration of certain indicators of results in 2021 are the Covid measures, but also a large number of infrastructure works on the railway network in the Republic of Serbia.

** Data for 2017, bearing in mind that before 2017, extraordinary events were classified in a different way.

4. Expected impact on competitiveness

The final goal of the railway sector reform is to increase competitiveness, not only within the railway sector, where the prices of transport services will be formed exclusively as dictated by supply and demand, but also to increase the competitiveness of the railway in relation to other modes of transport.

The reform so far has enabled the existence of an open market at the national level, where currently, in addition to two state-owned ones, 14 private railway carriers are also actively operating, and further growth in their number is expected.

Efforts are still being made to increase the efficiency of the restructured companies, but considering the current level of market development, users of railway services in freight traffic already benefit in terms of the choice of carrier.

In addition, investments in capital projects affect the growth of industrial production, employment in the domestic economy, reduction of the number of unemployed and GDP growth.

5. Estimated costs of the implementation of this structural reform and sources of financing

The estimated costs of implementing the structural reform, among other things, refer to the estimated value of the work of additionally engaged persons (goods and services) for the activities of applying the Methodology for the calculation of the access price for the period 2023-2025 in the total amount of EUR 4,515 (including EUR 1,250 euros that the Directorate for railways estimated as the amount needed to hire a consultant). It is estimated that in order to implement this activity, it is necessary to hire an additional employee in the Directorate of Railways, starting from the third quarter of 2023, that is, in that year, it is necessary to allocate EUR 653 (1,306 euros/year), which along with the cost of hiring a consultant in 2023 amounts EUR 1,903. In 2024 and 2025, only the cost of an additional employee in the Directorate of Railways is planned for this activity, and it amounts to EUR 1,306 for each year.

Funds from the World Bank loan for the modernization of road crossings in the amount of EUR 10.9 million were also provided (50% of the work is expected during 2023 and 2024 - it refers to 58 road crossings), while the EBRD approved the repurposing of the remaining funds from of the existing

loan (EUR 10 million) for the financing of works on the improvement of safety at 33 road crossings (33% each in 2022, 2023 and 2024). The Works Contract was signed in April 2022 and the implementation of the contractual obligations is ongoing.

In addition, loan agreements were signed with the World Bank and the French Development Agency for the Project of the Railway Sector Modernization in Serbia - the first phase includes the component of upgrading 150-200 road crossings in the amount of EUR 22 million (implementation is expected during 2023 and 2024. year - the rest until 2026 and therefore this amount is distributed by 25% in 2023, 2024, 2025 and 2026).

As for the additional persons employed to carry out activities related to raising the level of safety at road crossings, it is estimated that for the implementation of this activity it is necessary to hire 2 persons in the Ministry of Construction, Transport and Infrastructure and 4 persons in the Directorate of Railways, which in total represents an annual cost of EUR 47,034.

In connection with the improvement of the efficiency of passenger traffic, the increase in the compensation for the obligation of public transport in passenger traffic is planned in 2023 from the budget of the Republic of Serbia in the amount of EUR 3 million (the other costs of this activity are not a part of additional costs).

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

The implementation of the structural reform contributes to the increase in the number of employees of participants and users of services in railway transport, which directly affects the reduction of poverty. In addition, it affects the competitiveness of railway traffic in relation to other types of traffic, and directly affects gender equality by reducing the gender gap in terms of physical mobility of women and men.

Expected impact on the environment and climate change

By improving the railway as a transport system, a positive impact on the environment is realized, bearing in mind that the railway is considered to be environmentally friendly, even the "cleanest" form of transport. This characteristic of the railway is a consequence of its technical and operational characteristics, i.e. for a certain amount of energy it is possible to transport a larger amount of goods and passengers compared to other competitive modes of transport, but also due to the use of electricity as a propellant. For all these reasons, the increase in the share of railways in the market of transport services directly contributes to the achievement of the goals of the *Green Deal*.

7. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Loss of goods and passengers as a consequence of the large volume of infrastructure works	High	More efficient implementation of projects by "Infrastruktura železnice Srbije" a.d. Beograd, provision of alternative transport routes and removal of all obstacles in order to carry out traffic without delays, additional activities for the improvement of passenger traffic.

5.2.9. Area AGRICULTURE, INDUSTRY AND SERVICES

a) Analysis of main challenges

Relatively high share of GVA of the agriculture, forestry and fishery and food processing sectors in the total GDP of the Republic of Serbia (6.3% and 2.4% in 2020 and 6.5% and 2.3% in 2021) is partly the result of favourable natural conditions (geographical position, natural resources, climate factor) and resources for agricultural production (agricultural land used for farming accounts for some 40% of the national territory), but is also the consequence of low technological level of the rest of the economy. Agricultural potential is not fully exploited due to lack of technological

development in all branches of agriculture and sparsely populated rural areas. On the other hand, it can be seen that compared to five years ago, the income of foreign trade exchange in agriculture has increased several times, which directly contributed to the growth of GDP.¹⁶¹ Agriculture accounted for some 12.3% of all employment in 2021 (213.4 thousand people in formal employment, but also 212.9 thousand informally employed workers).¹⁶² Due to the special characteristics and conditions of seasonal work in the sector of agriculture, forestry and fishery, the new law enables a simplified way of employment of persons and payment of taxes and contributions for seasonal work.

The value of exports of agricultural and food products in 2021 amounted to close to 4.2 billion euros (one fifth of the total Serbian export) which is by 15.9% higher than the value of exports in 2020¹⁶³, or 36% compared to the five-year average (2016-2021). At the same time, the value of **imports** of agricultural and food products amounted to close to **EUR 2.5 billion**, which is higher by 8.6% y-o-y, or 37.1% compared to the five-year average. **The growth trend of the surplus** in the trade of agricultural and food products continued during 2021, with the value of around EUR 1.8 billion, which is the largest surplus in trade so far (higher by 22% compared to 2016). The degree of coverage of imports by exports of agricultural and food products was 172.9% in 2021. Despite the increase in the share of processed products in the previous 10 years, the **existing export structure is still dominated by primary** agricultural and food products **with around 70%** (five-year average)¹⁶⁴.

Economic weakness of the majority of agricultural operators (farms and other legal forms) **along with insufficient technical and technological equipment pose the main challenge to the increase of yields in agriculture.** The majority of farms are small or medium-sized engaging in extensive farming, without specialized production in a particular sector. Farms of up to 5 hectares in area account for 71.47% of the total number, while the average area of utilised agricultural land in the Republic of Serbia comes to 6.16 ha¹⁶⁵. Such farms are too small to be competitive, both for direct sales on the European market and for the sale of raw materials for processing. The existing support measures for small farms to reach national standards are not permanent and are not adapted to small farms, with a good part of the farms not even covered by national support measures.¹⁶⁶

Land consolidation process, governed by *Law on Agricultural Land* (“Official Gazette of the RS”, Nos. 62/06, 65/08 - other law, 41/09, 112/15, 80/17 and 95/18- other law), is not efficient enough. The average duration of the procedure from the adoption of the consolidation Programme by the local self-government assembly to vesting the owner in property of consolidated areas, takes about three years and four months¹⁶⁷. Due to the fragmented estates, a significant portion of arable land remains uncultivated, which discourages investment in agriculture, holds back productivity growth, and makes hiring more difficult (adoption of the new *Law on Agricultural Land* and *Law on Land Consolidation* are expected by the end of 2023). The net inflow of FDI into agriculture cumulatively amounted to EUR 470.5 million in the period from 2015 – 2021, or 2.2% of the total FDI inflow in the Republic of Serbia in the same period, which shows that this sector is not attractive enough for foreign investors.¹⁶⁸ A developed IT system for local governments should contribute to more efficient distribution and use of agricultural land and transparency in the awarding of contracts for use of land.¹⁶⁹

Independent work without a tendency towards association, an insufficient level of investment in agriculture and a fragmented market chain limit the development of agricultural activity. The market chain on the domestic market is currently very fragmented and insufficiently organized,

¹⁶¹ Source: Ministry of Agriculture, Forestry and Water Management

¹⁶² Statistical Office of RS, Labour force survey, 2021; processed by Public Policy Secretariat of the Republic of Serbia, <https://publikacije.stat.gov.rs/G2022/Pdf/G20225682.pdf>

¹⁶³ Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221021.pdf>

¹⁶⁴ Report on the situation in agriculture in the Republic of Serbia in 2021, Ministry of Agriculture, Forestry and Water Management, June 2022.

¹⁶⁵ Statistical Office of RS, Survey on the structure of agricultural holdings, 2018, <https://publikacije.stat.gov.rs/G2019/Pdf/G20196002.pdf>

¹⁶⁶ Smallholders and family farms in Serbia, FAO, 2019.

¹⁶⁷ <https://naled.rs/htdocs/Files/01428/Komasacija-vodic-web.pdf>

¹⁶⁸ NBS, Direct foreign investments, net liabilities, per activity, processed by the Public Policy Secretariat of the Republic of Serbia, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

¹⁶⁹ The impact of the Information System for Agricultural Land Management,

<https://upz.minpolj.gov.rs/download/GIZ%20Uticaj%20IS%20za%20upravljanje%20poljoprivrednim%20zemljestem.pdf>

both in the area of production and processing, with a lack of organizational structure to provide appropriate logistical support. It is necessary to support investments in sectors where the Republic of Serbia has comparative advantages (sectors of fruit, vegetable production, animal husbandry), improve business management and provide adequate logistical support, with the full implementation of the *Law on the Regulation of the Agricultural Products Market* ("Official Gazette of the RS", No. 67/21).

Reduction of the rural population and outmigration of young people is the result of the poor economic position of the rural population and unfavourable infrastructure conditions. Land consolidation must be accompanied by the construction of agricultural infrastructure, roads and irrigation and drainage networks. On the territory of the Republic of Serbia, only 63% of municipal roads are considered modern roads (roads covered with asphalt, concrete and blocks). The most favourable situation is in the Central Banat District (98.5% of municipal roads are modern roads), and the most unfavourable is in the Pčinj District, where only 31.1% of municipal roads fall into the category of modern roads. For the measure *Improvement and Development of Rural Infrastructure*, two public calls¹⁷⁰ were announced during 2021¹⁷¹ and 2022¹⁷², financed from the national budget - funds in the amount of 542.5 million dinars were paid for 36 approved requests.

Preparations for the accreditation of *Measure 6 of the IPARD III Programme - Investments in Rural Public Infrastructure* should be accelerated, with an increase in funds at the national level. In the implementation of national rural development support measures, as well as the accredited IPARD measures that are currently being implemented, young farmers (a natural person, under the age of 40 on the day of submitting the request for the project approval) have the advantage of scoring and ranking projects/beneficiaries. In addition, within the framework of the IPARD III Programme, young farmers will be able to achieve increased public support of up to 70% compared to other beneficiaries, where public support is up to 60% of the total eligible investment costs. The biggest change was recorded in the volume of national funds invested in incentives for diversifying income and improving the quality of life in rural areas, thanks to the dynamic growth of support for young people in 2020. Farmers must be registered in the Register of Agricultural Households (hereinafter RAH) and must be in an active status in order to be able to apply for funds from national subsidies or from the IPARD fund. Currently, 424,266 active agricultural households¹⁷³ (hereinafter AH) are registered in the RAH, of which 420,294 are registered as family AH whose holder is a natural person, while only 3,962 registered AH have the status of a legal entity. This relationship indicates an unfavourable business environment for the development of agricultural activity. For the measure *Improving economic activities in the countryside through support for non-agricultural activities*¹⁷⁴, a call for tenders¹⁷⁵ was announced during 2021, financed from the national budget - implementation is ongoing (end of November 30, 2022); 171 requests were submitted - 72 requests were processed, of which 62 requests were approved for financing with approved funds in the amount of RSD 99.3 million.

The share of irrigated areas is low, about 4.6%¹⁷⁶ of the total area of agricultural land in use (7-8% in Europe). The initiated and implemented investment Programmes create the conditions for the irrigation of additional 100,000 ha of agricultural land. The procurement of irrigation systems for agricultural households and farms is supported through national rural development support measures and through the IPARD Programme.

¹⁷⁰ In accordance with the Rulebook on incentives for investments for the improvement and development of rural public infrastructure (July 1, 2021)

¹⁷¹ The First Public Call was announced on 23 July, 2021 - 93 requests were submitted, 19 requests were accepted and 234.5 million dinars were paid.

¹⁷² The Second Public Call was announced on 11 January, 2022 - 97 requests were submitted, 17 requests were accepted and 308 million dinars were paid.

¹⁷³ Open Data Portal, <https://data.gov.rs/sr/datasets/rpg-broj-svikh-registrovanikh-poljoprivrednikh-gazdinstava-aktivna-gazdinstva/>

*no data for Kosovo and Metohija

¹⁷⁴ The measure is the part of the National Rural Development Programme, and aims to encourage growth, employment and sustainable development in rural areas and contribute to the reduction of territorial social and economic development disproportions.

¹⁷⁵ In accordance with the Rulebook on incentives for the improvement of economic activities in the countryside through support for non-agricultural activities (September 24, 2021), including the support for the development of rural tourism and the preservation of old crafts.

¹⁷⁶ Statistical Office of RS, Structure of Agricultural Households, 2018, <https://publikacije.stat.gov.rs/G2019/Pdf/G201922002.pdf>

Lack of effective mechanisms to combat drought and other unfavourable weather conditions reduce yields relative to potentials. To reduce damage caused by natural disasters, the Government has been subsidising insurance premiums. The scope of allocated funds for this purpose have been increasing over the years. The number of insured farms rose from 2,594 applications in 2006 to 29,707 submitted requests in 2021 (28,576 for crop insurance and 1.131 for animal insurance), when close to 2.8 billion euros was disbursed.

The limited number of persons engaged and trained in the Agrarian Payment Agency led to slower processing of requests, and that process was additionally slowed down due to the submission of incomplete requests by users and complex administrative procedures. Since the beginning of the implementation of the IPARD II Programme, there has been a great interest of farmers, which is evidenced by the fact that by October 20, 2022, 3,178 requests were submitted within 13 published public calls, of which 1,105 projects were approved in the amount of 99.7 million euros, and 600 beneficiary projects were paid out in the amount of 29.4 million euros of EU contributions. As before, *Measure 1 - Investments in physical assets of agricultural holdings for the purchase of new tractors* has the highest response. Insufficient absorption of funds from the IPARD II Programme by the end of its duration may lead to the return of unused funds to the EU budget. There are major delays in the delivery of equipment and machines, because supply chains have slowed down as a result of the pandemic, lack of labour and materials, inflation, energy shortages, etc.

The future legal framework in the field of agriculture in the Republic of Serbia will include the goals and activities of the *European Green Deal*, in terms of establishing a fair, healthy and environmentally friendly market chain of food products, and through activities aimed at reducing the use of pesticides, artificial fertilizers and antibiotics, as well as reducing the risk of their use on the one hand, and improving environmental protection and biodiversity preservation on the other. In accordance with this plan, the IPARD III Programme for the Republic of Serbia was adopted by the EC with Executive Decision No. C (2022) 1537 of 3/9/2022. All the investments in machinery and equipment that are the subject of support must meet the standards regarding the greenhouse gas emission. Simplification and digitalization of seven administrative procedures is planned to be finished by the end of 2023. Advance payments were also introduced in order to increase the utilization of funds, and the amount of the advance requires a means of security from a commercial bank.

Control in the process of managing plant protection products is insufficient, with a lack of specific knowledge and poor training of farmers for the application of plant protection products.¹⁷⁷ 1,263 plant protection products¹⁷⁸ are registered in the Republic of Serbia. The control of the presence of these agents in food products is carried out on an annual basis in accordance with the Rulebook on the Annual Programme of Post-Registration Control of Plant Protection Agents, and based on the *Law on Plant Protection Agents* ("Official Gazette of RS", no. 17/19). Out of 2,442 samples of imported plant protection and nutrition products analysed by the border phytosanitary inspection, 13 samples (0.5%) did not meet the defined limits of maximum permitted amounts of plant protection and nutrition products in food products.¹⁷⁹ **Disruptions in the global market** of agricultural products and inputs in agricultural production due to the conflict in Ukraine point to the importance of the agricultural sector and especially the provision of food security. The fact that Russia and Ukraine are the main producers of basic agricultural products (primarily wheat, corn and sunflower oil) and that Russia is the world's largest exporter of fertilizers, lead to the need for food substitution and put pressure on price increase of basic agricultural inputs (fertilizer and fuel) and rising food price at the global level.

¹⁷⁷ Results of research on the behaviour of users of plant protection products in the Republic of Serbia, Ana and Vlade Divac Foundation, 2021.

¹⁷⁸ <http://www.minpolj.gov.rs/download/lista-sredstava-za-zastitu-bilja-na-osnovu-izdatih-resenja-o-registraciji-sredstava-za-zastitu-bilja/#>

¹⁷⁹ Plant Protection Directorate, Progress Report, https://uzb.minpolj.gov.rs/wp-content/uploads/2022/07/Informativ_UZB_juni2022.pdf

Industrial production has maintained its level in the conditions of the pandemic, regardless of the lack of imported raw materials, the interruption of trade chains and the reduction of demand (y-o-y industry growth 6.3%, processing industry 5.5% in 2021).¹⁸⁰ The share of industry in the creation of total GVA was 23.1% in 2021¹⁸¹. FDI in the processing industry also contributed to the recovery of the industry (38.3% of total FDI in 2021).¹⁸² Despite the risk that the crisis will produce serious disruptions in the labour market, employment in the processing industry was maintained and increased by 3.7% in 2021¹⁸³, and this trend continued in the 2022, when the growth of 0.7% (3,523 persons) was recorded in the second quarter, compared to average from 2021¹⁸⁴. Exports of processing industry recorded a growth of 26.1% y-o-y in the period from January to June 2022¹⁸⁵.

Access to financing small, medium-sized enterprises and entrepreneurs (hereinafter SMEEs) is improving year by year. The legal framework in the field of financing was improved by the adoption of the *Law on Open-End Investment Funds with a Public Offering* ("Official Gazette of the RS", No. 73/19) and the *Law on Alternative Investment Funds* ("Official Gazette of the RS", No. 73/19), which enable alternative sources of financing¹⁸⁶. Systematic monitoring of SMEEs lending has been established on a monthly basis since 2017, showing a constant improvement in SMEEs financing conditions (lower interest rates, longer loan maturity, higher loan volume). The improved financing conditions led to the higher competitiveness of the SMEEs sector, whose productivity (GVA ratio per employee) is higher by 31% in 2020 compared to 2015. The introduction of measures for supporting economy in the combat against the crisis caused by the Covid-19 pandemic facilitated the business operations and enabled the retention of employees and the survival of SMEEs. In order to support business entities, especially SMEEs, financial support Programmes are continuously implemented, and when it comes to increasing the level of use of standards in production and business organization, certification of products and management systems, the *Regulation on Establishing the Financial Support Programme - Use of Standards for More Competitive Products* ("Official Gazette of RS", no. 12/22) was adopted. By implementing the new *Industrial Policy Strategy of the Republic of Serbia from 2021-2030* and the *Action Plan for its Implementation for the period from 2021-2023* ("Official Gazette of the RS", No. 37/21) the competitiveness of domestic industry will be further improved, primarily in the SME sector. Also, with the implementation of the new *Strategy for the development of MSMEs and entrepreneurship from 2023-2027* (which is currently in the process of preparation), the work will be done to improve access to financing.

The service sector (including construction) with a dominant share in GDP in 2021 (57.5%) was most affected by the 2020 pandemic. The service sector, which is characterized by positive developments in 2021, records a positive contribution to GDP growth of 3.3 pp in the first quarter of 2022, primarily due to the growth of trade, transport and accommodation and food services. A record trade surplus of around 1.4 EUR billion was achieved in the service sector in 2021 (growth of 29% y-o-y). The growth of the export of services during the eight months of 2022 of 38.8% y-o-y was followed by the growth of almost all service activities, whereby the export of tourism and ICT services provided the most significant positive contribution (growth of 51.8% and 43.1% y-o-y, respectively)¹⁸⁷.

Incentives for the tourism sector, investments in infrastructure and rapid vaccination have influenced the rapid recovery in the tourism sector after the pandemic. Foreign exchange inflow from tourism amounted to EUR 1.6 billion in 2021, which is an increase of 47.2% compared to 2020 and over **11.2% more than the record year 2019** (EUR 1.4 billion)¹⁸⁸. Over 870 thousand foreign

¹⁸⁰ Statistical Office of RS, Industrial production indices, December 2021, <https://publikacije.stat.gov.rs/G2022/Html/G20221025.html>

¹⁸¹ Statistical Office of RS, National accounts, <https://www.stat.gov.rs/oblasti/nacionalni-racuni/>

¹⁸² NBS, Direct foreign investments, net liabilities, per activity, I quarter 2022, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

¹⁸³ Statistical Office of RS, Registered employment, 2021, processed by the Public Policy Secretariat of the Republic of Serbia, <https://publikacije.stat.gov.rs/G2022/Html/G20221023.html>

¹⁸⁴ Statistical Office of RS, Registered employment, II quarter 2022, processed by the Public Policy Secretariat of the Republic of Serbia, <https://publikacije.stat.gov.rs/G2022/Html/G20221212.html>

¹⁸⁵ Statistical Office of RS, Foreign trade goods exchange, June 2022., <https://publikacije.stat.gov.rs/G2022/Pdf/G20221211.pdf>

¹⁸⁶ Recommendation 4 of the ECOFIN Council from May 2019: "Adopt special laws on alternative investment funds (investment vehicles)."

¹⁸⁷ NBS, Balance of Payments, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

¹⁸⁸ NBS, Balance of Payments, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

tourists visited tourist destinations in 2021 (a growth of 95.5% y-o-y), making more than 2.4 million overnight stays (a growth of 92.1% y-o-y). The promotion of the development of domestic tourism is carried out through the allocation of vouchers for the subsidized use of accommodation services in catering establishments on the territory of the Republic of Serbia, 150,000¹⁸⁹ vouchers worth 5,000 dinars each (about 43 euros per voucher) were issued in 2021. In 2022, 100,000 vouchers worth 5,000 dinars (about EUR 43 per voucher), 100,000 vouchers worth 10,000 dinars (about EUR 85 per voucher) and 200,000 vouchers worth 15,000 dinars each (about 128 euros per voucher) were issued. The average exchange rate of the euro on January 11, 2023 was used for calculation. The number of domestic tourists (over 1.7 million) increased by 25.2% y-o-y, with the achieved 5.7 million overnight stays (growth of 16.1% y-o-y) in 2021.

In the conditions of limited mobility during the state of emergency due to the pandemic, e-commerce became especially important in 2020, and the same trend continues in 2021. 30.9 million transactions were realized by using payment cards via Internet for the purchase of goods and services in selected currencies from the basket of currencies, which is 52.8% more than in 2020, while dinar transactions by using payment card increased by 59.6% y-o-y (from 14.5 million transactions in 2020 to 22.6 million in 2021)¹⁹⁰. At the same time, **the number of consumer complaints about online shopping** reduced (1,673 in 2021 compared to 1,877 in 2020)¹⁹¹. The positive tendencies of e-commerce continued during the first quarter of 2022 (9.6 million transactions of goods and services purchased via Internet by using payment cards, which is an increase of 31.2% y-o-y). **The total number of virtual sales points also increased**, which totalled 2,774 at the end of 2021 (2,013 at the end of 2020), or 2,858 virtual sales points at the end of the first quarter of 2022.¹⁹²

b) Reforms

STRUCTURAL REFORM 20: IMPROVEMENTS OF THE AGRICULTURE COMPETITIVENESS

1. Description of the structural reform

The aim of this reform is to increase the competitiveness of the agricultural and food sector in the Republic of Serbia. The reform includes (1) the improvement of infrastructure in rural areas; (2) establishment of the regulatory framework for the consolidation process; (3) regulation of the legal framework in the field of agricultural products markets, quality schemes for agricultural and food products and organic production, in order to create conditions for improving competitiveness in all sectors of production; (4) improving the capacity of the line Ministry through digitisation and automation of the system of financial support to farmers with easier access to available incentives. Through the establishment of a new Register of Agricultural Holdings (RAH), the *Land Parcel Identification System (LPIS)* and other elements of the *Integrated Administrative Control System* (hereinafter IACS), a functional IACS and automation of the procedure for submitting requests and payment of incentives will have been established by the end of 2026, thus accelerating the request submission procedure, control and acquisition of incentives in agriculture, all in accordance with the Action Plan of the Republic of Serbia for the Chapter 11 - Agriculture and Rural Development. The reform includes the digitization of the procedure of performing professional supervision over survey and technical works in the land consolidation procedure, as well as the adoption of the accompanying bylaw.

¹⁸⁹ <https://mojasrbija.rs/wp/i-u-2021-godini-100-000-vaucera-za-odmor-u-srbiji/>

¹⁹⁰ NBS, Payment transactions for the purchase of goods and services via the Internet, <https://nbs.rs/sr/ciljevi-i-funkcije/platni-sistem/statistika/>

¹⁹¹ Source: Ministry of Trade, Tourism and Telecommunication, The Report on the Work of the National Register of Consumer Complaints for 2021, [Извештај-MTT](https://nbs.rs/sr/ciljevi-i-funkcije/platni-sistem/statistika/)

¹⁹² NBS, Reception network, https://nbs.rs/export/sites/NBS_site/documents/platni-sistem/statistika/el_novac/prihvatna_mreza.xlsx

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Adoption of laws and by-laws in the areas of organic production, quality schemes for agricultural and food products; adoption of by-laws based on the Act on Regulation of the Agricultural Products Market												
2.	Implementation of the public call for the national measure Improvement of rural infrastructure (year 2023) and adoption of by-laws (year 2024), publication and implementation of the public call for the IPARD measure Investments in rural public infrastructure (year 2025)												
3.	Preparation and adoption of the Law on Land Consolidation and the Law on Agricultural Land; adoption of by-laws in the field of land consolidation and the exercise of expert supervision in the land consolidation procedures, as well as the implementation of pilot land consolidations												
4.	Implementation of information system to support the implementation of professional supervision in the implementation of land consolidation - control module and integration module for connection with the information system of real estate cadastre and training of employees in the implementation of professional supervision												
5.	Capacity building and training of employees in the Directorate for Agrarian Payments												
6.	Development of software for the RAH database and LPIS database, connection with the Animal Register and development of the remaining parts of the IACS database												

3. Risk indicators

Indicator	Baseline value (2019)	Intermediary target (2021)	Target value (2024)
GVA of agriculture, in billion euros	2.7	3.4	3.8
Share of agricultural and food products in export	18.5%	19.4%	19%

4. Expected impact on competitiveness

In order to implement the investments that contribute to the development of competitiveness in rural areas, it is necessary to provide appropriate infrastructure that will contribute to the quantitative and qualitative development of processing plants and which will enable the construction of new storage and processing capacities. Developing quality schemes for agricultural and food products will enable domestic producers to protect their products with protected geographical indications of origin at EU level. In addition to recognisability, the products will be standardised and competitively priced. In addition, the introduction of international standards in organic production will directly affect the increase of competitiveness of producers, both in the domestic and foreign markets. The increase in the value of agricultural products directly affects the increase in exports and GDP. Achieving European standards and increasing competitiveness in agriculture will reduce the variability of production in this sector caused by agrometeorological conditions.

More efficient implementation of the land consolidation process is expected to enlarge the land, form plots of regular shape suitable for access to mechanization, arrange infrastructure, more efficient lease of state-owned agricultural land, which will reflect in the increase in agricultural production and GDP growth.

The improved liquidity of the total value chain of primary agricultural production – processing affects the possibility of investing in fixed assets, which further affects the competitiveness of agriculture and can indirectly lead to an increase in credit support.

5. Estimated costs of the implementation of this structural reform and sources of financing

Activity 1: Estimated costs related to the implementation of market regulation requirements and measures based on the Law on Agricultural Products Market Regulation, in the period 2023-2025 is planned to amount to around EUR 2.4 million. Part of these costs is provided through IPA projects. Through one IPA project, funds were provided for education, drafting the rulebook and informing farmers, in the amount of EUR 732,500 in 2023, and in the amount of EUR 180,000 in 2024. Through the second IPA project, funds for education were provided in 2023, in the amount of EUR 250,001. Estimated costs for subsidies for users of market regulation measures amount to EUR 375,758 each in 2023, 2024 and 2025 (source of funding: budget of the Republic of Serbia). The amount of EUR 146,250 is planned for the preparation of the Registry of Traders in 2023 (source of funding: budget of the Republic of Serbia).

The adoption and implementation of the Law on Quality Schemes for Agricultural and Food Products and the Law on Organic Production in 2023 entails certain costs related to education and information campaigns, in the amount of EUR 85,372 euros (source of funding: FAO project).

Activity 2: For the improvement of rural infrastructure, the total estimated funds for the payment of subsidies from the national and APV/LSG budgets amount to: in 2023: EUR 5,482,041 (national budget: 4,246,833; APV/LSG budget: 1,235,208); in 2024: EUR 5,482,041 (national budget: 4,246,833; APV/LSG budget: 1,235,208) and in 2025: EUR 5,906,724 (national budget: 4,671,516; APV/LSG budget: 1,235,208). The total estimated funds for the payment of subsidies to beneficiaries of the IPARD Programme by implementing Measure 6 are: in 2024: EUR 11,186,666.67 (EU financial aid funds: 8,390,000; budget: 2,796,666.67) and in 2025: EUR 15,120,000 (EU financial aid funds: 11,340,000; budget: 3,780,000).

Activity 3: Bearing in mind that the basis for the further implementation of this activity is the adoption of the legal framework, i.e. the adoption of the new Law on Land Consolidation and the Law on Agricultural Land, the potential employment of five new employees in 2023, i.e. their salaries in the amount of EUR 52,260 will be financed from the budget. In 2024, funds in the total amount of EUR 902,260 are planned for salaries (funding source: budget, amount: 52,260), hiring experts in the drafting of by-laws, training and procurement of office equipment, translation services (funding source: still to be determined, amount: 250,000), procurement of servers and development of network infrastructure (funding source: still to be determined, amount: 600,000). In 2025, funds in the total amount of EUR 1.95 million are planned for salaries (funding source: budget, amount: 52,260), training and procurement of office equipment (funding source: IPA, amount: 50,000), software development (funding source: IPA, amount: 600,000) and the implementation of pilot land consolidation (funding source: budget, amount: 1,250,000).

Activity 4: The estimated costs of the **Republic Geodetic Authority (hereinafter RGA)** for the implementation of an information system to support the implementation of expert supervision in the land consolidation process (control and integration module for connection to the information system of the real estate cadastre and training of employees on the implementation of expert supervision) in 2023 amount to approximately EUR 900,000, and in 2024 about EUR 750,000. The source of funding for these activities will be a loan from the World Bank.

Activity 5 and 6: During 2023, capital expenditures in the total amount of EUR 1,250,000 are planned, and the source of financing is the World Bank loan, namely: development of new RPG and LPIS software, connection of LPIS, Animal Registry and RPG, designing of the Application for submitting requests for direct payments, DMS and connecting with the Record Office. During 2023 - 2025, work will be done on the construction of the remaining parts of the IACS elements (except AMS). The source of funding will be IPA 2021, and the total value of the project is EUR 3.79 million. Of this amount, the planned costs for software development are EUR 1,765,000 (in 2024: 375,000, in 2025: 1,390,000). The remaining amount of EUR 2,025,000 (25,000 in 2023, 1,000,000 in 2024 and 1,000,000 in 2025) refers to goods and services (consulting services for the preparation of technical specifications, training of employees and preparation of the legal framework for the establishment of IACS - first phase).

The expenditures in the amount of EUR 1,056,260 are planned for strengthening institutional and administrative capacities in the period from 2023 to 2025, source of financing: budget (in 2023 159,285, in 2024 372,695 and in 2025 524,280), and EUR 259,833.33 from the World Bank loan for hiring consultants (117,500 in 2023 and 142,333.33 in 2024).

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

This structural measure directly affects the increased volume of employment and the reduction of poverty of the local population, and contributes to the emergence of new legal entities in the field of production, processing and trade of agricultural products, and thus the employment as well. The development of rural infrastructure enables individuals and legal entities to develop their own businesses, i.e. their self-employment and employment of the local population. The implementation of the Law on Regulation of the Agricultural Products Market enables a legally regulated appearance of all entities on the market, which will directly encourage the emergence of new legal entities in the sector of production, processing and trade of agricultural products, including increase in employment. The implementation of the Law on Quality Schemes for Agricultural and Food Products will contribute to better regulation of the system of protection of geographical indications of agricultural and food products, which will additionally encourage new producers to enter the system of protection of geographical indications and to unite. Rural areas with a high unemployment rate, which have favourable conditions for organic food production, can benefit from organic production. Increasing the efficiency in the payment of support to agricultural production and increasing the effectiveness in the planning of agricultural policy measures contributes to accelerating the movement of goods and services in agriculture, which will contribute to increasing employment and reducing poverty. Facilitated access to measures for supporting agricultural production contributes to a level playing field between all market players. It is expected that the structural reform will have a neutral impact on the gender aspect, but after the land consolidation procedure, a mechanism for the transfer of unused land to young people and women can be established.

7. Expected impact on the environment and climate change

By accelerating the land consolidation procedures, conditions are created for the enlargement of cadastral plots, prevention of disturbances of the natural functions of the land, as well as preservation of the quality of agricultural land. The construction of a drainage system along with the land consolidation creates a favourable water-air regime of the soil, which leads to the prevention of the unfavourable impact of water retention in agricultural land and the reduction of soil fertility. In addition, transparency of the land consolidation procedure and public access to environmental information in the land consolidation area will be ensured.

Improvements in rural infrastructure contribute to the preservation of the environment, since they are intended to finance investments that, among other things, relate to the construction of wastewater treatment plants and waste management. Organic production is based on a “holistic” production system that promotes and strengthens the agroecosystem, health, including biodiversity, biological cycles, and soil. The greatest benefit of the organic production is that it contributes to the sustainable use and conservation of natural resources.

The establishment of IACS creates conditions for the application of rules of the Common Agricultural Policy and verification of compliance with environmental requirements for the payment of incentives as well as payments based on incentives for environmental measures, which will contribute to greening, investing in reducing the greenhouse effect in agriculture, effectively contributing to the European Green Deal requirements.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Non-adoption of laws and delays in the adoption of bylaws	Moderate	Agricultural policy created in a way to support the measures listed in the Law on Incentives in Agriculture and Rural Development
A large number of persons interested in resolving property-legal relations and the complexity of procedures for resolving them	High	Conducting public hearings, round tables and other ways of informing stakeholders in the process of adopting the regulatory framework.
Unsecured funds for upgrading the animal registry	High	An agreement is planned with the Veterinary Administration in the part of updating the animal registry, with monitoring of the progress of implementation of the registry update and definition of intermediate deadlines.
Incomplete and/or untimely download of data from the Treasury Administration and untimely or unsuccessful procurement/tender for the creation of LPIS/RAH software, as well as possible appeals to the procedure itself.	Moderate	Setting precisely defined deadlines with experts and their monitoring of the preparation of technical specifications for RAH software and the preparation of technical specifications for LPIS/RAH software.
Impossibility of hiring the missing staff/absence of employment approval	Moderate	Systematize and fill positions with different educational profiles.

STRUCTURAL REFORM 21: IMPROVEMENT OF THE STRATEGIC FRAMEWORK OF QUALITY INFRASTRUCTURE AND INTEGRATION INTO A SINGLE EU MARKET

1. Description of the structural reform

The aim of this structural reform is to contribute to the improvement of the competitiveness, safety and quality of products and services, by improving the strategic framework in the area of the quality infrastructure (hereinafter QI). The reform includes two components: the first component entails the development of a new *Quality Infrastructure Strategy (QI) of the Republic of Serbia for the period 2024-2030*, which represents a necessary umbrella document in the further development of product competitiveness on the domestic and foreign markets, as well as the creation of the *Action Plan for the implementation of the Strategy for 2024 and 2025*. The second component refers to the implementation of the Action Plan and includes the creation of conditions for the full integration of the Republic of Serbia into the single EU market for three groups of industrial products (electrical and electronic products, machines and personal protective equipment), which implies the full application of technical regulations and harmonized standards with the EU, a developed network of accredited bodies for conformity assessment and efficient supervision over the application of technical regulations. This would fulfil all the prerequisites for signing the Agreement on Conformity Assessment and Acceptance of Industrial Products between the Republic of Serbia and the EU (*Agreement on Conformity Assessment and Acceptance of Industrial Products* – hereinafter ACAA Agreement) for identified product groups. Rounding off the improved IC system, the Republic of Serbia will be significantly closer to EU standards in this area, which will positively affect: domestic businessmen who will produce, import and export products without technical obstacles; consumers who will have access to quality and safe products; state administration bodies that will supervise the implementation of technical regulations in a simpler and more efficient way. This structural reform is based on the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, as well as on the National Programme for the Adoption of EU Acquis (NPAA) and the negotiating chapter 1. Free Movement of Goods.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Preliminary analysis and development of the new IC Strategy 2024-2030												
2.	Development of an Action Plan for the implementation of the QI Strategy 2024-2030 for 2024 and 2025												
3.	Creation of conditions for full integration of the Republic of Serbia into the single EU market for three groups of industrial products (electrical and electronic products, machines and PPE)												
4.	Signing of the ACAA Agreement for the identified three groups of industrial products (electrical and electronic products, machines and PPE)												

3. Risk indicators

Indicator	Baseline value (2020)	Intermediary target (2024)	Target value (2026)
Global quality infrastructure index (GQII index)* <i>The source of verification: https://gqii.org</i>	86	87	88

*The GQII index was developed at the initiative of the German National Metrological Institute (Physikalisch Technische Bundesanstalt - PTB). It includes official data from national bodies for accreditation, standardization and metrology, showing the level of development of the quality infrastructure system. Based on the value of this index, 184 economies are ranked, depending on the height of the index, i.e. development in this area. The maximum value of the index is 100, and the value for the year 2020 is taken as the available data (for the years 2021 and 2022, no data is available).

4. Expected impact on competitiveness

The reform will contribute to increasing the level of quality and safety of domestic industrial products (covered by Negotiating Chapter 1 - free movement of goods), which will contribute to increasing the level of competitiveness of the mentioned products on the EU market, and thus will have a positive effect on the increase in the absolute amount of exports, and the share of exports of industrial products in the total export of the Republic of Serbia. The implementation of this reform will create conditions for further development and full harmonization with EU regulations and rules in the areas of standardization, accreditation, metrology and assessment of compliance with the requirements of standards and technical regulations. This reform will also contribute to the strengthening of quality infrastructure institutions with the aim of maintaining their European and international reputation, strengthening of the capacities of ministries in charge of certain technical regulations and market surveillance, but it will also affect the continuous raising of the awareness of economic entities and end consumers about the importance of applying technical regulations and standards for achieving a high level of quality and safety of products placed on the market of the Republic of Serbia, which all together represent a significant prerequisite for strengthening the competitiveness of the Serbian economy.

5. Estimated costs of the implementation of this structural reform and sources of financing

Total value of the structural reform for the period 2023-2025 amounts to 700,000 euros.

Costs of implementing structural reform by activity:

1. Preliminary analysis and development of the new QI Strategy 2024-2030: EUR 300,000, source of funding: IPA 2019 – “EU4BE - EU for Better Business Environment”, which includes the project “*Quality Infrastructure, Competitiveness Development Factors - Preparatory Activities for Improving the Strategic and Legislative Framework*”, carried out by the World Bank;
2. Development of an Action Plan for the implementation of the QI Strategy 2024-2030 for 2024 and 2025: EUR 150,000, source of funding: RS budget and donor support (not secured yet);
3. Creation of conditions for full integration of the Republic of Serbia into the single EU market for three groups of industrial products (electrical and electronic products, machines and PPE):

EUR 250,000, source of funding: RS budget and donor support (not secured yet);

4. Signing the ACAA Agreement for three identified groups of industrial products (electrical and electronic products, machines and personal and protective equipment): no financial resources are required for this activity.

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

The implementation of this structural reform is a prerequisite for strengthening the competitiveness of the Serbian economy (increasing the level of quality and safety of domestic industrial products), which through the increase in exports of the mentioned products to the EU market, can have a direct impact on increasing employment and reducing poverty, as well as an indirect positive impact on the realization of the principles gender equality.

7. Expected impact on the environment and climate change

The structural reform has a positive impact on the environment, because its results contribute to the improvement of technical regulations and the application of standards that include environmental protection requirements (e.g. SRPS ISO 14001 - Environmental Management System, SRPS ISO 50001 - Energy Management Systems), which will enable business entities to increase their responsibility towards the environment.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Lack of financial resources	Low	Finding alternative sources of funding through international projects, donations, etc. Preparation of the Strategy and AP within the existing resources of the competent state body
Lack of cooperation between QI institutions and other interested parties	Low	Intensive inter-institutional and interdepartmental consultations and cooperation; Formation of a temporary working body for the purpose of the reform implementation

5.2.10. Area EDUCATION AND SKILLS

Obstacles in this area related to structural reform 3. *Qualifications oriented to the needs of the labour market* are analysed in section 5.1, under the *Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty.*

a) Analysis of main challenges

The basis for the **systemic improvement of education** is the *Strategy for the Development of Education in the Republic of Serbia until 2030* with its accompanying *Action Plan for the period from 2021 to 2023* (“Official Gazette of RS, no. 63/21). The strategy constitutes the plan to continue reforms that will increase the coverage of children’s education at all levels (especially among high school students, **by providing conditions for the introduction of compulsory secondary education**¹⁹³), preventing dropout of vulnerable groups from educational circles, better student achievement, better quality Programme (response of the educational system to the demands of the labour market) and better support for teachers.

There is a continuous increase in the number of children in preschool education Programmes in the Republic of Serbia. The number of children aged six months to 6.5 years at this level of education was 223,559 in the 2021/2022 school year. However, the **coverage of children** in preschool education is still **low** (58.6% in 2021/2022), and the reasons are **insufficient spatial capacities and**

¹⁹³ It is important to emphasize that the introduction of compulsory secondary education requires a change in the Constitution of the RS. Article 71 of the Constitution of the RS states that primary education is compulsory and free, while for secondary education it only states that it is free, so it is necessary to amend the Constitution in terms of stating that secondary education is also compulsory and free.

unequal geographical distribution. Children coverage of preschool education Programmes is different depending on their age¹⁹⁴. The largest coverage of children is in the year before starting school. 63.7 thousand children attended the **compulsory preparatory preschool Programme**, for children aged 5.5 years until they start school, which represents a **coverage of 97.8%**¹⁹⁵.

The population of students in primary education is continuously decreasing due to the negative demographic trend of the population of the Republic of Serbia. At the beginning of the 2021/2022 school year, there were **507,374** students in 3,219 regular elementary schools¹⁹⁶, and 64,233 new students enrolled in the first grade.¹⁹⁷ Despite the fact that primary education is mandatory, **coverage of children is still not complete**¹⁹⁸.

243,756¹⁹⁹ students attended regular secondary schools in the 2021/2022 school year. General secondary education - gymnasium was attended by 27.6% of students, while secondary vocational education was attended by 72.4% of students.

After two years of organizing classes through direct educational work and distance learning, from February 21, 2022, in all primary and secondary schools in the Republic of Serbia, students attend classes directly in classrooms.

The University of Belgrade has been on the Shanghai list of the best universities for ten years²⁰⁰. In the latest list, it was placed between the 401st and 500th places out of the 1000 ranked universities in the world. The University of Belgrade is ranked among the first five hundred universities in 13 out of a total of 54 scientific fields by which scientific fields are ranked. The best placement was achieved in the field of food science and food technology (between 51st and 75th place). The list also includes the University of Novi Sad (901-1000).

Public expenditure for education amounts to 3.42% of GDP in the budget of the Republic of Serbia for 2022, which makes the level of these expenditures stable in the last decade, but they are below the average of public allocations at the EU level (which is around 4.6% of GDP). In total budget expenditures, expenditures for education participate with 13.3%.²⁰¹

Unified Education Information System of (UEIS), the most important project in the field of digitization of education, which was put into production on March 31, 2022, provides the basis for the implementation of the most significant reforms in this sector. UEIS provides the insight into the process and the quality of education by monitoring all data within the educational system. The system is also connected to the labour market so that children, young people and their parents can know exactly, for each high school profile and college Programme, how quickly they can expect to find a job, what is the average length of waiting for a job, with what average salary they will be employed, etc. On the specialized **open data portal, which contains data from UEIS**,²⁰² <https://opendata.mpn.gov.rs/>, all information on institutions provided by law as public were also published. Every citizen can have an insight into individual schools in Serbia, their infrastructural capacities, number of employees, number of groups, classes, students, curricula, etc.

The research on **Continuing Vocational Development and Training**²⁰³ (hereinafter CVDT) was conducted for the first time in the Republic of Serbia in 2021. CVDT refers to measures or activities of education and training that are fully, or at least partially, financed by a company (directly or indirectly) and provides comparable data on professional training in companies with at least 10 or more employees belonging to a certain group of economic activity. According to the obtained results,

¹⁹⁴ In the 2021/2022 school year, 53,981 children under the age of three (34.3% in relation to the total number of live births of the specified age) and 107,438 children between the ages of three and five and a half (66.4% in relation to the total number of live births of the specified age) attended preschool education.

¹⁹⁵ Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221083.pdf>

¹⁹⁶ Structure: number of regular primary schools - 1.135, number of separate departments – 2.084. Source: SORS, Report on basic education

¹⁹⁷ Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Html/G20221072.html>

¹⁹⁸ In 2018, the primary education enrolment rate was 97%.

¹⁹⁹ Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20225683.pdf>

²⁰⁰ <https://www.shanghairanking.com/rankings/arwu/2022>

²⁰¹ Ministry of Finance, https://www.mfin.gov.rs/upload/media/XhuXUy_61ced86c7e83c.pdf

²⁰² The statistical data are the result of the connection with the Central Register of Mandatory Social Insurance.

²⁰³ Research that collects information about the company's investments in the ongoing professional training of its employees. (*Continuing Vocational Training Survey*)

almost half of the companies in the Republic of Serbia (49.2%) implement some form of continuous professional development for their employees, while 40.8% of the companies participate in CVDT.²⁰⁴

5.2.11. Area EMPLOYMENT AND LABOUR MARKET

The obstacles in this area and relevant structural reforms are analysed in Section 5.1, under the *Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty.*

5.2.12. Area SOCIAL PROTECTION AND INCLUSION

The obstacles from this area are analysed in Section 5.1, under the *Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty.*

5.2.13. Area HEALTH CARE SYSTEM

a) Analysis of main challenges

Health care in the Republic of Serbia is provided through the mandatory health insurance system, which is implemented in the RHIF. The main source of funding for mandatory health insurance is contributions²⁰⁵ from insured persons and employers or income payers, on whose account the contribution is paid, at a rate of 10.3%.²⁰⁶ **99% of the population are insured people (compulsory health insurance),** while only 0.15% of the population has private health insurance, and a part of the population is also covered by other types of voluntary supplementary and additional health insurance.

Insured persons have the right to earnings compensation during temporary incapacity for work (sickness allowance)²⁰⁷. In 2020, 154,062 insured persons²⁰⁸ were entitled to sick pay, and the funds paid for this purpose represent 0.2%²⁰⁹ of GDP. *The Law on Amendments to the Law on Health Insurance* is currently being drafted, which, among other things, expands the basis for **exercising the right to compensation for earnings during temporary incapacity for work.** After its adoption, it is expected that **all women will exercise this right due to illness or complications related to pregnancy maintenance, regardless of the basis of insurance.**

Funding of the health care system in the public sector from contributions is insufficient, so it is financially supported by additional funding from the republic budget and other sources. Total **expenditures for health care** amounted to **8.67% of GDP in 2019,** while **expenditures per capita are USD 641**²¹⁰. The pandemic of the Covid-19 virus affected the growth of public expenditures at the level of the general government in 2021, which increased by 10.1% compared to 2020. Higher expenditures compared to the original plan were mostly influenced by the implementation of the third package of measures to support the economy and the population in pandemic conditions, expenditures related to the direct fight against the pandemic, as well as the investments in the health system and increased capacity and equipment. There is also an increase in the number of people engaged in the health system and other sectors who participated in the control of the epidemiological situation.

Health care of insured persons at the primary, secondary and tertiary level is provided in publicly owned health institutions, which are included in the *Healthcare Institution Network*

²⁰⁴ Statistical Office of RS, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221090.pdf>

²⁰⁵ In addition to contributions, the mandatory health insurance system is also financed from other sources - Article 168 of the Law on Health Insurance ("Official Gazette of RS", no. 25/19)

²⁰⁶ The Law on Mandatory Social Insurance Contributions ("Official Gazette of RS", no. 84/2004-37, 61/2005-57, 62/2006-9, 5/2009-44, 52/2011-25, 101/2011-265, 47/2013-16, 108/2013-10, 57/2014-3, 68/2014-3 (other law), 112/2015-15, 113/2017-190, 95/2018-256, 86/2019-3, 153/2020-41, 44/2021-4, 118/2021-10), Article 44.

²⁰⁷ The Law on Health Insurance ("Official Gazette of RS", no. 25/19), Article 72.

²⁰⁸ Source: Republic Health Insurance Fund

²⁰⁹ Source: Ministry of Finance, Macroeconomic and fiscal data, <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

²¹⁰ Source: World Bank, Health Nutrition and Population Statistics <https://databank.worldbank.org/source/health-nutrition-and-population-statistics>

*Plan*²¹¹. The total number of health institutions was 335²¹² in 2021, employing 105.3 thousand workers²¹³. The number of doctors per 1,000 inhabitants is 2.9. The total number of hospital beds was 42,611²¹⁴, or 6.3 beds per 1,000 inhabitants. The average length of treatment per patient is 6.3 days, and the average occupancy of hospital beds is 48.7%

The number of privately owned health care institutions and private practices have shown a growing trend in recent years. There were 163 privately owned health institutions in 2021, whereas the total number of private practice is 6,244. 3,678 doctors and about 5,000 medical and non-medical personnel are employed in privately owned health institutions and private practices. It is estimated that around 7,000 consultants (medical staff in the public sector) are engaged in private practice. There is an unequal quality of service provision between private and public institutions²¹⁵. In private health care institutions, the waiting time for a patient's examination is shorter, which increasingly leads patients to decide to see a private doctor. Examinations in private institutions last longer, so doctors can devote more time to patients, which generally leads to better results when establishing a diagnosis. **Many residents cannot afford private health care** given the high prices of these services. **Only certain health services can be provided to insured persons in privately owned health institutions and private practices at a cost financed from the funds of compulsory health insurance.** These are infertility treatment services, cataract surgery, haemodialysis, hyperbaric oxygen therapy, services in social welfare institutions, services in private pharmacies, various services in institutions outside the Healthcare Institution Network Plan²¹⁶.

The health system successfully mitigated the worst health impacts of the pandemic during the first wave. Quick reaction and timely epidemiological measures, well-supplied state hospitals and highly qualified personnel enabled the state to strengthen prevention, diagnostics and treatment and curb the spread and impact of the virus on health. The personal protection equipment and other items were quickly provided, and health workers were redeployed to priority services.

The financial participation of insured persons in the realization of health care from their own funds has increased. Unplanned expenses related to pandemic affect a quarter of households with children in the Republic of Serbia, as 77% of their expenses are related to health, according to a UNICEF survey²¹⁷ conducted at the beginning of 2021. During the pandemic, the publicly owned health system suspended all non-emergency procedures, including diagnostics and treatment. As a result, insured persons were forced to turn to health care institutions in private ownership (private practice), which increased their treatment costs, or they did not turn to health care at all, which increased the risk of health problems later. In addition, a large number of pharmaceutical products intended for the treatment of the corona virus were not provided from the funds of the mandatory health insurance, which also meant that they were financed from the citizens' own funds.

For the purpose of the further progress of the Serbian healthcare system, additional financial resources are being invested in the reconstruction of healthcare facilities and the **procurement of the most modern techniques and technology** in the field of medical sciences, in order to ensure **more favourable working conditions**, as well as the **employment of young specialists**, i.e. to prevent their emigration from the country.

As a result of low investments in healthcare for decades, the equipment of publicly owned healthcare institutions with diagnostic medical devices is insufficient. However, that has changed in recent years. 135 x-ray machines and 55 CT scanners for 167 health institutions have been procured, as well as 4 linear accelerators of the latest generation, with the aim of replacing worn-out devices in radiotherapy centres in the first half of 2022. The education of healthcare workers for using

²¹¹ The Regulation on the Healthcare Institution Network Plan ("Official Gazette of RS", no. 5/20, 11/20, 52/20, 88/20, 62/21, 69/21, 74/21, 95/21)

²¹² At the primary level, health care is provided by health centers (158), pharmacies (27) and institutes (22); at the secondary level by general (30) and special hospitals (33); at the tertiary level, clinical-hospital centers (4), clinics (7), clinical centers (4) and institutes (16). Health care is provided at several levels by institutes/ public health institutions (24).

²¹³ Source: Institute of Public Health of Serbia Dr Milan Jovanović Batut, Health and statistical yearbook of the Republic of Serbia, 2021.

²¹⁴ This number also includes daily hospitals (2,135 beds), dialysis and neonatology.

²¹⁵ Source: Research paper "Certain aspects of the development of the health care system in Serbia and Japan", V. Radivojević, S. Vesic <http://www.dunp.np.ac.rs/eng/wp-content/uploads/2022/publikacije/serija-b/2020vol3/br2/8.pdf>

²¹⁶ <https://www.rfzo.rs/index.php/davaocizdrusluga/ugovaranje-dzu>

²¹⁷ Source: UNICEF, Building Human Capital for Long Term Prosperity

the advanced capabilities of this diagnostic is also provided. Also, 329 ambulances were purchased for health centres.

The health infrastructure is being improved. The extension and reconstruction of the Clinical Centre (CC) of Serbia²¹⁸ in Belgrade has been completed, the first phase of construction of the facility has been completed in the Clinical Centre of Vojvodina in Novi Sad, while the reconstruction of the Clinic for Infectious and Tropical Diseases "Prof. Dr. Kosta Todorović" is in progress.

The challenge still present in the health care system is the outflow of health personnel abroad or the lack of labour force due to the natural outflow of doctors, i.e. the retirement of doctors. The implementation of the "Employment Programme of the most successful graduates from medical faculties and high schools" continues, so that 630 graduated students-doctors and 250 nurses and technicians were hired in the first half of 2022, who also got the opportunity for free professional training.

The number of insured persons on waiting lists is constantly increasing. The unique waiting list for 26 health services is updated on a daily basis and published on the RHIF website²¹⁹, and the total number of people on this list was 61,000 at the end of October 2022.

Although the institutional framework of the health care system related to public health institutions is well developed, its further development is necessary in order to ensure sustainability and efficiency. The development of the *Health Care Institution Network Optimization Plan (Health Care Master Plan)* was launched in 2019, with the aim of improving the quality, accessibility and efficiency of health care, with significant savings and increasing of the economic efficiency of the national health budget, based on the best international practices while respecting the situation in the field in the Republic of Serbia. The optimization of the capacity of publicly owned health care institutions is planned, that is, bringing the point of service to the patient at the primary level of health care, increasing the efficiency of health care institutions (improvement of the infrastructure and provision of the interoperability of different levels of health care), as well as improvement of the quality of health care services, along with the sustainability of the health care system²²⁰.

The health care system as a whole can be improved by interconnecting all health care institutions with software solutions that will enable fast and secure data exchange. The *Digitalization Programme in the Health System of the Republic of Serbia for the period from 2022 to 2026* was adopted in February 2022, and the *Action Plan for the period 2022-2023* for the implementation of this Programme was adopted in May 2022. Each patient will have a unique electronic health record, which can be accessed by all healthcare professionals contacted by the patient. This enables an overview of the complete state of health of each patient and shortens the path to the final diagnosis, which improves the results of treatment and increases the satisfaction of the patient, as the end user of health care.

So far, 278 health institutions have been connected to **e-MedicalRecord** (out of the planned 326). Pilot testing of the platform **e-SickLeave** has begun in several institutions, after which the service will be in operation in all health institutions of the primary level of health care. Further development moves in the direction of establishing a central system for collecting data from all laboratory systems and their distribution. It is also planned to expand the implementation of **e-Prescription** for specialists, as well as to introduce a system for checking the interaction of drugs and a system for supporting clinical decision-making. The project of integrating the private health sector into the e-Prescription system has been launched, which will enable private health institutions to issue prescriptions electronically.

b) Reforms

²¹⁸ The new tower of the Clinical Center of Serbia covers an area of 86,000 m² and has a total of 825 hospital beds (231 beds in the intensive care unit, 547 beds in the semi-intensive treatment unit and 47 beds in the daily treatment hospital). It is also equipped with three magnetic resonance imaging machines, six scanners and 12 X-ray machines.

²¹⁹ Source: <https://www.rfzo.rs/index.php/osiguranalica/listecekkanja/lc-dnevni-presek/> / data by October 25, 2022.

²²⁰ <https://optimizacijazdravstva.rs/izrada-masterplana>

STRUCTURAL REFORM 22: IMPROVING THE EFFICIENCY OF THE HEALTH SYSTEM THROUGH DIGITIZATION OF THE PROCESS

1. Description of the structural reform

Digitization in the health system implies an increase in the efficiency of the provision of health services, a higher quality of diagnostics and treatment at all levels of health care in institutions from the Network Plan of health institutions, as well as authorized access to unified health data at all levels of health care in institutions from the Network Plan, which is crucial for diagnostics and adequate treatment of patients. The Single Electronic Health Record (hereinafter SEHR) will standardize the basic excerpt of medical data and automate access, thus creating conditions for the exchange of data between the state and private sectors.

The establishment of a central platform for collecting data from all laboratory systems (both from institutions from the Network Plan of health institutions and from private institutions) and their distribution is planned after the implementation of SEHR. The implementation of the eSickLeave project is expected after the amendment of the Law on Health Insurance in 2023. In addition, the plan is to expand the implementation of ePrescription for prescribing ampule medications and aids at the primary level of health care, as well as the introduction of a drug interaction check system and a clinical decision-making support system. In addition to the above, the possibilities of applying artificial intelligence to certain processes exclusively in the field of radiology, especially mammography due to organized screening for breast cancer, are being considered, where better utilization of resources would be achieved through the application of such technology, because a certain part of diagnostics - the first reading or marking of certain anomalies – would be done by artificial intelligence.

2. Activities planned by year

No.	Planned activities	2023				2024				2025			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	Establishing an Electronic Medical Record (EMR)												
2.	Establishment of a central platform for connecting state and private laboratories (eLab)												
3.	Extension of ePrescription to aids and ampoule drugs at the primary level of health care												
4.	Implementation of a system for checking the interaction of drugs and a support system for making clinical decisions												
5.	Extension of ePrescription hospital drugs (B and C List)												
6.	Application of artificial intelligence in radiology (Breast cancer screening)												

3. Risk indicators

Indicator	Baseline value (2020)	Intermediary target (2023)	Target value (2024)
Percentage of institutions from the Network Plan that use electronic medical records (cumulative)	0	225 institutions 70%	250 institutions 80%
Number of scans performed using artificial intelligence in diagnostic procedures (breast cancer screening)	0	100,000 25%	200,000 50%
The number of electronic prescriptions that are applied to aids and ampoule drugs at the primary level of health care	0	158 out of 158 institutions	158 out of 158 institutions

4. Expected impact on competitiveness

The implementation of this reform affects the efficiency of the health system and the quality of health care, which at the same time should contribute to more efficient treatment and better health of the

population, and thus less sick leave and higher productivity of the workforce. It does not have a direct impact on the competitiveness of the economy, but it contributes to significant savings that can be directed to innovative solutions.

5. Estimated costs of the implementation of this structural reform and sources of financing

For 2023, the funds in the amount of EUR 12,500,000 are foreseen in the RS budget for the implementation of the abovementioned activities as well as for the regular maintenance of the existing system. Half of the money is planned to be spent on maintaining the already existing system and the other half of the money on the following activities:

- Establishment of an Electronic Medical file (EMR) - the beginning of the project is planned for the first quarter of 2023 and the completion at the end of 2023. Source of financing: budget of the RS
- Establishment of the central platform for connecting state and private eLAB laboratories - the start of the project is planned for the first quarter of 2023 and the completion in the early 2024. Source of financing: budget of the RS
- Extension of ePrescription to aids and ampoule drugs (MTP - medical therapeutic aids) - the extension applies only to primary health care institutions. The beginning of the project is planned for the first quarter of 2023 and completion at the end of 2023. Source of financing: budget of the RS
- Implementation of a system for checking the interaction of drugs and a support system for making clinical decisions - the beginning of the project is planned for the third quarter of 2023 and the completion for the last quarter of 2024.
- Extension of ePrescription hospital drugs (B and C list) - the beginning of the project is planned for the end of 2023 and the completion by the end of 2025. Source of financing: budget of the RS;
- The application of artificial intelligence in radiology (Breast cancer screening) - the beginning of the project is planned for the beginning of 2023 and the end for the end of 2025. Source of financing: budget of the RS.

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

The implementation of planned activities will improve access to health care, primarily with electronic medical records and increased efficiency, which will be visible through more efficient treatment. Doctors will have access to all health information related to patients, and connecting laboratories (private and state sector) will ensure that analyses are not duplicated, thus reducing the costs, all of which affects efficiency, better service, improved health status and citizens' satisfaction. The reform is gender neutral.

7. Expected impact on the environment and climate change

This structural reform has a very strong and positive impact on the environment, due to the transition from paper to electronic business. There will be significantly less need for printing and the use of paper, which greatly affects the protection of the environment. Digitization protects our living space and environment.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative effects of the risks
Potential non-compliance of numerous actors in the process of realization of complex projects	Low	Creation of efficient mechanisms of strategic and tactical coordination in project implementation.
The unpredictable course of the Corona virus pandemic	Low	Timely redirection of resources to the implementation of individual activities.

5.3. STRUCTURAL REFORMS SUMMARY

THREE KEY CHALLENGES TO COMPETITIVENESS AND INCLUSIVE GROWTH AND RELATED STRUCTURAL REFORMS		
Key challenge no. 1: <i>Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty</i>		
SR No.	Title of Structural Reform	Description of Structural Reform
1.	Establishment of a framework for the introduction of the Youth Guarantee in the Republic of Serbia	The reform is to provide young people with a quality job offer, continuing education, internship or training within four months of entering unemployment status or leaving/completing formal education. Thus it will contribute to the easier transition of young people to the labour market and encourage their employment. The implementation of the Youth Guarantee implies a series of policy reforms and initiatives in the fields of education and training, employment and the labor market, which requires intersectoral cooperation and coordination of various sectors and social partners and civil society organizations.
2.	The Young Talent Fund reform	The reform implies the establishment of a more efficient scholarship model and a system for monitoring and employing scholarship talents, first of all in public administration, and then in the economy, in cooperation with partners. Special attention will be paid to building the alumni network and the network of partners in order to provide additional sources of funding for the Fund's programs.
3.	Qualifications oriented to the needs of the labour market	The reform implies the implementation of dual education model which provides more efficient response from the educational system to the needs of the economy and the labour market, technological changes and new competencies. Its activities are aimed at raising a digital dual promotional platform for key participants in the dual education system, further establishment of regional training centres as well as improving the quality of career guidance and counselling services (CGC) in dual education. The reform also implies further implementation of NQFS, through diversification and improvement of the relevance of the educational offer in the system of higher education and lifelong learning, as well as ensuring the transparency of the system, comparability and recognition of qualifications obtained in the Republic of Serbia with qualifications obtained in other countries.
4.	Improvement of the environment for encouraging, supporting and monitoring circular and economic migration	The reform implies improving an environment for attracting the working age population, encouraging circular migration and relations with the diaspora, strengthening mechanisms for monitoring migratory flows and attracting foreigners to live and work in the Republic of Serbia.
Key challenge no. 2: <i>Improvement of the business environment more favourable for investments</i>		
SR No.	Title of Structural Reform	Description of Structural Reform
5.	Improvement of the quality of public services through optimization and digitalization of administrative procedures – e-paper	The reform implies the optimization of administrative procedures for the economy and citizens (by elimination of redundant administrative procedures or their simplifying and digitalization), as well as through the establishment of a Register of Administrative Procedures. The Register represents

		a unique electronic database of all administrative procedures and other business conditions implemented by public administration bodies so that interested businesspersons and citizens can be informed in a simple and easy way about everything they need to exercise a certain right or fulfil a legal obligation. The Register also represents starting point for the formation of the Single Electronic Contact (PSEC).
6.	Sustainable and efficient management of business entities owned by the Republic of Serbia	The reform implies the establishment of a more efficient monitoring and control system of business entities owned by the Republic of Serbia. The realization of the ownership rights of the state over economic entities in which the state has a share, according to OECD guidelines, should be clearly identified and, if possible, centralized.
7.	Development of the domestic capital market and the provision of a greater level of investor protection	The reform implies development of financial mechanisms on the capital market, to increase the attractiveness of the domestic market for both domestic and foreign investors and the activation of the capital market in the function of the economic growth, employment and provision of the better life quality for citizens. Increasing the transparency and quality of financial mechanisms will restore investor confidence in the market, which will consequently have a positive impact on increasing the number of participants in the domestic market and on the sustainable economic growth.

Key challenge no. 3: Greening the energy sector and full opening of energy market

SR No.	Title of Structural Reform	Description of Structural Reform
8.	Improvement of conditions for enhancing energy efficiency through creating conditions for application of energy labelling and eco-design, as well as through the incentives for enhancing energy efficiency	The reform implies the improvement of energy efficiency in the Republic of Serbia. The reform will include activities that contribute to the implementation of energy labelling of products and eco-design through the adoption of technical regulations in accordance with Law on Energy Efficiency and Rational Use of Energy and EU regulations. For the implementation of this reform, it is of great importance to strengthen the capacities of market surveillance bodies over the implementation of these regulations, as well as to support the establishment and development of the capacities of conformity assessment bodies, so the structural reform will focus on providing technical assistance for capacity building including pilot testing of products on the market.
9.	Integration of renewable sources of electrical energy through the project "BeoGrid 2025"	The reform implies integration of electricity produced from renewable sources (wind farms located in the South Banat region) into the transmission system, as well as the relieve of the load of Belgrade 5 Substation, which supplies electricity to a large part of Belgrade. The project is a part of the wider North CSE corridor project, which, in addition to the above, includes the duplication of the existing interconnecting 400 kV transmission line Đerdap 1 - Portile De Fier (Romania).
10.	Energy market development coupled with energy infrastructure construction	The reform implies the construction of new interconnecting transmission lines: section III - double line 400 kV TS Bajina Bašta–TS Obrenovac; section IV - two-system 400 kV transmission line TS Bajina Bašta - border of Montenegro - border of Bosnia and Herzegovina. It is part of the Trans-Balkan Corridor Project (Phase I), which aims to increase the transmission capacity of the Western Serbia network, as well as increase the safety and reliability of electricity supply to consumers in the Republic of Serbia.

CHALLENGES IN OTHER AREAS AND RELATED STRUCTURAL REFORMS		
Area 1: PUBLIC FINANCIAL MANAGEMENT		
SR No.	Title of Structural Reform	Description of Structural Reform
11.	Tax Administration transformation	The reform implies the implementation of the <i>Tax Administration Transformation Program for the period from 2021 to 2025</i> , which represents the framework and defines the path leading to a modern and efficient Tax Administration of the Republic of Serbia in 2025- an institution that provides sustainable and predictable public finances so that it is present, accessible and integrated into a taxpayer's natural environment; an institution that articulates the interests and needs of the business community to the Ministry of Finance and the Government. A modern Tax Administration, will simplify the fulfilment of tax obligations for taxpayers, which, along with adequate management of the tax policy, is a basic prerequisite for the growth of voluntary compliance with tax regulations, suppression of the grey economy and healthy and competitive economic development in the Republic of Serbia.
Area 2: GREEN TRANSITION		
SR No.	Title of Structural Reform	Description of Structural Reform
12.	Implementation of the circular economy in creating favourable environment for the green transition	The structural reform includes support for business entities and local self-governments in the field of circular economy, improvement of cooperation between the business and academic community, and the provision of support to the public sector and the economy for the successful implementation of green public procurement in Republic of Serbia. The concept of circular economy that connects many areas, aims at initiating a green economic transition of the Republic of Serbia, with efficient use of resources and energy and preservation and improvement of the environment and human health.
Area 3: DIGITAL TRANSFORMATION		
SR No.	Title of Structural Reform	Description of Structural Reform
13.	Development and improvement of the national information and communication infrastructure	The reform implies the development of broadband networks for access, creation of detailed maps of broadband access service availability in the Republic of Serbia and improvement of the conditions of education and increasing the use of e-government service. The positive effect of the reform is reflected in the development of rural areas, connecting economic regions, development of industrial zones, as well as increasing the use of new technologies and innovations in business and education.
14.	Setting the infrastructure and environment for the creation and application of innovative it solutions	The reform includes: further implementation of the project Smart City which will enable better and high-quality functioning of local self-government units through the use of innovative IT solutions and the construction of the object the "Innovation District" within the State Centre for Data Management and Storage in Kragujevac- which will enable the development of pupils and students, provide the opportunity to test and promote their ideas, and to connect with domestic and foreign business entities that already use or will use the capacities of DSC in the future (cloud, AI platform, etc.). On the other hand, business entities will be able to come up with

		new ideas and solutions and get to know the potential of talented pupils and students.
15.	Support to the development of talents and creative industries by establishing the multifunctional innovative-creative center Ložionica	The reform implies the establishment of the unique space designed to provide all necessary (technical) support to the development of talents and creative industries by enabling local and international networking, education through knowledge transfer, presentation of examples of good practice and the possibility of testing ideas and solutions, as well as their presentation to interested business entities, individuals, groups and organizations. The new public multifunctional space will be created by the reconstruction of the existing Ložionica building with a water tower and the construction of a new annex office building as part of the whole "Belgrade Waterfront". In addition to promoting innovation and creativity the space will be intended for the IT industry. The reform envisages the launch of programs to support professional associations and educational programs for professionals from the creative industries, as well as the launch of talent hubs.
Area 4: BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY Reforms related to this area are described under the <i>Key Challenge 2. Improvement of the business environment more favourable for investments.</i>		
Area 5: RESEARCH, DEVELOPMENT AND INNOVATIONS		
SR No.	Title of Structural Reforms	Description of Structural Reform
16.	Development of the startup ecosystem	The reform implies creating of stimulating environment for the development of start-ups which have a multiple positive impact, on both the economy and the society in which they are founded and develop, and as such are the creators of new business models of the 21st century. The reform encourages public and private investments in this area, enables the development of the domestic venture capital market, the development of a high-tech entrepreneurial culture and the increase of entrepreneurial capacities through educational programs and the strengthening of the capacities of support organizations.
17.	Creation of conditions for the development of bio science and bioeconomy through the construction of BIO4 Campus	The reform implies providing support to the intensified development in the fields of biotechnology, biomedicine, bioinformatics and biodiversity (BIO4) through the construction of the BIO4 Campus which will be the first campus of this kind in the wider region and will represent the recognizable point on the global development map in this area. The construction of the BIO4 Campus will create an opportunity for concentration of experts, and multidisciplinary knowledge and development of the most modern technologies and infrastructure (faculties, institutes, Science and Technology Park, etc.) in the mentioned areas.
Area 6: REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS		
SR No.	Title of Structural Reform	Description of Structural Reform
18.	Improvement of conditions and removal of the barriers to trade	The reform implies the continuation of work on intensification, improvement, diversification and further growth of foreign trade of the Republic of Serbia. Activities are also aimed at strengthening the competitiveness of Serbian companies in order to prepare for EU membership and easier inclusion in the

		market competition in single European market. Reform also implies continuation of activities aimed at achieving World Trade Organization membership, as well as the implementation of the activities foreseen in the <i>Action Plan for the Common Regional Market</i> .
Area 7: REFORMS OF THE ENERGY MARKET		
Reforms related to this area are described under the <i>Key Challenge No. 3. Greening the energy sector and full opening of the energy market</i>		
Area 8: REFORMS OF THE TRANSPORT MARKET		
SR No.	Title of Structural Reform	Description of Structural Reform
19.	Improvement of efficiency and safety in the railway traffic	The reform implies further reconstruction, modernization and construction of the railway infrastructure and is a continuation of activities from previous years in order to fully achieve the anticipated positive effects on the efficiency, safety, competitiveness and environmental sustainability of the railway sector in the Republic of Serbia. The main activities in the forthcoming period are: 1) the application of the new Methodology for calculating the price of access to railway infrastructure, 2) raising the level of safety at road crossings, which will lead to the improvement of railway traffic safety and 3) improving the efficiency of railway passenger traffic through an improved contractual relationship, new services, promotional activities and improvement of business efficiency.
Area 9: AGRICULTURE, INDUSTRY AND SERVICES		
SR No.	Title of Structural Reform	Description of Structural Reform
20.	Improvements of the agriculture competitiveness	The reform implies: the improvement of infrastructure in rural areas; (2) establishment of the regulatory framework for the consolidation process; (3) regulation of the legal framework in the field of agricultural products markets, quality schemes for agricultural and food products and organic production, in order to create conditions for improving competitiveness in all sectors of production; (4) improving the capacity of the line Ministry through digitisation and automation of the system of financial support to farmers with easier access to available incentives.
21.	Improvement of the strategic framework of quality infrastructure and integration into a single EU market	The reform implies the preparation of appropriate public policy documents, and the implementation of such planned activities, which will create preconditions for signing the Agreement on conformity Assessment and Acceptance of Industrial Products between the Republic of Serbia and the EU for identified product groups. The reform will make a significant contribution in bringing the Republic of Serbia closer to EU standards in this area, which will positively affect: domestic businessmen who will produce, import and export products without technical obstacles; consumers who will have access to quality and safe products; state administration bodies that will supervise the implementation of technical regulations in a simpler and more efficient way.
Area 10: EDUCATION AND SKILLS		
Reform related to this area is described under the <i>Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty</i>		
Area 11: EMPLOYMENT AND LABOUR MARKET		
Reforms related to this area are described under the <i>Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty</i>		

Area 12: SOCIAL PROTECTION AND INCLUSION		
The challenges in this area are analysed in <i>Section 5.1, under the Key Challenge No. 1. Increasing employment, especially of young people, women and sensitive groups and social protection from poverty.</i>		
Area 13: HEALTH CARE SYSTEM		
SR No.	Title of Structural Reform	Description of Structural Reform
22.	Improving the efficiency of the health system through digitization of the process	The reform implies: the establishment of an electronic medical file, thus creating conditions for the exchange of data between the state and private sector, the establishment of a central platform for collecting data from all laboratory systems; expanding the implementation of ePrescription to aids and ampule drugs at the primary health care level, as well as to hospital medications (B and C List); application of artificial intelligence over certain processes exclusively in the field of radiology (especially mammography due to organized screening for breast cancer). Digitization in the health system increases the efficiency of the provision of health services and enables a higher quality of diagnostics and treatment at all levels of health care in institutions from the “Network Plan of the of Health Institutions”.

6. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the period 2023-2025 amount to 1.130 million euros compared to the base year before the start of each individual reform. By year, the additional costs of implementing structural reforms amount to 349.3 million euros in 2023, a total of 417.2 million euros in 2024 and 363.4 million euros in 2025. In the period 2022-2024, the additional costs of implementing structural reforms amounted to 872.9 million euros, so that for the period 2023-2025 a growth of 29% was recorded.

Most of the 22 structural reforms presented in the ERP 2023-2025 have an administrative character, while five structural reforms, which require the largest additional financing costs (68% of the total additional costs), are in the category of infrastructure measures.

The structure of the costs of reform measures in the next three years, as in the previous period, is dominated by capital expenditures with 621.1 million euros (a share of 54.9% in total costs), while goods and services with 408 million euros (a share of 36.1%) increased their participation in the cost structure compared to the previous period. Subsidies and transfers with 99.5 million euros (8,8%) recorded a decrease in participation compared to the previous period as well as salaries with 1.3 million euros (and the participation of 0.12%).

Regarding the sources funding in the period 2023-2025, the source structure remained unchanged compared to the previous period. The key source of additional financing for structural reforms is project loan funds with 716.2 million euros (a share of 63.3% in total funding sources), then follow the central level budget with 267.6 million euros (a share of 23.6%), IPA funds with 71.3 million euros (6,3%) and other donations with 63.4 million euros (5.6%), as well as local budgets with 8.5 million euros (0.7% participation). Other domestic sources of funding have a low share in the total additional financing of structural reforms in the next three years with 634.873 euros or 0.06% of total funds. The share of sources that have yet to be determined for financing structural reforms is negligible and amounts to 2.25 million euros or 0.2% and they refer to the financing of structural reforms in the period 2024-2025, which is a significantly lower participation compared to ERP 2022-2024, when the share of these sources was 22%.

Financial resources for the implementation of structural reforms in 2023 are planned in accordance with the Law on Budget for 2023, budget funds and loans, inflows from donations or from other sources.

Financial resources from the budget of the Republic of Serbia for the implementation of structural reforms in 2024 and 2025 will be planned in accordance with the allocated limits for their holders during the budget procedure. Due to the maintenance of fiscal stability, the provision of additional financial resources for the implementation of structural reforms in 2024 and 2025 is limited and must be in line with the budget constraints.

The implementation of structural reforms will depend on the provision of financial resources in the annual budget laws.

Detailed information on the additional costs of implementing each individual structural reform to the budget and potential non-budgetary financing is presented in Tables 10a and 10b in the Annex.

7. INSTITUTIONAL ISSUES AND INVOLVEMENT OF INTERESTED PARTIES

The Republic of Serbia has a developed structure of interdepartmental coordination related to the preparation of the Economic Reform Programme. Deputy Prime Minister and Minister of Finance Siniša Mali was appointed as the national coordinator and head of the Working Group for the creation and monitoring of ERP implementation by the decision of the Government of the Republic of Serbia from August 28, 2018, and then by the decision of the Government from December 22, 2022. By the decision of the Minister of Finance, on January 5, 2023, the membership of the Working Group for the creation and monitoring of the ERP implementation was renewed, and the representatives of the following institutions were appointed:

- Ministry of Finance,
- Public Policy Secretariat of the Republic of Serbia,
- General Secretariat of the Government,
- Prime Minister Office,
- National Bank of Serbia,
- Ministry of Internal and Foreign Trade,
- Ministry of Tourism and Youth,
- Ministry of Foreign Affairs,
- Ministry of Economy,
- Ministry of Construction, Transport and Infrastructure,
- Ministry of Agriculture, Forestry and Water Management,
- Ministry of Environmental Protection,
- Ministry of Mining and Energy,
- Ministry of Justice,
- Ministry of Information and Telecommunications,
- Ministry of Education,
- Ministry of Science, Technological Development and Innovation
- Ministry of Public Administration and Local Self-Government,
- Ministry of European Integration,
- Ministry of Labour, Employment, Veteran and Social Affairs,
- Ministry of Tourism and Youth
- Ministry for Human and Minority Rights and Social Dialogue,
- Ministry of Family Welfare and Demography
- Office of the Minister without Portfolio in charge of improvement of underdeveloped municipalities,
- Republic Geodetic Authority,
- Public Procurement Office,

- Office for Dual Education and the National Qualifications Framework,
- Office for Information Technologies and eGovernment,
- Commission for State Aid Control,
- National Employment Service,
- Statistical Office of the Republic of Serbia.

In accordance with already established practice, the first part of the document, which refers to the macro-fiscal framework and relies to the greatest extent on the Fiscal Strategy for 2023 with projections for 2024 and 2025, was prepared by the Ministry of Finance and the National Bank of Serbia. Other chapters of this document related to structural reforms were prepared by the relevant departments in coordination and cooperation with the Ministry of Finance and the Public Policy Secretariat of the Republic of Serbia.

The ninth cycle of creating ERP for the period 2023-2025 started with the holding of an introductory regional meeting on June 22, 2022, organized by the European Commission, with the support of CEF from Ljubljana. The new Guidelines of the European Commission for the preparation of ERP 2023-2025 were presented at the meeting, and the previous ERP document was analysed in order to overcome all possible challenges in the next cycle. Previously, during the month of May, a meeting of the EKOFIN Council was held, where the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey were adopted.

At the national introductory meeting held on July 29, 2022, the results achieved in the previous period, the recommendations of the EKOFIN Council, key novelties from the EC Guidelines for the preparation of the new ERP document and further activities related to the new cycle of document preparation were discussed, and the participants from competent institutions were invited to nominate proposals for structural reforms.

Parallel to these activities, the work continued on the preparation of the Fiscal Strategy for 2023 with projections for 2024 and 2025, which was adopted on June 2 2022, while the Revised Fiscal Strategy with projections for 2024 and 2025 was adopted on November 17, which represents the basis for the preparation of the corresponding ERP chapters.

After the national introductory meeting, the activities on the preparation of the ERP 2023-2025 intensified: the activities on the diagnostics of the situation by area followed, along with the submission of reports on the implementation of structural reforms, the implementation of EKOFIN recommendations, as well as the nomination and further improvement of the description of structural reforms.

The preliminary list of structural reforms, consisting of 20 structural reforms, was made available to the public through the website of the Ministry of Finance and the Public Policy Secretariat of the Republic of Serbia from October 14 to 28, 2022, and all interested parties were invited to give their comments and suggestions. Based on this call, the comments made by the National Convention on the EU and UNICEF were received.

Consultative meetings with representatives of the European Commission were held on November 21, 2022, during which the key challenges defined in the first draft of the ERP, previously submitted to the European Commission, were discussed.

Within the ninth cycle of ERP preparation, a number of activities were organized with the support of the regional IPA project "Structural Reforms Better Integrated Within Fiscal Frameworks - FISR2" implemented by the Centre of Excellence in Finance (CEF, Slovenia) and the Serbian-German development cooperation project "Public Finance Reform and Agenda 2030" implemented by the German Agency for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ). Workshops were organized covering all key topics and challenges in the current cycle of ERP development. At the workshop *Programming structural reforms for ERP 2023-2025*, held on October 4-5, 2022, via an electronic platform, an analysis of key challenges and structural reforms by area was presented, key recommendations and priorities for the creation of the document were considered, expert assessments of the proposed structural reforms were presented, and guidelines for their further improvement were provided. This was followed by a workshop held

on 29-30 November 2022 in Vrdnik, where the focus was on the calculation of the costs of structural reforms, as well as on the determination of key performance indicators for monitoring structural reforms. In addition, the workshop presented a novelty related to the digitization of the ERP preparation process. The participants had the opportunity to get to know the tools designed to simplify and optimize the creation of this document and which, according to the plan, should be available to them starting from the next cycle.

The work on the segment of the document related to the financial effects of the ERP 2023-2025 was completed in December, after the Budget Law for 2023 was adopted at the beginning of December 2022.

The ERP 2023-2025 draft, which foresees 22 structural reforms, was made available to the public by publication on the website of the Ministry of Finance and the Public Policy Secretariat of the Republic of Serbia and the E-consultation portal from December 12 to 26, 2022. All interested parties were invited to submit their comments and suggestions and thereby contribute to the improvement of the document. During this period, comments were received from representatives of the National Convention on the EU and the Chamber of Commerce of Serbia. The publication of the Draft Document was accompanied by articles in both print and electronic media in the Republic of Serbia.

Final consultations with representatives of civil society, i.e. members of the intersectoral working group of the National Convention on the European Union for ERP monitoring, were held on December 26, 2022. The National Convention on the European Union gathers over 700 civil society organizations and represents a permanent body within which a thematically structured debate on the accession of the Republic of Serbia to the European Union is conducted, thematically divided by negotiation chapters and special topics, between non-governmental organizations, experts, business, trade unions and professional associations on the one hand and representatives of the Government on the other hand, and has a very important role in this process. Within its structures, the National Convention has created a mechanism for ERP monitoring and evaluation, through a special horizontal Working Group for ERP, and its members actively participate in this process.

A detailed overview of the comments and suggestions of all interested parties in the process of creating the ERP 2023-2025 is given in Annex 3 of this document along with the response of the competent institutions. Bearing in mind that the ERP is a portable document, and that the preparation is a continuous process, a large number of objections from stakeholders from the previous cycle are taken into account in the current cycle of the ERP preparation.

After the consultation with the interested parties and the completion of the internal procedure, the document shall be adopted by the Government and submitted to the European Commission within the stipulated deadline, i.e. by the end of January 2023. The ERP is then further discussed with the representatives of EU institutions and member states in the European Semester Light Process for the Western Balkans and Turkey, and the next (tenth) cycle of drafting this document is expected to begin in mid-2023.

8. ANNEXES

This Programme contains Annexes 1 – 3, which form its integral part. These are:

- 1) Annex 1 – Tables;
- 2) Annex 2 – Links between reform areas and relevant public policy documents;
- 3) Annex 3 – External contribution to ERP 2023-2025.

9. FINAL PROVISIONS

This Programme shall be published on the Government website, the e-Administration portal and the Ministry of Finance website, within seven working days from the date of adoption.

05 No.

In Belgrade,

GOVERNMENT

PRIME MINISTER

Ana Brnabić

ANNEX 1: Tables 1-11

Country:	Serbia
Year of submission (deadline)	2023
Pre-year prices (no = 0, yes = 1)	0
BOP-Data: National Currency = 0, EUR = 1	1

Table 1: Macroeconomic framework

1a: Demand side, const. prices (Bn. RSD)	ESA Code	2020	2021	2022	2023	2024	2025
GDP at market prices	B1*g	4,918.7	5,290.0	5,424.6	5,557.5	5,753.6	5,985.5
Private consumption expenditure	P3	3,391.5	3,654.5	3,797.0	3,893.4	4,006.4	4,150.6
Government consumption expenditure	P3	792.7	825.5	828.9	812.6	819.4	826.0
Gross fixed capital formation	P51	1,109.0	1,285.0	1,285.0	1,315.9	1,384.8	1,465.1
Domestic Demand		5,293.2	5,765.0	5,910.9	6,021.9	6,210.6	6,441.7
6. Changes in inventories and net acquisition of valuables	P52+P53	171.5	119.5	198.5	216.1	197.8	184.0
Exports of goods and services	P6	2,619.8	3,130.9	3,516.0	3,688.3	4,012.9	4,438.3
Imports of goods and services	P7	3,165.9	3,725.4	4,200.8	4,368.8	4,667.7	5,078.4
Net exports		-546.1	-594.5	-684.8	-680.5	-654.8	-640.2
1a: Demand side, curr. prices (Bn. RSD)							
GDP at market prices	B1*g	5,504.4	6,270.1	7,082.5	8,025.1	8,776.3	9,519.4
Private consumption expenditure	P3	3,666.6	4,134.2	4,795.8	5,438.8	5,876.4	6,301.0
Government consumption expenditure	P3	962.2	1,056.6	1,167.4	1,272.2	1,354.0	1,441.8
Gross fixed capital formation	P51	1,180.1	1,448.5	1,657.6	1,823.0	2,017.3	2,220.5
Domestic Demand		5,809.0	6,639.2	7,620.8	8,534.1	9,247.7	9,963.3
6. Changes in inventories and net acquisition of valuables	P52+P53	151.3	119.7	306.8	336.0	315.0	296.6
Exports of goods and services	P6	2,654.2	3,416.2	4,327.8	4,872.5	5,538.8	6,346.7
Imports of goods and services	P7	3,110.0	3,905.0	5,172.9	5,717.4	6,325.2	7,087.3
Net exports		-455.8	-488.8	-845.1	-845.0	-786.4	-740.6
1a: Exchange rate							
Exchange rate RSD/EUR (Annual average)	RSD/EUR	117.6	117.6	117.5			
Exchange rate RSD/EUR (End year)	RSD/EUR	117.6	117.6	117.3			
Table 1b: Price developments							
1. GDP deflator	Index	111.9	118.5	130.6	144.4	152.5	159.0

2. Private consumption deflator	Index	108.1	113.1	126.3	139.7	146.7	151.8
3. HICP	Index	100.0	104.0	116.2	130.7	137.6	141.7
4. National CPI	Index	100.0	104.0	116.5	131.0	138.0	142.1
5. Public consumption deflator	Index	121.4	128.0	140.8	156.6	165.2	174.6
6. Investment deflator	Index	106.4	112.7	129.0	138.5	145.7	151.6
7. Export price deflator (goods & services)	Index	101.3	109.1	123.1	132.1	138.0	143.0
8. Import price deflator (goods & services)	Index	98.2	104.8	123.1	130.9	135.5	139.6

Table 1c: Labour markets developments

1. Population (thousands)	1000	6,899	6,834	6,800	6,780	6,759	6,739
3. Working-age population (persons)[1]	1000	4,445	4,387	4,372	4,373	4,360	4,374
Total labour force	1000	2,952	3,082	3,122	3,127	3,139	3,153
5. Employment, persons [2]	1000	2,654	2,731	2,813	2,829	2,858	2,891
6. Employment, hours worked[3]	1000						
8. Public sector employment (persons)	1000						
13. Compensation of employees	Bn. RSD						

Table 1d: Sectoral balances

		2020	2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of the world	bn EUR	-2.0	-2.3	-5.4	-5.8	-5.0	-4.8
<i>of which:</i>							
- Balance of goods and services	bn EUR	-4.1	-4.5	-7.4	-7.4	-7.4	-7.4
- Balance of primary incomes and transfers	bn EUR	2.2	2.2	2.0	1.6	2.4	2.5
- Capital account	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

1. Agriculture	const. prices	319.5	301.4	277.4	296.4	299.1	299.1
2. Industry (excluding construction)	const. prices	1,013.8	1,077.8	1,091.8	1,103.8	1,143.6	1,205.3
3. Construction	const. prices	263.2	309.6	282.6	285.1	299.9	317.6
4. Services	const. prices	2,489.1	2,696.8	2,826.3	2,899.8	3,009.9	3,130.3
1. Agriculture	curr. prices	349.2	394.6				
2. Industry (excluding construction)	curr. prices	1,071.1	1,191.3				
3. Construction	curr. prices	299.6	376.1				
4. Services	curr. prices	2,854.4	3,222.1				

Table 1f: External sector developments

		2020	2021	2022	2023	2024	2025
2. Export of goods	bn EUR	16.1	20.8	28.5	33.0	35.9	39.5
3. Import of goods	bn EUR	21.3	26.7	37.4	41.9	44.4	48.4
4. Trade balance	bn EUR	-5.2	-5.9	-8.9	-8.9	-8.5	-8.9
5. Export of services	bn EUR	6.2	7.8	10.8	12.4	13.4	14.7

6. Import of services	bn EUR	5.1	6.4	9.2	11.0	11.8	13.0
7. Service balance	bn EUR	1.1	1.4	1.6	1.4	1.6	1.7
8. Net interest payments from abroad	bn EUR	-0.6	-0.6	-0.6	-0.5	-0.7	-0.8
9. Other net factor income from abroad	bn EUR	-0.9	-1.5	-2.4	-3.0	-2.5	-2.4
10. Current transfers	bn EUR	3.6	4.3	4.9	5.1	5.2	5.6
11. Of which from EU	bn EUR	2.4	2.7	3.5	3.6	3.6	3.9
12. Current account balance	bn EUR	-1.9	-2.3	-5.4	-5.8	-5.0	-4.8
13. Capital and financial account	bn EUR	2.1	2.1	4.6	2.8	3.1	2.9
14. Of which: Net Foreign direct investment	bn EUR	2.9	3.7	3.6	3.5	3.9	4.3
14.a Of which: Net-FDI (Equity)	bn EUR	1.6	2.5	2.3	2.5	2.9	3.3
15. Of which: Portfolio investment	bn EUR	1.6	1.6	0.0	0.7	1.2	0.3
15.a Of which: Net-Portfolio investment (Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0
16. Foreign reserves	bn EUR	13.5	16.5	18.1	18.1	18.5	19.0
17. Net External debt	bn EUR	16.8	16.9	17.2	17.5	18.0	18.0
18. Of which: foreign currency denominated external debt	bn EUR	14.8	15.3	15.6	15.9	16.5	16.7
19. Of which: public external debt	bn EUR	5.5	6.1	6.1	6.1	6.2	6.3
20. Of which: interest payments	bn EUR	0.6	0.6	0.6	0.5	0.7	0.8
21. Of which: repayments due	bn EUR	4.5	4.3	4.8	4.7	5.5	4.8
22. Net foreign saving	bn EUR						
23. Domestic private saving	bn EUR						
24. Domestic private investment	bn EUR						
25. Domestic public saving	bn EUR						
26. Domestic public investment	bn EUR						

[1] Age group of 15-64 years

[2] Occupied population, LFS definition

[3] National accounts definition

Table 1g: Sustainability indicators

	Dimension	2017	2018	2019	2020	2021	2022
1. Current Account Balance [1]	Bn EUR	-2.1	-2.1	-3.2	-1.9	-2.3	-3.0
2. Net International Investment Position [2]	Bn EUR	-35.6	-37.6	-40.5	-42.3	-44.3	-47.0
3. Export market shares	% of total export market						
4. Real Effective Exchange Rate [1]	Index	118.7	123.0	122.8	124.9	127.1	127.6
5. Nominal Unit Labour Costs	Index						
6. Private sector credit flow [1]	bn RSD	77.8	185.1	178.4	219.4	222.9	157.3
7. Private sector debt [3]	bn RSD	1,904.6	2,089.6	2,268.1	2,487.4	2,710.4	2,867.7
8. General Government Debt	bn RSD	2,790.5	2,757.3	2,864.0	3,181.2	3,581.8	4,030.6

p.m. GDP at current market prices	bn RSD	4,760.7	5,072.9	5,421.9	5,504.4	6,270.1	7,082.5
p.m. Exchange rate (Annual average)	RSD/EUR	121.3	118.3	117.9	117.6	117.6	117.5

[1] January-October 2022

[2] end-of-June 2022

[3] end-of-October 2022

Table 1a: Macroeconomic prospects

REPUBLIC of SERBIA

Percentages unless otherwise indicated	ESA Code	Year 2021	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	45.0	7.5	2.5	2.5	3.5	4.0
2. Current GDP at market prices	B1*g	53.3	13.9	13.0	13.3	9.4	8.5
Components of real GDP							
3. Private consumption expenditure	P3	31.1	7.8	3.9	2.5	2.9	3.6
4. Government consumption expenditure	P3	7.0	4.1	0.4	-2.0	0.8	0.8
5. Gross fixed capital formation	P51	10.9	15.9	0.0	2.4	5.2	5.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	1.0	2.3	3.7	3.9	3.4	3.1
7. Exports of goods and services	P6	26.6	19.5	12.3	4.9	8.8	10.6
8. Imports of goods and services	P7	31.7	17.7	12.8	4.0	6.8	8.8
Contribution to real GDP growth							
9. Final domestic demand		49.0	9.6	2.8	2.0	3.4	4.0
10. Change in inventories and net acquisition of valuables	P52+P53	1.0	-1.1	1.5	0.3	-0.3	-0.2
11. External balance of goods/services	B11	-5.1	-1.0	-1.7	0.1	0.5	0.3

Table 1b: Price developments**Republic of Serbia**

Percentage changes, annual averages	ESA Code	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. GDP deflator		5.9	10.2	10.6	5.6	4.3
2. Private consumption deflator		4.6	11.6	10.6	5.0	3.5
3. HICP		4.0	11.7	12.5	5.3	3.0
4. National CPI change		4.0	12.0	12.5	5.3	3.0
5. Public consumption deflator		5.4	10.0	11.2	5.5	5.6
6. Investment deflator		5.9	14.4	7.4	5.1	4.0
7. Export price deflator (goods & services)		7.7	12.8	7.3	4.5	3.6
8. Import price deflator (goods & services)		6.7	17.5	6.3	3.5	3.0

Table 1c: Labour market developments**Republic of Serbia**

	ESA Code	Year 2021	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
		Level			Level/Rate of change		
1. Population (thousands)			6,834	6,800	6,780	6,759	6,739
2. Population (growth rate in %)			-0.9	-0.5	-0.3	-0.3	-0.3
3. Working-age population (persons)[1]			4,387	4,372	4,373	4,360	4,374
4. Participation rate			70.3	71.4	71.5	72.0	72.1
5. Employment, persons [2]			2,731	2,813	2,829	2,858	2,891
6. Employment, hours worked[3]			:	:	:	:	:
7. Employment (growth rate in %)			2.9	3.0	0.6	1.0	1.2
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate [4]			11.4	9.9	9.5	9.0	8.3
11. Labour productivity, persons[5]		1,937.3	4.5	-0.4	1.8	2.5	2.8
12. Labour productivity, hours worked[6]			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

[1] Age group of 15-64 years

[2] Occupied population, LFS definition

[3] National accounts definition

[4] Harmonised definition, Eurostat; levels

[5] Real GDP per person employed

[6] Real GDP per hour worked

Table 1d: Sectoral balances
Republic of Serbia

Percentages of GDP	ESA code	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-4.3	-9.0	-8.5	-6.7	-6.0
<i>of which:</i>						
- Balance of goods and services		-8.5	-12.2	-10.9	-9.4	-8.4
- Balance of primary incomes and transfers		4.2	3.2	2.4	2.7	3.0
- 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	-0.2	-5.1	-5.2	-4.5	-4.0
3. Net lending/borrowing of general government		-4.1	-3.8	-3.3	-2.2	-1.4
4. Statistical discrepancy		0.0	0.0	0.0	0.0	-0.6

Table 1e: GDP, investment and gross value added
Republic of Serbia

	ESA Code	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	6,270.1	7,082.5	8,025.1	8,776.3	9,519.4
Investment ratio (% of GDP)		23.1	23.4	22.7	23.0	23.3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-5.7	-8.0	6.9	0.9	0.0
2. Industry (excluding construction)		6.3	1.3	1.1	3.6	5.4
3. Construction		17.6	-8.7	0.9	5.2	5.9
4. Services		8.3	4.8	2.6	3.8	4.0

Table 1f: External sector developments

Republic of Serbia

Billion Euro unless otherwise indicated		Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. Current account balance (% of GDP)	% of GDP	-4.3	-9.0	-8.5	-6.7	-6.0
2. Export of goods	bn EUR	20.8	28.5	33.0	35.9	39.5
3. Import of goods	bn EUR	26.7	37.4	41.9	44.4	48.4
4. Trade balance	bn EUR	-5.9	-8.9	-8.9	-8.5	-8.9
5. Export of services	bn EUR	7.8	10.8	12.4	13.4	14.7
6. Import of services	bn EUR	6.4	9.2	11.0	11.8	13.0
7. Service balance	bn EUR	1.4	1.6	1.4	1.6	1.7
8. Net interest payments from abroad	bn EUR	-0.6	-0.6	-0.5	-0.7	-0.8
9. Other net factor income from abroad	bn EUR	-1.5	-2.4	-3.0	-2.5	-2.4
10. Current transfers	bn EUR	4.3	4.9	5.1	5.2	5.6
11. <i>Of which</i> from EU	bn EUR	2.7	3.5	3.6	3.6	3.9
12. Current account balance	bn EUR	-2.3	-5.4	-5.8	-5.0	-4.8
13. Capital and financial account	bn EUR	2.1	4.6	2.8	3.1	2.9
14. Net Foreign direct investment	bn EUR	3.7	3.6	3.5	3.9	4.3
15. Foreign reserves	bn EUR	16.5	18.1	18.1	18.5	19.0
16. Net Foreign debt	bn EUR	16.9	17.2	17.5	18.0	18.0
17. <i>Of which</i> : public	bn EUR	6.1	6.1	6.1	6.2	6.3
18. <i>O/w</i> : foreign currency denominated	bn EUR	15.3	15.6	15.9	16.5	16.7
19. <i>O/w</i> : repayments due	bn EUR	4.3	4.8	4.7	5.5	4.8
21. Exchange rate vis-à-vis EUR (annual average)	RSD/EUR	117.6	117.5	:	:	:
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	0.0	-0.1	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	RSD/EUR	117.6	117.3	:	:	:
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	%, year-on-year	0.0	-0.2	:	:	:
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators**Republic of Serbia**

	Dimension	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Current Account Balance [1]	% of GDP	-4.8	-6.9	-4.1	-4.3	-5.0
2. Net International Investment Position [2]	% of GDP	-87.6	-88.0	-90.3	-83.1	-77.9
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate [1]	%, yoy	3.6	-0.2	1.7	1.8	0.4
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow [1]	% of GDP	3.0	2.5	2.7	2.5	1.7
7. Private sector debt [3]	% of GDP	41.2	41.8	45.2	43.2	40.5
8. General Government Debt	% of GDP	54.4	52.8	57.8	57.1	56.9

[1] January-October 2022

[2] end-of-June 2022

[3] end-of-October 2022

Table 2a + 2b: General government budgetary prospects

	bn RSD	2020	2021	2022	2023	2024	2025
Net lending (B9) by sub-sectors							
1. General government	S13	-442.8	-259.4	-271.5	-264.0	-189.3	-129.1
2. Central government	S1311	-458.4	-285.2	-279.1	-264.0	-189.3	-129.1
3. State government	S1312						
4. Local government	S1313	6.6	22.5	7.6	0.0	0.0	0.0
5. Social security funds	S1314	9.0	3.4	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,255.0	2,711.9	3,045.8	3,283.5	3,543.8	3,772.7
7. Total expenditure[1]	TE	2,697.7	2,971.3	3,317.3	3,547.5	3,733.1	3,901.8
8. Net borrowing/lending	EDP.B9	-442.8	-259.4	-271.5	-264.0	-189.3	-129.1
9. Interest expenditure	EDP.D41 incl. FISIM	110.2	108.7	115.6	145.9	180.6	183.3
10. Primary balance[2]		-332.5	-150.6	-155.9	-118.1	-8.7	54.2
11. One-off and other temporary measures [3]							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,317.0	1,558.2	1,725.4	1,851.1	2,017.1	2,146.5
12a. Taxes on production and imports	D2	944.1	1,092.0	1,234.3	1,327.8	1,457.9	1,556.3
12b. Current taxes on income and wealth	D5	371.6	464.4	488.6	519.8	554.4	583.3
12c. Capital taxes	D91	1.3	1.8	2.5	3.5	4.9	6.8
13. Social contributions	D61	673.7	862.0	947.8	1,008.7	1,097.9	1,182.0
14. Property income	D4	73.2	69.9	87.3	87.8	94.1	101.4
15. Other (15 = 16-(12+13+14)) [4]		191.0	221.9	285.2	335.9	334.7	342.8
16 = 6. Total revenue	TR	2,255.0	2,711.9	3,045.8	3,283.5	3,543.8	3,772.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,990.8	2,420.1	2,673.3	2,859.8	3,115.0	3,328.5
Selected components of expenditures							
17. Collective consumption	P32	1,019.9	1,119.3	1,239.3	1,340.7	1,446.8	1,545.9
18. Total social transfers	D62 + D63	806.3	850.0	921.9	1,041.6	1,155.2	1,242.9
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	806.3	850.0	921.9	1,041.6	1,155.2	1,242.9
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	110.2	108.7	115.6	145.9	180.6	183.3
20. Subsidies	D3	251.5	206.3	186.4	220.1	190.4	201.2
21. Gross fixed capital formation	P51	293.2	466.6	516.0	545.5	561.4	581.9
22. Other (22 = 23-(17+18+19+20+21) [6]		216.5	220.4	338.0	253.7	198.7	146.6
23. Total expenditures [7]	TE	2,697.7	2,971.3	3,317.3	3,547.5	3,733.1	3,901.8
p.m. compensation of employees	D1	578.9	629.0	688.7	766.5	839.5	912.6

[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

[7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects

Republic of Serbia

	ESA code	Year	Year	Year	Year	Year	Year
		2021	2021	2022	2023	2024	2025
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-259.4	-4.1	-3.8	-3.3	-2.2	-1.4
2. Central government	S1311	-285.2	-4.5	-3.9	-3.3	-2.2	-1.4
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	22.5	0.4	0.1	0.0	0.0	0.0
5. Social security funds	S1314	3.4	0.1	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,711.9	43.3	43.0	40.9	40.4	39.6
7. Total expenditure[1]	TE	2,971.3	47.4	46.8	44.2	42.5	41.0
8. Net borrowing/lending	EDP.B9	-259.4	-4.1	-3.8	-3.3	-2.2	-1.4
9. Interest expenditure	EDP.D41 incl. FISIM	108.7	1.7	1.6	1.8	2.1	1.9
10. Primary balance[2]		-150.6	-2.4	-2.2	-1.5	-0.1	0.6
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,558.2	24.9	24.4	23.1	23.0	22.5
12a. Taxes on production and imports	D2	1,092.0	17.4	17.4	16.5	16.6	16.3
12b. Current taxes on income and wealth	D5	464.4	7.4	6.9	6.5	6.3	6.1
12c. Capital taxes	D91	1.8	0.0	0.0	0.0	0.1	0.1
13. Social contributions	D61	862.0	13.7	13.4	12.6	12.5	12.4
14. Property income	D4	69.9	1.1	1.2	1.1	1.1	1.1
15. Other (15 = 16-(12+13+14)) [4]		221.9	3.5	4.0	4.2	3.8	3.6
16 = 6. Total revenue	TR	2,711.9	43.3	43.0	40.9	40.4	39.6
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2,420.1	38.6	37.7	35.6	35.5	35.0
Selected components of expenditures							
17. Collective consumption	P32	1,119.3	17.9	17.5	16.7	16.5	16.2
18. Total social transfers	D62 + D63	850.0	13.6	13.0	13.0	13.2	13.1
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	850.0	13.6	13.0	13.0	13.2	13.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.7	1.7	1.6	1.8	2.1	1.9

20. Subsidies	D3	206.3	3.3	2.6	2.7	2.2	2.1
21. Gross fixed capital formation	P51	466.6	7.4	7.3	6.8	6.4	6.1
22. Other (22 = 23-(17+18+19+20+21)) [6]		220.4	3.5	4.8	3.2	2.3	1.5
23. Total expenditures	TE [1]	2,971.3	47.4	46.8	44.2	42.5	41.0
p.m. compensation of employees	D1	629.0	10.0	9.7	9.6	9.6	9.6

[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

Republic of Serbia

	ESA code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
bn NCU						
Net lending (B9) by sub-sectors						
1. General government	S13	-259.39	-271.53	-263.99	-189.33	-129.12
2. Central government	S1311	-285.21	-279.10	-264.02	-189.30	-129.12
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	22.46	7.60	0.00	0.00	0.00
5. Social security funds	S1314	3.36	0.00	0.00	0.00	0.00
General government (S13)						
6. Total revenue	TR	2,711.93	3,045.81	3,283.49	3,543.80	3,772.66
7. Total expenditure[1]	TE	2,971.32	3,317.34	3,547.48	3,733.14	3,901.79
8. Net borrowing/lending	EDP.B9	-259.39	-271.53	-263.99	-189.33	-129.12
9. Interest expenditure	EDP.D41 incl. FISIM	108.75	115.60	145.90	180.60	183.30
10. Primary balance[2]		-150.64	-155.93	-118.09	-8.73	54.18
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,558.17	1,725.45	1,851.08	2,017.14	2,146.47
12a. Taxes on production and imports	D2	1,091.97	1,234.33	1,327.77	1,457.86	1,556.32
12b. Current taxes on income and wealth	D5	464.39	488.59	519.79	554.37	583.31
12c. Capital taxes	D91	1.81	2.53	3.52	4.91	6.85
13. Social contributions	D61	861.97	947.83	1,008.72	1,097.85	1,182.01
14. Property income	D4	69.94	87.34	87.81	94.10	101.35
15. Other (15 = 16-(12+13+14)) [4]		221.85	285.19	335.88	334.71	342.83

16 = 6. Total revenue	TR	2,711.93	3,045.81	3,283.49	3,543.80	3,772.66
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2,420.13	2,673.27	2,859.80	3,114.99	3,328.48
Selected components of expenditures						
17. Collective consumption	P32	1,119.29	1,239.34	1,340.72	1,446.84	1,545.87
18. Total social transfers	D62 + D63	850.03	921.94	1,041.59	1,155.19	1,242.95
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	850.03	921.94	1,041.59	1,155.19	1,242.95
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.75	115.60	145.90	180.60	183.30
20. Subsidies	D3	206.26	186.43	220.06	190.41	201.18
21. Gross fixed capital formation	P51	466.63	516.03	545.50	561.44	581.94
22. Other (22 = 23-(17+18+19+20+21)) [6]		220.37	338.01	253.71	198.66	146.55
23. Total expenditures	TE [1]	2,971.32	3,317.34	3,547.48	3,733.14	3,901.79
p.m. compensation of employees	D1	628.97	688.68	766.53	839.54	912.56

[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 2c: Discretionary measures adopted/announced according to the Programme

			2020	2021	2022	2023	2024	2025
Measures	ESA Code (Expenditure / Revenue component)	Date of adoption (yyyy-mm)	Budgetary impact (bn RSD)					
<i>Temporary measures¹</i>								
Deferred payment of payroll taxes and contributions in the private sector during the state of emergency and for one additional month with subsequent repayment of liabilities in instalments (starting from January 2021 at the earliest)	D5, D61	2020-04	-119.8					
Deferred advance payment for the second quarter of 2020 of corporate income tax	D5	2020-04	-13.5					
Direct support to the private sector	D3	2020-04;2021-04	-136.0	-78.1				
Financial support programme during COVID-19 crisis through the Development Fund of the Republic of Serbia	D3	2020-04	-16.3					
Fiscal stimulus - domestic demand incentive	D7	2020-04; 2021-04	-72.0	-67.1				

Dividend moratorium until the end of the year, excluding public enterprises and loss of income stemming from dividends	D5	2020-04	-6.0					
Assistance to pensioners	D62	2020-04;2021-04;2021-11	-15.3	-10	-33.6			
Assistance to unemployed	D63	2021-04		-5				
Assistance to young people	D7	2022-02;2022-06;2022-12			-30.6			
Assistance to health, education and science workers in public sector	D1	2022-01;2022-04			3.15			
Temporary reduction in oil excises	D2	2022-04			-16	-19		
	Subtotal		-378.9	-160.2	-77.05	-19	0	0
<i>Non-temporary measures¹</i>								
Increase of wages to health workers	D1	2020-04	-10.7					
Decrease of pension contribution and increase of nontaxable census on wages	D5, D61	2019-11;2020-11;2021-11;2022-11	-13	-8	-16.2	-41		
Change in demographic policy		2021-12			-15			
	Subtotal		-23.7	-8	-31.2	-41	0	0
Total			-402.6	-168.2	-108.25	-60	0	0

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022. By contrast, those measures adopted or announced for 2021, 2022 or 2023 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2024 are considered as 'non-temporary' for the purpose of this table.

Table 2c: Discretionary measures adopted/announced according to the Programme

Measures		ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)				
				2021	2022	2023	2024	2025
<i>Temporary measures¹</i>	Deferred payment of payroll taxes and contributions in the private sector during the state of emergency and for one additional month with subsequent repayment of liabilities in instalments (starting from January 2021 at the earliest)	D5, D61	:	:	:	:	:	:
	Deferred advance payment for the second quarter of 2020 of corporate income tax	D5	:	:	:	:	:	:
	Direct support to the private sector	D3	:	1.2	:	:	:	:
	Financial support programme during COVID-19 crisis through the Development Fund of the Republic of Serbia	D3	:	:	:	:	:	:
	Fiscal stimulus - domestic demand incentive	D7	:	0.2	:	:	:	:
	Dividend moratorium until the end of the year, excluding public enterprises and loss of income stemming from dividends	D5	:	:	:	:	:	:
	Assistance to pensioners	D62	:	0.1	-0.3	:	:	:
	Assistance to unemployed	D63	:	-0.1	:	:	:	:
	Assistance to young people	D7	:	:	-0.4	:	:	:
	Assistance to health, education and science workers in public sector	D1	:	:	0.0	:	:	:
	Temporary reduction in oil excises	D2	:	:	-0.2	0.0	:	:
	:	:	:	:	:	:	:	:
Subtotal				1.5	-0.9	0.0	0.0	0.0
<i>Non- temporary measures¹</i>	Increase of wages to health workers	D1	:	:	:	:	:	:
	Decrease of pension contribution and increase of nontaxable census on wages	D5, D61	:	:	:	:	:	:
	Change in demographic policy	:	:	0.1	-0.1	-0.3	:	:
	:	:	:	:	-0.2	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
	:	:	:	:	:	:	:	:
Subtotal				0.1	-0.3	-0.3	0.0	0.0
Total				1.6	-1.2	-0.3	0.0	0.0

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022. By contrast, those measures adopted or announced for 2021, 2022 or 2023 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2024 are considered as 'non-temporary' for the purpose of this table.

Table 3: General government expenditure by function (bn RSD)

	COFOG code	2020	2021	2022	2023	2024	2025
1. General public services	1	421.006	423.909	626.983	614.238	554.662	504.528
2. Defence	2	108.125	155.128	138.947	160.502	175.526	190.388
3. Public order and safety	3	149.692	167.544	173.076	184.001	201.855	218.946
4. Economic affairs	4	494.914	562.278	557.791	586.267	596.788	609.242
5. Environmental protection	5	15.815	28.580	27.128	32.780	35.105	38.078
6. Housing and community amenities	6	78.055	56.108	100.937	114.008	122.868	133.272
7. Health	7	392.071	438.904	468.928	492.005	535.354	580.683
8. Recreation, culture and religion	8	47.842	63.315	60.953	65.739	70.210	76.155
9. Education	9	181.577	243.150	222.599	247.456	272.065	295.101
10. Social protection	10	808.6	832.405	939.989	1050.522	1168.696	1255.399
Other relevant variables							
11. Total expenditure (item 7 = 23 in Table 2)	TE	2,697.7	2,971.3	3,317.3	3,547.5	3,733.1	3,901.8

Table 3: General government expenditure by function**Republic of Serbia**

% of GDP	COFOG Code	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. General public services	1	6.8	8.9	7.7	6.3	5.3
2. Defence	2	2.5	2.0	2.0	2.0	2.0
3. Public order and safety	3	2.7	2.4	2.3	2.3	2.3
4. Economic affairs	4	9.0	7.9	7.3	6.8	6.4
5. Environmental protection	5	0.5	0.4	0.4	0.4	0.4
6. Housing and community amenities	6	0.9	1.4	1.4	1.4	1.4
7. Health	7	7.0	6.6	6.1	6.1	6.1
8. Recreation, culture and religion	8	1.0	0.9	0.8	0.8	0.8
9. Education	9	3.9	3.1	3.1	3.1	3.1
10. Social protection	10	13.3	13.3	13.1	13.3	13.2
11. Total expenditure (item 7 = 23 in Table 2)	TE	47.4	46.8	44.2	42.5	41.0

Table 4: General government debt developments

		2020	2021	2022	2023	2024	2025
1. Gross debt [1]	bn RSD	3,181.2	3,581.8	4,030.6	4,499.3	4,832.8	5,136.2
Contributions to change in gross debt							
5. Stock-flow adjustment	bn RSD	-125.5	141.1	177.3	204.7	144.2	174.3
<i>of which:</i>							
- Differences between cash and accruals[4]	bn RSD						
- Net accumulation of financial assets[5]	bn RSD						
<i>of which:</i>							
- Privatisation proceeds	bn RSD						
- Valuation effects and other[6]	bn RSD						
Other relevant variables							
6. Liquid financial assets[8]	bn RSD						

[1] As defined in Regulation 3605/93 (not an ESA concept).

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 4: General government debt developments
Republic of Serbia

% of GDP	ESA code	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. Gross debt [1]		57.1	56.9	56.1	55.1	54.0
2. Change in gross debt ratio		-0.7	-0.2	-0.8	-1.0	-1.1
Contributions to change in gross debt						
3. Primary balance [2]		2.4	2.2	1.5	0.1	-0.6
4. Interest expenditure [3]	EDP D.41	1.7	1.6	1.8	2.1	1.9
5. Real growth effect		-3.8	-1.3	-1.2	-1.8	-2.0
6. Inflation effect		-3.0	-5.1	-5.3	-2.9	-2.2
7. Stock-flow adjustment		2.0	2.4	2.4	1.5	1.7
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3.4	3.2	3.6	4.0	3.8
Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

- [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 due to exchange rate movement, and operation in secondary market could be distinguished when relevant.
 [7] Proxied by interest expenditure 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

		2021	2022	2023	2024	2025
4. One-off and other temporary measures [1]	% of GDP	-4.1	-2.9	-1.6	0.0	0.0
5. Potential GDP growth	%, yoy	3.5	3.6	3.6	3.7	3.8
Contributions:						
- labour		1.1	1.0	1.1	0.9	0.8
- capital		1.7	1.2	1.4	1.5	1.5
- total factor productivity		0.7	1.4	1.1	1.3	1.4
6. Output gap	% of GDP	1.3	0.7	-0.3	-0.4	-0.2
7. Cyclical budgetary component	% of GDP	0.5	0.3	-0.1	-0.2	-0.1

[1] Позитиван знак значи једнократне мере за смањење дефицита.

Table 5: Cyclical developments

Republic of Serbia

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2021	2022	2023	2024	2025
1. Real GDP growth (% , yoy)	B1g	7.5	2.5	2.5	3.5	4.0
2. Net lending of general government	EDP.B.9	-4.1	-3.8	-3.3	-2.2	-1.4
3. Interest expenditure	EDP.D.41	1.7	1.6	1.8	2.1	1.9
4. One-off and other temporary measures [1]		-4.1	-2.9	-1.6	0.0	0.0
5. Potential GDP growth (% , yoy)		3.5	3.6	3.6	3.7	3.8
Contributions:						
- labour		1.1	1.0	1.1	0.9	0.8
- capital		1.7	1.2	1.4	1.5	1.5
- total factor productivity		0.7	1.4	1.1	1.3	1.4
6. Output gap		1.3	0.7	-0.3	-0.4	-0.2
7. Cyclical budgetary component		0.5	0.3	-0.1	-0.2	-0.1
8. Cyclically-adjusted balance (2-7)		-4.6	-4.1	-3.2	-2.0	-1.3
9. Cyclically-adjusted primary balance (8+3)		-2.9	-2.5	-1.4	0.1	0.7
10. Structural balance (8-4)		-0.5	-1.2	-1.6	-2.0	-1.3

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

Table 6: Divergence from previous programme

		2021	2022	2023	2024	2025
1. GDP growth	%, yoy, previous programme	7.0	4.5	5.0	5.0	
2. General government net lending	% of GDP, previous programme	-4.9	-3.0	-1.5	-1.0	
3. General government gross debt	% of GDP, previous programme	58.2	56.5	55.3	53.8	

Table 6: Divergence from previous programme**Republic of Serbia**

	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. GDP growth (% , yoy)					
Previous programme	7.0	4.5	5.0	5.0	:
Latest update	7.5	2.5	2.5	3.5	4.0
Difference (percentage points)	0.5	-2.0	-2.5	-1.5	:
2. General government net lending (% of GDP)					
Previous programme	-4.9	-3.0	-1.5	-1.0	:
Latest update	-4.1	-3.8	-3.3	-2.2	-1.4
Difference	0.8	-0.8	-1.8	-1.2	:
3. General government gross debt (% of GDP)					
Previous programme	58.2	56.5	55.3	53.8	:
Latest update	57.1	56.9	56.1	55.1	54.0
Difference	-1.1	0.4	0.8	1.3	:

Table 7: Long-term sustainability of public finances (% GDP)

	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
<i>of which:</i> property income							
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7: Long-term sustainability of public finances

Republic of Serbia

% БДП	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which:</i> property income	:	:	:	:	:	:	:
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Табела 7а: Stock of General Government guarantees adopted/announced at [year-month] according to the Programme

Measures		Date of adoption	Maximum amount of contingent liabilities ¹	Estimated take-up
In response to COVID-19			2022	2022
	Bn RSD			
	Bn RSD			
	Bn RSD			
	Subtotal		0	0
Others				
Srbijagas	Bn RSD	2022-02	23.5	
	Bn RSD			
	Bn RSD			
	Subtotal		23.5	0
	Total		23.5	0

¹ Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP

Table 7a: Stock of General

Measures		Date of adoption	Maximum amount of contingent liabilities ¹ (% of GDP)	Estimated take-up (% of GDP)
			2022	2022
In response to COVID-19	:	:	:	:
	:	:	:	:
	:	:	:	:
	:	:	:	:
	:	:	:	:
	Subtotal	% of GDP	0.0	0.0
Others	Srbijagas		0.3	:
		:		:
		:		:
	Subtotal	% of GDP	0.3	0.0
Total	% of GDP	0.3	0.0	

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

	Dimension	2021	2022	2023	2024	2025
Short-term interest rate [1]	Annual average					
Long-term interest rate	Annual average					
USD/EUR exchange rate	Annual average					
Nominal effective exchange rate	Annual average					
Exchange rate vis-à-vis the EUR	Annual average					
Global GDP growth, excluding EU	Annual average					
EU GDP growth	Annual average					
Growth of relevant foreign markets	Annual average					
World import volumes, excluding EU	Annual average					
Oil prices (Brent, USD/barrel)	Annual average					

[1] If necessary, purely technical assumption.

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

		Republic of Serbia				
	Dimension	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange rate	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	:	:	:	:	:
EU GDP growth	Annual average	:	:	:	:	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	:	:	:	:	:

[1] If necessary, purely technical assumption.

Table 9a: Social scoreboard indicators

	Data source	2018	2019	2020	2021	2022
<i>Equal opportunities</i>						
1. Adult participation in learning during the last 12 months. age 25-64	EUROSTAT	4.1	4.3	3.7	4.8	
2. Share of early leavers from education and training, age 18-24	EUROSTAT	6.8	6.6	5.6	6.3	
3. Share of population with basic overall digital skills or above, age 16-74	EUROSTAT		46		41	
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	EUROSTAT	20.4	19.3	20.3	18.8	15.7(Q3)
5. Gender gap in employment rate, age 20-64	EUROSTAT	15.4	14.6	14.6	14.9	
6. Income quintile share ratio - S80/S20	EUROSTAT	8.58	6.46	6.06	5.9	
<i>Working conditions</i>						
7. Employment rate, age 20-64	EUROSTAT	61.6	63.6	64.3	66.7	69.8(Q3)
8. Unemployment rate, age 15-74	EUROSTAT	13.8	11.3	9.8	11.1	9.0(Q3)
9. Long-term unemployment rate, age 15-74	EUROSTAT	6.7	5.5	4.5	4.9	
10. Gross disposable income of households in real terms, per capita	EUROSTAT	:	:	:	:	
<i>Social protection and inclusion</i>						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EUROSTAT	34.3	31.7	29.8	28.5	
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EUROSTAT	35.9	35.3	29.9	27.8	
13. Impact of social transfers (other than pensions) on poverty reduction	EUROSTAT	17.91	18.02	18.73	:	
14. Disability employment gap, age 20-64	EUROSTAT	27.2	36	34.8	:	
15. Housing cost overburden rate	EUROSTAT	31.3	21.6	17.8	:	
16. Children aged less than 3 years in formal childcare	EUROSTAT	13.3	17.2	18.1	:	
17. Self-reported unmet needs for medical care	EUROSTAT	5.8	4.8	3.8	:	

*(:) – Data not available

Table 9b: Other selected indicators

	Data source	2018	2019	2020	2021
<i>Other social and healthcare indicators</i>					
1. Public social protection expenditure in % of GDP					
2. Public healthcare expenditure in % of GDP	WB	8.5	8.67		
3. Household out-of-pocket payments as a % of total health expenditure	WB	38.3	37.04		
4. Percentage of population not covered by health insurance					
5. Ratio of doctors per 1000 inhabitants	RSO	3.1	2.9	2.91	2.95
6. Ratio of nurses per 1000 inhabitants	RSO	6.6	6.0	6.2	6.32
<i>Environment</i>					
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	RSO	11.1	11	10.3	
8. Greenhouse gas emissions per capita		8.81	8.91		
9. Generation of waste excluding major mineral wastes, kg per capita	EUROSTAT	1.704		1766	
<i>Digital economy</i>					
10. Percentage of households with broadband access (mobile and fixed)	EUROSTAT	73	79	81	81
11. Share of total population using internet [NB: population 16-74]	EUROSTAT	57	62		
<i>Energy</i>					
12. Energy imports dependency (%)	EUROSTAT	34.6	35.6	29.8	
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	EUROSTAT	427.84	407.21	424.23	
14. Share of renewable energy sources (RES) in final energy consumption (%)	EUROSTAT	20.3	21.4	26.0	
<i>Transport</i>					
15. Railway Network Density (meters of line per km ² of land area)	UNECE	42.53	42.52	38	
16. Motorization rate (Passenger cars per 1000 inhabitants)	OECD	284.1	297.6	315	
<i>Agriculture</i>					
17. Share of gross value added (Agriculture, Forestry and Fishing)	EUROSTAT	7.7	7.2	7.6	7.6
18. Share of employment (Agriculture, Forestry and Fishing)	WB	15.9	15.6		
19. Utilised agricultural area (% of total land area)	WB	39.6	39.4	39.7	
<i>Industry (except construction)</i>					
20. Share of gross value added	EUROSTAT	25.4	24.0	23.4	23.0
21. Contribution to employment (% of total employment)	WB	22.5	22.6	22.6	
<i>Services</i>					
22. Share of gross value added	EUROSTAT	61.5	61.9	62.4	
23. Contribution to employment (% of total employment)	WB	57.2	57.0		
<i>Business Environment</i>					
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	WEO	65	72		NA

25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Business Conditions Survey of business entities (companies and entrepreneurs)				
<i>Research, Development and Innovation</i>					
26. R&D intensity of GDP (R&D expenditure as % of GDP)	EUROSTAT	0.92	0.89	0.91	0.99
27. R&D expenditure – EUR per inhabitant	EUROSTAT	56.3	58.6	61.2	77.2
<i>Trade</i>					
28. Export of goods and services (as % of GDP)	EUROSTAT	50.4	51.0	48.2	54.5
29. Import of goods and services (as % of GDP)	EUROSTAT	59.1	60.9	56.5	62.3
30. Trade balance (as % of GDP)	EUROSTAT	-8.6	-9.9	-8.3	-7.8

Table 10: The effects of structural reforms on the budget**Table 10 a: Costing of structural reforms for the period 2023-2025 in EUR**

1. Establishment of a framework for the introduction of the Youth Guarantee in the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	300,000.00	2,681,250.00	0	2,981,250.00
2024	0	420,000.00	2,268,750.00	0	2,688,750.00
2025	0	420,000.00	550,000.00	0	970,000.00
2. The Young Talent Fund reform					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	8,090,531.00	0	0	8,090,531.00
2024	0	8,888,031.00	0	0	8,888,031.00
2025	0	9,765,281.00	0	0	9,765,281.00
3. Qualifications oriented to the needs of the labour market					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	210,664.00	0	28,300,000.00	28,510,664.00
2024	0	117,364.00	0	7,518,700.00	7,636,064.00
2025	0	29,100.00	0	0	29,100.00
4. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	389,000.00	0	0	389,000.00
2024	0	406,000.00	0	0	406,000.00
2025	0	421,000.00	0	0	421,000.00
5. Improvement of the quality of public services through optimization and digitalization of administrative procedures - e-Paper					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	1,659,760.00	0	0	1,659,760.00
2024	0	2,385,240.00	0	0	2,385,240.00
2025	0	1,187,000.00	0	0	1,187,000.00
6. Sustainable and efficient management of business entities owned by the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	68,504.00	0	0	68,504.00
2024	0	0	0	0	0
2025	0	0	0	0	0
7. Development of the domestic capital market and the provision of a greater level of investor protection					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	12,100.00	0	0	0	12,100.00
2024	24,200.00	0	0	0	24,200.00
2025	0	0	0	0	0
8. Improvement of conditions for enhancing energy efficiency through creating conditions for application of energy labelling and eco-design, as well as through the incentives for enhancing energy efficiency					

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	1,000,000.00	4,279,467.67	13,345,163.33	18,624,631.00
2024	0	3,500,000.00	4,279,467.67	20,590,163.33	28,369,631.00
2025	0	1,500,000.00	4,279,467.67	37,835,163.33	43,614,631.00
9. Integration of renewable sources of electrical energy through the project “BeoGrid 2025”					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	0	0	2,275,320.00	2,275,320.00
2024	0	0	0	21,000,000.00	21,000,000.00
2025	0	0	0	33,000,000.00	33,000,000.00
10. Energy market development coupled with energy infrastructure construction					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	0	0	298,739.00	298,739.00
2024	0	0	0	31,210,590.00	31,210,590.00
2025	0	0	0	46,894,730.00	46,894,730.00
11. Tax Administration transformation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	4,216,700.00	0	4,166,667.00	8,383,367.00
2024	0	24,003,442.00	0	8,001,033.00	32,004,475.00
2025	0	0	0	0	0
12. Implementation of the circular economy in creating favorable environment for the green transition					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	0	193,866.30	0	193,866.30
2024	0	0	64,341.00	0	64,341.00
2025	0	0	0	0	0
13. Development and improvement of the national information and communication infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	1,283,333.00	0	97,142,177.33	98,425,510.33
2024	0	1,925,000.00	0	83,000,000.00	84,925,000.00
2025	0	1,925,000.00	0	35,000,000.00	36,925,000.00
14. Setting the infrastructure and environment for the creation and application of innovative IT solutions					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	0	0	7,583,333.33	7,583,333.33
2024	0	0	0	12,080,000.00	12,080,000.00
2025	0	0	0	17,083,333.33	17,083,333.33
15. Support to the development of talents and creative industries by establishing the multifunctional innovative-creative center Ložionica					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	0	0	15,420,000.00	15,420,000.00
2024	0	0	0	27,080,000.00	27,080,000.00
2025	0	0	0	20,000,000.00	20,000,000.00

16. Development of the startup ecosystem					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	3,000,000.00	12,168,749.33	0	15,168,749.33
2024	0	2,900,000.00	12,168,749.33	0	15,068,749.33
2025	0	0	9,003,230.00	0	9,003,230.00
17. Creation of conditions for the development of bio science and bio economy through the construction of BIO4 Campus					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	101,115,000.00	0	0	101,115,000.00
2024	0	101,115,000.00	0	0	101,115,000.00
2025	0	100,000,000.00	0	0	100,000,000.00
18. Improvement of conditions and removal of the barriers to trade					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	17.670,00	42,100.00	0	0	59,770.00
2024	17.670,00	17,100.00	0	0	34,770.00
2025	17.670,00	2,100.00	0	0	19,770.00
19. Improvement of efficiency and safety in the railway traffic					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	48,937.00	3,333,333.33	14,283,333.00	17,665,603.33
2024	0	48,340.00	0	8,833,333.00	8,881,673.00
2025	0	48,340.00	0	5,500,000.00	5,548,340.00
20. Improvements of the agriculture competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	211,545.00	2,110,373.00	5,857,799.00	1,396,250.00	9,575,967.00
2024	424,955.00	2,322,333.33	17,044,465.67	975,000.00	20,766,754.00
2025	576,540.00	1,050,000.00	21,402,482.00	3,240,000.00	26,269,022.00
21. Improvement of the strategic framework of quality infrastructure and integration into a single EU market					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	300,000.00	0	0	300,000.00
2024	0	150,000.00	0	0	150,000.00
2025	0	250,000.00	0	0	250,000.00
22. Improving the efficiency of the health system through digitalization of the process					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2023	0	6,463,125.00	0	6,036,875.00	12,500,000.00
2024	0	6,463,125.00	0	6,036,875.00	12,500,000.00
2025	0	6,463,125.00	0	6,036,875.00	12,500,000.00
TOTAL	1,302,350.00	408,019,948.33	99,575,418.95	621,163,653.97	1,130,061,371.27

Table 10 b: Financing of structural reforms for the period 2023-2025 in EUR

1. Establishment of a framework for the introduction of the Youth Guarantee in the Republic of Serbia								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	731.250,00	0	0	2,250,000.00	0	0	0	2,981,250.00
2024	618,750.00	0	0	2,070,000.00	0	0	0	2,688,750.00
2025	150,000.00	0	0	820,000.00	0	0	0	970,000.00
2. The Young Talent Fund reform								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	7,975,000.00	0	0	0	115,531.00	0	0	8,090,531.00
2024	8,772,500.00	0	0	0	115,531.00	0	0	8,888,031.00
2025	9,649,750.00	0	0	0	115,531.00	0	0	9,765,281.00
3. Qualifications oriented to the needs of the labor market								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	210,664.00	28,300,000.00	0	28,510,664.00
2024	50,000.00	0	0	0	67,364.00	7,518,700.00	0	7,636,064.00
2025	0	0	0	0	29,100.00	0	0	29,100.00
4. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	389,000.00	0	0	389,000.00
2024	0	0	0	0	406,000.00	0	0	406,000.00
2025	0	0	0	0	421,000.00	0	0	421,000.00
5. Improvement of the quality of public services through optimization and digitalization of administrative procedures - e-Paper								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total

2023	0	0	0	613,000.00	180,000.00	866,760.00	0	1,659,760.00
2024	0	0	0	945,000.00	35,000.00	1,405,240.00	0	2,385,240.00
2025	0	0	0	637,000.00	0	550,000.00	0	1,187,000.00
6. Sustainable and efficient management of business entities owned by the Republic of Serbia								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	68,504.00	0	0	68,504.00
2023	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
7. Development of the domestic capital market and the provision of a greater level of investor protection								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	12,100.00	0	0	0	0	0	0	12,100.00
2024	24,200.00	0	0	0	0	0	0	24,200.00
2025	0	0	0	0	0	0	0	0
8. Improvement of conditions for enhancing energy efficiency through creating conditions for application of energy labelling and eco-design, as well as through the incentives for enhancing energy efficiency								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	4,279,467.67	1,610,163.33	0	1,000,000.00	0	11,735,000.00	0	18,624,631.00
2024	4,279,467.67	1,610,163.33	0	2,500,000.00	0	18,980,000.00	1,000,000.00	28,369,631.00
2025	4,279,467.67	1,610,163.33	0	1,500,000.00	0	36,225,000.00	0	43,614,631.00
9. Integration of renewable sources of electrical energy through the project "BeoGrid 2025"								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	2,275,320.00	0	0	0	0	0	0	2,275,320.00
2024	21,000,000.00	0	0	0	0	0	0	21,000,000.00
2025	33,000,000.00	0	0	0	0	0	0	33,000,000.00

10. Energy market development coupled with energy infrastructure construction								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	298,739.00	0	0	0	0	298,739.00
2024	0	0	0	0	7,511,704.00	23,698,886.00	0	31,210,590.00
2025	0	0	336,134.00	0	10,399,705.00	36,158,891.00	0	46,894,730.00
11. Tax Administration transformation								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	0	8,383,367.00	0	8,383,367.00
2024	0	0	0	0	0	32,004,475.00	0	32,004,475.00
2025	0	0	0	0	0	0	0	0
12. Implementation of the circular economy in creating favourable environment for the green transition								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	193,866.30	0	0	193,866.30
2024	0	0	0	0	64,341.00	0	0	64,341.00
2025	0	0	0	0	0	0	0	0
13. Development and improvement of the national information and communication infrastructure								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	1,283,333.00	0	0	0	20,000,000.00	77,142,177.33	0	98,425,510.33
2024	1,925,000.00	0	0	0	18,000,000.00	65,000,000.00	0	84,925,000.00
2025	1,925,000.00	0	0	0	5,000,000.00	30,000,000.00	0	36,925,000.00
14. Setting the infrastructure and environment for the creation and application of innovative IT solutions								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total

2023	7,583,333.33	0	0	0	0	0	0	7,583,333.33
2024	12,080,000.00	0	0	0	0	0	0	12,080,000.00
2025	17,083,333.33	0	0	0	0	0	0	17,083,333.33
15. Support to the development of talents and creative industries by establishing the multifunctional innovative-creative center Ložionica								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	15,420,000.00	0	0	0	0	0	0	15,420,000.00
2024	27,080,000.00	0	0	0	0	0	0	27,080,000.00
2025	20,000,000.00	0	0	0	0	0	0	20,000,000.00
16. Development of the startup ecosystem								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	12,168,749.33	0	3,000,000.00	0	15,168,749.33
2024	0	0	0	12,168,749.33	0	2,900,000.00	0	15,068,749.33
2025	0	0	0	9,003,230.00	0	0	0	9,003,230.00
17. Creation of conditions for the development of bio science and bio economy through the construction of BIO4 Campus								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	0	0	101,115,000.00	0	101,115,000.00
2024	0	0	0	0	0	101,115,000.00	0	101,115,000.00
2025	0	0	0	0	0	100,000,000.00	0	100,000,000.00
18. Improvement of conditions and removal of the barriers to trade								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	19.770,00	0	0	0	40.000,00	0	0	59,770.00
2024	19.770,00	0	0	0	15.000,00	0	0	34,770.00
2025	19.770,00	0	0	0	0	0	0	19,770.00
19. Improvement of efficiency and safety in the railway traffic								

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	3,382,270.33	0	0	0	0	14,283,333.00	0	17,665,603.33
2024	48,340.00	0	0	0	0	8,833,333.00	0	8,881,673.00
2025	48,340.00	0	0	0	0	5,500,000.00	0	5,548,340.00
20. Improvements of the agriculture competitiveness								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	5,880,386.00	1,235,208.00	0	1,007,501.00	85,372.00	1,367,500.00	0	9,575,967.00
2024	8,594,212.67	1,235,208.00	0	9,945,000.00	0	142,333.33	850,000.00	20,766,754.00
2025	10,653,814.00	1,235,208.00	0	14,380,000.00	0	0	0	26,269,022.00
21. Improvement of the strategic framework of quality infrastructure and integration into a single EU market								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2023	0	0	0	300,000.00	0	0	0	300,000.00
2024	0	0	0	0	0	0	150,000.00	150,000.00
2025	0	0	0	0	0	0	250,000.00	250,000.00
22. Improving the efficiency of the health system through digitalization of the process								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	other grants	Project loans	To be determined	Total
2023	12,500,000.00	0	0	0	0	0	0	12,500,000.00
2024	12,500,000.00	0	0	0	0	0	0	12,500,000.00
2025	12,500,000.00	0	0	0	0	0	0	12,500,000.00
TOTAL	267.643.945,67	8,536,113.99	634,873.00	71,308,229.66	63,463,213.3	716,224,995.66	2,250,000.00	1,130,061,371.27

Table 11: Reporting on the implementation of the structural reforms of the ERP 2022-2024

	SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2022 <i>(activities from the Gant Chart)</i>	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2022 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW <i>(steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)</i>	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES <i>(unplanned, but activities realised in other to implement the SR)</i>
SR 1: ESTABLISHMENT OF A FRAMEWORK FOR THE INTRODUCTION OF THE YOUTH GUARANTEE IN THE REPUBLIC OF SERBIA					
1.	Establishment of a high level multi-departmental group and an expert group at the operational level, tasked with carrying out preparatory activities and drafting the Guarantee Implementation Plan, together with continuous empowerment of the members appointed for the implementation of assigned tasks	fully implemented			
2.	Preparation of Analytical materials required for the development of the Guarantee Implementation Plan (status and needs assessment of the NEETs, mapping of existing policies, ability of local institutions and relevant partners to implement a complex Guarantee system, etc.)	fully implemented			
3.	Development and adoption of the Guarantee Implementation Plan	progress in implementation	After extensive consultations in 2022, within the groups established for the preparation and implementation of the Implementation Plan, the first version of the Implementation Plan was prepared with the technical support of the International Labour Organization and with continuous dialogue with the EC, and revised upon additional consultations with stakeholders in September 2022.	Since the new Government was formed in late October 2022, and new ministries and institutions were established within it, resulting in the reorganisation of the responsibilities of the Youth Guarantee implementing actors, it is now necessary to amend the Decision on the establishment of the Coordination Body for drafting and monitoring the implementation of the Youth Guarantee Implementation Plan, in order to proceed with the work on the document. For the aforementioned reasons, the adoption of the Youth Guarantee Implementation Plan is envisaged until the end of Q2 2023.	

4.	Implementation of preparatory actions for the introduction of the Guarantee recognized in the Implementation Plan (promotion, staffing and capacity building of competent authorities, capacity building of civil society organizations for the implementation of outreach activities, amendments in the normative framework, preparation of the framework for monitoring and evaluation)	in preparation	The preparatory actions implementation phase will fully start upon the adoption of the Youth Guarantee Implementation Plan. The activities carried out in 2022 relate to strengthening the capacities of the Coordination Body and the Expert Group members, and their familiarization with the Youth Guarantee program, the NEETs category, etc.		
		75%			
SR 2: QUALIFICATIONS ORIENTED TO THE NEEDS OF THE LABOUR MARKET					
1.	Promotion of the dual education model	fully implemented			
2.	Establishment, infrastructural arrangement and equipping of regional training centres	implementation ongoing with some initial results	One regional training centre was established, and three more regional training centres were equipped, and are currently undergoing the verification procedure.		
3.	Development of new qualification standards in vocational secondary education	fully implemented			
4.	Implementation of the Framework for Monitoring and Evaluation of the National Model of Dual Education and Dual Education Profiles	fully implemented			
5.	Preparation of studies necessary for the development and evaluation of dual education and various paths for acquiring qualifications	no implementation		Funds for the preparation of studies were repurposed through budget rebalancing.	
6.	Designing and accreditation of study programmes according to the dual study model	fully implemented			
7.	Implementation of the RPL (Recognition of Prior Learning) process	fully implemented	In the reporting period, numerous activities were undertaken towards implementation of the RPL process as an equal path for acquiring qualifications. In accordance with the Rulebook on standards and the implementation method of the recognition of prior learning process, with the support of the GIZ Project DECIDE, the accreditation procedure of six schools for the RPL process implementation for qualifications in the field of mechanical engineering was launched. As part of the accreditation process, the school staff were trained in the implementation of RPL tests, together with the employees of the Institute for the Improvement of Education and Training, in charge of the evaluation of the instruments used in the RPL process, and support to schools in the RPL process. Within the GIZ project, experts were		

			hired for the preparation of the Instructions for portfolio creation and the preparation of self-assessment forms, as well as for drafting Guidelines for the preparation of a candidate assessment plan.		
8.	Data entry into the NQFS Register (qualifications, qualification standards and Publicly Recognized Organizers of Adult Education Activities (JPOA))	fully implemented	So far, data on 4654 qualifications have been entered into the NQFS Register, of which 83 qualifications have qualification standard developed according to the new methodology. 350 accredited training programs and data on 119 JPOAs were entered into the JPOA sub-register.		
9.	Development of post-secondary education at NQFS level 5 (specialization, master's education, short cycles).	progress in implementation	In the previous period, 6 qualification standards were developed at level 5. NQFS		
		82%			
SR 3: IMPROVEMENT OF THE ENVIRONMENT FOR ENCOURAGING, SUPPORTING AND MONITORING CIRCULAR AND ECONOMIC MIGRATION					
1.	Implementation of the Action Plan for the period 2021-2023 for the implementation of the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027	initial steps have been taken	The Action Plan was adopted on 15 September 2021. During 2022, its implementation continued under all planned activities. A report on the results for 2022 will be prepared.		
2.	Strengthening the capacities of institutions responsible for monitoring migration trends and establishment of new groups, bodies, and so on	implementation ongoing with some initial results	Several workshops, trainings and meetings were held towards institutional capacity building of the competent institutions. Holding workshops is envisaged for the whole duration of AP.		
3.	Analysis of labour force potential in the context of migration	in preparation	Preparation of the analysis is underway.		
4.	Strengthening the organization's capacity in providing direct and mentoring support to the diaspora	fully implemented			

5.	Improvement of the administrative framework for the purpose of return and investments of the diaspora, return of foreign citizens of Serbian origin, approval of housing loans to members of the diaspora and registration of vehicles from countries outside the EU/EEA	progress in implementation	In the previous period, measures were adopted and programs were launched with direct impact on facilitating the return to Serbia of foreign citizens of Serbian origin, and the process for obtaining housing loans for tax non-residents. Activities in the field of registration of vehicles have not been fully implemented, considering that the Road Traffic Safety Agency and the Automobile Association of Serbia are currently implementing a project identifying the best regional practice in this area, as well as necessary steps in the preparation and implementation of the mentioned reform in Serbia.		
6.	Development and implementation of professional internship programmes intended for students from abroad in the public and private sector	initial steps have been taken	In cooperation with private partners and the Organization of Serbian Students Abroad, professional internships for students from abroad are supported on an individual level. Bearing in mind other unplanned activities that were carried out in the previous period, the development of separate programs intended for professional practice was postponed to the second half of 2022 and 2023.		
		57%			
SR 4: IMPROVEMENT OF THE QUALITY OF PUBLIC SERVICES THROUGH OPTIMIZATION AND DIGITALIZATION OF ADMINISTRATIVE PROCEDURES – E-PAPER					
1.	Listing administrative procedures for citizens	initial steps have been taken	The process of listing administrative procedures for citizens was launched and 453 procedures under the jurisdiction of 43 bodies have been entered in the Register of administrative procedures, whose listing is carried out in accordance with the established dynamics.		The PPS held several meetings to determine the list of procedures that will be the subject to registration, considering that procedures that were already subject to registration in the part related to businesses should be separated from the list of identified procedures, as well as when it comes to merging/separating procedures. Furthermore, some departments have not still been included in the list (Ministry of Justice, Ministry of Youth and Sports, Ministry of Health). In these departments, procedures that

					are not under the direct responsibility of the ministry itself have proven to be an obstacle to their inclusion, but they are carried out as entrusted tasks or the ministry is the lawmaker, and they are carried out by bodies over which certain ministry does not have sufficient control (e.g. MYS and sports associations).
2.	Listing administration requirements and other business conditions	initial steps have been taken	7 trainings were held for the list of administration requirements in the period March-July 2022. The trainings included 30 inspections under the jurisdiction of 12 state administration bodies. Preliminary lists were prepared and forms were created for the list of administration requirements for 327 administration requirements from the jurisdiction of 5 bodies.		
3.	Optimization of administration procedures for businesses and citizens	implementation ongoing with some initial results	In the first half of 2022, 43 additional procedures for the businesses were optimized. The work on the preparation of the Proposal for the ePaper 2022-2025 Programme started, and it will include the optimization of administrative procedures for the businesses and citizens. Recommendations were prepared for the optimization of 50 procedures for citizens and another 300 for businesses, which were harmonised or are in the process of harmonisation with the authorities and should be part of the next ePaper Programme and the Action Plan.		
4.	Digitalisation of administrative procedures for the businesses and citizens	implementation ongoing with some initial results	In the first half of 2022, another 25 procedures, i.e. electronic services for the businesses, were digitalized and are now available on the Portal. 30 procedures for citizens were singled out, and their digitalisation will be prepared through the creation of to-be process maps. Digitalisation of 2 procedures (quick win) is planned: Issuing a travel document and Issuing a test driver's license.		For the purpose of optimization and preparation for the digitalisation of the 2 procedures that were selected as a quick win, the cooperation of several authorities participating in the process is necessary as well as their agreement on amendments to regulations, and exchange of data. For this

					purpose, 2 working groups were created.
5.	Improvement of the Register of Administrative Procedures	initial steps have been taken	Improvement activities are carried out continuously. Modules have been established for the list of procedures for citizens and administrative requests. When it comes to the list of administrative requirements, the following two modules were established: for the list of administrative requirements related to documentation, and the list of administrative requirements related to other business conditions. Preparation of the module for listing the procedures of local self-government units is underway.		
		48%			
SR 5: SUSTAINABLE AND EFFICIENT MANAGEMENT OF BUSINESS ENTITIES OWNED BY THE REPUBLIC OF SERBIA					
1.	Regulatory assessment applied by Business Entities Owned by the Republic of Serbia and drafting and adoption of a new legal framework	progress in implementation	The Draft Law on the Management of Business Entities Owned by the Republic of Serbia was prepared and a conclusion on launching a public debate, which lasted until 20 December 2022. Following the public debate, its adoption by the Government is expected, and its forwarding to the Assembly of the Republic of Serbia for enactment afterwards.		
2.	Establishment of a centralized database of all Business Entities Owned by the Republic of Serbia and performed classification of BEORS.	fully implemented			
3.	Situation analysis for the establishment of a unified system for corporate governance in the BEORS	fully implemented	The consolidation of data from various sources on the BEORS was carried out, preceded by the submission of a questionnaire on the data of these entities, and a questionnaire to collect additional information on the BEORS management practice		
		93%			
SR 6: DEVELOPMENT OF THE DOMESTIC CAPITAL MARKET THROUGH THE INTRODUCTION OF NEW LEGAL MECHANISMS AND PROVISION OF A GREATER LEVEL OF INVESTOR PROTECTION					

1.	Promulgation of the Law on Takeover of Joint Stock Companies	in preparation	The preparation of the Draft Law on Takeover of Joint Stock Companies is currently underway, in cooperation with the competent authorities. Due to the complexity of the legislative process and the number of participants in the law drafting, the activity is also foreseen in the Economic Reforms Programme 2023-2025.		
2.	Passing by-laws based on the adopted Law on the Capital Market	fully implemented	Based on the new Law on the Capital Market, the Commission is obliged to organize and harmonize its acts with the provisions of this law within six months from the date of entry into force of this law. The Securities Commission adopted rulebooks regulating the application of the new law, at its sessions on 30 June and 5 July 2022, and they were published in the "Official Gazette of RS", No. 77/22 of 8 July 2022.		
3.	Establishment of new legal institutions in the field of capital markets (tied agents, systematic internalizers, organized trading platform - OTP, Approved Publication Arrangement (APA))	fully implemented	The National Assembly of the Republic of Serbia adopted the new Law on the Capital Market, which was published in the "Official Gazette of the RS" No. 129/21 of 28 December 2021 (entered into force on 5 January 2022, and its enforcement starting on 6 January 2023). The new Law on the Capital Market established legal institutions (tied agents, systematic internalizers, organized trading platform - OTP, Approved Publication Arrangement (APA) and it is expected that its implementation will result in increased efficiency of the operations of all market participants.		
		73%			
SR 7: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION					
1.	Reconstruction and upgrade of Kraljevo 3 substation and reconstruction of Kragujevac 2 substation, necessary for the introduction of the new Kragujevac - Kraljevo transmission line	fully implemented			
2.	Construction of the Kragujevac - Kraljevo transmission line	fully implemented			
		100%			
SR 8: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH IMPROVING THE LEGISLATIVE AND INSTITUTIONAL FRAMEWORKS AND PROVIDING INCENTIVES					

1.	Establishment of the Energy Efficiency Financing and Promotion Administration	fully implemented			The Administration was established at the end of 2021, and on 7 February 2022, the handover of the cases arising from the operation of the Budget Fund for improving energy efficiency of the Republic of Serbia and the Administration was completed, thereby officially marking the start of the Administration's operation.
2.	Passing bylaws for full harmonisation with EU regulations in the field of energy efficiency	progress in implementation			
3.	Directing the full amount of compensation into incentives for energy efficiency through the activities of the Administration	fully implemented			In the budget for 2022, RSD 1.983 billion was secured for the incentives provided by the Administration, while in 2021, around RSD 1.38 billion was collected from fees.
4.	Financing of energy efficiency projects	fully implemented			Continuous activity. Currently, MME is implementing projects worth about EUR 522 million, and new projects worth about EUR 402 million are planned. The expected result of all these projects is energy savings of about 952 GWh/year and reduction of CO ₂ emissions by 580,482 t.
5.	Strengthening capacities for the implementation of energy efficiency policy	progress in implementation			
		92%			
SR 9: TAX ADMINISTRATION TRANSFORMATION					
1.	Business process re-engineering, including the training of trainers for the introduction of new functions in the Serbian Tax Administration operational units	progress in implementation	In connection with the implementation of consulting services for the Business Process Re-engineering in tax administration, including the training of trainers for the introduction of new functions in the organizational units of the Tax Administration (hereinafter: BPR), interactive workshops of the selected consultant		

			<p>were held with Tax Administration teams, formed by functionalities, where the new General Business Model of the Tax Administration was elaborated in detail, with special reference to the concept of introducing a one payment account for public revenue payment and variants of the method of calculating interest on due, unpaid liabilities, in the context of their impact on redesigned business processes. On 7 June 2022, the consultant submitted a draft report "Business Process Design with attachments and presentations" for comments. Having addressed comments and decisions made on all important issues, the consultant proceeded with the preparation of the final version of the document "Business Process Design with attachments and presentations". STA expects that the mentioned document contains a list of business processes with precisely defined process owners i.e. clearly defined competences and responsibilities. In accordance with the suggestions and decisions made by the Tax Administration and the Ministry of Finance, the consultant submitted a draft of the final version of the document Business Process Design with attachments and presentations, which was presented to the Ministry of Finance and the Tax Administration. The final version of the document was adopted at the 47th session of the STA Transformation Committee.</p>		
2.	Implementation of activities under the TAMP Procurement Plan (Tax Administration Modernisation Project)	progress in implementation	<p>Activities were carried out in connection with the project "Consulting Services for the Institutional Development of the Serbian Tax Administration's Human Resources Function". The work on the assignment kicked-off on 8 September 2022 and its purpose is to improve the human resources management function through the development of the human resources strategy and the improvement of the existing human resources management information system. The Consultant submitted the following documents: "Presentation of international best practices in the HRM field" and "Analysis of the deviation of the existing</p>		

			and preferable STA situation", which are currently undergoing review by STA. In addition, a contract was signed for the acquisition of the license for "Transfer Pricing Catalyst Module" Orbis database , while other activities envisaged under the Procurement Plan are implemented as planned.		
3.	Analysis and introduction of a modern records management system through a comprehensive information management model	progress in implementation	The consultant for records management started with the analysis of the legal framework and the preparation of the draft document: "Legal analysis related to documentation flows and archiving of the Serbian Tax Administration". An analysis of the relationship of the competence related to the tax on the transfer of absolute rights between the Tax Administration and the local tax administration makes an integral part of the document, while its final part consists of conclusions and recommendations for improvements related to the handling of the Tax Administration documentary and archival materials. The revised version of the Analysis (based on the received suggestions) was completed on 29 November 2022 and resubmitted for comments and/or suggestions to the Tax Administration representatives on 30 November 2022. The consultant prepared a proposal for shortening the period required for storage of the Tax Administration registry material based on the existing (applicable) list of registry material with storage periods of the Tax Administration dating from 2015.		
4.	Procurement of systems for a new ICT platform	implementation ongoing with some initial results	Within the assignment for the "Supply and installation of a commercial off-the-shelf solution" (COTS)", draft criteria for the initial selection of suppliers were made and a special procurement notice for application was published. The deadline for submission of applications was 21 November 2022. According to the decision of the STA Director, an evaluation committee for the evaluation of applications was formed in the procurement procedure for the supply and installation of a commercial off-the-shelf solution (COTS). In addition, on 5 December 2022, a contract was signed with the selected consultant for		

			"Advisory services of overall support for the Supply and installation of a commercial off-the-shelf solution (COTS) for the Tax Administration of the Republic of Serbia".		
		75%			
SR 10: INTRODUCTION OF A NEW FISCALISATION MODEL AND TRANSITION TO ELECTRONIC INVOICING					
1.	The start of the new centralized fiscalization platform	fully implemented			
2.	Launching of centralized eInvoicing platform	fully implemented			
3.	The spread of electronic invoicing covers the entire sector of the economy	fully implemented	The commercial sector is included in the system of electronic invoicing in the part in which they do business with the public sector, the legal requirement came into force on 1 April 2022. From that date, receiving and sending electronic invoices for doing business between public sector entities became mandatory. In addition, legal requirement to receive electronic invoices for the commercial sector entities became mandatory by the Law as of 1 July 2022. The last prescribed deadline, i.e. 1 January 2023 refers to the mandatory sending of electronic invoices among commercial sector entities, thereby fully completing the inclusion of all taxpayers in the electronic invoicing system according to the Law.		
4.	Education and communication with users of the fiscalization platform and the electronic invoicing platform to facilitate transition to the new system	fully implemented	All trainings for the new fiscalization system have been implemented. Also, trainings for electronic invoicing were implemented, namely: 1) fully for the public sector; and 2) for the commercial sector, the trainings were implemented until the end of 2022, and related to the mandatory sending of electronic invoices from 1 January 2023. Support to the Ministry of Finance in the part of training for the new fiscalization model was provided by the Serbian Chamber of Commerce, and by NALED when it comes to electronic invoicing.		An extensive media campaign was carried out when it comes to both segments of this strategic reform, through a large number of appearances in specialized television shows, footages in the TV information programmes with a national frequency, as well as through advertising campaigns (radio and TV commercials, billboards, advertising material, etc.).
		100%			
SR 11: INTRODUCTION OF THE CIRCULAR ECONOMY CONCEPT					
1.	Support to business entities in their transition to business models based on the principles of circular economy	progress in implementation	Circular Economy Development Programme in the RoS for 2022-2024 with the Action Plan, which is a public policy document related to		In the Q4 2022, activities were carried out within the framework of Specific

			<p>circular economy was adopted on 1 December 2022. The implementation of the activities envisaged in the Action Plan will start at the beginning of 2023, and one of the objectives is the measure proposed in the Economic Reforms Programme: Support for business entities in the transition to business models based on circular economy principles. The activities will be implemented with the support of a project funded by Sweden, implemented by the Faculty of Technology and Metallurgy in Belgrade and the Ministry of Environmental Protection, Green Transition: Implementing Industrial Emissions Directive in Serbia 2021-2025. Activities will start in the first quarter of 2023 with the preparation of criteria for the selection of business entities that will be supported in the development of action plans for the transition to a circular business model.</p>		<p>Objective 1 of the Circular Economy Development Programme: Support to the economic sector in the transformation to a circular business model; MEASURE 1.4 Encouraging cooperation between research and development institutions and business entities in the field of innovation and optimization of production: 1.4.1 Announcement of calls and selection of submitted projects and 1.4.2 Allocation of funds and promotion of call results. Circular vouchers in the amount of USD 10,000 each were awarded to 12 selected project ideas. Funds for the vouchers are secured from the project "Reducing Community Carbon Footprint by Circular Economy Approach in the Republic of Serbia", financed by the GEF, and implemented by the UNDP and the Ministry of Environmental Protection. The project started in March 2022 and will last until March 2027.</p>
2.	Promotion of circular economy and education of business entities	progress in implementation	<p>In cooperation with the Serbian Chamber of Commerce, two groups of workshops for business entities were held in the first quarter of 2022: Circular economy modules (education of business entities on the basics of the circular economy, attended by 34 participants) and Education on the waste water systems regulation within the framework of the circular economy (more than 150 representatives of business entities, local self-governments and competent inspectorates attended five workshops). Guidelines for decarbonisation were prepared and will be available on the platform of the Circular Economy Centre, and</p>		

			they will be continuously presented at the sessions of the Parliament of Businessmen by regional chambers of commerce. The guidelines “Material reuse in the circular economy approach, rubber and glass as a resource potential” were also prepared. In Q4 2022, the workshops: "Carbon accounting and sustainable business" and "Mechanism for reducing greenhouse gas emissions - what can Serbian economy expect?" were organized in cooperation with the Serbian Chamber of Commerce as well. A total of over 100 participants attended the workshops		
		80%			
SR 12: DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL INFORMATION AND COMMUNICATIONS INFRASTRUCTURE					
1.	Connecting educational and cultural institutions to AMRES	fully implemented			
2.	Activities on the improvement of IC infrastructure in primary and secondary schools in RS - “Connected schools”	fully implemented			
3.	Construction of optical broadband network in rural areas of the Republic of Serbia - phase 1	progress in implementation	Procurements were carried out within Phase 1 of the Construction of optical broadband network in rural areas of the Republic of Serbia Project for the contractor for the construction of the middle mile segment of the infrastructure and for technical supervision of the construction of the middle mile segment of the infrastructure, which is carried out according to the rules of the European Bank for Reconstruction and Development. The contracts were concluded in August 2022 and the execution of works began in September 2022.		
4.	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia - phase 2	progress in implementation	Activities are carried out according to plan. The first public procurement for the construction of 900 km of optical infrastructure is underway, the prequalification process with 3 qualified bidders is completed, and the contract conclusion is expected in following period.		
		90%			
SR 13: SETTING THE INFRASTRUCTURE AND ENVIRONMENT FOR THE CREATION AND APPLICATION OF INNOVATIVE AND ARTIFICIAL INTELLIGENCE BASED SOLUTIONS					

1.	Provision of necessary infrastructure and resources for the development of AI and DC in Kragujevac	fully implemented			
2.	Conducting Public Call for 7 towns/LSGUs for participation in the Smart City project, in partnership with the commercial sector and the academic community	in preparation			In the meantime, there was a change in the plan, so that the public call will be carried out for 3 towns/LSGUs in the period 2023-2025.
3.	Preparation of technical documentation and preparation for the beginning of construction of the "Ložionica" Centre	progress in implementation	The activity is carried out in accordance with the planned deadlines. Location requirements have been obtained. The building permit design was finalized and accepted. The tender based on the BPD for the execution of the works was successfully carried out and the tender documentation is currently being harmonized with the offer. The request for a building permit is in the final stage of obtaining. Ložionica's business plan is currently under preparation, and it will provide a detailed overview of the service portfolio, a human resources development plan and a marketing plan, as well as a financial plan with clearly defined expenditures and revenues projections for 10 years. Engaged consultants specializing in dealing with the development of the Incubator for creative industries which will be a key development component of Ložionica. Designing a programme for work with children from primary and secondary schools on the development of creative, entrepreneurial and digital skills is underway in cooperation with companies that are global leaders in this field.		
		67%			
SR 14: DEVELOPMENT OF THE STARTUP ECOSYSTEM					
1.	Creating a call of the Innovation Fund for venture capital fund co-financing and investments of business angels	fully implemented			
2.	Establishment of the Start-up Register	initial steps have been taken	Public procurement for the development of a software solution announced. Prepared Rulebook which will be the basis for the creation of the Register.		
3.	Establishment of GovTech	progress in implementation	A comparative analysis was prepared to find the right solution for the ecosystem in Serbia, and a basis for the implementation of the GovTech.		

4.	Preparation and implementation of training for civil servants working with start-ups	initial steps have been taken	Plans and a training programme for civil servants were prepared and should be implemented over the next year.		
5.	Strengthening start-ups to attract investment through inclusion in the acceleration programme of the Innovation Fund (SAIGE)	implementation ongoing with some initial results	A total of 148 applications were submitted to the call published in October 2021, while 19 of the best companies were selected for the Acceleration programme.		
		64%			
SR 15: CREATION OF CONDITIONS FOR THE DEVELOPMENT OF BIO SCIENCE AND BIOECONOMY THROUGH THE CONSTRUCTION OF BIO4 CAMPUS					
1.	Development of the architectural-urban competition and obtaining the conceptual design and location requirements for the entire campus	progress in implementation	A conceptual design was prepared, and information on the location requirements was provided by the end of 2022.		
2.	Preparation of project documentation for the construction and the Implementation of the Phase 1 of the construction	progress in implementation	Obtaining location requirements is in progress, and the preparation of documentation for a building permit started (end of 2022).		
3.	Connecting BIO4 Campus users with international scientific and corporate partners	initial steps have been taken	This is a continuous process. Until the physical infrastructure is built, the BIO4 Campus is used as a platform to connect with various partners, on a national and global level.		
4.	Implementation of transformation plans of Research and Development Institutes (IMGGE)	progress in implementation	The Ministry responsible for science and technological development signed the Memorandum of Understanding with IMGGE in December 2021, while the Agreement on Financing the IMGGE transformation was signed in April 2022. Transformation Plans for other institutes, future BIO4 Campus tenants is underway. The transformation plan includes capacity building, technology transfer and infrastructure support for each institute individually. In parallel, trainings will be conducted in various areas, including change management and commercialization of innovative solutions.		
		70%			
SR 16: IMPROVING CONDITIONS AND REMOVING BARRIERS TO TRADE					
1.	WTO accession negotiations - bilateral negotiations, adoption of regulations harmonized with WTO rules and principles	implementation ongoing with some initial results	Continued consultations with competent departments and preparation of appropriate documents, required for continuation of negotiations with individual WTO members with whom bilateral negotiations are still open.		

2.	MAP REA - CEFTA - Implementation of Additional Protocol 5 on Trade Facilitation	progress in implementation	The implementation of CEFTA Additional Protocol 5 represents a continuous and permanent activity, which is not limited in time, but aims to further facilitate trade.		
3.	MAP REA - CEFTA: Implementation of Additional Protocol 6 on Trade in Services	progress in implementation	The implementation of CEFTA Additional Protocol 6, which facilitates trade in services, represents a continuous and permanent activity, aimed at deepening cooperation and more liberal trade in services in a period that is not time limited.		
4.	MAP REA - CEFTA: Implementation of Additional Protocol 7 on Dispute Settlement	progress in implementation	The 8th round of negotiations is underway, and it is progressing with intense dynamics, and the adoption is expected at the beginning of 2023.		
5.	Adoption and the implementation of the new NCBTF Action Plan for 2022-2023 and implementation of the planned activities	progress in implementation	The action plan for the period 2022-2023 was adopted within the planned period and the continuous implementation of the planned activities is underway.		
		76%			
SR 17: IMPROVEMENT OF EFFICIENCY AND SAFETY IN RAILWAY TRAFFIC					
1.	Application of the new Methodology for calculating the price of access to railway infrastructure	in preparation	In the previous period, a kick-off meeting of the Working Group members was held, where the tasks and stakeholder activity plans were defined. Therefore, the Ministry of Construction, Transport and Infrastructure started with the preparation of Draft Decree on the methodology for determining the prices of access to railway infrastructure and the prices of basic, additional and accompanying services in accordance with the proposal made by KPMG consultants within the Project of Technical Assistance to the Ministry of Construction, transport and infrastructure and the state-owned railway companies in Serbia - Comprehensive railway reform (Source of financing is IPA Program 2014). It is planned that in the beginning of 2023, the "Serbian Railway Infrastructure" will complete the previously started process of the new methodology simulation in order to enable further impact assessment on the operation of railway companies, i.e. to assess how the new access prices will affect the revenues of infrastructure managers and the costs of railway carriers on the competitiveness and market and,		

			accordingly, proceed with further correction and introduction of certain coefficients in the new methodology, i.e. formulas for calculating access prices. After the final decision of the WG on this matter and upon the adoption of the previously mentioned Decree on the methodology, its will start with practical application.		
2.	Increasing safety in railway traffic	implementation ongoing with some initial results	The reform is closely related to the implementation of infrastructure projects in the field of railways. Implemented projects are giving results, but continuation is expected along with further infrastructure development. To increase safety in railway traffic, funds have been provided within the framework of the Western Balkans Trade and Transport Facilitation Project, which is financed by the World Bank loan for modernization in the amount of EUR 10.9 million. Also, the EBRD approved the repurposing of the remaining funds from the existing loan (about 10 million euros) for financing works to improve insurance at road crossings. The contract for the execution of the works was concluded in April 2022 and the contract execution is underway. In addition, loan agreements were signed with the World Bank and the French Development Agency for the Serbia Railway Sector Modernization - Phase 1, which includes the component of improving level crossing insurance in the amount of 22 million euros.		
3.	Improving the efficiency of passenger traffic	progress in implementation	With the modernization and completion of new passenger transport lines, the efficiency of passenger transport is expected to increase in the coming period. In March 2022, the high-speed railway on the route Belgrade Centre - Novi Sad was put into commercial service. In the period from March to November 2022, a total of 1,913,534 passengers were carried on this route. In the following period, it is expected to continue with the implementation of other projects as well as other activities aimed at further improving the efficiency of railway traffic.		
		53%			

SR 18: IMPROVEMENTS OF THE AGRICULTURE COMPETITIVENESS					
1.	Training of employees who will implement the measure of improvement of rural infrastructure	fully implemented			
2.	Announcement of a public call for measures to improve rural infrastructure	fully implemented			
3.	Adoption of bylaws stemming from the Law on Regulation of the Market of Agricultural Product and the Law on Quality Schemes for Agricultural and Food Sector	in preparation		By-laws are in the preparation phase. The project started in May 2022, which is why the finalization of the preparation and adoption was delayed.	
4.	Adoption of the Law and bylaws stemming on Organic Production	in preparation		The acts were planned according to the Government Work Plan and the deadline for adoption was Q4 2022.	
5.	Adoption of the legal framework for the implementation of land consolidation (Law on Land Consolidation and the Law on Agricultural Land)	in preparation	Preparation is underway. Two Rulebooks regulating and improving the area of agricultural land such as land consolidation were adopted. Considering that land consolidation is a complex procedure and in order to prepare for the adoption of the planned legal regulations, the first steps towards the adoption of the rulebooks were made.		
6.	Capacity building and training of employees in the Directorate for Agrarian Payments	progress in implementation	According to the applicable Rulebook on the Internal Organisation and Job Classification of the Ministry of Agriculture, Forestry and Water Management which entered into force on 1 February 2022, there are 282 employees according to job classification in the Directorate for Agrarian Payments, of which 232 are classified on IPARD related jobs. The current number of employees and engaged persons in DAP is 280 (166 for an indefinite term and 114 for a fixed term). The procedure for conducting the public call for employment announced on 29 September 2021, and announced for the employment of 24 incumbents, ended in May 2021. A total of 11 persons concluded employment contract for an indefinite period, since some candidates in the selection process did not meet the criteria for verification of the required competencies.		

			A new public competition for 31 positions was launched, and announced on 20 July 2022. This procedure is ongoing. TRAINING: By 16 December 2022, 18 trainings were carried out, of a total of 30 envisaged ones under the Training Plan for 2022 (the percentage of the Plan implementation is 60%). In addition, DAP employees participated in 18 trainings that were not foreseen in the Plan.		
7.	Development of software for the RAH database and LPIS database, connection with the Animal Register and development of the remaining parts of the IACS database	initial steps have been taken	The technical specification for the procurement of software for RAH and LPIS was prepared, the tender documentation was prepared, the advertisement was published, bids for the selection of the software were submitted and the evaluation of the bids was completed.		
		54%			
SR 19: SAFE AND QUALITY PRODUCT - INDUSTRY DEVELOPMENT FACTOR					
1.	Implementation of business support programmes for the business entities (Ministry of Justice, Serbian Development Agency – SDA)	no implementation	The implementation of the Financial Support Programme - Using standards to more competitive products was postponed until the following year, and the Budget Law of the Republic of Serbia for the year 2023 provided funds for this purpose, in the amount of 50 million dinars.		
2.	Situation analysis of existing IT capacities and software solutions and the need for their improvement and preparation of project documentation in QI institutions (Ministry of Economy, ISS, ABS and DMPM)	fully implemented			
3.	Improvement of databases and digital service in the Ministry of Economy in connection with technical requirements for products and the portal “TBT - Enquire point” (Product Contact Point) and improvement of databases and digital service in QI institutions (ISS, ABS and DMPM)	progress in implementation	The final reconciliation of the Product-info portal specification with the prepared project documentation and the financial valuation of the future project is underway.		
		60%			
SR 20: DIGITALISATION OF THE EDUCATION SYSTEM AND INTRODUCTION OF A UNIFIED EDUCATION INFORMATION SYSTEM					
1.	Equipping classrooms and cabinets with computer equipment				
2.	Impact assessment of using Unified Education Information System				

3.	Improving the quality assurance system for the application of digital textbooks				
4.	Development of open educational resources repository aggregators				
5.	Increasing the scope of study programmes and profiles in computer science and programming in the field of higher and secondary education in accordance with the needs of the market				
		0%			
R 21: IMPROVEMENT OF THE EFFICIENCY OF THE HEALTHCARE SYSTEM THROUGH THE PROCESS OF DIGITALIZATION					
1.	Connecting healthcare institutions to the central system of electronic health records - institutes	progress in implementation	Vendor Prokom software is in the phase of integration with the central service and is expected to be finalized and put in production in November.		
2.	Establishment of central laboratory system – e-Laboratory	implementation ongoing with some initial results	The public procurement was announced, the contractor was selected, the contract was signed and a kick-off meeting was held concerning all activities related to the project.		
3.	Implementation of drug interaction checking system and clinical decision support system	in preparation	The project is planned through the IPA 2022 financing.		
4.	Extension of e-Prescription for specialists	progress in implementation	Production of services for specialists is expected in the following period.		
5.	Establishment of a centralized e-File system	initial steps have been taken	The public procurement was launched, the contractor was selected and the contract was signed; a kick-off meeting and further work on the e-File is expected.		
6.	Establishment of the e-Sick Leave Platform – the health related part	fully implemented	Piloting in a couple of institutions started, and afterwards the service will be put into production at all healthcare institutions of the primary level of healthcare.		
		63%			

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT PUBLIC POLICY DOCUMENTS

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
SR 1. Establishment of a framework for the introduction of the Youth Guarantee in the Republic of Serbia	KSC 1. Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty	Recommendation 6. Finalize, in cooperation with all relevant ministries, their agencies and interested parties, the Youth Guarantee Implementation Plan, adopt it and initiate its implementation.	<p>- Ensure adequate financial and institutional resources for employment and social policies that would be more systematically focused on youth, women and the long-term unemployed</p> <p>- In particular, take further steps to start piloting the Youth Guarantee in Serbia;</p>	<p>SDG 8.6 By 2020, sustainably reduce the proportion of youth not in employment, education or training</p> <p>SDG 8.b By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organization</p>	<p>Indirect impact on the goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the GAWB implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment</p> <p><i>Creating opportunities for the development of "green" jobs, while increasing cooperation with sectors and partners in the field of environmental protection within the youth guarantee programme.</i></p>	<p>Key initiative 10. Youth Guarantee</p> <p>- Youth Guarantee establishment</p> <p>Western Balkans Declaration on ensuring sustainable labour market integration of young people</p>	<p>IPA 2020</p> <p>Direct grant "Implementation of innovative measures of active employment policy and support for the employment of less employable categories", 4,000,000 euros</p> <p>Part of the funds from the Technical Assistance project from IPA 2020 with a total value of 1,500,000 euros</p>
SR 2. The Young Talent Fund reform	KSC 1. Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty		- Youth policy and support mechanisms are insufficiently and unequally developed and should be further strengthened	SDG 4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship	<i>Creating opportunities for education in the field of environmental protection, while increasing cooperation with sectors and partners in the sphere of "green" jobs</i>	<p>Innovation agenda for the Western Balkans - promoting the development of human capital, stopping the brain drain and encouraging brain circulation.</p> <p>Promoting an inclusive and high-quality education and training system, giving young people better prospects.</p>	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
SR 3. Qualifications oriented to the needs of the labour market	KSC 1. Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty	Recommendation 6. Continue to facilitate the transition from school to the workplace by further strengthening vocational education, including dual vocational education, through revised curricula and the provision of infrastructure that enables the acquisition of practical skills	- It is necessary to continue work on modernization and improvement of qualification standards in order to improve the relevance of professional education and further develop a national learning model based on dual education	SDG 4.3. By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university SDG 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship SDG 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training	Direct impact on the goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms <i>Inclusion of environmental and climate topics in study programmes, curricula and the work of regional training centres. In this way, skills that contribute to the improvement of areas under the Green Deal for the Western Balkans and the European Green Agreement (climate, energy efficiency, transport, agriculture, biodiversity...) are developed and support measures (standards, assessments, reporting, planning, evaluation, technology, financial instruments...) are set.</i>	Chapter IX Investing in human capital - Development of learning through the work within the vocational education and training - Linkage with the European Qualification Framework Innovation Agenda for the Western Balkans - Promoting Human Capital Development, Stopping Brain Drain and Promoting Brain Circulation	
SR 4. Improvement of the environment for encouraging, supporting and monitoring circular and economic migration	KSC 1. Increasing employment, particularly of young people, women and vulnerable groups, as well as social assistance for reduction of poverty			SDG 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors SDG 10.7. Facilitate orderly, safe, regular and responsible migration and	Indirect impact on the goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Green Agenda for the Western Balkans implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to	Key initiative 10. Youth Guarantee - Contributes towards solving brain drain	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
				mobility of people, including through the implementation of planned and well-managed migration policies	information, access to judiciary in environmental issues, as well as reporting on the environment <i>Providing support for the return of experts whose knowledge would contribute to capacity building in the areas contained in the Green Deal for the Western Balkans and the European Green Agreement</i>		
SR 5. Improvement of the quality of public services through optimization and digitization of administrative procedures – e-PAPER	KSC 2. Improvement of the business environment more favourable for investments	Recommendation 2. Reduce the Shadow economy	- Establishing a public administration that is more user-oriented - Further improvement of the legal framework for the simplification of administrative procedures	SDG 16.5. Substantially reduce corruption and bribery in all their forms SDG 16.10. Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements	Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>Integrating administrative procedures within the register (in digital format) contributes towards reducing the use of paper.</i>	Chapter II Good governance as a foundation for sustainable economic growth - Companies need legal certainty, absence of corruption and efficient functioning of the administration in order to be able to establish their business operations. Key initiative 8. Digital infrastructure - Reduce costs and improve quality of services for citizens and economy	IPA 2019 EU for Better Business Environment - EU4BE
SR 6. Sustainable and efficient management of business entities owned by the Republic of Serbia	KSC 2. Improvement of the business environment more favourable for investments	Recommendation 2. Implement a time-bound action plan for implementing the new strategy for the ownership and management of state-	- Increase the transparency of the fiscal impact of state-owned enterprises and improve their management, including further restructuring	SDG 16.7. Ensure responsive, inclusive, participatory and representative decision-making at all levels	Direct impact on the following goals: goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia,	Chapter VIII Boosting the private sector - Ensure the existence of a functioning market economy	

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
		owned enterprises in line with the ERP 2022 timeline, in order to improve the governance of state-owned enterprises and reduce related fiscal risks	- Speed up the process of reforming and improving the efficiency of state-owned enterprises		through the public administration reform, public finance management, economic reform programme and own resource mobilisation goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Green Agenda for the Western Balkans implementation in order to attain monitoring, promotion and compliance with environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment		
SR 7. Development of the domestic capital market and the provision of a greater level of investor protection	KSC 2. Improvement of the business environment more favourable for investments	Recommendation 3. Maintain a transparent and accurate reporting system on the quality of resources and existing reserves on the market	- Liberalize the movement of capital	SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services SDG 8.10. Strengthen the capacity of domestic financial institutions to encourage and expand	Direct impact on the following goals: realization of green finances and investments within the European Green Deal. <i>Creation and development of financial instruments in the field of capital markets that can be used to mobilize finance in order to stimulate green investments and sustainable markets, technologies and inputs.</i>	Chapter X Regional economic integration and integration with the EU - Contribute towards free movement of capital	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
				<p>access to banking, insurance and financial services for all</p> <p>SDG 9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>			
<p>SR 8. Improvement of conditions for enhancing energy efficiency through creating conditions for application of energy labeling and eco-design, as well as through the incentives for enhancing energy efficiency</p>	<p>KSC 3. Greening the energy sector and full opening of energy market</p>	<p>Recommendation 5. Reduce carbon emissions. Implement regulatory, financial and institutional measures for the purpose of greater use of renewable energy sources and energy efficiency, including the introduction of a system of auctions for renewable energy sources (RES) and the establishment of a sustainable financing mechanism for energy efficiency.</p>	<p>- Accelerate the transition to green energy, reduce CO2 emissions, increase the share of renewable sources and save energy.</p> <p>- Carry out concrete activities with the aim of gradually eliminating the use of coal (Establishment of the Administration for Financing and Encouraging Energy Efficiency and Project Financing, Adoption of Bylaws)</p>	<p>SDG 7.2. By 2030, increase substantially the share of renewable energy in the global energy mix</p> <p>SDG 7.3. By 2030, double the global rate of improvement in energy efficiency</p> <p>SDG 7.b. By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support</p>	<p>Direct impact on the following goals:</p> <p>goal 10 of the GAWB - Prioritising energy efficiency and its improvement in all sectors</p> <p>goal 12 of the GAWB - Support for programmes for the reconstruction of both private and public buildings, as well as providing adequate funding</p> <p>goal 13 of the GAWB - Increasing the share of renewable energy sources and creating the necessary investment conditions</p> <p>goal 16 of the GAWB - Development of programmes for solving the problem of energy poverty and financing programmes for the reconstruction of households</p>	<p>Chapter V</p> <p>Investing in Clean Energy</p> <p>- Increasing energy efficiency, strengthening the energy market</p> <p>Key initiative 4. Renewable energy</p> <p>- Increased use of renewable sources of energy</p> <p>Key initiative 5. Transition from coal exploitation</p> <p>- Decarbonisation, use of renewable energy sources</p>	<p>IPA 2021</p> <p>Support for the work of the Energy Efficiency Fund, 5 million euros</p> <p>IPA 2022</p> <p>Support for the work and investments of the Energy Efficiency Fund , 10 million euros</p>

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					<p>and ensuring the basic standard of living</p> <p>goal 8 of the European Green Deal - Strategy for Smart Sector Integration</p> <p>goal 9 of the European Green Deal - "Wave of Renewal" Initiative for the construction sector</p> <p><i>Implement regulatory reform and align it with EU regulations, strengthen institutional capacity and provide financial resources and incentives to improve energy efficiency. A special focus is on supporting energy savings of households through energy rehabilitation of residential buildings and installation of solar panels, as well as the transition to payment based on thermal energy consumption.</i></p>		
<p>SR 9. Integration of renewable sources of electrical energy through the project "BeoGrid 2025"</p>	<p>KSC 3. Greening the energy sector and full opening of energy market</p>	<p>Recommendation 5. Further increase investments in the modernization of energy infrastructure and reduction of carbon emissions in order to accelerate the green transition</p>	<p>- Accelerate the transition to green energy, reduce CO2 emissions, increase the share of renewable sources and save energy.</p>	<p>SDG 7.1. Provide universal access to economically acceptable, reliable and modern energy services</p> <p>SDG 7.b By 2030, expand infrastructure and advance technology to supply modern and sustainable energy for all in developing countries, in accordance with their support programs</p>	<p>Indirect impact on goals:</p> <p>goal 10 GAWB - Prioritizing energy efficiency and its improvement in all sectors</p> <p>goal 13 GAWB - Increase the share of renewable energy sources and ensure the necessary conditions for investment</p> <p>goal 8 of the European Green Deal - Strategy for smart sector integration</p>	<p>Chapter VI. Greening the Western Balkans - investing in the environment and climate</p> <p>- Transition from fossil fuels to renewable energy</p> <p>Key initiative 4 – Renewable energy</p> <p>- improve investments in wind farms</p>	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
SR 10. Energy market development coupled with energy infrastructure construction	KSC 3. Greening the energy sector and full opening of energy market	Recommendation 5. Additionally increase the investments in the modernization of energy infrastructure	- Enable further development of the regional electricity market	SDG 7.1. By 2030, ensure universal access to affordable, reliable and modern energy services	Indirect impact on goals: goal 10 GAWB - Prioritizing energy efficiency and its improvement in all sectors goal 8 of the European Green Deal - Strategy for smart sector integration goal 10 of the European Green Deal - Evaluation and review of the Trans-European Energy Network Regulation <i>The construction of new interconnectors enables improvement of transmission systems, safety and reliability of electricity supply. This approach can contribute to increasing energy efficiency and strengthening regional cooperation .</i>	Chapter VI. Greening the Western Balkans - investing in the environment and climate - Investing in infrastructure that supports cross-sectoral transformation towards a climate-neutral economy Key initiative 5. Transition from coal mining - Construction of the Trans-Balkan SDGridor project	Technical assistance and investment grants of the Investment Framework for the Western Balkans
SR 11. Tax administration transformation		Recommendation 2. Reduce the shadow economy, improve VAT collection, improve the tax control process and implement tax administration reform according to the time frame given in ERP 2022	- Continue with the implementation of the Tax Administration Transformation Program in order to rationalize the activities of the Tax Administration - Provide sufficient human and IT resources within the Tax Administration - Improve tax collection and fight the gray economy	SDG 16.6. Develop effective, accountable and transparent institutions at all levels SDG 17.1. Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection	Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>Improving the collection of public revenues, improving the quality of existing and introducing new types of services tailored to the needs of taxpayers can contribute to</i>		/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					<i>providing additional financial resources that could potentially be used in the environmental budget. Also, environmental experts have been hired to help the Tax Administration successfully implement and monitor project activities that are subject to environmental risks, manage their impacts and prepare environmental management plans to ensure effective environmental protection, health and safety at work.</i>		
SR 12. Implementation of the circular economy in creating favourable environment for the green transition			<p>- Intensify work on implementation and enforcement: compliance with environmental impact assessment rules, closure of non-compliant landfills, increased investment in waste reduction, separation and recycling while improving air and water quality</p> <p>- Improve inter-institutional coordination, increase investments in the environment as well as further improve strategic planning of investments and management, including transparency of procedures</p>	<p>SDG 3.9. By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination</p> <p>SDG 11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water related disasters, with a focus on protecting the poor and people in vulnerable situations</p> <p>SDG 12.1. Implement the 10-Year Framework of</p>	<p>Direct impact on goals:</p> <p>goal 30 GAWB - Application of the industrial ecosystem approach in order to achieve ecologically sustainable, balanced economic recovery</p> <p>goal 31 GAWB - Development of circular economy strategies, taking into account the entire product life cycle</p> <p>goal 13 of the European Green Deal - Action plan for the circular economy, including an initiative for sustainable products and a special emphasis on resource-intensive sectors, such as the textile sector, construction, the electronics and plastics sector</p> <p>goal 14 of the European Green Deal - Initiatives to stimulate leading markets for</p>	<p>Chapter VI Greening the Western Balkans - investing in the environment and climate</p> <p>- Application of the circular economy concept at all levels and provision of institutional support</p> <p>Key initiative 7. Waste and wastewater management</p> <p>- Sustainable and reliable ways of managing water supply, wastewater and waste disposal are essential for the protection of the environment and the health of citizens</p>	

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				<p>Programmes on Sustainable Consumption and Production Patterns, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries</p> <p>SDG 12.2. By 2030, achieve the sustainable management and efficient use of natural resources.</p>	<p>climate-neutral and circular products in energy-intensive industrial sectors</p> <p><i>The introduction of the circular economy concept directly contributes to the implementation of the green economic transition, the efficient use of resources and energy, the preservation of biodiversity and the protection of nature. Companies in the private and public sector are encouraged to adopt circular economy principles in their business processes.</i></p>		
<p>SR 13. Development and improvement of the national information and communication infrastructure</p>			<p>- Continue project implementation construction of an optical broadband network</p>	<p>SDG 4.4. By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.</p> <p>SDG 9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020</p>	<p>Indirect impact on the following goals:</p> <p>goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p>goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Western Balkan Green Deal implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient</p>	<p>Chapter VII Investing in a digital future</p> <p>- Construction and improvement of a fast national broadband network with universal access</p> <p>Key initiative 8. Digital infrastructure</p> <p>- Development and introduction of national broadband infrastructure, with special focus on connecting rural areas</p>	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					<p>mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment</p> <p><i>Strengthening the information and communication infrastructure indirectly contributes to increasing the level of information about the environment, the necessary skills and employment opportunities.</i></p>		
<p>SR 14. Setting the infrastructure and environment for the creation and application of innovative IT solutions</p>			<p>- Encourage more intensive cooperation between industry and academia, in accordance with the national strategic framework</p>	<p>SDG 9.b Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities</p>	<p>Direct impact on the following goals: goal 17 of the GAWB –</p> <p>Support the development of smart transport infrastructure, promote the promotion of innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.)</p> <p>goal 35 of the GAWB - Further implementation of the Smart Specialisation Strategies, which represent location transformation plans for sustainability, based on innovation and indirect impact on the following goals:</p> <p>goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-</p>	<p>Chapter VII Investing in the digital future</p> <p>- Development of regional centers for digital innovations and their connection with Science and Technology Parks</p> <p>- Supporting companies to increase their competitiveness by using digital technologies, especially the use of artificial intelligence in the business sector</p>	

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					<p>carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p>goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Western Balkan Green Deal implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment</p> <p><i>The use of artificial intelligence in the development of innovative technologies and the implementation of the Smart City project, which directly supports the sustainability of urban areas and the economy, with priority given to solutions that, among other things, deal with environmental protection. It indirectly improves access to information, stimulates innovation and creativity, and promotes the exchange of knowledge, thus offering an opportunity for better engagement of the business sector and local self-</i></p>		

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					<i>government in efforts to protect the environment.</i>		
SR 15. Support to the development of talents and creative industries by establishing the multifunctional innovative-creative center Ložionica			- Encourage more intensive cooperation between industry and academia, in accordance with the national strategic framework	SDG 9.b Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities	Direct impact on goals: target 35 GAWB - Further implementation of the Smart Specialization Strategy, which represents locational transformation plans for sustainability, based on innovation and indirect impact on the target: goal 60 GAWB - Create programs and take the necessary measures to increase administrative capacities for the implementation of the Green Agenda for the Western Balkans in order to achieve supervision, promotion and compliance with environmental obligations and ensure effective mechanisms for public participation, access to information, access to justice in matters of environmental protection, as well as environmental reporting	Chapter VII Investing in the digital future - Development of regional centers for digital innovations and their connection with Science and Technology Parks - Supporting companies to increase their competitiveness by using digital technologies, especially the use of artificial intelligence in the business sector	
SR 16. Development of the startup ecosystem			- Continue work on strengthening the systemic approach to the development of entrepreneurial knowledge and skills through formal education, increasing the number of startups and opportunities for private	SDG 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors	Indirect impact in the field of mobilizing research and fostering innovation and green finance and investment under the European Green Deal. <i>Strengthening the startup business environment through incentive measures creates</i>	Chapter VII Investing in a digital future - Support for digital "startup" and "scale-up" companies and the development of digital skills.	IPA 2018 IPA 2019 Innovation Activity Fund

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
			investors and technology transfer	<p>SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>SDG 8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value</p> <p>SDG 9.3. Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>	<i>conditions for the development of technologies and innovations that could contribute to the preservation of the environment and climate..</i>	<p>Chapter VIII Boosting the private sector</p> <p>- Strengthening the competitiveness of SMEs through investments to support "startup" companies and innovative companies in the growth phase ("scale-up")</p>	
SR 17. Creation of conditions for the development of bio science and bioeconomy through the			- Encouraging more intensive cooperation between industry and academia, in acSDGdance	SDG 8.2. Achieve higher levels of economic productivity through diversification, technological upgrading	Direct impact on the following goals: goal 35 of the GAWB - Further implementation of the Smart Specialisation Strategies, which	Innovation agenda for the Western Balkans - Further strengthen technology transfer16 and will facilitate access	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
construction of the BIO4 Campus			with the national strategic framework	and innovation, including through a focus on high-value added and labour-intensive sectors SDG 8.3. Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services SDG 9.5. Expand scientific research, improve technological capacities and encourage innovation.	represent location transformation plans for sustainability, based on innovation the goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms <i>The Bio4 campus supports the development of biotechnology, biomedicine, bioinformatics and biodiversity, which directly contributes to capacity building and dissemination of knowledge in these areas. It is also planned to improve the connection of the participants of this campus with international scientific and corporate partners</i>	to the world's best research infrastructure, knowledge centers, competence centers and online platforms, as well as access to advanced computer simulations - Promoting open science and state-of-the-art research infrastructure	
SR 18. Improvement of conditions and removal of the barriers to trade			- Finalize accession to the WTO, among other things, by adopting the Law on Genetically Modified Organisms, which is in line with the WTO, and by ending the remaining bilateral negotiations on market access. - Continue with the implementation of the activities defined within the Action Plan for the	SDG 17.10. Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda SDG 17.11. Significantly increase the exports of developing countries, in particular with a view to	Direct impact on the following goals: goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation goal 41 of the European Green Deal - Stakeholders	Chapter VIII Boosting the private sector - Greater market integration and trade within the region and with the EU Chapter X Regional economic integration and integration with the EU - Market integration and cross-border trade in the	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
			Common Regional Market 2021-2024 - Ensure adoption of CEFTA Additional Protocol 7 on dispute settlement.	doubling the least developed countries' share of global exports by 2020 SDG 17.12. Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access	identify and correct inconsistent legislation that minimise efficiency in the implementation of the European Green Deal <i>Opening up trade, strengthening competitiveness and joining the European single market contribute to the integration of the environment and climate into the national legal framework. This includes the implementation of relevant EU directives and standards related to sustainability and the green agenda.</i>	region and with the European Union - Removal of technical barriers in trade, while ensuring equal conditions for participation - Cooperation through the Central European Free Trade Agreement (CEFTA)	
SR 19. Improvement of efficiency and safety in railway traffic			- Focus on strengthening the safety system in railway traffic - Further implement the adopted legislation and strengthen institutional capacities	SDG 3.6. By 2020, halve the number of global deaths and injuries from road traffic accidents SDG 9.1. Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all SDG 11.2. By 2030, provide access to safe, affordable, accessible and	Direct impact on the following goals: goal 17 of the GAWB - Support the development of smart transport infrastructure, promote the innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.) goal 18 of the GAWB - Implementation of the regional action plan for railway reform	Chapter IV Investments in sustainable transport - Safety at level crossings - Providing assistance in designing and implementing maintenance programmes, - Improving the fragmented railway network	/

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
				sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons	<p>goal 20 of the GAWB - Defining a general strategy for shifting traffic from road to more environmentally friendly modalities</p> <p>goal 23 of the European Green Deal - Initiatives to increase the capacity of railways and inland waterways and their better management</p> <p><i>Improving efficiency, safety and establishing a new method of calculating prices contribute to the strengthening of railway traffic. The planned higher traffic of goods and passengers in railway transport, as energy efficient and environmentally friendly areas of transport, directly contributes to the preservation of the environment and the reduction of pollution.</i></p>		
SR 20. Improvements of the agriculture competitiveness			<p>- Ensure smooth transfer of IPARD measures to the period 2021-2027 and prepare new measures</p> <p>- Achieved progress in the implementation of the Action Plan for alignment with the EU acquis in the field of agriculture and rural development</p>	SDG 2.3. By 2030, double the agricultural productivity and incomes of smallscale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value	<p>Direct impact on the following goals:</p> <p>goal 42 of the GAWB - Integrating land protection into other policy areas and establishing a regional partnership for land protection, in order to facilitate the exchange of knowledge and identify examples of good practice in protecting land from pollution and degradation</p> <p>goal 44 of the GAWB - Align the agri-food and primary production sectors with EU</p>	<p>Chapter III Importance of Investment Package</p> <p>- Support investments in rural areas through IPARD funding,</p> <p>Chapter VIII Boosting the private sector</p> <p>- Enable investments in sustainable agricultural production to support balanced rural development and strengthen the competitiveness and</p>	<p>IPA 2017 unallocated "Support to IPARD Operating Structure (Managing Authority and IPARD Agency)".</p> <p>Implementation period 6/01/2022 - 06/01/2023</p> <p>Contract value: EUR 658,740.00;</p> <p>IPA 2018 unallocated "Strengthening and harmonization of</p>

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
				<p>addition and non-farm employment</p> <p>SDG 2.4. By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality</p> <p>SDG 11.3. By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.</p> <p>SDG 12.5. By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</p>	<p>standards on food safety, plant and animal health and well-being and the environment, and address the issues of wastewater, fertilizer and waste management</p> <p>goal 46 of the GAWB - Promoting environmentally friendly (zero pollution) and organic agriculture and reducing the use of synthetic chemicals in food production</p> <p>goal 47 of the GAWB - Cooperation with scientific, educational, business and agricultural institutions in order to facilitate the transfer of innovative and ecological technologies and agricultural methods</p> <p>goal 49 of the GAWB - Increasing efforts aimed at sustainable development of rural areas with the implementation of the LEADER programme</p> <p>goal 50 of the GAWB - Support for investments in production and renewable energy technologies, as well as reduction of greenhouse gas emissions and implementation of adaptation measures to climate change in agriculture</p> <p>goal 17 of the European Green Deal - Proposing reforms of waste legislation</p>	<p>sustainability of the agri-food sector,</p> <p>Key Initiative 9 - Investing in private sector competitiveness</p> <p>- Mobilize assistance for sustainable transformation of agri-food systems and rural development</p>	<p>administrative capacities for the establishment of agricultural products market regulation"</p> <p>Implementation period 5/5/2022 - 5/5/2024</p> <p>Contract value: 1,795,476.45 euros</p> <p>IPA 2018 "Support to establishment of carcass classification system in line with the EU Common Agricultural Policy"</p> <p>Implementation period 6/6/2022 - 12/6/2023</p> <p>Contract value: 1,000,000.00 euros</p>

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					<p>goal 26 of the European Green Deal - Strategy “from the field to the table”</p> <p>goal 27 of the European Green Deal - Measures, including legislation, to significantly reduce the use and risk of chemical pesticides as well as the use of fertilizers and antibiotics</p> <p><i>The development of rural infrastructure and market value chains based on the principles of sustainability, environmental friendliness and low emissions affect the preservation of the environment. Establishing product quality schemes contributes to the improvement of food (especially organic) production. The process of land consolidation contributes to the integrated management of natural resources and the connection of ecosystems, in accordance with the requirements of the environment. Overall, improving the competitiveness of agriculture contributes to greening, improving rural agrobiodiversity and mitigating climate change.</i></p>		
SR 21. Improvement of the strategic framework of quality infrastructure and				SDG 7.3 By 2030, double the global rate of improvement in energy efficiency.	Direct impact on goals: goal 41 of the European Green Deal - Stakeholders identify and SDGrect non-aligned legislation that reduces	Chapter VI Greening the Western Balkans - investing in the environment and climate	IPA 2019 - EU4BE - EU for better business environment - EU4BE. (Project Quality

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
integration into a single EU market				<p>SDG 9.2. Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.</p> <p>SDG 12.8. By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p>	<p>the effectiveness of the implementation of the European Green Deal</p> <p><i>Opening trade, strengthening competitiveness and inclusion in the single the European market contributes to the integration of the environment and climate into the national legal framework. This includes the implementation of relevant EU directives and standards related to sustainability and the green agenda.</i></p> <p>Indirect impact on goals:</p> <p>goal 30 GAWB - Application of the industrial ecosystem approach in order to achieve ecologically sustainable, balanced economic recovery</p> <p>goal 31 GAWB - Development of circular economy strategies, taking into account the entire product life cycle</p> <p>goal 59 GAWB - Improve cross-sectoral management and support the integration of green and low-carbon transition, among other things, through public administration reform, public finance management, economic reform program and mobilization of own resources</p> <p>goal 13 European Green Deal - Circular Economy Action</p>	<p>- Promotion of sustainable production patterns and systems of food products</p> <p>Chapter X Regional economic integration and integration with the EU</p> <p>- Market integration and cross-border trade in the region and with the European Union</p> <p>- Removal of technical barriers in trade, while at the same time ensuring equal conditions of participation</p> <p>- Cooperation through the Central European Free Trade Agreement (CEFTA)</p>	<p>infrastructure, competitiveness development factors - preparatory activities for the improvement of the strategic and legislative framework)</p>

Structural reforms (SR) ERP 2023-2025	Key Structural Challenges (KSC) (Evaluation of EC ERP 2022-2024)	ERP Joint Conclusions 2022	2022 Enlargement Package	Sustainable development goals 2020-2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA projects supporting this reform
					Plan, including an initiative for sustainable products and a special emphasis on resource-intensive sectors, such as the textile sector, construction, the electronics and plastics sector <i>Increased use of standards and product certification, along with improving the information and availability of digital services related to the application of technical regulations can indirectly contribute to harmonization (alignment) with European environmental procedures, standards, regulations and requirements.</i>		
SR 22. Improving the efficiency of the health system through digitalization of the processes			- Improve the institutional, administrative and technical capacities of the health care system	SDG 3.8. Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all	Indirect impact on the goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation <i>Digitisation should impact on the reduction of the use of papers and other printing material, thus reducing waste</i>	Chapter VII Investing in a digital future, - Support for the development of digital skills, such as e-health services - Set priorities and introduce digitisation in the mainstream of national policy	IPA -2021

ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2023-2025.

Area / type of comment	Comment provided by (institution and contact details), date of the comment	Comment (main suggestions and remarks in brief)	State of the comment / Explanation for comment accepting or rejecting
Document ERP 2023-2025. General comments	NCEU Intersectional Working Group on ERP, submitted electronically on 26 December 2022.	Development planning documents such as the Development Plan, Investment Plan, which are planning documents of the widest scope, do not exist, therefore most of the challenges and measures in the ERP for 2023-2025, are of an incentive and institutional management nature, and are not preceded by public policy measures that are of a regulatory nature (Law on the Planning System of the RS, 2018).	By-laws that determine the methodology for the preparation of the Development Plan, which is provided by the Law on the Planning System, are currently being prepared. ERP represents a strategic document that contains priority reforms presented in strategic and planning documents of various policies, thus it is an umbrella document in the field of economic development.
	Prepare ERP in such a way as to present performance indicators, not just result indicators.	Comment is not applicable. The ERP document is prepared according to the European Commission guidelines, while according to the Law on Planning System (LoPS) ERP is exempted from the obligation related to the preparation of the public policy documents, as well as obligations regarding the presentation of indicators. EC guidelines for the preparation of ERP explicitly mandate the presentation of the result indicators, and we are obliged to follow the guidelines.	
	Prepare ERP in such a way that the impact of structural reforms in the period for which they are adopted, on the reduction of regional disparities in Serbia, is clearly expressed.	The impact of structural reforms on regional development is extremely significant and it would be useful to show it for all structural reforms. Currently, this topic is shown only within certain structural reforms. It was agreed to continue the cooperation with the NKEU in the next ERP cycle, in order to respond adequately to this recommendation.	
	Certain structural reforms are part of the activities up to described in detail, while others are quite general, which would should be avoided in the next cycle.	When describing SR activities, their complexity, duration, and content are taken into account, as well as the related policies, which all together determine the level of details shown in the description of activities. Special attention is paid to the definition of SR activities in each cycle, bearing in mind that their adequate formulation significantly facilitates the presentation of the financial effects of SR. Therefore, this comment has been taken into account and will be relevant for the next cycle as well.	

<p>Structural reforms in the work and employment area. General comments</p>	<p>UNICEF in Serbia, submitted electronically on 28 October 2022.</p>	<p>UNICEF welcomes the progress made in improving opportunities for young people and their employability, and we commend the Government for starting the process towards the implementation of the Youth Guarantee programme. Young people represent the present and future of Serbia, and investing in young people now will bring significant economic benefits. In order to achieve this, legislative changes play an important role, including the adoption of the Law on Work Practice, the Law on Volunteering, as well as the Youth Strategy of the Republic of Serbia in order to improve a favourable environment.</p> <p>The draft Action Plan for Youth Guarantees represents a good first step and should be completed and adopted in order for the Government of Serbia to start implementing this key policy instrument that will enable Serbia to better equip its youth for the labour market, especially youth from marginalized communities. The Youth Guarantees envisage extensive reforms and UNICEF encourages the Government to pay special attention to improvements in the following areas :</p> <ul style="list-style-type: none"> • Further development of the national system for career guidance and counselling is needed in order to prevent dispersal, as well as the development of a model of proactive work with beneficiaries (eng. outreach) as a common framework for proactive activities with beneficiaries. • Through the Law on Youth and the adoption of the Law on Work Practice, it is necessary to formally recognize proactive activities with beneficiaries and make them eligible for financing from public funds, as well as to introduce practices of programme funding civil society youth organizations (instead of project funding). • A special focus on young people from marginalized communities will be of key importance. 	<p>The Youth Guarantee Implementation Plan is being prepared in accordance with EC, ETF and ILO Guidelines. This plan will include reforms and measures aimed at improving the legislative framework and preparing the administrative capacities necessary for the implementation of the Youth Guarantee Pilot.</p>
<p>Structural reforms in the Social protection and inclusion area</p>		<p>Due to the war in Ukraine and the COVID-19 virus pandemic, the risk of child poverty, inequality and vulnerability has increased for many families and children in Serbia. Therefore, it is extremely important</p>	<p>Suggestion accepted. During the drafting of amendments to the Law on Social Protection, the analysis of "Options for improving means-tested cash assistance programmed targeting children" was taken</p>

		<p>to increase support for the poorest part of the population, considering that in recent years, the allocation of public funds for cash benefits intended for the poorest children, especially through child benefits, has been significantly reduced.</p> <p>Increasing the scope of the child benefit (CB) programme, with a focus on improving the adequacy and coverage of benefits.</p> <p>1. Improving the adequacy of CB- the following are three scenarios for increasing CB, which depend on the level of adequacy that is to be achieved:</p> <p>Increasing CB to two-thirds of the amount intended for children at the absolute poverty line, with amounts varying according to the age of the child. Total estimated annual budget expenditures amount to RSD 4.4 billion.</p> <ul style="list-style-type: none"> - Increasing CB to two-thirds of the amount intended for children at the relative poverty line, with amounts varying according to the age of the child. Total estimated annual budget expenses amount to RSD 3.8 billion. - Increasing CB to the amount intended for children of younger age on the relative poverty line, without difference in the amount according to the age of the child. Total estimated annual budget expenses amount to RSD 8.3 billion. <p>2. Improving the coverage of CB - Increasing the coverage of the CB programme can be achieved primarily by relaxing the income or asset criteria.</p> <ul style="list-style-type: none"> - A 20% increase in the income ceiling could potentially cover almost all children at risk of poverty. Without further requirements, in accordance with this reform, the number of beneficiaries would total to about 390 thousand, and the total expenses would amount to about RSD 15.8 billion (0.29% of GDP). The key indicators of the programme's size (the ratio of expense to GDP) would thus return to the values recorded in the past ten years. - Abolition of the upper limit of cadastral income. 	<p>into consideration. The findings from this analysis are also the starting point for nominating a new structural reform during the next ERP cycle if the conditions regarding the financing of the SR are met.</p> <p>In the budget for 2023, funds for social protection rights are allocated in the amount harmonized with the existing normative framework. It is considered necessary to wait for the effects of the implementation of the Social Card and possible savings that would be aimed at increasing Social Aid. Analysis of the Social Card Register utilization effects will be performed at the beginning of 2023. When it comes to Guarantees for children, the Ministry is very interested in the cooperation with UNICEF, especially in providing support for the deinstitutionalization of children age 0 to 7 years, in accordance with the newly adopted Strategy of Deinstitutionalization and Development of Social Services in the Community.</p>
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		<p>The optimal reform of CB should include a combination of adequacy and coverage improvement.</p> <p>The increase of coverage and adequacy of cash social assistance (CSA) - Increasing the weights for older children from the current 0.3 to 0.5 (as for another adult) and for children with developmental disabilities (to 1). At the same time, it is necessary to increase the basis for calculating CSA (this change would automatically include an additional number of children in the programme). Due to the concept of social benefits and the low level of the minimum wage, the ceiling of the increase is limited by the amount of increased CSA which for an individual should not exceed the level of the social agricultural pension. The optimal increase in the base for calculating CSA should be around 15% and no more than 20%.</p> <p>UNICEF remains ready to provide more detailed information on the impact of proposed changes, as well as expert support in relevant areas (especially in assessing the impact of specific changes in relevant laws using real-time administrative data, measuring budget expenses for a set of amended and combined reforms).</p> <p>UNICEF strongly supports the implementation of the Child Guarantee - an EU instrument to combat exclusion and poverty - in the context of Serbia and is ready to provide expert assistance to the Government. This financial instrument was adopted through the recommendation of the Council in June 2021 and is designed to ensure that every child at risk of poverty or social exclusion has access to the most basic rights such as health care and education. In the context of Serbia, access to the Child Guarantee could provide resources for Serbia's specific priorities.</p>	
Structural reforms in the health sector		<p>In the field of health care, UNICEF strongly supports ongoing health financing reforms and the optimization of the health care system. Strengthening primary health care through consistent introduction of pay-for-performance programmes is a direction of reform that will improve the efficiency and quality of services provided, while access to primary health care services for the most vulnerable categories of the population</p>	<p>The recommendation will be considered in the next ERP cycle.</p>

		<p>such as pregnant women, children and adolescents will be significantly improved. This reform will respond to ongoing challenges in the field of public health such as the provision of timely and high quality immunization services, preventive health examinations, screening, services for children with developmental delays, activities aimed at hard-to-reach groups (such as Roma, population in rural areas) and mental health support. Establishing perinatal centers as functional institutions for providing high quality neonatal care, strengthening the role of primary health care institutions in district centers, with improved cooperation and coordination between different levels of care, will further improve efficiency and access to high quality health care for all children and women. Specific structural reforms that establish effective cross-sectoral mechanisms (between health care, education, social care and justice system), both at national and local levels (e.g. social-health services), are crucial to strengthening support for youth mental health and well-being, and comprehensive needs of the most vulnerable children and their families.</p> <p>Further improvement of the digitization of the health system, including electronic health records and regulated telemedicine services, should be one of the reform priorities in order to ensure further improvement of efficiency and availability of real-time data for providing information on which to base the creation of policies and programmes.</p> <p>UNICEF is ready to support the Government of the Republic of Serbia in these activities.</p>	
<p>Key challenge 1: Increasing employment, especially of youth, women and vulnerable groups, and social protection against poverty. General comments</p>	<p>NCEU Intersectional Working Group on ERP, submitted electronically on 26 December 2022.</p>	<p>Since unemployment has been significantly reduced in recent years, the question arises as to the basis of the selection of Key Challenge No. 1 as the first key challenge. Although the reduction of unemployment is undeniably an important goal, in the last few years we have been faced with a lack of personnel, not only in a qualitative sense, but also quantitatively. In all likelihood, this trend will continue in the coming period (the results of the census undoubtedly show that there are fewer and fewer of us - negative natural increase, more and more citizens of the RS are leaving the</p>	<p>In accordance with EC guidelines, three key challenges for increasing competitiveness, growth and employment are presented in the ERP, which are equally important for the Republic of Serbia, ie. they are not ranked, and the key challenge 1. is not more important than the other two. The topic of employment and education represents one of the basic backbones of the ERP, and 4 out of 22 SRs are considered an adequate response.</p>

		country), and it is necessary to consider for the next ERP cycle whether this challenge should be ranked first. And in connection with that, whether there should be as many as four structural reforms in it. The question is, for example, which is why the Structural Reform 2 REFORM OF THE YOUNG TALENT FUND deserved to be among the structural reforms.	
		In addition to sensitive groups, there are also sensitive territories. Insufficiently developed territories to be included in the key challenges.	The impact of structural reforms on regional development is extremely significant and it would be useful to show it for all SR. Currently, this topic is presented only within certain SR.
		Before the adoption of each of the measures related to this type of challenge, it is necessary to carry out a TIA (Territorial Impact Assessment), ie. an assessment of the impact on the territories in Serbia, taking into account the Regulation on establishing a unified list of the development of regions and local self-government units (ORDINANCE on establishing a unified list of the development of regions and local self-government units for 2014).	It was agreed to continue the cooperation with the NKEU in the next ERP cycle, in order to respond adequately to this recommendation.
SR 3. Qualifications oriented to the needs of the labor market		It is not appropriate to equate the labour market needs management and education with dual education. The needs of the labour market are not clearly defined. It is necessary to introduce a Job Vacancy Survey conducted in all European countries. It is the basic instrument that should govern not only education policy but also immigration policy. Work permits for foreigners are obtained according to a shortened procedure for occupations for which there is a need that cannot be met on the domestic market (therefore, a market test is carried out). It is desirable to monitor deficient occupations and work to make deficient profiles available and more attractive through the scholarship system.	The conducting of the Job Vacancy Survey – employment needs, is the responsibility of the Republic Institute of Statistics, which has foreseen a quarterly Survey on employment needs, in accordance with the Regulation on defining the plan of official statistics for 2023 (code 019093). According to the Plan of official statistics for 2023, the survey should contain data on the number of job vacancies for which the employer is taking active steps to fill, according to the sections of activity, groups of legal entities and the main occupation. The units of observation are enterprises and local units. Data sources are employment agencies based on National Employment Service questionnaires taken from the employment records.
Proposal for a new SR: Expansion of the legal framework regulating work on seasonal jobs		The reform implies the amendment of the existing legal framework in order to enable the improvement of work flexibility and the introduction into the system of unregistered persons in the activities of construction, tourism and catering and in-house and odd jobs. In order to prevent abuse of the system, it is necessary to make	The proposal is not acceptable for the following reasons: the extension of the scope of the Law on Simplified Work Engagement on Seasonal Jobs in Certain Activities is already covered by other strategic documents - the Proposal for the Program to Suppress the Gray Economy 2022-2025 with an action plan.

		it impossible for the employer to hire a worker under this system for the position he dismissed the worker from, additionally define the temporary character of work by introducing a time limit for engagement of a maximum 15 days per month on jobs in construction and tourism and catering. Also, in these activities, quotas should be introduced for the number of hired workers in this way compared to the number of permanently employed workers.	In addition, the adoption of this law by itself cannot represent a structural reform, but belongs to regular activities within the competent Ministry.
Proposal for a new SR: Reform of the system for wage taxation		<p>The reform implies the analysis of potential solutions, the selection of the optimal solution, the preparation of the implementation plan and its implementation. Consider different models in order to reduce the tax burden on wages for the benefit of workers and employers (increasing the non-taxable part of wages, changing the wage tax rate, reducing the basis for calculating individual or all contributions, as well as the possibility that the workload is not only observed at the level of the employee but also to take into account dependent family members)</p> <p>When considering the contribution reform, consider the possibility of abolishing contributions for compulsory health insurance and the introduction of the Beveridge model, which implies that health care is financed from general taxes, which will ensure health care for all citizens regardless of their work status, and a significant administrative reduction due to cancellation of obligations, proof of the insurance status, verification of medical records, etc.</p>	In the fiscal strategy documents on the goals of fiscal policy that refer to the years from 2018 to 2023 determine the reduction of the fiscal burden of work through the continuous reduction of taxes and contributions on wages. Reducing the fiscal burden on labour is obtained by increasing the non-taxable amount of wages and reducing the rate of contributions for compulsory social insurance, all depending on the created additional fiscal space that can be used to reduce the tax burden on wages. For more details, see chapter 2. recommendation 6. of the ECOFIN Council.
Proposal for a new SR: Management of educational quotas and educational results		It is necessary to introduce management of enrollment quotas and make educational profiles related to deficit occupations more attractive for students. It would be highly desirable to monitor deficient occupations and work to make deficient profiles more attractive through the scholarship system. Also, it is necessary to work on improving the quality of education when it comes to basic skills, ie. work on improving achievements in education in accordance with the recommendations of the OECD. Additionally, it is necessary to work on improving the soft skills of students/graduates through the education system.	The proposal is considered acceptable since it fully corresponds with the measures and activities planned for the period 2023-2026. In the coming period, it is planned to develop a system of forecasts for knowledge and skills at the national, regional and local level, as well as to establish a system of continuous monitoring of the effects of the application of qualifications on employment and lifelong learning. In accordance with the above, special attention will be devoted to the improvement of the system of creating an enrollment policy at the high school level aligned with the needs of the labor market

			and society as a whole. Also, in the coming period, it is planned to develop/improve the structural and methodological framework for the development of teaching and learning programs in pre-university education in accordance with achievement standards and qualification standards, with a special emphasis on incorporating key competencies into qualification standards, i.e. into teaching plans and programs and learning. Accordingly, the proposal will be considered in the next ERP cycle.
Proposal for a new SR: Developing an analysis of needs and possibilities related to the engagement of foreign labor		In accordance with activity 5.1.7. The action plan should be started as soon as possible with the preparation of a detailed analysis of the possibilities of engaging foreign labour in Serbia. At the same time, it is desirable to carry out additional analyzes in which countries there is a surplus of occupations that are needed by the labour market in Serbia. This activity would represent a roadmap in terms of the need for the formation of bilateral contracts, easier obtaining of work permits for residents of third countries and the establishment of employment rights that would potentially enable the attraction of a workforce with higher qualifications.	The proposed structural reforms represent the activities foreseen in the Action Plan for the period 2021-2023 of the Strategy on Economic Migration of the Republic of Serbia for the period 2021–2027. The implementation of these activities can be monitored through the Report on the Implementation of the Action Plan for 2022, which is prepared in the first quarter of 2023, in accordance with the Law on the Planning System. The results obtained on the basis of the Report will indicate the effectiveness of the proposed activities, as well as the direction in which the said activities are carried out, which will be the starting point for the adoption of the next Action Plan. Therefore, these proposals for new structural reforms cannot be accepted, because the above represents activities that are already recognized in the above-mentioned Strategy and Action Plan, and proposed in order to achieve the fulfillment of specific and general goals through their implementation. Our opinion is that, due to the fact that most of the proposal represents either regular activities, or, as in the case of the first proposal (Creating an analysis of the needs and possibilities related to the engagement of foreign labor), it is a one-time job, and not a structural reform.
Proposal for a new SR: Competence assessment of potential immigrants		In order to overcome the information gap and lower the transaction costs of hiring foreign labour, it would be necessary to develop a software solution for the ex-ante assessment of the competencies of potential immigrants. Such a solution could be particularly useful for jobs that do not require significant formal competencies, but apostrophize acquired experience and skills - as is the case in most highly-skilled occupations within the processing industry, and occupations within transport and storage, accommodation and food services.	
Proposal for a new SR: Improving bilateral cooperation with destination countries and foreign chambers of commerce		Bearing in mind the increasingly dominant approach in the use of data sources of destination countries, ie. EUROSTAT, it is extremely important to improve bilateral cooperation with destination countries in collecting the most accurate and comprehensive data on emigration from Serbia, in accordance with activities 1.4.1 and 5.1.3 of the Action Plan. Along the same line,	

		<p>it is necessary to work on improving cooperation with the representative offices of foreign chambers of commerce.</p>	
<p>Proposal for a new SR: Circular migration and the national base of experts</p>		<p>It is desirable to start implementing the activities of the Action Plan (5.2.2) as soon as possible, which foresees the implementation of initial research and the preparation of a three-year plan for research on circular and return migration.</p> <p>Additionally, it is desirable to consider the possibility of establishing a national base of experts, available education modules, manuals and materials. Partnerships with international organizations that can support the identification of modules, manuals and materials that already exist in comparative practice and that are adapted to the context of Serbia, can be of particular importance in that domain.</p>	
<p>Key challenge 2: Creating a business environment more favourable for investments and increasing competitiveness Structural reform 5: Improving the quality of public service provision through optimization and digitization of administrative procedures – E-paper</p>		<p>The document states that the Register is also the starting point for the establishment of the Single Electronic Contact Point (SECP), which is an obligation in accordance with the Directive 2006/123/EC on services, the transfer of which is provided for in Article 59 of the SAA.</p> <p>It is not foreseen in the activities mentioned by the age formation of SECP, which we consider necessary due to the obligation from Negotiation Chapter 3 and due to the fact that the funding is foreseen by the IPA 2021 project.</p> <p>Adoption of the Law on Services/aligned with Directive 2006/123 on services and the establishment of a Single Point of Contact, Development of a strategy for the implementation of the law and definition of the national list of services to which the law will apply, the final list of sectorial regulations to be amended in terms of compliance with the Law on Services. The establishment and work of SECP aimed at providing complete information to interested parties about the conditions for providing services and thus enabling one of the four freedoms - the free flow of services. It is an obligation from the negotiation chapter 3.</p>	<p>Bearing in mind the importance of the service area and, in connection with it, SECP, this remark is extremely useful, but bearing in mind its scope and demands, it will be considered as a separate SR in the next ERP cycle.</p>

<p>Proposal for a new SR: Placing SMEs in the Development Policy Center</p>		<p>The reform entails redefining policies related to SMEs. Through the Strategy for SMEs, define measures and programmes that would promote the development of SMEs as carriers of economic development. As a criterion for the selection of subsidized FDI, introduce - "impact of FDI on SMEs". SMEs - give priority in public procurement (to begin with, implement pilot projects in public enterprises). Redefine tax policies related to SMEs - to begin with, restore the tax credit on investments from profits. Redefine tax incentives and other forms of subsidizing investments in the development and retention of personnel by SMEs. As a special policy, establish programmes for advanced SMEs, primarily in the area of digitization.</p>	<p>The proposal is acceptable, the measure can be taken into account during the preparation of the new document ERP 2024-2026, bearing in mind that the new Strategy for the Development of SMEs 2023-2027 will be adopted at the beginning of the next year. However, bearing in mind that it is not possible to show all reform processes in the ERP, important activities are also shown in the diagnosis of each area. In this way, SMEs are covered in key challenge 2, as well as in the fields of Agriculture, Industry and Services and Digital Transformation.</p>
<p>Proposal for a new SR: Improving the quality of public service provision through optimization and digitization of administrative procedures - E-space</p>		<p>The reform implies the establishment of a digital platform for the creation and publication of planning documents - e-space. It includes various activities, namely: the establishment of ePlan, as a central system through which the development of planning documents and legal regimes regulating the use of space and land, including construction conditions, is carried out; optimization of planning documents by types and standardization of their content, methodology and format in which they are created and exchanged; establishment of a legal framework and software application for the implementation of a unified electronic procedure for adopting spatial and urban plans and confirming urban projects; establishing a software application for quality control, i.e. verification of compliance of digital data of spatial and urban plans and urban projects with adopted technical standards; establishment of the Central Database of planning documents and urban projects and valid legislation for public authority holders; improving the capacity of The Analytical and Reporting System of Local Self-Governments to perform tasks in the field of urban planning by establishing inter-municipal cooperation; the establishment of the eSpace portal, which will ensure the public availability of all relevant information regarding the conditions for use of space and land in Serbia.</p>	<p>SR was previously an integral part of the ERP, but it was estimated that it represents a regular activity of the competent institutions, so it was excluded in this and the previous cycle of ERP development. This certainly does not mean that the reform processes in this area will be terminated.</p>

Key challenge 3: Greening the energy sector and fully opening the energy market, SR 9 Integration of renewable sources of electrical energy through the project “BeoGrid 2025”, general comment.		A lack of information about the Belgrade 2025 project (the new SR included in the Draft ERP) was noted, as well as whether it is of strategic importance or not.	The proposal was adopted and accordingly the text was amended accordingly.
	Serbian Chamber of Commerce, proposal submitted electronically on 23 December 2022.	In the part related to the adoption of strategic documents, we believe that the Draft Hydrogen Strategy, as a document that is intended to be integrated into the Energy Strategy or to be adopted as a separate strategy, is an important strategic document for the energy sector, in addition to the Integrated National Energy and Climate Plan of the Republic of Serbia for the period until 2030 with projections until 2050, Energy Development Strategy of the Republic of Serbia for the period until 2040 with projections until 2050.	The proposal is not accepted with the following explanation: Energy Development Strategy should define the energy policy of the entire energy sector and there is no need to emphasize the role of hydrogen and Draft Hydrogen Strategy and give it priority over other areas of energy.
SR 8: Improvement of conditions for enhancing energy efficiency through creating conditions for application of energy labelling and eco-design, as well as through the incentives for enhancing energy efficiency		In point 1. Description of the structural reform we wish to point out that for the effective implementation and application of technical regulations related to ecodesign and energy labelling of products, in addition to the already mentioned establishment and development of the capacity of bodies for assessing product conformity and strengthening the capacity of competent market surveillance authorities, it is also important to mention the need for informing and raising awareness among citizens and the wider public about the key benefits of these products for the household economy due to their longer lifespan, the possibility of saving energy, etc.	The proposal was adopted and the text of the SR description was amended accordingly.
		In point 8. Potential risks besides the aforementioned risks related to insufficient financial resources in the budget and insufficient capacities for assessing compliance with the requirements of energy labelling and ecodesign, we suggest that insufficient market surveillance capacities are added to the potential risks.	The proposal was adopted and the text of the document was amended accordingly.
5.2.2. Green Transition Area	The NCEU Intersectional Working Group on ERP, proposal submitted electronically on 26 December 2022.	We believe that more than just one structural reform should be committed to this area. Green public procurement did not find its place in the document.	Although SR 8, SR 9, SR 19 and SR 20, which refer to green issues, are not shown in the area: Green transition, this topic is horizontally present in ERP, as is the area of digitization.

			The area of green public procurement is included in planning documents related to the circular economy and public procurement, and it is a topic that will be included in the revision of the PFM. The proposal was adopted, as an activity in the field of green public procurement was added to SR 12, which refers to the circular economy.
		The Green Fund is not among the structural reforms. What are the reasons for that and the current status of that fund?	The Green Fund, as well as all special budget funds, were abolished by the Law on the Budget System, so they are not shown separately in the budget of the RS, but all funds are planned within the respective program lines and projects of the line ministries. In the area of the environment, available budget funds are increasing from year to year.
	Serbian Chamber of Commerce, proposal submitted electronically on 23 December 2022.	In the part that refers to the improvement of waste management and the removal of illegal landfills, which are crucial for the preservation of the environment and the establishment of primary separation of municipal waste in four regions: Duboko, Srem-Mačva, Pančevo and Pirot, we suggest that the increase in recycling is reformulated into an increase in the recycling rate or a percentage increase in recycling.	The proposal was accepted and the text was reformulated accordingly.
		In the part where it is stated that the process of green transformation requires additional investments, both from the state and from the economic sector, we suggest that the realized income from fees in the area of the environment is stated in millions of dinars, not in billions of euros. According to the data of the Republic Statistical Office, total revenues from fees in the field of the environment by types of institutional units that paid fees in 2020 amounted to 217,891 million dinars. We suggest that the publicly available data of the Statistical Office of the Republic of Serbia from 2021, and not data from 2020, are used to indicate the total expenses for environmental protection. The total expenses for environmental protection in 2021 amounted to RSD 61,760.6 million, which is 32.3% more than the previous year. In the structure of total expenses for environmental protection, the share of investments for environmental protection was 55.4%, while current expenses had a share of 44.6%.	The proposal was accepted and the data in the document was adjusted accordingly.

		Investments for environmental protection in 2021 amounted to 34,208.6 million dinars, which is 15,738 million more than in the previous year.	
SR 12: Application of the circular economy in creating a favourable environment for the Green Transition	The NCEU Intersectional Working Group on ERP, proposal submitted electronically on 26 December 2022.	The activities are quite general. The first activity refers to support for business entities in the transition to business models based on circular economy principles, but it is not specified what exactly this support means - financial or non-financial. If it is financial, are these grants (subsidies) or loans? If it is non-financial – whether is it information, training, awareness raising, advisory services? Or is it a combination of these two supports?	The support refers to expert assistance in the development of business plans in order to improve operations and increase competitiveness. It is not a direct financial aid, but it is an indirect one, because by switching to a circular business model, companies will spend resources and energy more rationally, which can result in financial benefits. The proposal was accepted and the SR text was amended.
	Serbian Chamber of Commerce, proposal submitted electronically on 23 December 2022.	In point 7. Expected impact on the environment and climate change we believe that in the sentence "The circular economy plays an important role in the development of a competitive economy that saves resources and affects the reduction of all types of pollution, especially the reduction of emissions with the greenhouse effect, which further affects low-carbon development, which is being pursued at the global level", the reduction of emissions with the greenhouse effect should be reformulated into the reduction of emissions of gases with the greenhouse effect.	The proposal was accepted and the text was changed accordingly.
		We wish to point out that in point 8. Potential risks, in addition to the non-recognition of benefits from the application of the circular economy concept by economic entities, local self-governments, the scientific and research sector and the civil sector for the Green Transition of the Republic of Serbia, there is a potential risk that switching to a circular business model was also affected by insufficient incentives for the economy to integrate circular business models.	The proposal was accepted and the text was changed accordingly.
Proposal for a new measure/reform: Accelerating the green transition through public procurement	The NCEU Intersectional Working Group on ERP, proposal submitted electronically on 26 December 2022.	The reform implies support for the green transition by giving priority to "green" solutions through public procurement and implies the adjustment of regulations in order to carry out such procurements. Start with pilot projects.	The proposal was adopted, by adding an activity related to encouraging green public procurement through trainings and workshops for orderers in SR 12, which refers to the circular economy, since green public procurement is one of the tools for the transition to the circular economy. In addition, support for green public procurement is the 4th goal in the Circular Economy Development Program 2022-2024, which was adopted on December 1, 2022.

5.2.3. Digital Transformation Area		Although the strengthening of infrastructure is of indisputable importance, especially in underdeveloped and rural parts of the country (e.g. compliance with eFiscalisation is particularly difficult for business entities from these parts due to lack of network coverage), we believe that in the next cycle of ERP in this area there should also be a structural reform that includes support for business entities for digital transformation. Strengthening public infrastructure is therefore necessary, but while there are no economic entities that can use that infrastructure - they are aware of the importance of their digital transformation and are able to implement it - there will be no use value of that infrastructure.	The proposal will be considered in the next ERP cycle. The topic of digitization of business entities is included in the ERP diagnostics for area 5.2.3 Digital transformation.
		Proposal to add information security - introduction of information and cyber security standards in state administration bodies ISO 20000 and 270001. The project, the implementation of which is ongoing, carried out a gap analysis and introduced the ISO 20000 standard in the Office for IT. Funds for the continuation/certification of other state administration bodies/ are planned through IPA 22 or 23. It is necessary to continue this process and in the period 23-25 to certify all state administration bodies, in order to avoid the problems that, for example, the cadastre had this year.	The proposal will be considered in the next ERP cycle. However, it should be borne in mind that information security is only one small segment of the digitization process.
Proposal for a new structural reform: Acceleration of digitization, especially for advanced SMEs.		The reform implies financial support for advanced digitization, primarily for advanced SMEs. These companies, with their development, entail the development of other smaller companies as well.	Support for the digital transformation of small and medium-sized enterprises is provided by NALED through the StarTech program with the aim of accelerating the growth of Serbian companies and the traditional economy based on agriculture and processing industry into a digital, export-oriented economy based on knowledge and innovation. The StarTech program is described in the diagnostics of the Digital Transformation area. The Chamber of Commerce of Serbia CCIS is also active in this area.
5.2.4. Business Environment and Reduction of Gray Economy Area		The reform should include the fight against the grey economy through the further strengthening of inspection bodies and the introduction of all inspections into the e-inspector system. The fight against piracy and the protection of intellectual property rights holders.	SR, which refers to the e-inspector system, was previously an integral part of the ERP, but it was assessed to represent a regular activity of the competent institutions, and therefore it was excluded. This certainly does not mean that the reform processes in

		<p>Ensure coordination of all competent authorities - Customs, Police department, Market inspection. Counterfeit goods are cheaper, so they put producers in an unequal position, thereby distorting free competition in the market. Funds from the grey economy are often linked to the financing of terrorism. At the same time, another aspect is important, the protection of producers and consumers, because counterfeit goods are often unsafe.</p> <p>Considering the rapid development of e-commerce, an Action Plan should be drawn up with the aim of adopting measures for further encouragement and control of this trade channel, because a large part of the grey economy is carried out electronically. Improve the work of all inspection bodies for conducting e-investigations, form a unit or train individuals who would specialize only in this type of investigation.</p>	<p>this area are stopped. The area of improvement of inspection supervision is covered in detail in the Proposal for the Program for Suppression of the Gray Economy 2022-2025. year with an action plan.</p>
<p>5.2.5. Research, Development and Innovation Area</p>		<p>The document states that by investing in innovation infrastructure, the network of science and technology parks expands (p. 124).</p> <ul style="list-style-type: none"> - The network of science and technology parks is an instrument of development at the NUTS 2 level and this type of infrastructure is not suitable for the NUTS 3 level - It is not foreseen what type of infrastructure is planned at the NUTS 3 level (district level), since such a type of infrastructure is necessary in order to support the "spillover effects" of investment in innovation infrastructure at the NUTS 2 level. 	<p>Following the example of EU countries and Serbia, it implements activities at the NUTS 2 level, with identified regional specificities.. We are working on establishing new parks (Kruševac) or expanding the capacity of existing NTPs, incubators, and startup centers, all in accordance with the identified needs of the regions themselves. In addition, the Smart Specialization Strategy has a mechanism of mandatory implementation of a continuous dialogue (EDP - entrepreneurial discovery process) with all interested parties from the government, business, academic sector and civil society, during the development of measures as well as during their implementation, all with the aim of obtaining the best possible picture about the needs of each region. Regional innovation and smart city centers are planned in the districts. The plan of the Ministry of Science, Technological Development and Innovation envisages the expansion of existing and the formation of new innovation and smart city centers in the districts of R. Serbia. The idea is to cover every part of Serbia and to work with young people in the aforementioned centers on further technological development and innovation. A special part in the</p>

			<p>innovation centers is also occupied by experts who unequivocally contribute to the continuation of development. We cite the positive example of Mali Zvornik, where an innovation start-up center was opened last year. RSD 20,000,000 was invested in the mentioned project from the budget of the relevant Ministry. Currently, the Ministry is financing 18 projects related to the district level through the standard competition for LGUs. The support program for raising the innovation capacity of local self-government units on the territory of the RS is a program specifically intended for NUTS3. The Ministry's plan is to further invest in innovation centers in districts and smaller communities in Serbia.</p>
<p>Proposal for a new reform: Acceleration of innovation through public procurement</p>		<p>The reform implies support for innovation by giving priority to innovative solutions to public enterprises through public procurement and implies the adjustment of regulations in order to carry out such procurement. Start with the pilot.</p>	<p>The state has recognized the need to promote the introduction of innovations through public procurement. For this reason, the implementation of the GovTech Program is foreseen in SR 16. This program aims to accelerate the digital transformation of the public sector and "open the door" to the application of innovative solutions in public administration. Through the active cooperation of institutions with innovative companies, faculties and startups, the program should establish a sustainable system of innovations in the public sector. In the following period, the program and its implementation will be elaborated in more detail.</p>
<p>STRUCTURAL REFORM 17: Creating conditions for the development of biosciences and bioeconomy through the construction of the BIO4 campus</p>		<p>BIO4 Campus belongs to the range of public policy measures that are of an institutional management organizational nature (formation of new institutions - Law on the Planning System of the Republic of Serbia, 2018). The formation of BIO4Campus should be preceded by regulatory measures, such as the adoption of the Bioeconomy Development Strategy for Serbia, as well as the Regional Bioeconomy Development Strategy in Serbia.</p> <p>- Since the Smart Specialization Strategy was developed at the level of Serbia, and the preparation and adoption of the Action Plan for the period from 2023 to 2025 is underway, it is necessary for each NUTS 2 region in Serbia to develop a specialization strategy for</p>	<p>The strategy of smart specialization is a strategic document that includes all NUTS 2 regions, and which is adopted by the Government of the RS. There are other strategic documents dedicated to regional development.</p> <p>The preparation of the new AP Strategy of Smart Specialization is underway, within which 4 regional workshops were conducted in November 2022 for each identified priority domain. The BIO4 campus will be part of this Action Plan to monitor its establishment and organization.</p>

		<p>the NUTS 2 level, which is in the regions of EU member countries an ex ante prerequisite for the use of EU Structural Funds, as instruments for reducing inter-regional disparities.</p> <p>- By creating the Smart Specialization Strategy at the NUTS 2 level, not only would the development potential of the regions in Serbia be valorized, but also the institutional capacities of the regions that do not have an intermediate level of government (the region of Šumadija and West Serbia, the region of South and East Serbia), which would be built would be in the function of reducing intra disparity (disparity within the NUTS 2 regions themselves). Creating the National Platform for Smart Specialization would make it possible to contribute to the reduction of not only inter- but also intra-regional disparities..</p>	
5.2.6. Reforms in the Area of Economic Integration SR 18		<p>Structural reform 18 has been repeated for years and its results are not visible. Especially in terms of activity related to WTO accession negotiations. Also, bearing in mind that the Republic of Serbia is the initiator and main proponent of the Open Balkans initiative, there remains the question of the formulation and other activities of this structural reform, and above all the question of whether this SR will be included in future cycles in the ERP.</p>	<p>The process of Serbia's accession to the WTO is demanding, especially due to the fact that Serbia has opened bilateral negotiations (among other things with the Russian Federation and Ukraine). The decision on whether this SR will be retained in the priority SR presented in the ERP will be considered in the next cycle.</p>
Proposal for a new reform: Regulating the internal market /perhaps as part of Economic Integration/		<p>The reform implies the continuation of work on the improvement of all areas in Cluster 2 - The reform is aimed at regulating the internal market and contributes to the fulfilment of the strategic goals of the Government and the strategic determination for EU accession in chapters 1, 3, 4, 6, 7, 8, 9, 10, 20, 25, 28. It was supported through the large twinning project IPA 2021, the realization of which is ongoing, and the continuation is planned in 2023 or 2024.</p> <p>The key purpose of the reform is to establish a business environment and conditions for long-term stable and sustainable economic growth, further liberalization of the market, creation of a favourable environment for market operators and encouragement of innovation, as key factors of competitiveness. This will enable private sector and consumers to take full advantage of the EU</p>	<p>The area is extremely important, but also complex, so it is necessary to pay enough attention in order to define the most representative reform segment in a future ERP.</p>

		single market upon accession. Ensuring the conditions for free competition, harmonizing the state aid policy, strengthening the functional system of market supervision and enforcement of intellectual property rights/ie. protecting the holders of intellectual property rights, liberalizing the provision of services will ensure the same conditions for market operators and at the same time a much greater choice of products for customers, safer products, more favourable prices and, as a result, better consumer protection.	
5.2.9. Area Agriculture, Industry and Services	Chamber of Commerce of Serbia, submitted electronically on December 23, 2022.	In the part where it is stated that independent work without a tendency towards the association, an insufficient level of investment in agriculture and a fragmented market chain limit the development of agricultural activity (p.140), we wish to point out that there are a number of associations in this area, and the most common are in the cattle industry, pig breeders are also associated, both by region and at the level of the Republic (e.g. the Federation of Pig Breeders Associations of Serbia). The problems in animal husbandry differ from the situation in other sectors of agriculture. It is estimated that animal husbandry in the Republic of Serbia, in the structure of the total agricultural production, participates with about 28.1% (vegetable production takes a share of 71.9%). Despite the favourable conditions for animal husbandry in the Republic of Serbia, official statistical data, on a multi-decade level, show a downward trend in the number of animals.	We agree with the view that associations in the field of agriculture certainly exist, but it is necessary to improve and strengthen their work, which we are continuously working on.
		In the part related to the future legal framework in the field of agriculture in the Republic of Serbia (p.141) in terms of establishing a fair, healthy and environmentally friendly market chain of food products, and through the activities of reducing the use of pesticides, artificial fertilizers and antibiotics, as well as reducing the risk of their use on the one hand, and improving environmental protection and biodiversity preservation, on the other hand, we believe that it is necessary to adopt a special law on veterinary drugs, harmonized with EU legislation (the Chamber of Commerce of Serbia sent an initiative on this subject in	As the proposed structural measure focuses on the legislative framework that is part of Chapter 11 - Agriculture and Rural Development, while the mentioned areas (for example, pesticides) are part of Chapter 12 - Food safety, veterinary and phytosanitary policy, this comment is aimed at expanding the measure and is not acceptable. The Ministry of Agriculture, Forestry and Water Management will continue to work on fulfilling the obligations arising from Chapter 12, all with the aim of achieving full compliance with the EU acquis.

		December 2019). The differences between valid national regulations and EU regulations in the field of veterinary drugs are incomparable. Changes in EU legislation directly affect the application of valid by-laws in the field of veterinary drugs (which regulates the documentation for first registrations and renewals, as well as variations), which can affect the development of the gray market, while part is related to pharmacovigilance, based on the fact that it relies on the current Law on Medicines and Medical Devices, which needs to be regulated separately for the field of veterinary drugs.	
Structural reform 20: Improving the competitiveness of agriculture		In point 8. Potential risks (p. 147) we think that non-adoption of the law and delay in the adoption of by-laws represents a high risk (rather than medium) because the adoption of the planned legal regulations is delayed. The Law on Quality Schemes for Agricultural and Food Products, the Draft of which is the result of the twinning project (completed in February 2021), has not yet been adopted, and the application of the Law on Regulation of the Market of Agricultural Products adopted in July 2021 has not started yet. Also, we believe that the risk related to unsecured funds for upgrading the animal registry is high, not medium as stated.	The comment related to increasing the level of risk of not providing funds for upgrading the animal register from medium to high is accepted, while the other risks are adequately assessed in our opinion.
Structural reform 21: Improving the strategic framework of quality and integration infrastructure into the single market	NCEU Intersectional Working Group on ERP, submitted electronically on December 26, 2022.	We believe that this SR should be in the area related to economic integration because it affects the removal of obstacles to trade, the reduction of non-tariff barriers and compliance with requirements of the Single Market..	The objection was adopted. Due to the specificity of the area, the reform can be classified in the area of economic integration, but also in the area of agriculture, industry and services, considering that it affects the growth of the competitiveness of the economy. As this does not represent an essential change, the reform is included in the section: Economic integration.
5.2.13. Area Health Care System	NCEU Intersectional Working Group on ERP, submitted electronically on December 26, 2022.	Proposal for new measures within SR 22: Implementation of the Healthcare Digitization Programme and its priority projects: eReferral, eSickLeave, Establishment of interoperability standards, eRecipe expansion.	The proposed SR, which is largely related to the digitization of healthcare, is based on the areas where the focus is in the next medium-term period.