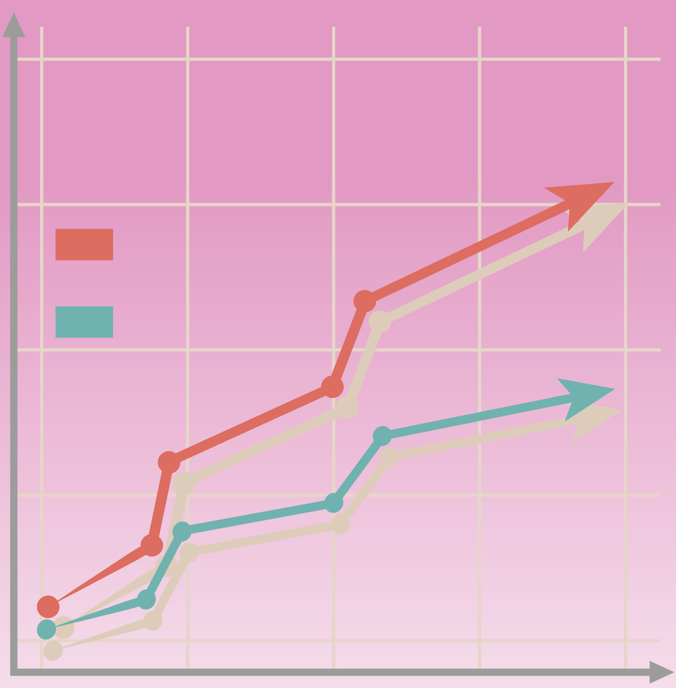
GOVERNMENT OF THE REPUBLIC OF SERBIA

ECONOMIC REFORM PROGRAMME

2019-2021



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I. OVERALL FRAMEWORK AND MAIN GOALS OF ECONOMIC POLICY

By a complex set of adequately measured, timely and harmonised macroeconomic measures, the Serbian economy exited the vicious circle in which it found itself in early 2010s. The twin deficits, the threat posed by the high public debt, the unemployment rate among the highest in Europe and double-digit inflation were the challenges which were relatively quickly resolved with success. After attaining fiscal stability and dynamic economic growth rates, the Government focused on the intensification of initiated systemic reforms, aimed at achieving structural balance of the economy. With these activities, functional shortcomings and limitations will be neutralised, while available resources and capacities will be employed more efficiently, which will accelerate convergence to the advanced countries and ultimately ensure higher standard of living of the population.

The medium–term macroeconomic framework is designed in line with the efforts to preserve the results achieved so far, with concrete investment incentives. Continued foreign direct investment (hereinafter: FDI) inflow growth and significantly higher efficiency of public infrastructural project implementation will be accompanied in the following period by stronger domestic investment, primarily from small and medium-sized enterprises.

In the light of the fourth industrial revolution, apart from concrete reform processes, digitalisation and innovative activity have been recognised as important tools for aligning the structure of the economy with the needs of society and modern civilisation developments. Clear measures have thus been defined and taken with the aim of accelerating the process of digitalisation and promotion of innovative initiatives.

Social inequalities have been identified as an important factor limiting economic growth, as well as overall social progress. Education reform, regional dispersion of FDIs, employment incentives for youth as well as vulnerable groups, support to social entrepreneurship, gender budgeting and new increase in the minimum price of labour are only some of the measures that should ensure inclusive growth equitably distributed from the social point of view and resulting in poverty reduction through the established environment characterised by social cohesion.

In February 2018, the Republic of Serbia successfully completed the fiscal consolidation programme which was the focus of a three-year precautionary arrangement with the IMF. With the successful implementation of the programme, the set goals were achieved ahead of schedule. The Government's new economic programme and reform efforts will be supported by the IMF's Policy Coordination Instrument, which includes the advisory role of this institution in a 30-month period, without financial support, since sustained fiscal improvements have been achieved.

It is precisely the attained sustainability of fiscal improvements that has enabled the abolishment of the Law on Temporary Reduction of Pensions, increase in public sector wages, and, above all, significant increase in funds earmarked for investment.

The reduction of burden on the economy has been initiated with concrete measures: raising the personal tax allowance, reducing the contribution rate and changing the method of tax depreciation calculation. These intentions will be followed up with a set of new measures, including the adoption of the Law on Fees for the Use of Public Goods, ensuring transparency, predictability and relatively lower level of parafiscal costs of the economy. Additionally, the reform of the Customs Administration and the Tax Administration will support the process of reducing the burden on economic operators, as well as ensure greater efficiency in combating the informal economy.

The Government also remains committed to full membership in the European Union (hereinafter: EU) as its strategic goal. Chapters 13 – Fisheries and 33 – Financial and budgetary provisions were opened in mid-2018, with two chapters opened in December: Chapter 17 – Economic and monetary policy and Chapter 18 – Statistics. Regular political and economic dialogue on open issues from the Stabilisation and Association Agreement (hereinafter: SAA) between the European Communities and their member states, on the one hand, and the Republic of Serbia, on the other, as well as the adoption of general and sectoral national development strategies are aimed at Serbia's fulfilment of economic requirements for membership laid down in the *acquis communautaire* in the shortest time possible.

II. MEDIUM TERM ECONOMIC FRAMEWORK

1. FORECAST FOR THE INTERNATIONAL ECONOMIC ENVIRONMENT

According to the autumn projections of the relevant international institutions, in 2018 global economic activity trend will be similar as in the previous year. Despite initial expectations that the global economy would accelerate, trade tensions and related measures taken, geopolitical instability due to unresolved issues in certain developing countries and oil price growth resulted in a downward revision of annual growth rates both for developed and emerging countries. On the other hand, the room for improvement of prospects is reduced due to higher trade costs, slow implementation of previously proposed reforms, restrictive monetary policy in some parts of the world and declining growth momentum. Although the financial markets in developed countries remain accommodative, stronger negative trade measures or inflationary shocks could result in sudden restrictive monetary policy decisions, which would, with a strong response of the US Federal Reserve (hereinafter: FED), affect global currencies parity, capital inflow levels, as well as the levels of public debt of emerging countries. Global growth stagnation has been accompanied with the rise of commodity prices since the beginning of the year, primarily oil, metal and cereals, and their stabilisation is expected in the medium term. Global recovery in the previous few years contributed to an improvement in the labour market through wage and employment increase, and stronger balance-of-payment positions, but it also created more room for building mechanisms for protection against unforeseen shocks. Nevertheless, in view of higher likelihood of risk materialisation, in order to ensure strong growth and global expansion, adequate policies and structural reforms need to be implemented.

In the IMF's October projections, global growth is forecast at 3.7% in 2018, which is 0.2 p.p. below previous expectations. The same global economy growth rate is forecast for the following two years as well. In advanced economies growth will decelerate in the medium term from 2.4% to 1.7%. At the same time, the outlook for emerging countries has been lowered (by 0.2 p.p. and 0.4 p.p. in 2018 and 2019, respectively), but their economic activity is still projected to accelerate from 4.7% in 2018 to 4.9% in 2020. Growth in the US is above the potential due to favourable financial conditions and fiscal stimulus, and the US economy is expected to grow in this period at an average annual rate of 2.4%. In 2018 the euro zone will post an increase in economic activity by 2.0%, while in the medium term growth is expected to decelerate further, primarily due to unfavourable trade measures and resulting lower external demand. The Russian economy continues with the growth initiated in 2017 and is projected to accelerate to 1.7% due to oil price growth. Inflation growth in 2018 is expected both in advanced economies and in developing countries, which is mostly based on the expected growth of commodity prices, due to higher prices of energy sources and cereals, while in the following period a reduction and stabilisation are expected.

The ECB continues the quantitative easing programme, with lower asset purchases amounting to EUR 15 billion a month until the end of 2018. At the same time, at the meeting in October 2018 it was decided that the key interest rate would remain at the record low of 0.00%, or -0.40% on bank deposits, while the ECB Governing Council expects the key interest rates to remain unchanged in the following period, at least until summer 2019. On the other hand, the FED's Board of Governors, at its September 2018 meeting, decided to raise the target range for the Federal Funds rate to between 2.00% and 2.25% due to economic growth being significantly above the potential.

The FED remains committed to accommodative monetary policy in the following period, in line with its proclaimed goals, reaching full employment and inflation of 2%.

According to the November forecast of the European Commission (hereinafter: EC) the growth of economic activity in the European Union will continue at somewhat lower rates than in the previous period. The expected growth is 2.1% in 2018, and 1.9% and 1.8% in 2019 and 2020, respectively. The growth projection for 2018 is revised downwards by 0.2 p.p. relative to the May forecast, due to weaker contribution of domestic demand and exports since the beginning of the year. Downward external trade momentum due to weaker global economic activity and growing trade tensions, slower employment growth and increased uncertainty affecting investment, are drivers underlying lower growth forecasts for the following two years. Furthermore, rising supply-side restrictions and less favourable financing terms are further factors pointing to less dynamic growth. The uncertainty of global trade environment affected the growth forecast for Germany, so it has been revised down relative to the May projections by 0.6 p.p. to 1.7%. At the same time, the projected growth of the Italian economy is 1.1% and is driven by domestic demand growth.

Table 1. International environment – macroeconomic indicators

	2017	2018	2019	2020
Real GDP growth [1], %	3.9	4.0	3.8	3.8
Real GDP growth in the EU, %	2.4	2.1	1.9	1.8
Global trade growth [2], %	5.2	4.2	3.7	3.4
Three-month EURIBOR	-0.3	-0.3	-0.2	0.2
Ten-year government bond yields of the euro area members	0.3	0.5	0.7	0.9
USD/EUR exchange rate, end of period	1.13	1.18	1.15	1.15
Prices of food products, annual changes	0.5	3.6	2.6	1.4
Prices of oil, in US dollars	48.5	63.4	70.0	66.5

Source: EC, Autumn Forecast, November 2018

Economic growth in the following period will take place in the low inflation environment with modest output gap expansion. The projected growth is still based on the same sources as previously: the growth of domestic demand due to mildly expansionary fiscal policy, favourable financing terms both for the private and public sector, as well as more favourable conditions in the labour market promoting growth. Owing to the appropriate fiscal and monetary policy, implemented labour market reforms and low inflation, in the previous period private consumption was the main growth driver. In the following medium term period, the normalisation of the ECB monetary policy is expected to take place, which will gradually lead to higher financing costs and, together with slower wage growth in 2019 and 2020, contribute to a slowdown of private consumption growth from 1.9% in 2019 to 1.7% in 2020. Declining debt-to-GDP ratios and interest costs in international capital markets have created conditions for a stronger impact of fiscal policy on economic growth. Government expenditure is expected to have a positive contribution of 0.3 p.p. each year in the following period. The rise of profit margins and reduced deleveraging pressures, coupled with the accelerated investment activity of the EC (the EC's Investment Plan for Europe), are the main factors that will affect the growth of

1 Global GDP excluding the EU.
2 Global trade growth, excluding the EU.

investment spending in the following period. In the 2018–2020 period, the average investment growth is expected to be 3.1%, driven by accelerated equipment investment due to favourable financing terms, higher profitability and demand. Exports growth will be stable but limited due to uncertainties related to global trade and adopted or announced trade measures. After the deterioration of terms of trade in 2017 and 2018, exports growth is expected to reach 3.5% in 2019 and slow down to 3.3% in 2020. Such trends, coupled with the stability of prices, will result in the decrease of current account deficit from 3.8% of GDP in 2018 to 3.6% of GDP in 2020.

As a result of continued economic recovery, employment is expected to expand in the following period, with further reduction of the unemployment rate to 8.4% by the end of 2018. The declining unemployment trend will continue at a somewhat slower rate, reflecting a slower pace of job creation and continued labour force growth, so the unemployment rate is forecast at 7.5% in 2020.

In the following medium term period, the inflation trend will continue to follow the prices of energy sources, but will still remain under the impact of low core inflation. Inflation is forecast at 1.8% in 2018 and 1.8% and 1.4% in 2019 and 2020, respectively. Despite the mildly positive output gap and expected wage increase, low inflationary expectations and prices of commodities, as well as low core inflation, limit higher inflation rise.

Fiscal policy will be mildly expansionary in the following period. In 2018, the fiscal deficit will amount to 0.6% of GDP, which is 0.1 p.p. less than previously expected, due to lower interest costs. In 2019 and 2020, the deficit is projected at 0.8% and 0.7% of GDP, respectively, accompanied with the stabilisation of the structural deficit. The expected continued economic recovery, low interest rates, and consequent deleveraging, are the main factors affecting the projected reduction of the fiscal deficit in almost all euro zone member states. Projected nominal growth and low interest rates will keep the public debt on a downward path, from 86.9% of GDP in 2018 to 82.8% of GDP in 2020.

The macroeconomic outlook is associated with risks, which are much more pronounced than in the previous forecasts. The risks that may jeopardise economic growth relate to uncertainties with respect to global trade and future of multilateralism, as well as the upcoming US elections. The consequences of these risks are already felt, but their escalation is also a possibility, in view of significant interdependence with the materialisation of other risks as well. The risks may affect various segments of the economy including investment, efficiency of resource allocation and cross-border production chains, as well as slower entry of new companies in the markets. Risks related to inflationary expectations are much less pronounced, but the possibility of spillover due to the FED's monetary policy tightening should not be excluded.

2. CURRENT ECONOMIC TRENDS AND OUTLOOK FOR 2018

Real sector. In 2017, the Serbian economy grew by 2.0%, which is below the original projection, primarily due to adverse weather conditions that hindered production processes and negatively affected the construction industry and agriculture.

On the production side, the construction industry posted an annual growth of 5.7% year-on-year, while total industrial production was 2.8% higher y-o-y in real terms. The manufacturing industry, as the most important segment of total industrial production because of the production of tradeables and generation of export growth, is the driver of this growth with a 4.8% increase. Positive contributions are given by the rubber, machinery and chemical industry in particular. The service sector remains a dominant growth driver and accounts for more than a half of the actual economic activity increase in 2017. The most important positive impact stems from the trade increase by 5.2% and increasingly strong ICT sector, which created 3.8% more gross value added than in the same period of the previous year. The most significant year-on-year growth, 10.8%, was recorded by the catering industry, resulting from the previously conducted activities aimed at tourism promotion.

Disaggregated GDP on the expenditure side shows that the largest positive contribution to GDP growth in 2017 came from private consumption and investment. Measured reduction of fiscal constraints, coupled with wage and employment growth, as well as lower cost of financing, resulted in the private consumption growth of 1.9%. Total investment, spurred by the acceleration of construction activity in the second half of the year, records a year-on-year increase by 7.3%, with a stable growth trend. Exports are growing steadily and are 8.2% higher. Faster imports increase by 11.1% is driven by investment upswing and subsequent higher demand for capital goods.

Positive economic trends recorded in the previous period continued and picked up pace in 2018. According to the data of the Statistical Office of the Republic of Serbia (SORS), in the first two quarters, the real year-on-year GDP growth rates of 4.8% and 4.9%, respectively, were recorded. It is worth noting that all components of both the production and the expenditure structure of GDP were on stable upward paths aligned with the medium-term scenario. In line with its highest share in the GDP structure, the service sector is the dominant growth driver and is supported by strong growth in construction and agriculture. Observed by expenditure components, the dominant source of growth is private consumption, which is affected by fiscal relaxation measures and supported by favourable borrowing terms. A source of additional growth in the first six months was provided by investment pickup by 14.2%.

Positive trends from the first half continued in the third quarter, with the GDP growth of 3.8% y-o-y. All production sectors, except for the industry due to weaker results of the electricity sector, gave a positive contribution to GDP growth. The service sector, with its contribution of 2 p.p, continues to play the role of GDP growth engine, but it was also supported by a significant contribution of agriculture, at 1.1 p.p, primarily due to a bumper crop of cereals and industrial crops. Personal household consumption and investment are dominant sources of growth among expenditure components, with a positive contribution of 2.3 p.p. and 1.3 p.p, respectively. Owing to higher equipment, raw material and intermediates imports for economic operators, net exports continue to give a negative contribution to GDP growth.

High frequency indicators for the first ten months of 2018 confirm the stability of the established trends. The physical volume of overall industry went up by 2.4%. The most important is the impact of manufacturing industry, which produced 2.9% more year-on-year and thus contributed to the growth rate of overall industry with 2.2 p.p. Electricity production went up by 2.8%, contributing with 0.4 p.p, while the contribution of mining is slightly negative. In 17 of 24 manufacturing activities positive developments were registered. The strongest positive impact comes from the oil industry and base metal production. Machinery industry acceleration is stimulated by higher demand for investment goods, while the higher production of construction material is a result of private and public construction works acceleration. The negative impact of the remaining seven activities is minor and amounts to only 0.6 p.p. Nevertheless, it is worth noting that it comes from the industries that were, until recently, engines of overall industry and exports growth. This slowdown is perceived for now as temporary and related to lowered expectations regarding economic trends in our main foreign trade partners. When disaggregated by the purpose of industrial products, in the first ten months all purpose-based groups are posting physical volume growth, except for the production of non-durable consumer products. The dominant source of growth of overall industry is the production of intermediates, which was 5.3% higher year-on-year and primarily affected by the increase in the production of base metals and construction material. The growth of capital goods group is primarily underpinned by machinery industry growth resulting from the investment momentum initiated in mid-2017. The service sector is growing steadily and is still the dominant economic growth engine. In the January-October 2018 period, relative to the same period of the previous year, the retail trade volume was 6.8% higher in nominal and 4.1% higher in real terms. In terms of constant prices, the highest growth of 6.2% was posted by non-food product trade. The trade in motor fuels went up by 3.4%, while the trade in food, beverages and tobacco rose by 2.8%. The Government's strategic commitment to the promotion of tourist services resulted in higher tourist numbers, with over 2.9 million of them registered in the first ten months, up by 11.3% year-on-year. This increase is accompanied by a 12.5% higher number of overnight stays, i.e. about 8.2 million in total. In the January–September period, foreign currency inflow from tourism amounted to EUR 970 million, up by 12.2% year-on-year, while the catering turnover increased at the same time by 9.8% in real terms.

Labour market. The situation on the labour market continued to improve in 2018. Increased economic activity, intensified investment cycle, newly opened and expanded production plants, as well as active (self-)employment policy measures result in improvements registered both based on administrative sources and the Labour Force Survey. In the third quarter of 2018, the registered number of employed persons rose by 3.3% y-o-y to over 2.1 million, which is 70,000 employed persons more than in the same quarter of the previous year. The most significant increase in the number of employed persons was registered in the manufacturing industry, followed by administrative activities, construction, catering and trade. At the same time, the number of public sector employees went down by almost seven thousand, with the largest decreases registered in public enterprises and administration. The Labour Force Survey shows a year-on-year increase in the number of employed persons in the January-September 2018 period by about 33,000. The employment rate was 49.2% in the third quarter, the highest registered in the period for which comparable data is available (2014-2018). The structure of employed persons is changing in favour of the formally employed, which is a result of more efficient activities of inspection services aimed at combating the informal economy, and is also reflected in higher contribution collection than budgeted for 2018. The unemployment rate registered in the third quarter of 2018 was 11.3%, which is an improvement over 2017. It is worth noting that improvements were registered among the unemployed aged 15–24, whose number went down by 18% year-on-year, while in terms of gender structure, the number of unemployed women dropped significantly by about 14% y-o-y. According to the latest data available based on the records of the National Employment Service, the number of unemployed was 11.1% lower than in the same month of the previous year.

In the first nine months the average net wage grew by 6.2% y-o-y in nominal terms and by 4.2% y-o-y in real terms. While this increase was the largest in the Vojvodina region, it was registered in all regions. The average net private sector wage rose by 4.2%, underpinned by public sector wage increase through implemented fiscal relaxation measures. Furthermore, the wage growth in this period was supported by the decision of the Socio-economic Council, raising the minimum labour price per working hour from 130 dinars in 2017 to 143 dinars as of January 2018.

External sector. In the January-September 2018 period, the current account deficit was about EUR 1.5 billion (4.8% of GDP) and was fully covered by the net FDI inflow (EUR 1.8 billion). At the annual level, the current account deficit is expected to reach about EUR 2.2 billion and a share in GDP of about 5.2%, as in the previous year.

Relative to the same period of the previous year, the current account deficit was EUR 193.7 million higher, due the goods deficit growth (33.7% y-o-y) caused by higher imports of equipment, raw material and intermediates for the purposes of the current investment cycle. In the period of 2018 under observation, the terms of trade deteriorated by 1.1% y-o-y, as a consequence of faster growth of import prices (3.4% y-o-y), primarily of energy sources due to higher oil prices in the international market, than the growth of export prices (2.2% y-o-y). In comparison with the same period of the previous year, more favourable developments were registered in the trade in services, as well as in primary and secondary income accounts, significantly compensating for the higher goods trade deficit. The surplus in foreign trade in services went up by 18.8% y-o-y, primarily in other business services (34.2% y-o-y) and ICT services (24.9% y-o-y). Owing to the previous year's Eurobond repayment and more favourable terms of new borrowing, the net outflow of primary income went down by 8.3% y-o-y, while the secondary income surplus increased by 17% y-o-y, primarily owing to higher remittance inflow (19.5% y-o-y).

The implementation of projects based on the FDIs from the previous years, higher demand of our main foreign trading partners (euro area and CEFTA countries), better business environment and increased competitiveness of the domestic industry have had a favourable effect on the growth of exports (by 7.9% y-o-y), characterised for a while by greater product diversification. The leader in exports is the manufacturing industry, with a year-on-year growth of 9.8% in the first nine months of 2018. The largest positive contribution came from the exports of base metals (mostly iron and steel products), and rubber and plastic products (car tyres), followed by motor vehicles and trailers, oil products, chemicals, machinery and equipment. Of the 23 areas of manufacturing industry, only the exports of basic pharmaceutical products and foodstuffs decreased. The slightly lower exports of industrial food products were a consequence of the previous year's bad agricultural season, which led to lower exports of agricultural products in 2018. This should be partly offset during the rest of the year (fourth quarter) owing to this year's excellent agricultural season which was particularly favourable for cereal production.

The value of imports increased by 13.1% y-o-y mostly owing to higher prices of crude oil and gas. In addition, the imports of other raw materials and intermediates also increased – primarily of base metals (lower iron ore price and slower growth of prices of copper and aluminium enabled the purchase of larger quantities needed for export-oriented production), machinery and equipment. Apart from that, the imports of equipment needed in the current investment cycle also increased, as did, but to a lesser extent, the imports of consumables.

The financial transaction account (no change in foreign reserves) in the January-September 2018 period recorded a net inflow of EUR 2.2 billion, largely from FDIs. Net FDI inflow rose by 3.2% y-o-y in the first nine months, which was more than enough to cover the current account deficit (122.3%). According to flash nine-month estimates, FDI inflows remained diversified in terms of projects and mostly focused on the manufacturing industry (31.1%), financial sector (25.9%), construction (13.1%), and trade (11.8%). Broken down by country, the largest part of FDIs came from the EU member states (71.9%), while the share of Asian countries was also double-digit (11.3%). The net FDI inflow in 2018 is expected to reach about 6% of GDP, which will ensure a full coverage of the current account deficit. Portfolio investments in the January-September 2018 period recorded a net inflow of EUR 114.7 million, as a result of purchases of longer-term dinar government securities by non-residents at the beginning of the year. On the other hand, positive fiscal trends enabled the government to prepay the London Club debt bonds in the amount of EUR 131 million. As regards financial loans, foreign net borrowing by residents amounted to EUR 608.5 million, with both the private sector (EUR 593.5 million) and the public sector (EUR 15 million) engaging in net borrowing. Foreign reserves of the National Bank of Serbia (excluding intercurrency and price changes), which increased by EUR 1,144.9 million in this period, are at the adequate level ensuring protection from external shocks – considering they cover almost six months of imports of goods and services and 273.7% of debt that becomes due and payable in the following year.

Inflation. During 2018, inflation was below the previous year's level. Slowdown of the year-on-year inflation in the first four months of the year was mostly a result of the prices of oil products, fruit and vegetables. Then their prices went up as a consequence of higher global oil price and weather conditions that adversely affected vegetable production. These two price categories explain over a half of the current inflation, which reached 2.2% y-o-y in October. At the same time, after a moderate decrease at the beginning of the year, core inflation stabilised at a relatively low level, about 1%, pointing to still low inflationary pressures.

Exchange rate. Full coverage of the current account deficit with foreign capital inflows contributed to continued appreciation pressures during 2018 as well. After short-term depreciation pressures during January due to temporary seasonal factors, in particular higher demand for foreign currency by energy source importers, from February appreciation pressures returned. They were primarily contributed to by non-residents' increased interest and considerably higher investment in long-term dinar government securities in February and March. Pressures towards dinar appreciation continued in the following period as well, supported by continued strong exports and high FDI inflow. Dinar strengthening was also supported by the growth of foreign currency-indexed lending to businesses and purchase of foreign currency cash, as well as higher payment card payments by non-residents in Serbia during summer months. Appreciation pressures gradually weakened since September, as a result of greater balance between foreign currency supply and demand, with even mild depreciation pressures recorded on some days. From the start of the year to the end of November, the dinar remained practically unchanged relative to the euro (up by 0.1% till the end of November). For the purpose of smoothing excessive short-term dinar exchange rate fluctuations, during 2018 the National Bank of Serbia intervened at the interbank foreign exchange market in both directions – by purchasing EUR 1,805 million and selling EUR 225 million.

Credit activity and monetary trends. The past monetary policy easing by the National Bank of Serbia, acceleration of economic activity, recovery of the labour market, and drop in country risk premium, competition in the banking sector and low interest rates in the euro money market, all contribute to further growth of credit activity. In 2018 domestic lending grew at relatively high rates amidst further bank activities on NPL resolution. Total domestic loan growth (after excluding the effects of exchange rate variations) picked up from 7.3% in December 2017 to 7.8% in October 2018, with the growth of loans to households accelerating to 12.1% in October (from 11.6%), and to businesses to 4.5% (from 4.3%). After excluding the effect of NPL write-offs and sale since early 2016, in October 2018 the y-o-y total loan growth was 12.1%, of which 13.7% to households and 11.3% to businesses.

During the first ten months of 2018, new corporate loans amounted to RSD 698.7 billion, which is 5.4% less y-o-y, and 2.4% more after excluding loans refinanced with the same bank. Working capital loans accounted for the largest share (52.6%), while investment loans accounted for approximately a quarter of total new landing (24.4% during the first ten months of 2018). Again in 2018, as in the previous three years, investment loans play an important role in investment financing (in the first ten months of 2018 these loans worth RSD 170.3 billion were approved). In the first ten months of 2018, the volume of new loans to households was RSD 398.1 billion, which is 10.3% more than in the same period of the previous year. The fastest growth is still recorded by dinar cash loans, but a recovery of housing loans is evident (in the first ten months of 2018, these loans worth RSD 64.4 billion were granted), underpinned by real estate market recovery, as well as wage and employment growth.

The analysis of credit activity for the purpose of determining the level of the countercyclical capital buffer as of September 2018 shows that, despite a recovery in credit activity, it is below its long-term trend due to the still negative gap in the share of real credit in real GDP (-12.9 p.p.). Credit activity analysis by sector shows that excessive credit growth is not present in the corporate sector nor in the household sector and that they are still below their long-term trend. Nevertheless, closing of the gap is evidently faster in the household sector. Furthermore, in certain household lending segments closing of the gap is evident, which calls for targeted measures aimed at mitigating this risk without jeopardising the overall lending activity.

Taking into account the pickup in economic activity and favourable labour market trends, earlier easing of the NBS monetary policy and high likelihood that interest rates will remain low at the international money market for some time to come, credit activity is expected to continue to expand in the following period as well. Expectations that credit demand will continue to increase is also expressed by banks in credit activity surveys (conducted by the National Bank of Serbia, as well as the European Investment Bank among the banks with subsidiaries operating in Serbia).

Credit activity growth also has had a positive effect on the growth of monetary aggregates during 2018, while the country's improved fiscal position owing to the fiscal surplus and successful auctions of dinar five- and ten-year securities acted in the opposite direction. In year-on-year terms, the growth of all monetary aggregates accelerated since March, with M1 being 15.9% larger, M2 14.4%, and M3 9.5% larger in October. During 2018 household dinar savings increased steadily and peaked in October at RSD 56.6 billion. At the same time, household foreign currency savings reached over EUR 9.5 billion in October. In addition to the growth of foreign currency deposits of businesses, underpinned by good export results, as well as inflows from FDIs and foreign borrowing, since the beginning of the year total foreign currency deposits rose by EUR 833.4 million.

3. MEDIUM-TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, in the 2019-2021 period the cummulative growth rate will be 11.9%, driven by domestic demand growth. This source of growth is determined by the steady growth of investment, as well as private consumption growth. The Serbian economy will grow at an average rate of 3.8% per year. In parallel, the public debt will decline, reform processes in public enterprises will intensify and the focus will be on fiscal discipline. Private consumption growth, at 3.2% on average, is projected at a lower rate than economic activity acceleration. This increase does not contain any balance disruptors. It is based on solid sources, primarily employment increase, as well as a positive impact of price and credit trends on disposable income. Stable investment growth is expected to average about 6% per year, gradually raising its share in the GDP structure. The average annual export growth will be 9.4%, outpacing the expected import growth of 8.1%. Such foreign trade developments will improve the current account balance and ensure a positive impact of net exports on the economic growth rate in the medium term. The expectations are based on the fact that FDI inflow has so far been diversified and mostly focused on the activities producing tradeables. Moreover, the current account deficit reduction should also be a result of the rising exports of services. For two consecutive years Serbia has been the global leader in terms of the number of new jobs created through FDI projects.

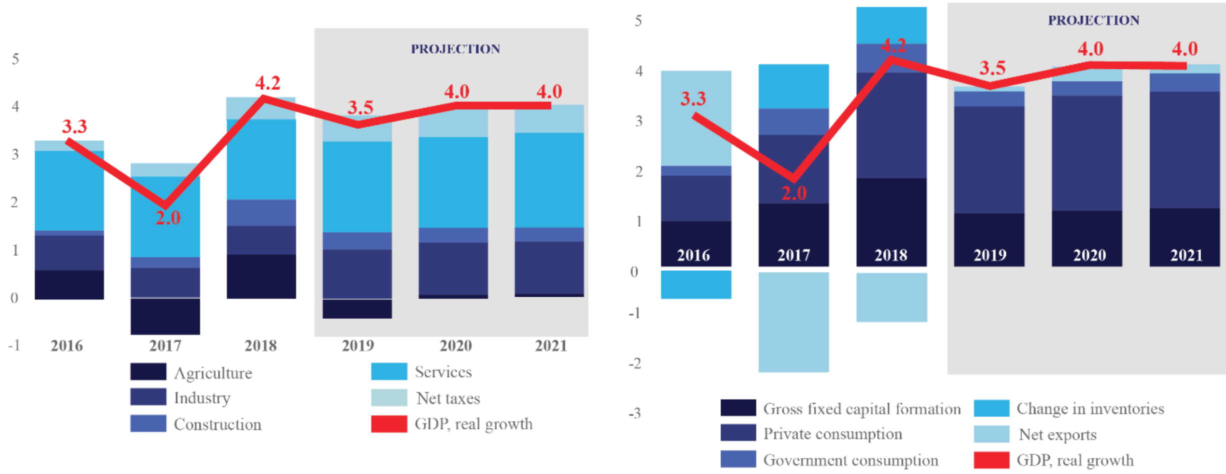
Table 2. Projection of main macroeconomic indicators for the Republic of Serbia

	Estimate	Projection		
	2018	**2019**	**2020**	**2021**
GDP, RSD billion (current prices)	**5,074**	**5,424**	**5,832**	**6,269**
Real GDP growth, %	4.2	3.5	4.0	4.0
GDP deflator, %	2.4	3.3	3.4	3.4
Real growth of individual components of GDP, %				
Private consumption	3.0	3.1	3.3	3.4
Government consumption	3.5	1.9	1.7	2.4
Gross fixed investment	9.8	5.6	5.8	6.0
Exports of goods and services	9.2	9.5	9.5	9.2
Imports of goods and services	9.8	8.2	8.0	8.0
Balance of goods and services, in EUR, % of GDP	-8.7	-8.0	-7.3	-6.7
Current account balance, in % of GDP	-5.2	-5.0	-4.5	-4.2
Inflation, period average, in %	2.1	2.3	3.0	3.0

Source: Ministry of Finance

In the 2019–2021 period, their growth is expected to continue, with the average annual inflow amounting to EUR 2.7 billion. Apart from that, the FDIs attracted so far will intensify domestic competition and impact the efficiency of domestic producers, while, on the other hand, they should activate new sales channels and open new market niches. Moreover, concrete measures are applied to eliminate barriers and release resources for accelerated investment by domestic producers, any form of domestic innovation and proactivity is stimulated and encouraged. As for the supply side, the service sector and the industry will retain the role of dominant sources of growth and increase the created GVA by an average annual rate of 3.8% and 4.9%, respectively. Positive contribution will also come from the continued dynamic growth of the construction activity, at about 8% per year on average. Attaining European standards and raising competitiveness in agriculture, by fulfilling requirements for the opening of Chapter 11 and through the use of IPARD EU programme, will reduce the fluctuations of this sector's output due to weather conditions. After the decline in 2019, we expect a modest growth of arricultural output in 2020 and 2021.

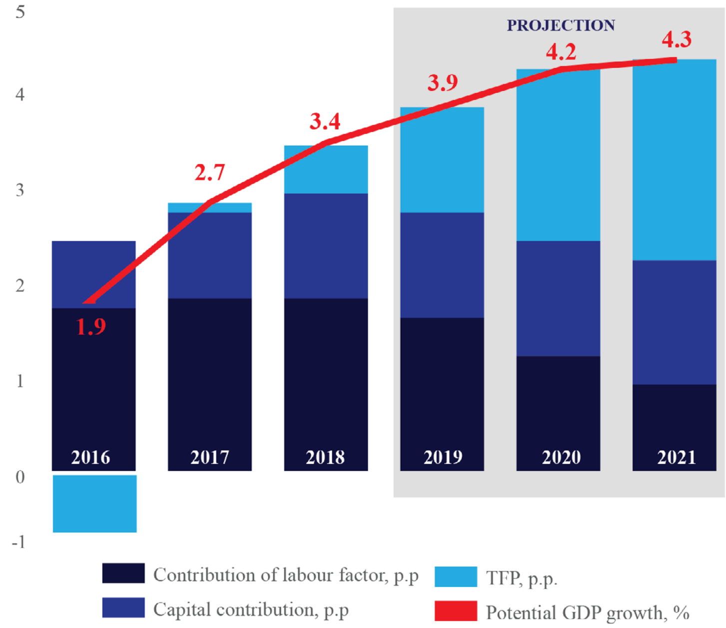
Graph 1. Contributions to real GDP growth rate, production and expenditure approach, p.p.



With this three-year scenario, the Government remains committed to the economic growth model based on investment and exports and driven by private consumption growth based on real and sound sources. At the end of 2021, the share of gross fixed investment in GDP will be about 3 p.p. higher than in 2015. In the same year, the share of exports of goods and services in GDP was 45.3%, while at the end of the period covered by this scenario it will reach 57.7%. Government consumption will retain the share of about 16% of GDP, which is significantly below the European average, which is over 20%. The reduction of the share of the goods and services deficit in GDP will be accompanied by a reduction of the share of the current account deficit. This will ensure foreign debt sustainability, external liquidity and solvency.

Consistency in preserving fiscal stability prevents the generation of imbalances and creation of uncertainties. The measures taken are aimed at further reduction of burden on the economy. All reform processes are supported by intensive construction of transport and electronic infrastructure. The efficiency of public project implementation has been raised and for the medium-term period a significant increase in capital expenditure has been planned. Digital transformation and digital ecosystem construction continue to be in the Government's stategic focus. More efficient operation of the government administration, shorter procedures for the citizens and businesses, with a focus on education digitalisation, will accelarate the convergence of our economy to the advanced economies. Since these are hard-to-reach goals without R&D and innovation, the government has designed an incentive system in the form of "innovation vouchers" focused primarily on the SME sector.

Graph 2. Contributions of production factors to potential growth rate



In the medium-term period, potential GDP growth is expected to accelerate. After the 3.4% growth in 2018, potential GDP will increase by 4.1% per year on average. With this growth rate, the output gap will be closed in early 2019. The growth of potential GDP in this period is driven by faster FDI inflow. Their impact on productivity and efficiency is two-pronged: through the transfer of technology and the transfer of knowledge. Also, this trend is expected to be reinforced by domestic innovation activities. Moreover, potential GDP growth will also be influenced by favourable labour market developments, while at the end of the medium-term period a positive impact of the education reforms undertaken so far will become evident through the reduction of structural unemployment. Digitalisation will significantly accelerate these processes and additionally raise the efficiency of available capacity utilisation.

Employment and wages. In the medium-term period, favourable labour market trends are expected to continue, primarily reflected in the stronger growth of average wages and single digit unemployment rate. After the improvement of labour legislation and measures adopted for the purpose of reducing the tax wedge on labour, intensified efforts of inspection services will result in a further reduction of informal labour and its formalisation. The working conditions, in terms of workers' rights and insurance, will thus be improved, coupled with positive effects on the budget revenue. At the end of the medium-term period, the complex education system reforms are expected to yield results, providing an adequire response to the needs of the economy, while active measures involving training, retraining and support to social entrepreneurship will facilitate the access of socially vulnerable categories of society to jobs, additionally ensuring economic growth inclusiveness. The new raising of the minimum price of labour, which, as of January 2019, will be RSD 155.3 compared to RSD 143 an hour previously, will pursue the same objective. On the other hand, the growth of real net private sector wages is expected to follow the growth of productivity in the economy and to outpace the growth in the public sector, reducing the gap between them.

Monetary and exchange rate policy. Since 2009 the National Bank of Serbia has been implementing the inflation targeting regime as its monetary strategy. Owing to the attained price stability, anchored inflationary expectations and considerable improvement of macroeconomic fundamentals and outlook for Serbia in the following period, and, above all, the sustainable reduction of external and internal imbalances, since 2017 the target inflation rate has been reduced to 3%±1.5 p.p. and set at that level until the end of 2021. This has further demonstrated that the commitment of the NBS and the Government of the Republic of Serbia to take measures in order to keep the inflation low, stable, and predictable over the medium term. Setting a lower inflation target ensures Serbia's further convergence to the EU countries, contributes to the improvement of business and investment climate, a fall in long-term interest rates, a reduction of costs and currency risk for economic operators, households, and the government, which also contributes to the dinarisation process, which is our strategic goal. The main instrument for achieving the inflation target is the interest rate applied in one-week term reverse repo operations, while other monetary policy instruments (open market operations, credit and deposit facilities, required reserve, and intervention in the foreign exchange market) have a supporting role. The required reserve policy is designed so as to encourage longer term and dinar sources of bank funding through the differentiation of required reserve rates depending on the term and currency of liabilities. For dinar funding with contractual maturities of up to two years it is currently 5%, and for the funding with maturities of over 2 years it is 0%. The required reserve rate for foreign exchange funding with contractual maturities of two years is 20%, and for maturities over two years it is 13%.

The cycle of the NBS monetary policy easing started in mid-2013 when the key policy rate was 11.75%. Owing to low inflationary pressures, amidst the implementation of consistent fiscal consolidation, the lowering of the key policy rate was the fastest in 2015 (by 350 b.p. to 4.5%), and continued in 2016 and 2017 at a cautious pace (by 50 b.p. at a time to 3.5%), primarily bearing in mind the effects of the previous monetary policy easing and the uncertainty present in international environment.

Cautious monetary policy was pursued in 2018 as well due to uncertainties surrounding the developments in international commodity and financial markets. The oil price in the international market was decidedly volatile and rising during most part of the year. In the international financial market, the uncertainty was related to the pace of normalisation of monetary policies of the leading central banks and their potential effects on global capital flows towards the emerging countries, including Serbia. The uncertainty is also intensified due to spreading protectionism and intensification of trade tensions.

Despite the rising uncertainties in the global environment, the domestic macroeconomic conditions for implementing monetary policy were favourable and inflationary pressures remained low. This created room for the reductions of the key policy rate in March and April 2018, by 25 b.p. each, to 3.0%, i.e. the lowest level since the start of implementation of the inflation targeting regime.

By easing its monetary policy, the NBS provided additional support to credit growth and, in turn, to economic growth, which grew in the first three quarters of 2018 at the highest rate in the past ten years (4.5% y-o-y).

In the following period, the National Bank of Serbia will continue implementing a carefully balanced and combined set of monetary policy measures aimed at maintaining low and stable inflation, while preserving the stability of the financial system and supporting the growth of economic activity on sustainable grounds.

In line with the chosen monetary strategy, the National Bank of Serbia will continue pursuing the managed floating exchange rate regime. That implies interventions in the foreign exchange market in three cases: to reduce excessive short-term fluctuations of the foreign exchange rate, preserve the stability of the financial system, and maintain an adequate level of foreign reserves. In the short term, some pressures on the dinar exchange rate may come from volatile capital flows due to different paces of leading central banks' monetary policy normalisation. However, the reduction of internal and external imbalances contributes to a greater resilience of the domestic economy to external shocks, and the stability of the dinar exchange rate over medium term.

Medium-term inflation projection. By the end of 2019 inflation should reamin at about 2%, while temporarily approaching the target in the first months of next year due to the low base. More permanent stabilisation around the 3% target is expected during 2020. Relatively stable projected inflation until the end of the projection period is a result of impact of several factors on inflation. The main factor affecting inflation during the entire projection period is the gradual increase in aggregate demand. Apart from that, disinfltionary pressures arising from dinar appreciation in the previous period will gradually subside, and a somewhat faster growth of administered prices is expected in the following year relative to the current year (when it was 2.4% year-on-year). In the short run, low food production costs, as well as the high base for the prices of vegetables and oil products during 2019, will have an opposite effect.

The uncertainty regarding the achievement of inflation projection relates primarily to further developments in the international commodity and financial markets, i.e. to the movements of global commodity prices (oil and primary agricultural products) and the leading central banks' decisions on monetary policy, and to a certain extent to the movement of Serbia's administered prices.

External sector and its medium-term sustainability. Progress in the EU integration process, ongoing economic recovery of the EU, successful conclusion of the stand-by arrangement with the IMF and the new IMF programme (Policy Coordination Instrument), coupled with a more conducive business environment resulting from the implementation of structural reforms, should be positively reflected in further FDI growth of over the medium term.

Export composition improved owing to FDI inflow into certain export-oriented sectors, which should contribute to their further growth over the medium term. This refers primarily to the manufacturing of motor vehicle parts, accessories and equipment, whose exports grew steadily to EUR 1.5 billion in 2017, which is about 2.4 times more than in 2012. The share of these products in total exports rose from 7.0% in 2012 to 9.9% in 2017. The positive trends continued in the January-September 2018 period, when their exports increased by 26.4% y-o-y to EUR 1.4 billion (accounting for 11.2% of total goods exports). This was more than enough to compensate for the dip in car exports in the same period by 16.1% y-o-y, whereby the total growth of exports of cars and related products for the car industry reached 9.0% y-o-y.

Broken down by stages of processing, intermediate goods accounted for the largest share (32.1%) of goods exports in the first nine months of 2018. Resource-based products had the second-largest share of 24.0%, followed by upstream products (iron and steel, clothing, footwear, furniture) with a share of 22.7%, while primary products accounted for 12.6% of total exports. The share of high-tech products (mostly electric machines) in total exports was 5.7%, and other products (electricity, non-classified) accounted for 2.9%.

In terms of geography, the goods from Serbia are exported mostly to the EU market, where in the January-September 2018 period 67.1% of total exports were sold (0.5 p.p. more than in the comparable previous year's period). The most important destinations are Italy[3] and Germany, accounting for about 37% of exports to the EU in January-September 2018, or 25% of total Serbian exports. The share of exports to the CEFTA countries was 17.4%, while exports to Russia accounted for 5.4% of Serbia's total exports.

After the cummulative depreciation of 8.4% in the 2014-2016 period, the real effective dinar exchange rate, CPI based,[4] appreciated by 3.3% in 2017 and continued to strengthen during the first ten months of 2018. Such trends are primarily a consequence of nominal strengthening of the dinar against the currency basket composed of the euro and the dollar by 4.3% y-o-y in the January-October 2018 period. Bearing in mind that in the same period the growth of prices in Serbia was marginally faster than the growth of prices in the euro zone (a 0.2 p.p. contribution) and slower than the growth of prices in the US (a -0.1 p.p. contribution), this led to a real effective appreciation by 4.4% y-o-y. The real effective exchange rate based on the basket of currencies of Serbia's 35 main foreign trade partners shows a similar trend – following a cumulative depreciation by 5.2% in the 2014-2016 period, the dinar recorded a real effective appreciation by 3.1% in 2017 and 5.1% y-o-y in the January-October 2018 period. In the first three quarters of 2018, the growth of unit labour costs was faster than in the euro zone (by 2.6 p.p), coupled with wage and productivity growth, with wage growth being somewhat faster primarily due to public sector wage growth following the successful conclusion of the fical consolidation process.

Unlike price and cost competitiveness, which mostly has a short-term effect, in 2018 Serbia's structural competitiveness, which has a decisive effect on the improvement of competitiveness of an economy in the long term, continued to improve. In 2018, for the third consecutive year, Serbia made progress on the World Economic Forum list to 65th place among 140 countries. Progress was achieved in eleven out of twelve areas under observation, including the macroeconomic environment, whose improvement is a result of low and stable inflation, budget deficit reduction and subsequent credit rating improvement. According to the World Bank's Doing Business report for 2018 as well, Serbia continued to converge to the global best practice in terms of business conditions and still ranks among the top 50 countries in terms of the ease of doing business (out of 190 countries).

The current account deficit should be about 4-5% of GDP in the following years, where the increase in the services surplus and a stable inflow of current transfers and a stable outflow of primary income should compensate for the expected moderate increase in the goods deficit in the current investment cycle. The real growth of goods and services exports is expected to average about 10% per year in the following three years, bringing their share in GDP up to about 55% in 2020 (from 32.3% in 2010 and 45.3% in 2015). In the following three years the real goods and services imports is expected to average about 8% per year.

The expected net FDI inflow trend will result in profit from their ownership remaining a significant expenditure item in the primary income account in the future, which will be offset by a lower outflow from interest on loans and securities, primarily due to public sector deleveraging.

3 Most car exports are registered as exports to Italy, regardless of the final destination
4 The currency basket consists of the euro and the dollar, whereas the price basket consists of the euro zone and US CPIs, at an 80:20 ratio.

In the following period the secondary income account is expected to have a stable inflow of remittances of about 8-9% of GDP.

The structure of capital inflows will be dominated by FDIs (about 5% of GDP on average annually), which will continue fully to cover the current account deficit. In the following period net deleveraging relatied to financial loans is expected. In terms of the sectoral structure, owing to good fiscal results and sustainable fiscal framework, the public sector is expected to deleverage in net terms, while the private sector is expected to engage in net borrowing in order to finance growth.

In the following years foreign reserves are expected to remain at an adequate level. It is estimated that the foreign reserves will cover approximately 6 months' worth of average monthly imports, with a growth of short-term debt coverage (based on residual maturity) by foreign reserves to about 300% in 2019.

International investment position. From the standpoint of international investment position (hereinafter: IIP), Serbia is a net debtor, in the amount of EUR 36.6 billion (88.9% of GDP) at the end of June 2018, which is by 2.3 p.p. lower than at the end of 2017. In the observed period, the public sector decreased its negative international investment position by EUR 0.6 billion (mostly owing to the growth of the NBS foreign reserves). The net debtor position of other sectors rose by EUR 1.2 billion due to higher FDI inflow, and of banks by EUR 0.3 billion due to higher borrowing based on financial loans. Broken down by instruments, at the end of the second quarter of 2018 foreign direct investments accounted for over 80% of the net IIP, which indicates less vulnerability to external shocks and contributes to external sustainability.

On the liability side of the IIP, the share of debt instruments went down to 52.2%, including debts to related parties (amounting to 27.5% of total debt). Half of external debt is related to the public sector (50.9%), and all of it is long-term. Public external debt is dominated by three currencies – the euro (63.3%), the dollar (25.5%), and the dinar (6.2%). At the same time, the share of the euro and the dollar in foreign reserves is 56.8% and 32.9%, respectively, so the currency structure of foreign reserves is in line with the foreign public debt currency structure. About two thirds of public debt is contracted at a fixed interest rate. Most of the private sector debt structure (76.8%) refers to corporate debt. Over 90% of corporate debt is euro-denominated, but the fact that over 90% of exports collection is executed in euros as well contributes to lower foreign exchange risk on external corporate debt. In terms of residual maturity, over 86% of corporate debt is long-term. Over 71% of bank debt is contracted at a floating interest rate, while over 95% is euro-denominated. In terms of residual maturity, over 52% of the external debt of the banking sector (excluding deposits) is long-term.

Financial sector. During 2018 there were no major changes in the structure of Serbia's financial system, i.e. the banking sector still presents the dominant form of financial intermediation (with a share of over 90% in total financial sector assets).

As of 31 October 2018, 27 banks operated in Serbia's banking sector, of which 20 with majority foreign ownership (members of banking groups from 13 states), while 5 banks were majority-owned by the Republic of Serbia, and 2 banks were majority-owned by domestic legal entities. Banks with majority foreign ownership dominate the market and account for 76.5% of total balance-sheet assets, 82.7% of total gross loans and 74.6% of total deposits of Serbia's banking sector. In terms of individual share of banks, the banking sector of Serbia is fragmented in all relevant market categories, indicating a high degree of competition among banks.

The banks' total assets and capital at the end of October 2018 amounted to RSD 3,601 billion and RSD 676 billion, respectively. At the end of September 2018 the capital adequacy ratio was 22.8%, which is significantly above the regulatory threshold of 8%. The financial leverage ratio of 12.4% in September 2018 confirms the banking sector's high solvency.

The banks in Serbia are characterised by high liquidity, which is confirmed by the evolution of the key liquidity ratios and asset maturity structure, which are at very satisfactory levels by all relevant criteria. The average monthly current ratio for the banking sector was again above 2 during 2018 and 2 in October (the regulatory minimum is 1.0). As at 31 October 2018, liquid assets accounted for 36.6% of total balance-sheet assets and 52.2% of total short-term liabilities. The liquidity coverage ratio (LCR) introduced in line with Basel III is 223.2% and also confirms the high liquidity of the banking sector.

Satisfactory profitability of the banking sector was also maintained in 2018. As of October 2018, total net pre-tax income amounted to RSD 64.7 billion, with the ROA and ROE profitability ratios standing at 2.23% and 11.56%, respectively, at the end of October 2018.

Although the National Bank of Serbia implemented all the activities envisaged by its Action Plan for the Implementation of the NPL Resolution Strategy, it continues to take additional regulatory steps for the purpose of encouraging banks to resolve NPLs more efficiently and to establish a system that will prevent their accumulation. Through the established instruments and mechanisms for supervising their operations, the National Bank of Serbia guides the banks to show commitment to resolving this issue. Moreover, on 30 September 2017 the implementation of the Decision on Accounting Write-off of Balance Sheet Assets of Banks began, providing for the introduction of mandatory transfer of the worst part of NPLs to off-balance sheet records.

During just over three years since the adoption of the Strategy, the share of the banking sector's NPLs declined by 16 p.p. to 6.4 percent of total loans at the end of September 2018. The NPL stock was lower by two thirds at the end of September 2018 relative to the start of the Strategy implementation. Owing to the implementation of the previously mentioned Decision on Accounting Write-off of Balance Sheet Assets of Banks, since September 2017 the banks have been engaging in more direct write-offs, which amounted to RSD 113.3 billion in the September 2017 – September 2018 period, which accounts for 64% of total write-offs in the previous three years.

In the past three-year period of the Strategy implementation, the following were the most important channels for bank NPL reduction: 1) direct write-off and 2) sale of receivables. From the moment of the Strategy adoption until 30 September 2018, the total reduction of NPLs through direct write-off amounted to RSD 176.8 billion, spread out across all banks irrespective of their ownership structure. The net amount of receivables sold since the introduction of the Strategy was RSD 84.4 billion. In terms of sectors, the NPL ratio in the corporate sector is 5.7%, while the NPL ratio for households stood at 4.7% at the end of September 2018. Non-performing loans are for the most part covered, both by allowances for impairment in accordance with international accounting standards (at end-September 2018 61.3%), and by regulatory provisions for balance-sheet exposures (153.3% as at end-September 2018).

Taking into account the specificity of the domestic market and carefully reviewing the EU activities in this area, the National Bank of Serbia will continue with regulatory efforts aimed at further resolution of the complex issue of NPLs in the banking sector of Serbia, in line with its competencies, with the view of preserving and reinforcing the stability of the financial system.

The regulations introducing Basel III standards in Serbia, which the National Bank of Serbia adopted in December 2016 (*Decision on Bank Capital Adequacy, Decision on Disclosure of Data and Information by Banks, Decision on Reporting on Bank Capital Adequacy, Decision Amending the Decision on Reporting Requirements for Banks, Decision on Liquidity Risk Management by Banks, Decision Amending the Decision on Risk Management by Banks*), have been successfully implemented since 30 June 2017. This is a significant step towards the harmonisation of the domestic regulatory framework for banks, considering that the provisions on prudential requirements for credit institutions applied in the EU have, for the most part, been implemented through the above implementing legislation. In addition to the harmonisation with the relevant EU legal acts in the banking field, the main goals achieved by their adoption are the following: increasing the resilience of the banking sector through increasing the quality of capital and introducing capital buffers, better monitoring and control of bank exposure to liquidity risk, further strengthening of market discipline and transparency of bank operations in the Republic of Serbia by disclosing all relevant information on bank operations, as well as adapting the reporting system to new regulatory provisions.

In line with the implementation of the Basel III standards, in June 2017 the National Bank of Serbia adopted a set of decisions which determine the rates and manner of maintaining capital buffers with the aim to preserve and strengthen the stability of the financial system. Since 30 June 2017, banks in Serbia are obliged to maintain the following capital buffers:

- Capital conservation buffer (equal to 2.5% of risk-weighted assets);

- Countercyclical capital buffer (the countercyclical capital buffer rate is set at 0%, and the National Bank of Serbia determines the rate of this buffer quarterly, based on the deviation of the credit-to-GDP ratio from its long-term trend and other relevant variables);

- The capital buffer for systemically important banks (the National Bank of Serbia determines at least annually the systemically important banks and a capital buffer for these banks. Based on the decision of June 2018, nine banks are currently found to be systemically important for the domestic economy and these banks are obliged to maintain an additional capital buffer at the level of 1% or 2% of their risk-weighted assets);

- Systemic risk buffer (introduced in order to limit the risk of euroization - all banks whose share of foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic in Serbia in total placements of that bank approved to corporates and households in the Republic of Serbia exceeds 10% are obliged to maintain a systemic risk buffer at 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia. The specificity of this systemic risk buffer is the basis for calculating capital requirements, since, instead of the bank's total risk-weighted assets, the systemic risk buffer is applied directly to domestic exposures – to banks' foreign currency and foreign currency-indexed placements. In this way, banks are encouraged to reduce their exposure to systemic risk caused by euroization since the level of capital requirements will decline if they reduce the amount of those placements. In addition, while all banks are required to maintain the same rate, the capital requirements for individual banks vary depending on their degree of euroization).

In line with its strategic commitment to continuous improvement of the legal framework for banks, while taking into account the specific features of domestic regulations and market, and considering the fact that the Republic of Serbia has accepted the EU acquis in Chapter 9 – Financial Services, the National Bank of Serbia continues to monitor the amendments to the regulations governing the operation of credit institutions in the European Union and to adapt the regulations in this field. In connection with this, regulatory activities continued in 2017 and 2018 according to the planned schedule. The National Bank of Serbia adopted the Decision Amending the Decision on Consolidated Supervision of a Banking Group in June 2017 to provide for the harmonisation with the new, already adopted regulations implementing Basel III standards in the Republic of Serbia on a consolidated basis as well. In July 2017, the NBS also adopted the Guidelines for the Identification of Default, providing solutions based on those offered by the European Banking Authority. In September 2017, the National Bank of Serbia adopted the Guidelines for the Implementation of Specific Provisions of the Decision on Bank Capital Adequacy relating to bank capital, in order to harmonise with delegated EU regulations and create additional regulatory preconditions for the achievement of one of the main goals of Basel III standard – increasing banking sector resilience through the increase in bank regulatory capital quality. For the purpose of enabling the implementation of IFRS 9 in banks as of 1 January 2018, in November 2017 the National Bank of Serbia adopted the following regulations: *the Decision Amending the Decision on the Chart of Accounts and Content of Accounts in the Bank Chart of Accounts; the Decision on Forms and Content of Items in Financial Report Forms for Banks; the Decision on the Collection, Processing and Delivery of Data on Balances and Structure of Accounts from the Chart of Accounts; the Decision Amending the Decision on the Classification of Balance Sheet Assets and Off-Balance Sheet Items; the Decision Amending the Decision on Bank Reporting.* Additionally, with the adoption of appropriate implementing legislation in 2018 as well, risk management has been improved in banks, as well as bank group supervision on a consolidated basis.

In the following period as well, the regulatory activities of the NBS will be focused on further harmonisation of the domestic legal framework with the EU acquis, taking into account the specificities of domestic regulations and financial market in order to ensure the preservation and reinforcement of stability of the banking and financial system.

With the start of application of the Law on Payment Services (as of 1 October 2015) and implementing legislation adopted on the basis of this law, the NBS finalised its numerous activities aimed at the establishment of a comprehensive regulatory framework in the field of payment services and issuance of electronic money. Since the above legislation set up an effective legal basis for the establishment and operation of payment institutions and electronic money institutions, by 30 November 2018, the NBS issued 13 decisions granting the same number of licences for the provision of payment services to interested companies that applied and met the prescribed requirements. In addition, one company was granted a licence for the issuance of electronic money as an electronic money institution. To develop further this segment of the financial market, the National Bank of Serbia is undertaking activities on the harmonisation of the national legislation with the EU acquis in the field of payment services, primarily through the implementation of the new Payment Services Directive (PSD2). The national regulatory framework will, thus, be in line with the EU standards introducing new payment service providers (payment initiation service providers and account information service providers) that will engage in innovative and technologically advanced services.

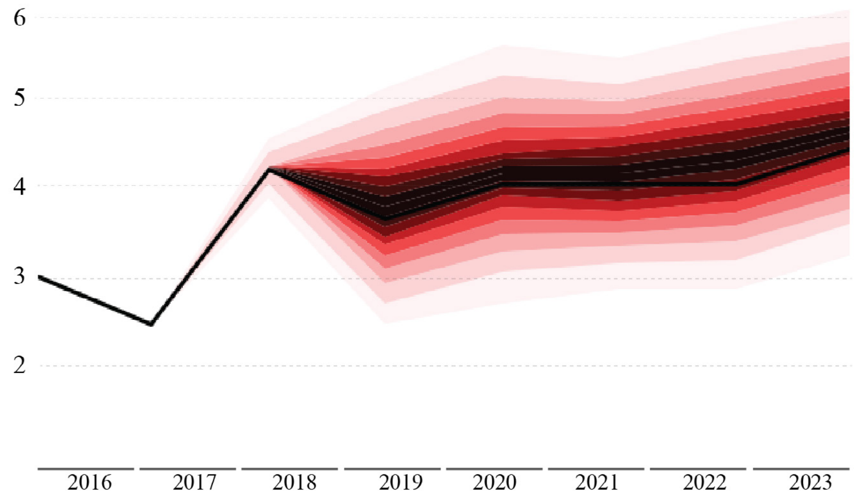
The release of the instant payment system – IPS NBS system in October 2018 marked a further step in the payment system development in the Republic of Serbia, which was initiated with a comprehensive reform in 2014. The National Bank of Serbia, as the IPS NBS system operator, manages the infrastructure which enables an advanced, reliable and efficient performance of money transactions. The IPS NBS system enables the payment service users to perform payment transactions amounting up to RSD 300,000 24/7/365, with near real-time transfers (within only a couple of seconds). Apart from encouraging cashless payment increase, the IPS NBS system also contributes to better liquidity management by payment service users. During 2019, the process of connecting all banks to the IPS NBS system will be completed, and the citizens and economic operators will be able to perform instant payments at the merchant's point of sale, resulting in additional competition for card payments and expected reduction of cashless payment costs. With the adoption of important payment system laws in June 2018 upon the proposal of the National Bank of Serbia, the regulatory framework in our country has been improved in line with the relevant regulations of the European Union and conditions have been created for further development of the existing methods for conducting payment operations and creation of new ones during 2019 and thereafter, while, by performing the tasks of payment system operator and supervisor of payment service providers, the National Bank of Serbia will continue to perform one of its basic functions, i.e. regulating, supervising and improving the smooth functioning of domestic and foreign payment operations.

4. ALTERNATIVE SCENARIOS AND RISKS

During the process of designing the medium-term macroeconomic framework, several risks to the projected economic growth rates have been identified. Broken down by source, they are classified as endogenous and exogenous, and broken down by impact, they are classified as downside asymmetric, upside asymmetric and symmetric.

Exogenous risks are determined by developments in the international commodity and financial market. These risks mostly stem from increasing trade tensions, and related protectionist measures, as well as volatilities generating uncertainties. As for the commodity market, the prices of commodities can have a two-pronged impact on the economic growth of the Republic of Serbia. Oil price movement above the projected level would have a negative impact on production costs, but it would also change the household consumption structure in favour of imported goods, all of which would result in slower economic growth. On the other hand, a faster growth of prices of base metals and agricultural products would, for the Republic of Serbia as their net exporter, have a positive effect and give an additional contribution to faster economic activity. Trends in the international financial market are mostly determined by divergent policies of the FED and ECB. Uncertainties concerning future measures and the slower pace of policy normalisation affect the behaviour of foreign investors and availability of financing sources. As far as global growth is concerned, prospects are still favourable, but with a dose of uncertainty regarding its pace. Namely, there are risks that could lead to its slowdown, which could have a negative effect on growth due to spillover from the economies of our largest foreign trade partners. Particularly prominent is the risk that could be generated by the budget crisis between Italy and the EC and uncertainties concerning further developments, taking into account the important role of Italy in our foreign trade. Also, a downside risk, which materialised in the past with some frequency, is the practice of adopting politically motivated inhibitory decisions breaching the signed foreign trade agreements and directly blocking the exports of Serbian products. Risks related to trends in the commodity and financial markets are assessed as symmetric, while there is an increased risk that the global economy growth and of our most important foreign trade partners could be slower than projected. Therefore, the risks to the domestic economy growth stemming from the international environment are tilted to the down side. Endogenous risks are related to the volatility of agricultural production, efficiency in public project implementation and the pace of implementation of initiated reforms. Despite the improvement and modernisation of the agricultural sector, the production of the main plant crops is still highly dependent on weather conditions, which may lead to significant deviations from multi-year average agricultural production based on which the trends in this sector are projected. Public investments gave a significant contribution to economic activity acceleration during 2018. The 2019 budget provides for even higher capital expenditure, so a slower implementation would have a negative effect on economic growth. On the other hand, since the status of public finance enables a higher volume of infrastructural works, such a scenario would give a positive impetus to GDP growth through a faster growth of construction from the production side, and higher investments from the expenditure side. Public enterprise reform is a basis for increasing the level of productivity and efficiency, which would make production processes cheaper, increase competitiveness and expand investment resources. The pace of implementing these reforms is clearly reflected in the pace of overall economic growth, with faster implementation of reforms leading to faster economic growth and vice-versa. Identified internal risks are perceived as symmetric.

Graph 3. GDP trend projection, year-on-year growth rates, %



III. FISCAL FRAMEWORK FOR THE PERIOD FROM 2019 TO 2021

1. MEDIUM-TERM FISCAL POLICY GOALS

Fiscal policy goals for the following medium-term period are the achievement of relatively low fiscal deficits of about 0.5% of GDP, which additionally accelerates the downward path of the public debt, as well as the use of fiscal space for the purpose of supporting economic growth. In February 2018, the Precautionary Arrangement was successfully concluded. The achieved results exceeded the expectations. The main goal of fiscal consolidation, halting further growth and gradual reduction of debt, was achieved in late 2016, when a primary fiscal surplus of 1.7% of GDP was recorded. In the period from 2015 to 2017, the general government debt was reduced by 12.5 p.p. of GDP, and public finance moved from a fiscal deficit to a fiscal surplus, which at the end of 2017 amounted to 1.1% of GDP. During 2018, a positive fiscal trend continued. In the January-September period, a fiscal surplus of 1.5% of GDP and a primary fiscal surplus of 4.1% of GDP were recorded. At the end of the third quarter, the general government debt was reduced to 56.6% of GDP. Owing to significantly improved trends, it is estimated that in 2018, instead of the planned fiscal deficit, a fiscal surplus of about 0.6% of GDP will be recorded, with the general government debt dropping by 4.3 p.p. of GDP at the end of the year. Revenues will give a key contribution to the better result, while on the expenditure side, the largest underperformance will be recorded in interest expenditure.

The successful implementation of fiscal consolidation measures, and the improvement of the country's credit rating, coupled with favourable trends in the international financial market, resulted in lower borrowing costs. For the first time since the start of the global economic crisis, in 2017 there was a reversal of interest growth trend, which is why during this year and in the following period a further reduction of this unproductive government expenditure is expected.

After the successful completion of the Precautionary Arrangement, supported by the fiscal consolidation programme, in July 2018 a new arrangement was concluded with the IMF, focusing on structural reforms as a growth impetus. The Policy Coordination Instrument lasting for a period of 30 months, provides for further implementation of structural reforms in order to maintain the attained macroeconomic and financial stability, create new jobs and accelerate economic growth. Good fiscal performance will be additionally supported with the completion of the programme of restructuring and privatisation of large state-owned enterprises, which will, in the following period, result in a reduction of fiscal risks stemming from this public finance segment.

Responsible fiscal policies in the previous period, in combination with a favourable macroeconomic environment, enabled moderate fiscal policy easing. The created fiscal space will be used for abandoning the crisis fiscal consolidation measures, on the one hand, and designing policies and measures promoting economic growth, on the other. By repealing the Law on the Temporary Regulation of the Manner of Pension Payment and with the payment of pension bonuses, based on the amendments to the PDI Law, starting from the payment of October pensions, the pensioners with the lowest pensions received an increase in their total receipts by at least 5% relative to the September pension. The Law on the Temporary Regulation of Bases for the Calculation and Payment of Salaries, Wages and other Regular Receipts in Public Fund Beneficiaries, Primarily in Central-level and Local Public Enterprises, will be phased out. On the revenue side, the trend of reducing the tax wedge on labour will be continued by reducing the unemployment insurance contribution, payable by the employer, whereby the tax wedge on the average net wage will be reduced by 1 p.p. Apart from the reduction of tax burden, growth and employment will also be stimulated by the reduction of parafiscal charges. The adoption of the new Law on Charges will regulate, in a systemic manner, the area of parafiscal charges, which, until now, presented a burden on the economy and a structural barrier to faster growth. A contribution to creating a more favourable business environment will be given by the amendments to the Corporate Income Tax Law, with the most important change being the simplification of the manner of calculating depreciation in the book-to-tax reconciliation. An important contribution to sustainable growth is expected to come from public investment, which is why a significant portion of fiscal space will be allocated to infrastructural projects.

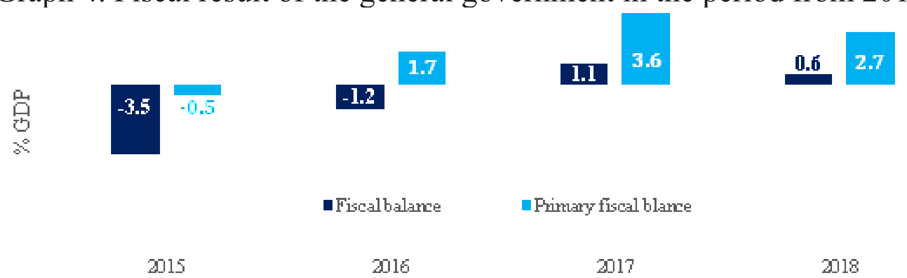
2. FISCAL TRENDS IN 2018

According to the latest estimates, the fiscal surplus of the general government in 2018 will amount to 0.6% of GDP and will be 1.2% of GDP better than planned. A new estimate was prepared for revenue, expenditure and the general government result, with the projected fiscal result better than planned by about RSD 60 billion. The latest macroeconomic trends and estimates, fiscal trends in 2018, as well as expected one-off revenue and expenditure items not covered by the plan, have been taken into account.

It is estimated that the primary fiscal surplus of 2.7% of GDP in 2018 will be one of the main factors of the reduction of public debt share in GDP. This result shows that the earlier fiscal consolidation measures have had the desired effects and that public consumption was sufficiently reduced. On the other hand, favourable fiscal trends and the improvement in the debt interest structure have already resulted in a reduction of the absolute level of interest expenses and a decrease of their share in GDP. This has created room for certain fiscal relaxation that will not jeopardise the main medium-term fiscal policy goals.

After stopping the growth of public debt in GDP in 2015 and the fall in the following year, in 2017 and 2018, a significant reduction in the share of public debt in GDP was achieved. It is projected that the share of public debt levels will be reduced from 68.8% of GDP in 2016 to 54.4% of GDP at the end of 2018. The overall and primary surplus in this period is the most important factor that has influenced the reduction of share of public debt in GDP. Although there is a risk that in the coming period the movement in the international foreign exchange market will act in the opposite direction, the planned path of the fiscal result provides further reduction of public debt to GDP.

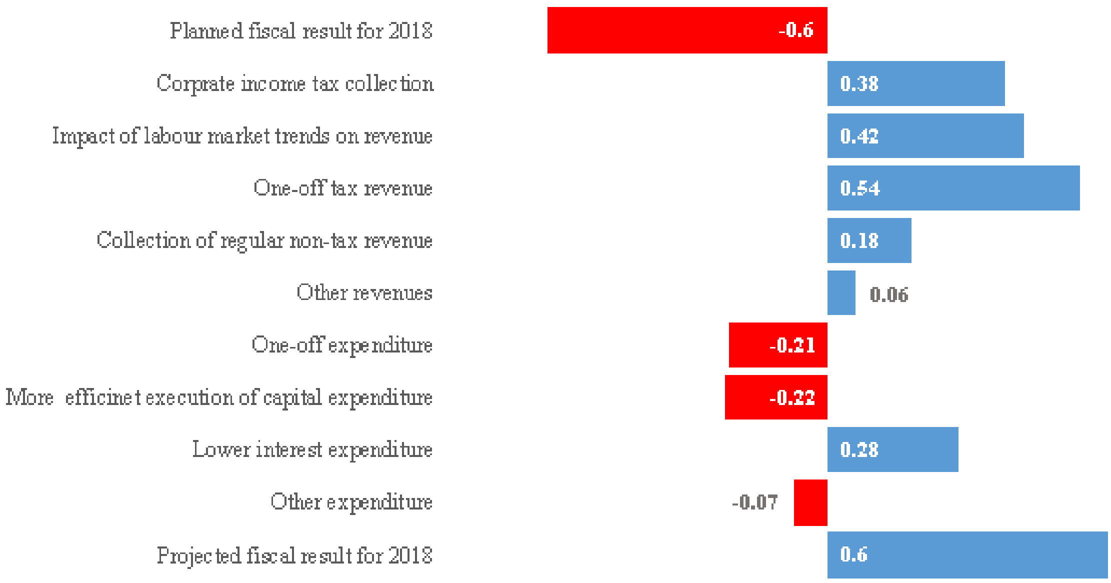
Graph 4. Fiscal result of the general government in the period from 2015 to 2018, % of GDP



Source: Ministry of Finance

Fiscal overperformance in 2018, relative to the budget plan, is primarily a result of better public revenue collection. The revenue projection has been revised upwards by RSD 70.7 billion, with a significant improvement in the collection of the corporate income tax, social contributions and certain non-tax revenue categories. The expenditure projection has also been revised upwards, by a somewhat smaller amount, but with significant positive changes in structure. Capital expenditure has been increased relative to the plan, due to significantly better execution, while interest expenditure has been reduced since certain risks included in the calculation failed to materialise. These changes present positive developments because they affect the productivity of public expenditure aimed at creating conditions for further economic growth. Other public expenditure categories have remained at approximately the same level, except for goods and services, which are increasing due to faster execution in the Health Insurance Fund and local governments.

Graph 5. Contribution of various factors to the deviation of the fiscal result relative to the 2018 plan, % of GDP



Fiscal trends in the January–September 2018 period mostly reflect the favourable macroeconomic trends, above all in the labour market, which contributed to better public revenue collection. At the end of September 2018, the general government surplus amounted to RSD 54.3 billion, which is RSD 68.9 billion above the plan. For this period, the original plan provided for a deficit in the amount of RSD 14.6 billion.

Table 3. Government revenue, expenditure and result in 2018, in billions of dinars

	2018 plan	New estimate 2018	Difference	Change in %	2018 new estimate, % of GDP
PUBLIC REVENUE	2,014.9	2,085.6	70.7	3.5	41.1
Current revenue	1,999.3	2,074.1	74.8	3.7	40.9
Tax revenue	1,776.0	1,816.7	40.7	2.3	35.8
Personal income tax	169.9	175.6	5.7	3.4	3.5
Corporate income tax	96.3	115.4	19.1	19.8	2.3
Value added tax	503.4	505.0	1.6	0.3	10.0
Excise duties	286.3	285.0	-1.3	-0.5	5.6
Customs duties	42.9	42.9	0.0	0.0	0.8
Other tax revenue	74.6	74.8	0.2	0.3	1.5
Contributions	602.6	618.0	15.4	2.6	12.2
Non-tax revenue	223.3	257.4	34.1	15.3	5.1
Grants	15.7	11.5	-4.2	-26.6	0.2
PUBLIC EXPENDITURE	2,046.9	2,057.6	10.7	0.5	40.6
Current expenditure	1,847.5	1,844.7	-2.8	-0.2	36.4
Personnel expenditure	466.5	468.9	2.4	0.5	9.2
Purchases of goods and services	330.6	339.5	8.9	2.7	6.7
Interest payment	120.9	106.5	-14.4	-11.9	2.1
Subsidies	113.6	110.5	-3.1	-2.7	2.2
Social assistance and transfers	747.1	745.6	-1.5	-0.2	14.7
of which pensions	527.0	528.3	1.3	0.2	10.4
Other current expenditure	68.8	73.7	4.9	7.1	1.5
Capital expenditure	172.1	183.7	11.6	6.8	3.6
Net lending	6.3	9.2	2.9	46.0	0.2
Guarantee repayment	21.0	20.0	-1.0	-4.8	0.4
Result	-32.0	28.0	59.9		0.6
Result in % of GDP	-0.6	0.6	1.2		

Source: Ministry of Finance

Labour market trends in 2018, the growth of average wages, employment and consequently, consumption, has a positive impact on the revenue from the personal income tax and mandatory social insurance contributions. The growth of total wage bill during the first eight months of 2018 by over 9% is in line with the recorded growth of revenue from mandatory social insurance contributions and wage tax. After excluding seasonal trends, the monthly growth rates of these types of revenues were on a stable upward path. Total collection by the end of 2018 is expected to exceed the original plan by RSD 21.1 billion.

In the area of VAT audit and collection efficiency improvement, excellent results were achieved in 2015 and 2016, while 2017 and 2018 were the years of collection efficiency stabilisation at the attained level. The main determinants of VAT collection are the total level of consumption (C), effective tax rate and collection efficiency (C-efficiency). The VAT is the second largest tax type in total public revenue, and its trend is also driven by factors such as credit activity, trends in other income sources, collection efficiency and the size of informal economy, consumption structure and foreign trade trends.

In 2018, gross VAT collection will grow by over 8%, which is in line with the growth of total wage bill and just over expectations. Wages are not the only source of disposable income, but also pensions, loans, remittances, savings, social benefits, presumptive taxpayer income, income from tourism, transit, etc. The trends in gross collection are also to a significant extent driven by export demand, through domestic and import component of the realised exports. The importance of other sources of income and consumption as a whole is gradually increasing. These are positive changes that also indicate the degree of openness of the domestic economy. On the other hand, this is also a source of certain risk to collection in the future period in the event of a slowdown of economic activity, which is under the influence of external factors. The important group of factors affecting gross VAT collection includes the consumption structure (effective tax rate) and collection efficiency (*C-efficiency*). The effective tax rate is growing moderately, which, inter alia, shows that in the consumption structure the share of products attracting the higher VAT rate is increasing. In view of the fact that the tax policy in this area has not changed significantly in the past five years, the moderate growth of the effective tax rate is a result of a higher standard of living of the population.

The VAT revenue projection has remained unchanged relative to the 2018 budget plan. The net VAT revenue will be at the 2018 plan level, while a part of the gross collection overperformance will be offset by changes in the VAT refund payment timing. A part of VAT refund liabilities were paid in early 2018, in line with the schedule and due dates. The faster payment is a result of higher efficiency and better organisation of audit in this area.

The collection of excise duty revenue is at the level planned by the 2018 budget. Both in terms of the amount and the structure, in 2018 excise duty revenue is aligned with the original projections, with minor fluctuations. The assumptions used when preparing projections were conservative and proved to be correct in this case. Excise duty revenue covers four main categories, as follows: excise duties on oil products, tobacco products, electricity, and other (alcohol and coffee). The budget projection of 2018 revenues did not include an assumed growth of excise duty product consumption, but only a regular excise duty adjustment.

Customs duty revenue is increasing according to the plan, and its trend is not fully aligned with the import VAT trend. If there are no changes in customs rates, customs duty revenue normally follows the trends of imports and exchange rate changes. However, during 2017 and 2018, the growth rate of customs duty revenue is lower than the growth rate of import VAT. While the import VAT follows the import trend and is dependent both on the volume and import prices and intercurrency relations, the structure of imports itself presents an important factor when assessing the development of customs duty revenue. Namely, various trade agreements, customs-free import regimes for certain categories of goods, change of customs tariffs, etc. as well as the change in the structure of imports affect the collection of customs revenue. The previous period saw an increase in the import of goods on which no customs duties are paid, and that is why the divergence between the total import and VAT growth rates is significantly greater.

The corporate income tax projection has increased significantly relative to the plan, so the collection of this tax type will be higher by RSD 19 billion. Corporate income tax is the most volatile public revenue item and economic growth is not always the most reliable indicator for the collection of this tax type. Since the final data on profitability are not known during the preparation of projections for the following year, the practice is to assume for these purposes that it is unchanged and to accept a certain level of risk in the collection of this revenue type.

According to the Business Registers Agency data, the total gross profit earned in 2017 is RSD 666.6 billion, or 24.7% higher than in 2016. The payment trends during the first half of the year, as well as the payment based on the final tax liability assessment in June 2018, indicated that the annual revenue would significantly exceed the plan. The corporate income tax collection will also exceed the total revenue from the previous year. The changes in the profitability growth rate and corporate income tax collection arise from the tax treatment of certain expense categories and still existing tax benefits, as well as the amount of tax credits and refunds which will be executed in the period before the annual accounts for the previous business year are filed.

Non-tax revenue is a revenue category whose plan was revised upwards by RSD 34.1 billion. The original annual non-tax revenue projection for 2018 contained the structural, i.e. the permanent part of non-tax revenue which referred to budget dividends and public enterprise profit in the amount of RSD 17 billion. The estimated collection of non-tax revenue belonging to the central budget was revised in the amount of RSD 28.3 billion because of the better collection of regular non-tax revenue (charges, fees and fines), coupled with the payments of profit by the JP EPS (PE Electric Power Industry of Serbia) and EDB (Belgrade Electric Power Distribution company, collected receivables of the Deposit Insurance Agency, as well as the payments of bond issue premiums. The estimated collection of non-tax revenue belonging to the local governments, was increased due to a better collection of regular non-tax revenue, primarily local charges, with no major payments of one-off revenue at this government level. Unlike the previous periods, during 2018 there were no methodological changes that would affect the coverage of non-tax revenue.

According to the new estimate of public expenditure, the total level of expenditure will be higher by RSD 10.7 billion or 0.5%, with a changed structure relative to the budget plan for 2018. The largest decrease relative to the plan is recorded in interest expenditure, while capital expenditure, expenditure for goods and services and other current expenditure will be higher than planned. In the January – September 2018 period, public expenditure grew at the rate of 8.3% relative to the same period of 2017, but the growth is expected to decelerate by the end of 2018, in view of the higher execution of one-off expenditure in the last quarter of the previous year.

Personnel expenditure execution is in line with the plan. In the previous years, the level of this expenditure was significantly reduced due to wage cuts, rightsizing and hiring control, so the current share of total wages in GDP stands at 9.2%, while the wages excluding the contributions payable by the employer stand at 7.8% of GDP. The Budget System Law provides for the lowering of the level of wages excluding the contributions payable by the employer to 7% of GDP. However, it seems that such a wage level target is set quite low, considering that the average total wages in the European Union is about 10% of GDP.

The expenditure for goods and services will be executed at a level slightly above the 2018 budget plan. The execution of this expenditure category will be also exceed the plan for the local government level, RFZO (Health Fund) and JP Putevi Srbije (PE Roads of Serbia).

Interest expenditure is a category where significant savings are recorded relative to the amount planned in the budget. The overall fiscal result trend has an indirect impact on the interest expense trend. In addition, the amount of interest is affected by interest risk and foreign exchange risk for foreign-currency denominated liabilities. When planning interest expenditure, all the stated risks were taken into account. The better fiscal result also resulted in lower borrowing.

Pension expenditure was revised upwards because of the abandonment of crisis measures that were in force during the fiscal consolidation programme. The effects of this measure amount to RSD 6.6 billion in the last two months of 2018. The share of pension expenditure in GDP currently stands at 10.4%, which is sustainable in the medium term.

Subsidy expenditure will be below the planned amount due to the expected lower allocations at the local level.

Total guarantee repayments and net lending will deviate relative to the amounts planned in the budget by about RSD 2 billion. These two categories deviate differently from the planned amounts. Guarantee expenditure is lower than anticipated by the plan, namely by RSD 1 billion, whereas net lending will be about RSD 3 billion higher.

Other current expenditure is higher than the budget plan because of the repayment of the liability to the Mytilineos company, which is expected by the end of the year.

Table 4. Government revenue, expenditure and result, January-September, in billions of dinars

	1–9.2017	1–9. 2018	1–9. rate in %
PUBLIC REVENUE	1,451.3	1,537.6	5.9
Current revenue	1,446.9	1,531.9	5.9
Tax revenue	1,270.0	1,341.7	5.6
Personal income tax	121.6	129.0	6.1
Corporate income tax	89.5	90.4	1.0
Value added tax	356.1	375.6	5.5
Excise duties	208.4	210.6	1.1
Customs duties	28.9	31.3	8.3
Other tax revenue	52.9	55.1	4.2
Contributions	412.7	449.7	9.0
Non-tax revenue	176.9	190.2	7.5
Grants	4.4	5.7	31.3
PUBLIC EXPENDITURE	1,369.2	1,483.3	8.3
Current expenditure	1,260.7	1,339.0	6.2
Personnel expenditure	317.1	349.2	10.1
Purchases of goods and services	205.3	234.1	14.0
Interest payment	104.1	95.0	-8.8
Subsidies	67.5	69.9	3.6
Social assistance and transfers	526.1	544.9	3.6
of which pensions	371.6	388.4	4.5
Other current expenditure	40.7	45.9	12.8
Capital expenditure	77.2	122.5	58.6
Net lending	10.5	6.2	-41.1
Guarantee repayment	20.7	15.6	-24.5
Results	82.1	54.3	

Source: Ministry of Finance

Public investment execution is expected to exceed the plan. In the first nine months of 2018, capital expenditure execution is over 60% higher than in the previous year. Capital expenditure reaches 3.6% of GDP in 2018, which is a significant improvement over the previous period.

The stock of arrears (over 60-day delay)* of budget beneficiaries and mandatory social insurance organisations stood at RSD 2.6 billion as of the last day of September 2018 (about 0.05% of GDP), unchanged relative to the end of 2017. Budget beneficiaries and JP Putevi Srbije (PE Roads of Serbia) accumulated payment arrears in the amount of RSD 1.4 billion, while the stock of arrears of mandatory social insurance organisations was RSD 1.2 billion.

Table 5. Stock of arrears of budget beneficiaries and mandatory social insurance organisations, over 60 days, in billions of dinars

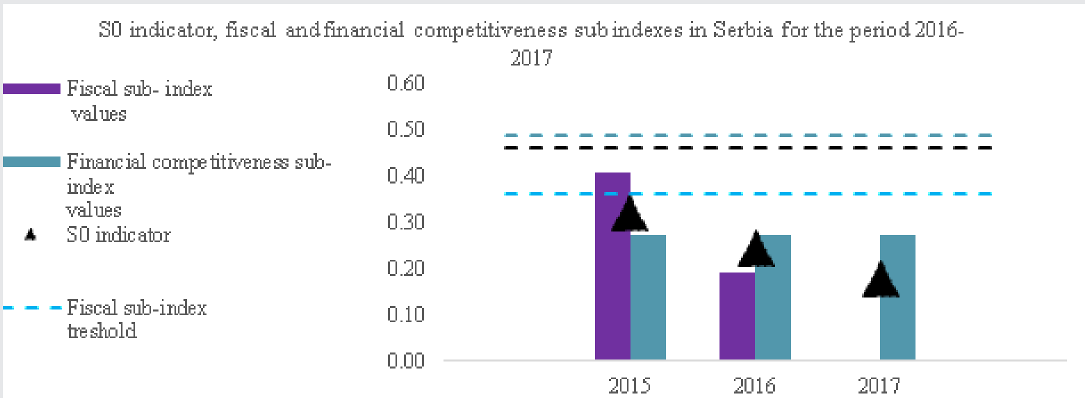
	31.12.2017	30.9.2018
Budget beneficiaries and J Putevi Srbije (PE Roads of Serbia)	1.4	1.4
Mandatory social insurance organisations	1.2	1.2
TOTAL	2.6	2.6

Source: Ministry of Finance
* In line with the definition used for the purposes of monitoring the IMF arrangements.

S0 Short-term Fiscal Sustainability Indicator

The European Commission designed the S0 composite indicator for assessing short-term fiscal sustainability the aim of which, through the identification of potential short-term risks in the current year, is early detection of fiscal stress in the coming year. If the value of the S0 indicator exceeds the predefined threshold, the country is considered to be at short-term risk of fiscal stress. Apart from the value of the overall indicator, in order to locate the source of risk, subindex values and their components are also considered. The S0 composite indicator is composed of two subindices, which contain a series of fiscal and macrofinancial sustainability variables. The value of these subindices which is below the defined threshold points to the absence of short-term fiscal risk.

The values of the S0 indicator and the subindices for the Republic of Serbia in 2016 and 2017 point to the general absence of short-term risk of fiscal instability, as well as of any pronounced risks stemming from the areas covered by the subindices. In other words, in the period under observation the entire composite indicator, as well as both subindices, were below the defined thresholds. The SO indicator calculation for the Republic of Serbia, prepared by the Ministry of Finance, is based on the methodology of the European Commission.[5]



5 Detailed definition of the S0 indicator, as well as the description of the applied methodology and results can be found in the Fiscal Strategy for 2018 with Projections for 2019 and 2020, at http://www.mfin.gov.rs/pages/issue.php?id=8382 and the EC's Fiscal Sustainability Report 2015, 25 January 2016, pp. 157–158.

The successfully implemented fiscal consolidation resulted in a complete elimination of risks in the area of the fiscal subindex in 2017, since none of the subindex components exceed the defined threshold. The macrofinancial subindex remained unchanged and, generally speaking, there are no challenges leading to financial risk in this area either.

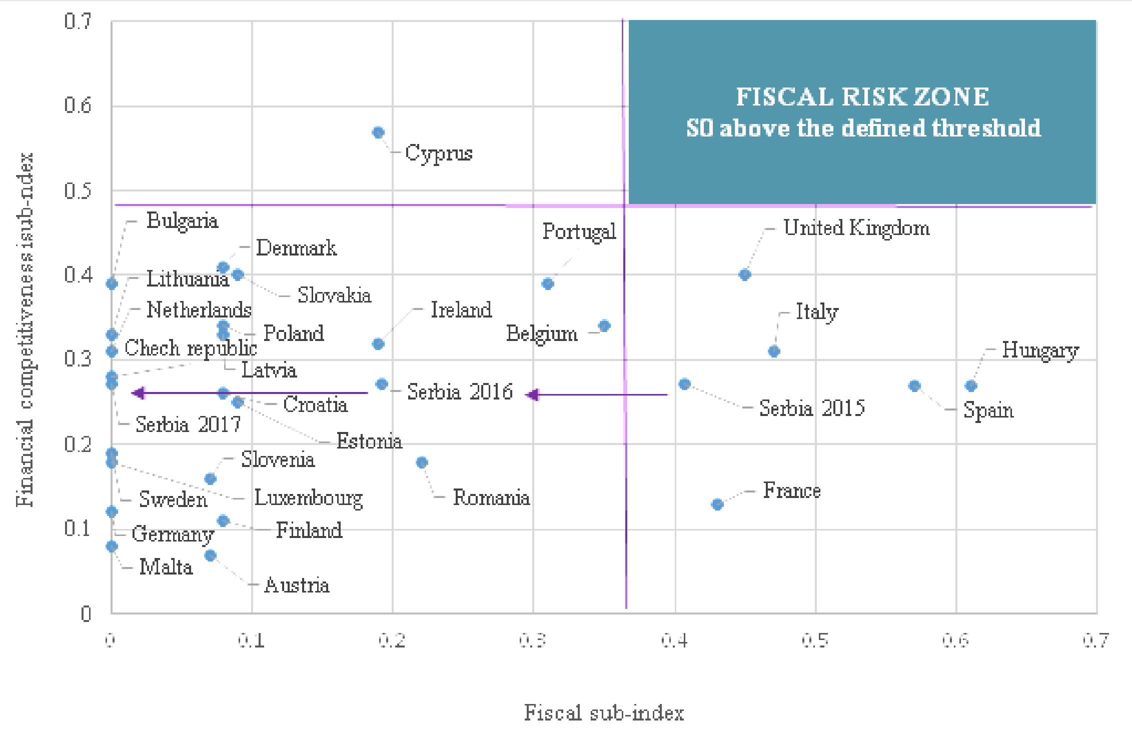
The analysis of the S0 indicator shows that short-term threats to fiscal stability have been eliminated. Consistent implementation of fiscal consolidation measures and the establishment of macroeconomic and fiscal stability in the previous period secured the room for further easing of monetary policy measures during 2018.

Name of variable	Criterion	Threshold	Signalling power	Values for the Republic of Serbia, %		
				2015	2016	2017
Fiscal subindex	<	0.36	0.00	0.41	0.19	0.00
1. Fiscal balance, % GDP	>	-9.61	0.07	-3.46	-1.19	1.10
2. Primary balance, % GDP	>	0.23	0.13	-0.47	1.71	3.64
3. Cyclically adjusted balance, % GDP	>	-2.5	0.23	-2.95	-1.05	1.42
4. Stabilising primary balance, % GDP	<	2.34	0.08	0.54	-0.37	-0.48
5. Gross general government debt, % GDP	<	68.44	0.12	71.25	68.80	58.69
6. Change in gross general government debt, % GDP	<	8.06	0.12	3.88	-2.45	-10.11
7. Short-term general government debt, gov't, % GDP	<	13.2	0.20	0.12	0.13	0.10
8. Net general government debt, % GDP	<	59.51	0.20	71.25	68.80	58.69
9. Gross financing need, % GDP	<	15.95	0.26	14.93	13.17	10.65
10. Interest rate-growth rate differential	<	4.8	0.08	1.17	-0.57	-1.26
11. Change in expenditure of gen. gov't, % GDP	<	1.9	0.11	-2.31	-0.81	-1.54
12. Change in fin. consumption expend. of gen. gov't, % GDP	<	0.61	0.07	-1.41	-0.14	-0.12
Fiscal competitiveness subindex	<	0.49	0.55	0.27	0.27	0.27
1. Net international investment position, % GDP	>	-19.8	0.29	-95.51	-94.97	-97.14
2. Net savings of households, % GDP	>	2.61	0.33	26.52	24.57	24.80
3. Private sector debt, % GDP	<	164.7	0.18	47.67	44.52	43.45
4. Private sector credit flow, % GDP	<	10.7	0.37	2.04	1.31	1.00
5. Short-term debt, non-financial corporations, % GDP	<	15.4	0.2	7.88	5.99	6.29
6. Short-term debt, households, % GDP	<	2.9	0.21	1.70	1.10	1.27
7. Construction, % value added	<	7.46	0.22	3.70	3.90	4.10
8. Current account (3-year backward MA), % GDP	>	-2.5	0.34	-5.18	-4.11	-3.99
9. Change (3 years) of real eff. exchange rate, %	<	9.67	0.11	-2.73	-0.80	-8.40
10. Change (3 years) in nominal unit labour costs	<	7	0.18	0.90	-5.60	5.90
11. Yield curve on government securities	>	0.59	0.37	4.55	5.00	2.01
12. Real GDP growth	>	-0.67	0.1	0.76	3.30	2.00
13. GDP per capita in PPP, % GDP	>	72.7	0.22	24.62	25.20	25.35
S0 indicator	<	0.46	0.55	0.32	0.24	0.18

Source: Calculation of the Ministry of Finance

Based on European Commission's data for the EU countries for 2017 and the calculations of the Ministry of Finance for the Republic of Serbia, for 2016 and 2017 it can be concluded that none of the countries considered were exposed to short-term risk of fiscal stress materialisation, given that the S0 value does not exceed the defined threshold anywhere. Certain countries are facing fiscal or macrofinancial challenges, while the Republic of Serbia, together with the majority of EU countries, is still within the defined thresholds of the S0 indicator.

The fiscal subindex and the macrofinancial competitiveness subindex for EU countries and Serbia for 2015, 2016, and 2017



3. FISCAL PROJECTIONS IN THE 2019 TO 2021 PERIOD

In the following medium-term period, the fiscal policy goals are aimed at maintaining fiscal stability, leading to further reduction of the share of public debt in GDP. The medium-term fiscal framework provides for a general government deficit of 0.5% of GDP by 2021, and a decrease in public debt to below 50% of GDP. Fiscal aggregate projections in the period from 2019 to 2021 are based on macroeconomic indicator projections for the stated period, planned tax policy which implies further alignment with the EU legislation and directives and fiscal and structural measures, including further reforms of large public enterprises.

Owing to fiscal consolidation measures, fiscal space has been created for new policies, which will be used in 2019 for increasing capital investment, eliminating crisis measures related to pensions and wages, increasing the lowest pensions and public sector wages, and reducing the tax wedge. These measures and their fiscal implications are designed so as not to jeopardise the stability of public finances or the pace of public debt reduction, while, on the other hand, raising the standard of living for the population, stimulating private consumption and accelerating economic development.

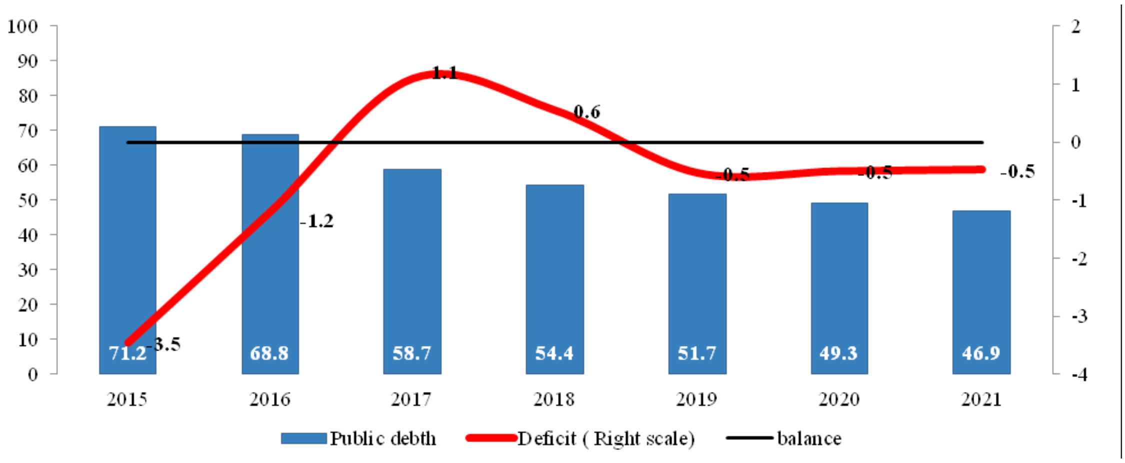
Table 6. Fiscal aggregates in the 2017–2021 period, % of GDP

Description	Execution	Estimate	Projection		
	2017	2018	2019	2020	2021
Public revenue	41.5	41.1	39.9	39.2	38.7
Public expenditure	40.4	40.6	40.4	39.7	39.2
Consolidated fiscal result	1.1	0.6	-0.5	-0.5	-0.5
Primary consolidated result	3.6	2.7	1.4	1.3	1.1
General government debt	58.7	54.4	51.7	49.3	46.9
Real GDP growth rate	2.0%	4.2%	3.5%	4.0%	4.0%

Source: Ministry of Finance

Public debt trajectory was reversed in 2016, when the public debt share in GDP started to decrease. The main goals of fiscal consolidation and the IMF-supported programme were public finance stabilisation and reduction of the public debt share in GDP. Debt reduction is closely related to the reduction of deficit as the main factor of borrowing, so the pace of deficit reduction determines the change in debt trajectory. Financial transactions, such as replacing expensive debt with cheaper debt, as well as a better position of the country in the international financial market, willalso contribute to further debt reduction.

Graph 6. Fiscal result and public debt, % of GDP



In the following period the general government deficit will stabilise at about 0.5% of GDP, which is a sustainable level conducive to further public debt reduction. With expected macroeconomic performance, in the following medium-term period the public debt level should come down to below 50% of GDP. Good fiscal consolidation results have allowed for moderate fiscal policy easing, primarily on the expenditure side, in the form of public investment increase, elimination of crisis measures and wage and pension increases, without increasing their share in GDP. The key measure on the revenue side will be an increase in the unemployment contribution, which will lead to a reduction of the tax wedge. The process of restructuring public and former socially-owned enterprises continues in order to reduce the burden on public finance and the whole economy. In the event of favourable macroeconomic and fiscal trends and overperformance, the created fiscal space could be used for a further reduction of tax burden on the economy.

The revenue projection for the period from 2019 to 2021 is based on:
- Projections of development of the key macroeconomic indicators: GDP and its components, inflation, foreign exchange rate, foreign trade, employment and wages;
- Current tax policy and its planned changes;
- Estimated effects of fiscal and structural measures in the following period.

Table 7. Total revenue and grants in the 2017–2021 period, in % of GDP

Description	**Execution**	**Estimate**	**Projection**		
	2017	2018	2019	2020	2021
PUBLIC REVENUE	41.5	41.1	39.9	39.2	38.7
Current revenue	41.3	40.9	39.6	38.9	38.5
Tax revenue	36.1	35.8	35.3	35.1	34.9
Personal income tax	3.5	3.5	3.5	3.5	3.5
Corporate income tax	2.4	2.3	2.2	2.1	2.0
Value added tax	10.1	10.0	9.9	10.0	10.0
Excise duties	5.9	5.6	5.4	5.1	4.9
Customs duties	0.8	0.8	0.9	0.9	0.9
Other tax revenue	1.5	1.5	1.4	1.3	1.3
Contributions	11.9	12.2	12.0	12.1	12.3
Non-tax revenue	5.2	5.1	4.3	3.8	3.6
Grants	0.2	0.2	0.3	0.3	0.2

Source: Ministry of Finance

Part of the budget space of about 0.4% of GDP, or about RSD 20 billion, will be used for a reduction of tax and non-tax burden in 2019. On the tax side, the unemployment contribution will be reduced. The liabilities of a part of the public sector (national and local public enterprises) related to wage cuts, which were recorded as the non-tax revenue of the central budget will be reduced.

Tax revenue projection assumes the maintenance of the existing collection level.

The personal income tax is projected at a stable level of about 3.5% of GDP during the entire medium-term period in line with expected effects of structural and fiscal measures, public sector wage policy and favourable labour market trends, primarily related to employment and average private sector wages. The predominant type of the personal income tax is the wage tax, so the wage bill and employment trends are the main factors affecting this tax type. Measures that will affect the level and taxation of wages are the decrease in the unemployment contribution and increase in the minimum wage. The unemployment contribution rate will be reduced from 1.5% to 0.75%, i.e. the unemployment insurance contribution payable by the employer will be eliminated. Government revenue will thus be reduced by about RSD 12 billion, but considering that at the general government level, there are savings on the basis of gross wage reduction, the net effect on the fiscal result is smaller and amounts to about RSD 9 billion or 0.2% of GDP. On the other hand, it is estimated that the minimum wage increase will compensate for part of general government revenue lost on the basis of contribution decrease. The impact of the minimum wage increase on the government revenue amounts to RSD 6 billion, with the net effect on the result being RSD 5 billion.

Other personal income tax types include dividend tax, interest income tax, annual personal income surtax, etc. and follow the trend of overall economic activity. In the following period, the total wage bill is expected to increase faster than the nominal GDP owing to favourable labour market developments, primarily the growth of employment, so the share of wage tax revenue in GDP is expected to increase. Other personal income taxes will increase more slowly, so the level of personal income tax revenue is expected to remain stable. With regard to the wage tax, combating the informal economy is of key importance, considering the significant number of unregistered workers and direct cash wage payments. Inspections and sanctions have been stepped up during the recent years, which has produced significant results in combating the informal economy in the area of labour and employment, but it is very important to continue such efforts in this area in the upcoming period as well.

The reduction of the unemployment contribution will result in a decrease in the share of mandatory social insurance contributions in GDP in 2019, which is thereafter expected to increase gradually. The trend of this revenue's share in GDP follows a similar path as the trend of the wage tax's share since the same assumptions on wage and employment trend were used in their projections. Contributions are a tax category with the lowest level of tax compliance and the largest taxpayer debt, so the consequences of an increase in fiscal non-compliance are the most felt for this tax type.

The collection of corporate income tax revenue in the upcoming three-year period will depend on the economic growth trajectory, relative dinar exchange rate stability and general profitability of the economy. The estimate of this revenue may be uncertain due to economic factors, the possibility of using tax credits or refunds, as well as differences in accounting statements and book-to-tax reconciliations. In 2017 the collection of corporate income tax hit a record high (2.4% of GDP), primarily as a result of high profitability in 2016. The revenue projection on this basis is conservative and does not include the effects of 2013 tax benefit abolishment, which, due to a transitional period of several years, are now felt. The planned amendments to the Law on Corporate Income Tax provide for, inter alia, a change in the method of calculating fixed asset depreciation, which is recognised as a deductible in the book-to-tax reconciliation.

The VAT revenue trend is characterised by a stable share in GDP. The key factor determining the VAT trend is domestic demand driven by disposable household income. Disposable income as the largest factor determining consumption, depends on the movement of public wages, pensions, social benefits, the private sector wage bill and other types of income, including remittances, as well as on the level of bank lending to households. In the coming period, revenue from foreign tourists' spending will also be of greater importance. Likewise, the easing of fiscal policy in the field of public sector wages and pensions will contribute to an increase in disposable household income. The risks for VAT projection in the following period are similar to those for the personal income tax and relate to the trend in private sector wages, economic growth, as well as the prevalence of informal economy and efficiency of its combating.

The results of more efficient collection and taxpayer audit are evident and this trend is expected to continue in the following period, but the effects of fight against the informal economy are not explicitly included in the medium-term public revenue projection. The increase in the VAT collection, in terms of implementing independent anti-evasion measures for the VAT, gave certain results in the previous period. There is room for further improvement in this area through the strengthening and modernisation of the Tax Administration.

The projection of excise duty revenue was prepared based on the current excise duty policy and projected consumption of excise products. As regards excise policy for tobacco products, a further gradual alignment with EU directives is envisaged in line with a medium-term plan for gradual increase in excise burden. For cigarettes, it will be reflected in a gradual increase in excise duties, so that within an acceptable period of time the EU minimum level of EUR 1.8 per pack would be reached. For the sake of caution, for the purposes of projecting excise duty revenue, a further natural decline of the legal market of tobacco products by about 3% annually on average is anticipated in the following period. Unlike tobacco products, the situation in the oil product market is significantly less volatile. Better control and effects of oil product marking have reduced the possibility and profitability of illegal activities. In the following years, for the sake of caution, no continuation of increase in oil product consumption is assumed, although accelerated economic activity can contribute to consumption growth. The revenue from excise duties on alcoholic beverages, coffee and electricity is projected in line with the existing consumption structure. The current nominal amounts of excise duties on alcoholic beverages and coffee are adjusted to the expected levels of inflation rate in the medium-term period. During 2015 the ad-valorem excise duty of 7.5% on electricity consumption was introduced. For the 2019–2021 period, annual revenue from this excise duty is planned in the amount of about RSD 17 billion, taking into account the current annual consumption and current prices.

Customs revenue will stabilise at 0.9% of GDP in the following period. Proceeding from the projected movement of imports, exchange rate and consumption, as well as the completion of the process of customs tariff harmonisation due to the application of the Stabilisation and Association Agreement, a mild nominal increase in the share of this revenue in GDP is expected, by 0.1 p.p. of GDP, relative to the previous period.

A mild decline in the share of other tax revenue in GDP is projected. The most important tax revenue in this category is the property tax, whose share is about 70%. This revenue may be expected to increase due to base expansion An increase in the collection rate, through the increase in the coverage of properties taxed (i.e. on the basis of expanding the tax base), is not included in medium-term projections and constitutes an upside risk. Apart from property taxes, other tax revenues include taxes on the use, possession and carrying of goods, as well as other types of local taxes. They have been projected based only on movements in inflation, since the inflation component is built into a considerable part of these tax types.

The share of non-tax revenue in GDP is projected to decrease from 5.2% of GDP in 2017 to 3.6% in 2021. In the following year there are plans to reduce the obligation to pay funds into the budget based on wage cuts in a part of the public sector. Namely, the phasing out of the crisis measures refers, for the most part, to those public fund beneficiaries who had an obligation to pay these funds into the budget, i.e. central-level and local public enterprises. The effect of this measure is estimated at RSD 8.5 billion in 2019. The remaining part of these obligations will be eliminated in 2020, leading in a further reduction of non-tax revenue. The second reason for the reduction of the projected share of non-tax revenue in GDP is the exclusion from the base year (2018) of all those revenues that are not considered structural, i.e. recurring, which primarily refers to extraordinary non-tax revenues. Extraordinary non-tax revenues are mostly one-off, to a certain extent uncertain, both with regard to the amount and the time of payment. Most of them are extraordinary payments of profits of public enterprises and agencies, dividends belonging to the budget, revenues from receivables collected by the Deposit Insurance Agency, issue premiums, etc. Recurring non-tax revenue includes various charges, fees, fines, revenue of government bodies and organisations and all other revenues collected according to the standard schedule over the year. These non-tax revenues are indexed to the previous year's inflation, others follow the changes in the value of the base to which they are applied and due to which they are adjusted by projected inflation. The projection of non-tax revenue also takes into account the adoption of the Law on Fees, which will abolish certain fees, while reducing the rates and amounts of others, with a negative effect on revenue estimated at RSD 2 billion.

As the country's EU accession process progresses, the available IPA and IPARD funds increase, making up the predominant portion of grant revenue. The projected amounts of grants include the EU sectoral budget support funds. Grant-based revenue is result-neutral since it is equal to the corresponding expenditure.

A restrictive fiscal policy combined with good macroeconomic performance has led to the creation of fiscal space, which may be used, inter alia, on the expenditure side, primarily for relaxing wage and pension policy and increasing capital investment as a key component of economic development. In the coming period, special attention will be paid to the improvement of the efficiency of government capital investment execution. Likewise, the social component of the budget will be improved by better social benefit programme targeting and higher allocation for health care and education. The share of wages and pensions in GDP will stabilise as of 2019, which will be yet another factor that will enable a more equitable income reallocation, with a reduction of pressure on public finance.

Table 8. Total expenditure in the 2017–2021 period, in % of GDP

Description	Execution	Estimate	Projection		
	2017	2018	2019	2020	2021
PUBLIC EXPENDITURE	40.4	40.6	40.4	39.7	39.2
Current expenditure	36.7	36.4	36.0	35.5	34.9
Personnel expenditure	9.0	9.2	9.2	9.2	9.2
Purchases of goods and services	6.3	6.7	6.7	6.6	6.5
Interest payment	2.5	2.1	2.0	1.8	1.6
Subsidies	2.4	2.2	2.3	2.2	2.1
Social assistance and transfers	15.1	14.7	14.4	14.3	14.2
of which pensions	10.5	10.4	10.4	10.4	10.4
Other current expenditure	1.3	1.5	1.3	1.2	1.2
Capital expenditure	2.8	3.6	4.0	4.0	4.1
Net lending	0.3	0.2	0.1	0.1	0.1
Guarantee repayment	0.6	0.4	0.2	0.1	0.1

Source: Ministry of Finance

In 2019, some of the fiscal space will be used for increasing wages in the general government sector, in the amount of RSD 33 billion. Since those are total labour costs, or the wagebill that includes taxes and contributions, the net effect on fiscal result reduction will amount to RSD 20 billion, i.e. 0.4% of GDP. Wage reduction, hiring freeze and public sector rightsizing are measures that have contributed the most to lowering expenditure and to the success of fiscal consolidation. Implementation of these measures brought about a decrease in the share of wages in GDP to 9% in 2017. The Budget System Law envisages lowering the level of wages excluding contributions to 7% of GDP; however, it seems that this targeted level of wages is set quite low. Currently, the share of wages defined in this way in GDP is 7.8%. The average general government wages in the EU are about 10% of GDP, so with its share of total wage bill in GDP at about 9.2%, the Republic of Serbia is significantly below the EU average. In the previous period, a comprehensive public sector wage system reform was initiated with a view to ensuring equity and reducing discrepancies between public sector employees. The application of the new, reformed public sector wage system will begin in 2020.

The share of goods and services expenditure in GDP will be gradually reduced in the medium term (6.5% of GDP).

Reduction of interest expenditure is one of the best indicators of the success of fiscal consolidation. Good results in the previous period reduced the need for borrowing, which led to a reversal in the interest rate trend. In 2021 the level of interest expenditure will fall to 1.6% of GDP.

Social benefits and transfers to households present the largest expenditure category of the general government budget. During 2018 the Law on Temporary Regulation of the Method of Pension Payment was abolished, with a 5% increase in total payments to pensioners with lower pensions relative to the pension paid for September 2018. The effects of these measures in 2019 include higher total pension expenditure in the amount of RSD 40 billion. In the following medium term period, a stable share of pension expenditure in GDP of 10.4% is projected. Other forms of social benefits and transfers to households in the coming period will be adjusted by applying the prescribed indexation, current and planned policy changes in this area, and by the projected number of beneficiaries. The share of expenditure on social benefits is falling from 15.1% of GDP in 2017 to 14.2% in 2021.

Reducing subsidies that support inefficient segments of the public sector would enable an increase in those subsidies which provide proper stimulus to the economy, primarily to agriculture and SMEs and which would lead to an acceleration of economic activities. The goal is to redirect funds for subsidies to development programmes in the real sector and agriculture. It is precisely because of the start of the use of IPARD funds that a one-off increase in the share of subsidies in GDP in 2019 is projected.

Categories of other current expenditure include miscellaneous outlays, such as grants to associations, political parties, religious and sports organisations, fines, damages, etc. In the previous period, this category amounted to between 1.3% and 1.5% of GDP, and by 2021 the share of this expenditure in GDP will decline.

In 2018 the efficiency of public investment execution was significantly improved. Capital expenditure went up by 0.8% p.p. of GDP relative to 2017, owing to the start of the new phase of infrastructure projects. In the coming medium-term period, all efforts will be directed at reaching an acceptable and desirable level of investment in public infrastructure, which is 4% of GDP. By reducing the government sector's current spending, fiscal space has been created, part of which will be used to increase investment. The most significant infrastructure works are on Corridors 10 and 11, which are mostly financed by international loans.

The level of net lending and repayment of guarantees is a good indicator of success of fiscal consolidation. Total share of these two categories in GDP dropped to 0.6% of GDP in 2018. By the end of 2021, this expenditure will be minimal, with a share in GDP of up to 0.2%.

Payments under issued guarantees and payments under guarantees for commercial transactions are liabilities arising from debts of public enterprises assumed by the central budget, since these companies were unable to honour them on their own. This expenditure presented a major burden for the budget bearing in mind the long-standing inefficient operation of a large number of state-owned enterprises and companies. In 2017 this expenditure was significantly reduced, with the repayment plan providing to its decrease to only 0.1% of GDP by 2021.

Reforms Aimed at Decreasing Various Forms of Budget Support and Improving the Stability and Sustainability of Public Finance

After successfully implementing fiscal consolidation measures, supported by the three-year Precautionary Arrangement with the IMF, in July 2018 the Republic of Serbia concluded a new arrangement – Policy Coordination Instrument (PCI), lasting for 30 months, which provides for a continuation of institutional and structural reforms.

The Programme provides for the preservation of macroeconomic and fiscal stability, with a further reduction of public debt and implementation of measures promoting economic growth, primarily the growth of public investment. Tax measures will be used to promote further employment and investment, with a simplification of tax procedures and a reduction of the number of parafiscal charges. Monetary policy will continue to support economic activity, without jeopardising the maintenance of attained price stability as the primary NBS goal, coupled with a further strengthening of the process of dinarisation and preservation of relative exchange rate stability. In the financial sector, where extraordinary results have been achieved in reducing the NPL level, activities aimed at their further reduction will continue, while solving certain problems faced by financial institutions (state-owned banks, government development agencies, etc.). In the following medium-term period, structural and institutional reforms will be aimed at improving the business environment, which contributes to a more successful EU integration process. These reforms will focus on the restructuring of state-owned enterprises, financial institutions and public administration, as well as further reduction of the informal economy.

In the following period, reforms are expected to continue in the area of employment, HR management and wage system in the government sector. The goal of fiscal policy in the medium-term is to keep personnel expenditure at a sustainable level, with adequate staff structure, in order to ensure a better quality of services provided. In the following medium-term period, the focus is on structural measures, which would, through rightsizing, on the one hand, and the establishment of a new government wage system, on the other, contribute to higher efficiency and quality of public services provided.

During the previous years, numerous laws and implementing legislation were adopted in order to determine precisely the coverage and number of public sector employees. The Law on Determining the Maximum Number of Employees is an umbrella law defining the maximum number of permanent staff at the institutional level. The Government's Decree on the Procedure for Obtaining Approval of New Employment and Additional Engagement in Public Fund Beneficiaries, is also in force. This system has contributed to headcount reduction, but there have also been certain problems in terms of ensuring adequate staff structure and smooth functioning of certain parts of the public sector. In the following period, in view of fiscal constraints, a more flexible system will be designed, which will optimise the public administration employee structure and restrict employment in public enterprises.

For the purpose of reducing various forms of budget support to public and state-owned enterprises, the reforms of the largest public and state-owned enterprises will continue. Cuts in budget support to these enterprises imply: a) constraints on direct and indirect subsidies, b) strict constraints on the issuance of guarantees for new loans, and c) strengthening of accountability and transparency in the operation of these enterprises, including the control and reduction of arrears, in particular towards the JP EPS (PE Electric Power Industry of Serbia) and JP Srbijagas. In the following year, the plan is to develop a strategy that will include an integrated approach to supervision and monitoring of operation of state-owned and public enterprises, the process of their financial consolidation, restructuring, disinvestment, and measures aimed at improving governance and the institutional framework.

The status of companies from the portfolio of the former Privatisation Agency is being resolved through the process of bankruptcy or privatisation. By September 2018, over 310 companies were put into bankruptcy, with more than 54 privatised since the end of 2014. Around 34,800 employees from 336 companies received severance pay. A solution needs to be found for around 90 additional companies with almost 39,000 employees.

For the companies included in the list of strategic companies from the portfolio of the former Privatisation Agency, the solution is sought either through privatisation tenders, or through bankruptcy. In September, the PKB privatisation procedure was completed, with its sale to Al Dahra from the UAE, for EUR 105 million. A strategic partner has been selected for the RTB Bor metal complex – Zijin Mining Group from China, which offered USD 1.26 billion, plus USD 200 million for covering RTB's current debts, with an obligation to maintain the current number of staff. An action plan for JP PEU Resavica (PE Resavica Coal Mine) is being developed with the support of the World Bank and will include the identification of a solution for closing economically unviable mines and a streamlining plan, which will result in lower budget subsidies. HIP Petrohemija is close to launching a privatisation tender. After unsuccessful attempts to find a strategic partner, HIP Azotara is on the verge of bankruptcy proceedings, while the third tender for privatisation of MSK Kikinda will be launched.

For a certain number of state-owned companies, strategic partnerships or other privatisation models are being sought, i.e. the implementation of pre-packs, whereas for the Nikola Tesla Airport, a concession agreement has been signed with Vinci Airports from France, for a period of 25 years, obligating the concessionaire to pay EUR 501 million, invest EUR 732 million and pay a variable annual fee.

4. CYCLICALLY ADJUSTED FISCAL BALANCE

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

$$FB = CB + CAB$$

6 A more detailed description of the used methodology and the results can be found in the Fiscal Strategy for 2013 with Projections for 2014 and 2015 or at http://www.mfin.gov.rs/pages/article.php?id=8626

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

The cyclically adjusted primary deficit had been falling at an accelerated pace in parallel with the general fiscal result development and in 2016 it turned into a surplus. The structural primary balance net of one-off factors posted an impressive positive value in 2017. Structural changes in the tax system during 2012 and 2013 started to produce results, effectively kickstarting the fiscal consolidation process. The next phase of fiscal consolidation, implemented during the arrangement with the IMF, now focusing on the structural adjustment on the expenditure side, significantly improved the country's fiscal position. Analysis and quantification of the structural primary balance can isolate, first of all, one-off effects on the expenditure side, even though in certain years one-off effects on the revenue side were not insignificant either. The thus assessed structural primary balance is an efficient tool for a final assessment of the fiscal position, especially for the 2014-2018 period when the fiscal position was significantly improved. The analysis of the structural primary balance enables the review of the consolidation programme's success, as well as the quantification of possible fiscal space for further fiscal policy easing.

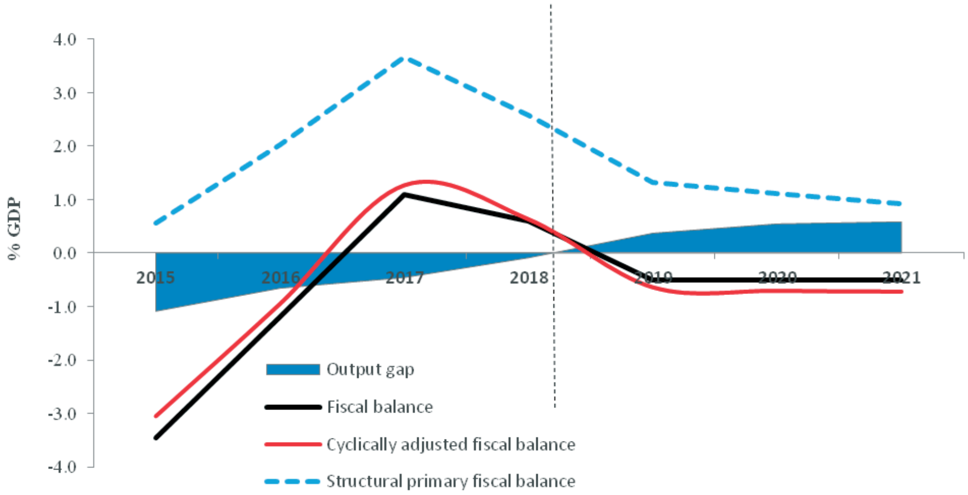
Table 9. Fiscal balance and components for calculation of the cyclically adjusted balance in the 2015–2021 period, in % of GDP*

	Output gap	Fiscal balance	Primary fiscal balance	Cyclical fiscal balance component	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural primary fiscal balance **	Fiscal policy nature - fiscal impulse
2015	-1.1	-3.5	-0.5	-0.4	-3.1	-0.1	0.6	-2.9
2016	-0.7	-1.2	1.7	-0.2	-0.9	2.0	2.0	-2.0
2017	-0.5	1.1	3.6	-0.2	1.3	3.8	3.7	-1.9
2018	-0.1	0.6	2.7	0.0	0.6	2.7	2.6	1.1
2019	0.4	-0.5	1.5	0.1	-0.6	1.3	1.3	1.4
2020	0.5	-0.5	1.3	0.2	-0.7	1.1	1.1	0.2
2021	0.6	-0.5	1.1	0.2	-0.7	0.9	0.9	0.2

* For the 2019- 2021 period the table presents projected values.
** The structural primary balance obtained by excluding the estimated one-off revenue and expenditure. The results showing the change in the structural primary deficit do not exclude explicitly the effects of increase in the efficiency of revenue collection, and therefore the estimate of structural adjustment in 2015 and 2016 differs partially from the previously shown effects.
Source: Ministry of Finance

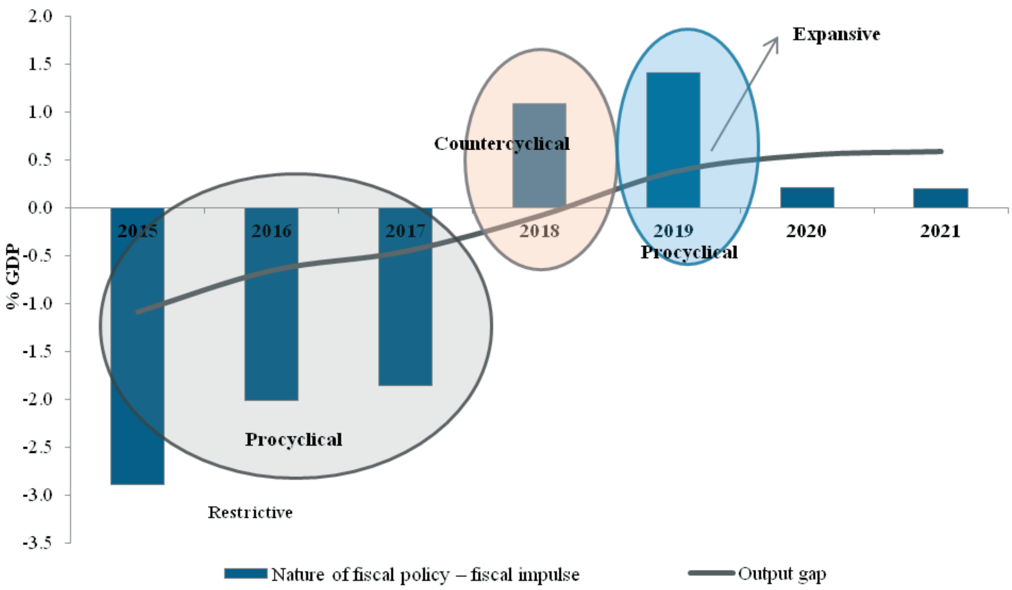
The measures adopted in the previous period, as well as the fiscal consolidation measures implemented in the 2015-2017 period, caused a significant structural improvement in the country's fiscal position. In 2015, the output gap reached relatively high negative values, which thereafter declined, while after 2018 the output gap will close. On the other hand, the negative fiscal impulse in 2016 and 2017 was partly mitigated by the relaxation of fiscal policy in the form of increasing pensions and some public sector wages. The effects of measures in the 2016-2018 period, as well as the effects expected by 2021, which refer to public sector reform, the completion of the restructuring process and the elimination of some subsidies will result in permanent savings on the expenditure side. At the same time, space is opening for a further relaxation of fiscal policy, first on the expenditure side and then on the revenue side as well. The result achieved in 2018 and the significant primary surplus provide room for easing fiscal policy in a way that will not jeopardise sustainability and downward debt path. The anticipated fiscal deficit of 0.5% of GDP in the coming period continues to enable the achievement of high primary surpluses. That factor, apart from accelerating economic growth, will primarily result in an accelerated reduction of the share of public debt in GDP.

Graph 7. Output gap, real, cyclically adjusted and structural fiscal balance in the 2015-2021 period, % of GDP



Source: Ministry of Finance

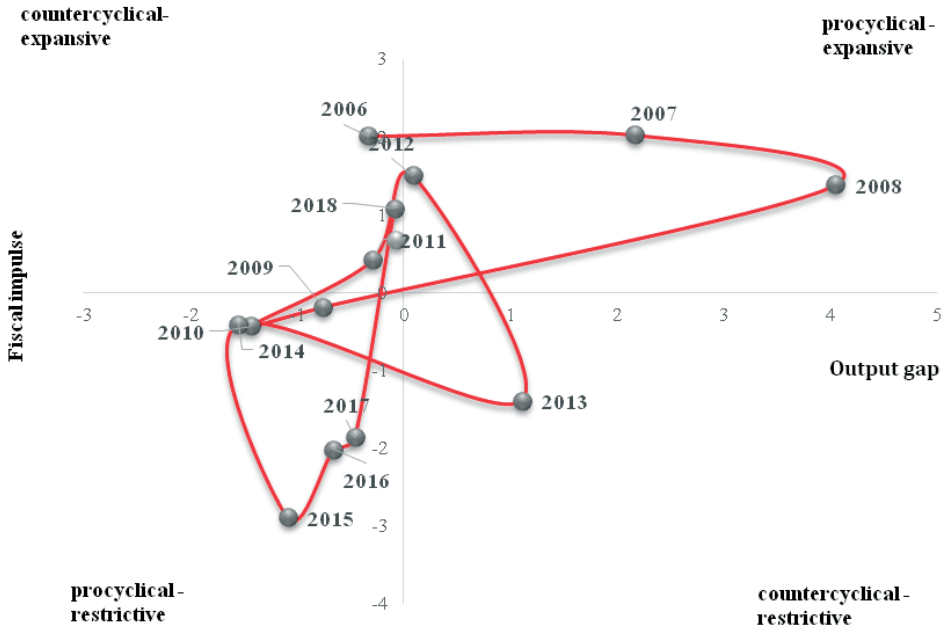
Graph 8. Character and effects of fiscal policy in the 2015-2021 period*



*For the 2019–2021 period, projected values are presented.
Source: Ministry of Finance

The negative output gap did not prevent the successful implementation of fiscal consolidation in the 2014–2017 period. Certain internal and external factors mitigated the effects of fiscal consolidation. The following are among the most important factors: 1) significant improvement in the efficiency of tax revenue collection, 2) collection of one-off non-tax revenue that largely set off allocations for one-off expenditure, 3) easing of the NBS monetary policy, 4) mostly favourable international environment (economic growth of foreign trade partners, ECB policy, energy source prices) and 5) relatively low values of fiscal multipliers.

Graph 9. Character and effects of fiscal policy in the 2006-2018 period



Source: Ministry of Finance

In the 2018–2021 period, the fiscal impulse is positive because in the previous period consolidation has created significant fiscal space. A certain minimal degree of restrictiveness stems from the further improvement in collection efficiency at the central and local level. With the actual growth rates approaching the potential level, in combination with achieved fiscal results, the need for restrictive fiscal policy in the future is significantly reduced. Despite the relatively low values of the fiscal multiplier, the positive fiscal impulse will certainly have a certain effect on economic trends in the coming medium-term period. Through careful design of the revenue and expenditure policy in the coming period such an effect may also be amplified. The created fiscal space can also be used to simplify and harmonise the tax system, additionally improving the business environment and creating space for the acceleration of potential growth.

5. PUBLIC DEBT MANAGEMENT

In line with international practice and under the Law on Public Debt (RS Official Gazette, nos. 61/05, 107/09, 78/11 and 68/15), the Ministry of Finance of the Republic of Serbia - Public Debt Administration prepares a Public Debt Management Strategy for the upcoming medium term. The public debt management strategy is consistent with the overall medium-term macroeconomic framework of the Government of the Republic of Serbia, and it constitutes an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on the principles defining the need for a transparent and predictable borrowing process, while constantly developing the government securities market and an acceptable level of exposure to financial risks.

At end-September 2018, the stock of total general government public debt was RSD 2,875.6 billion, or 56.7% of GDP. Of this amount, central government debt amounted to RSD 2,837.1 billion, while RSD 38.1 billion was related to non-guaranteed debt of local government units, and RSD 338.8 million to non-guaranteed debt of JP Putevi Srbije (PE Roads of Serbia). Direct liabilities of the central government amounted to RSD 2,652.1 billion, while the contingent liabilities of the central government amounted to RSD 185 billion. The domestic public debt of the central government amounted to 1,175.1 billion, while the foreign public debt was RSD 1,662.0 billion. According to the data as of 30 September 2018, the bulk of the Republic of Serbia's general government public debt is still euro-denominated, with a 39.9% share. The next most prevalent currency is the US dollar with a share of 28.2%, followed by the dinar with a 25.7% share. The rest of the debt is denominated in Special Drawing Rights at 3.1% and other currencies at 3.2%. As of 30 September 2018, most of the general government public debt of the Republic of Serbia was contracted at a fixed interest rate – 80.8%, while the public debt with a variable interest rate accounted for 19.2% of total public debt. The most common variable interest rates included EURIBOR and LIBOR on the euro, which accounted for 78.1%, followed by the variable interest rate on Special Drawing Rights 10% and LIBOR on USD 5.9%, while the share of liabilities at other interest rates was about 6%.

The fiscal framework for the 2019-2021 period, which provides for the stabilisation of the consolidated fiscal deficit at 0.5% of GDP, presents the baseline scenario and is an integral part of the debt reduction programme. Having in mind the projected result of the Republic of Serbia's budget for 2018-2021, including the amount of loan proceeds to be disbursed for project financing, the effects of changes in the exchange rate of the dinar against the euro and the US dollar, in the baseline macroeconomic scenario the stock of central government debt should stand at 45.7% of GDP at end-2021.

Table 10. Baseline projection of the general government public debt stock by 2021

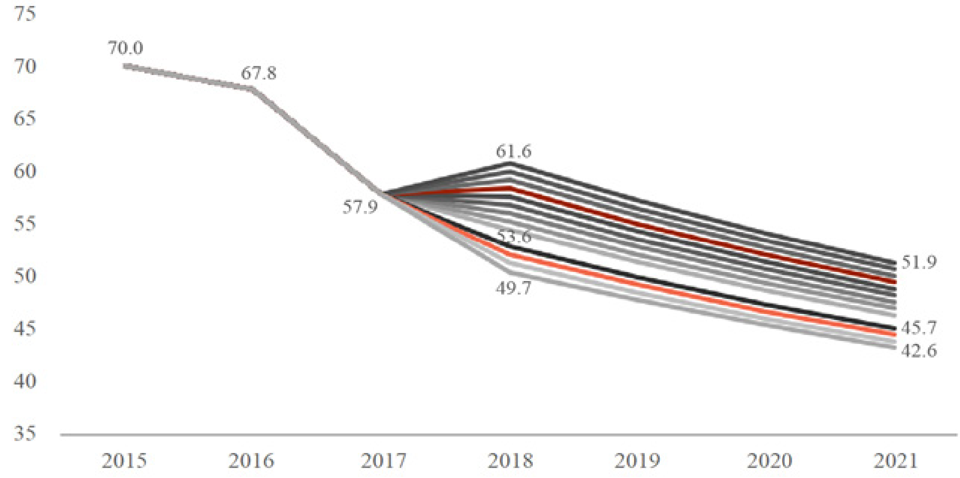
	2018 p.	2019 p.	2020 p.	2021 p.
Public debt (central government),	2,721.2	2,749.1	2,803.0	2,866.1
Central government debt, in % of GDP	53.6%	50.7%	48.1%	45.7%
Non-guaranteed debt of local government, in % of GDP	0.8%	1.0%	1.2%	1.2%
General government debt, in % of GDP	54.4%	51.7%	49.3%	46.9%

Non-guaranteed local government debt is projected in the coming period at around 0.8% of GDP in relative terms in 2018 to 1.2% of GDP in 2020 and 2021. The stock of general government public debt presented according to the Maastricht criterion should be at the level of 46.9% of GDP at the end of 2021.

Financial and fiscal risks may cause public debt to grow more than anticipated in the baseline scenario. The underlying risks that can bring about a rise in the debt and the cost of public debt servicing include: refinancing risk, foreign exchange risk, market risk (interest rate risk, inflation risk), liquidity risk, credit risk, operational risks and risks associated with the distribution of servicing costs (debt structure, liability concentration).

Because of the high share of foreign currency-denominate debt (74.2%), it is evident that the foreign exchange risk will determine the development of the public debt/GDP ratio in the following period and will have a major impact on the success of fiscal policy measures aimed at public finance consolidation and reduction of the share of public debt in GDP.

Graph 10. Effect of changes in the dinar exchange rate against a basket of currencies from the public debt portfolio on the change in the public debt-to-GDP ratio - central government



The graph above presents movements of the public debt-to-GDP ratio for central government, depending on changes in the exchange rate of the dinar against a defined basket of currencies. It shows the baseline projection with alternative scenarios, depending on the appreciation or depreciation of the dinar exchange rate ranging from a 10% appreciation to a 20% depreciation of the dinar against the basket of currencies. By applying these scenarios, it is possible to see that the ratio for 2021 would range from 42.6% of GDP to 51.9% of GDP, while for the baseline scenario it would be at the level of 45.7% of GDP.

With a view to reducing the exposure to variable interest rates, amidst the expectations that the variable interest rate with the highest share in the public debt – Euribor - will go up, new liabilities are contracted at fixed interest rates, where possible, especially for loans intended for financing investment projects.

For the purpose of portfolio optimisation and more efficient public debt management, the costs and risks of alternative borrowing strategies were analysed by applying the World Bank model (Medium-term Debt Strategy Model – MTDS), for the baseline scenario, as well as for shocks that could result in a change of the baseline scenario: the foreign exchange rate, changing interest rates in the international and domestic market, combined shock.

In the following medium-term period, the public debt management strategy proceeds from the assumption that most financing will be secured in the domestic financial market, with a possibility that a portion of financing will be secured in the international financial market, should a need arise. The government securities market is still under development and one of the principles of public debt management is the requirement of flexibility, so that the financing of RS budget expenditure would be ensured. Flexibility will be reflected in the choice of the market in which borrowing will be conducted, the currency of borrowing, and financing instrument. The annual borrowing decision is adopted based on the budget law for a certain fiscal year. Depending on the change of the basic fiscal aggregates, the borrowing plan can be revised during the fiscal year.

In the period to which this Strategy pertains an improvement in the efficiency of the primary market is expected through the concept of primary dealers, as a mechanism of sale of government securities which directly, in the longer run, contributes to the reduction of borrowing costs, as well as the reduction of the refinancing risk. Introducing a system of sale of government securities in the domestic financial market through primary dealers, provides a good foundation for improving the efficiency of the secondary market of government securities. With the development of the secondary market, in time a concept of market efficiency in the process of valuation of government securities will be established. Through the introduction of benchmark bond issues a positive effect on the volume and continuity of secondary trading is achieved, as well as the improvement of market efficiency in the process of sale of government securities in the primary market.

6. SENSITIVITY ANALYSIS AND A COMPARISON WITH THE PREVIOUS PROGRAMME

In the previous decade, the Republic of Serbia faced the materialisation of a number of risks which seriously threatened its fiscal position. The financial crisis and recession aggravated the state of public finance, causing high deficits and fast public debt growth. The global financial crisis, as an external factor, also activated domestic risks, which is why payments under guaranteed loans, court decision enforcement, resolution of state-owned financial institutions, and conversion of debts of public enterprises into public debt, additionally aggravated the fiscal position. In 2014, the Republic of Serbia also faced the disastrous consequences of flooding. The total damage (with losses) was estimated at over EUR 1.7 billion[7].

The Government defined, as a medium-term fiscal policy goal, a low and sustainable deficit of 0.5% of GDP, which ensures a further reduction of public debt. Since the previous three-year period saw a successful implementation of the fiscal consolidation programme, the establishment of stability of public finance and the reduction of share of public debt, the maintenance of fiscal stability has been defined as the fiscal policy goal in the following period, in parallel with the implementation of measures supporting economic growth. Special attention must be given to the management of fiscal risks, whose materialisation could jeopardise the achievement of the medium-term fiscal policy goal.

Fiscal risks imply exposure of public finances to certain circumstances that can cause short-term and long-term deviations from the projected fiscal framework. These deviations can occur in revenue, expenditure, fiscal result, as well as in government assets and liabilities, against what has been planned and expected. The Government cannot have an impact on external risks, such as natural disasters or global financial crises, but it is possible to define exit strategies mitigating their effects (the preservation of stability in good times so that the fiscal policy would have room for adequate response in the event of recession or crisis, insurance against natural disasters, etc.). Internal risks and their materialisation are a consequence of activities in the public sector, which is why the Government's decisions and policies can have an impact on the probability of their materialisation.

Identification of major fiscal risks that can affect government finances over the medium term is a starting point for better fiscal risk management. Detailed information is available on some fiscal risks, and it is easy to identify whether and how likely it is that these will affect fiscal aggregates over the medium term. However, sufficiently detailed information is lacking for some other ones, but even identifying those raises the awareness of the possibility of deviations from the projected fiscal framework in the upcoming period.

The Ministry of Finance plays the key role in fiscal risk management. As the key institution for medium-term macroeconomic and fiscal planning, budget preparation and management, the Ministry of Finance must also play the key role in putting in place the institutional and

7 http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljenih-podrucja-infograf-15-04-2016-srb.pdf

legal structure, as well as building fiscal risk management capacities. An organisational unit for fiscal risk management has been established at the Ministry of Finance, which will work on strengthening the legislation and methodological framework, capacity building, and the development of technical tools and models for fiscal risk monitoring and assessment. Finally, these activities will result in the identification and assessment of risks and proposing exit strategies, in order to assist the Government in preserving public finance stability, which is the key fiscal policy goal and one of the main preconditions for faster economic growth.

Macroeconomic Assumptions and Sensitivity of Fiscal Aggregates

Deviations of macroeconomic assumptions from the baseline scenario may lead to the deviations of fiscal aggregates from the projected level.

A negative scenario that implies economic contraction or lower growth in the coming period would lead to substantially lower capital inflows, and a drop in foreign trade. In that case, revenue would underperform and, consequently, the deficit would widen, if no further adjustments were made on the expenditure side. According to the assessments of fiscal balance sensitivity, any change in real growth of 1 p.p. of GDP leads to a change in the fiscal result of around 0.36% of GDP.

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

Interest expenditure is affected, besides the amount and composition of public debt, by factors such as the exchange rate and interest rates in the international and domestic markets. Given the unpredictable trends of certain variables, more funds may be needed for interest payments in the coming period. Interest rate policy pursued by certain international institutions (FED, ECB, etc.) can influence the general level of interest rates in the international market, and for the Republic of Serbia, as a small, open economy, this poses an additional fiscal risk.

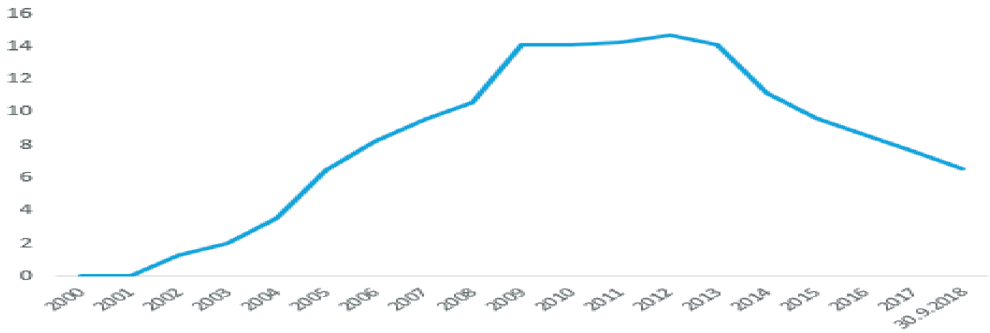
Government Guarantees

Guarantees issued by the government affect the level of public debt, but also the level of deficit, if the government assumes the repayment of such debt from the original debtor. Issued guarantees, according to the definition stipulated in the Law on Public Debt[8], are a part of contingent

8 Law on Public Debt, RS Official Gazette, nos. 61/2005, 107/2009, 78/2011 and 68/2015.

liabilities and are included in public debt[9] in the full amount. Constraints on new guarantee issuance have yielded results, so the share of contingent liabilities in total public debt is coming down. In late 2017, the share of contingent liabilities (guarantees issued by the Republic of Serbia) in total public debt amounted to 7.6%, according to the national methodology. The share of these liabilities in public debt has been decreasing in the current year as well, so in late September 2018 it was at 6.5% of total public debt. The share of these liabilities in public debt, just above 14% on average, peaked in the period between 2009 and 2013.

Graph 11. Share of indirect debt in public debt of the Republic of Serbia, %



At end-2017, the stock of public debt arising from issued guarantees amounted to EUR 1.8 billion, i.e. 4.6% of GDP. The guarantee-related debt stock was reduced by around EUR 380 million relative to the end of 2016. By the end of September of the current year, the stock of guarantee-related debt was reduced by additional EUR 200 million

Table 11. Stock of debt arising from issued guarantees, in EUR million

Beneficiary	30.09.2018
JP Srbijagas	105.7
JP Putevi Srbije (PE Roads of Serbia)	339.1
Železnice Srbije a.d. (Serbian Railways)	223.1
Infrastruktura Železnice Srbije a.d. (Serbian Railways Infrastructure)	41.8
AD Srbija Kargo	9.6
Srbija Voz a.d. (Serbia Train)	1.2
Air Serbia a.d. Beograd	6.7
Galenika a.d.	6.8
AD Elektromreža Srbije (JSC Electric Power Grid of Serbia)	37.3
JP Elektroprivreda Srbije (PE Electric Power Industry of Serbia)	403.0
RTB Bor	65.9
Serbia and Montenegro Air Traffic Services	8.1
JP Jugoimport – SDPR	15.2
FIAT d.o.o.	49.2
Aerodrom Nikola Tesla (Nikola Tesla Airport)	5.2
JAT Tehnika d.o.o.	3.7
JP Emisiona Tehnika i Veze (PE Transmission Equipment and Links)	13.4
Local government units (towns and municipalities)	227.7
TOTAL	1.562.6

Source: Ministry of Finance, Public Debt Administration

9 The debt definition under the Maastricht criteria differs from public debt definition in the local legislation in its treatment of issued guarantees. According to the Maastricht criteria, public debt (general government debt) includes only called guarantees. The local legislation takes a more conservative approach in this matter, including all issued guarantees in public debt.

The total planned repayment under guaranteed loans in 2018 amounts to RSD 29 billion. Before 2014, the accounting methodology did not include repayments under guarantees[10] in expenditure. From 2014 onwards, a part of this expenditure has been included in the budget expenditure[11]. Regardless of the budget and accounting presentation, the debt repaid by the government instead of the original debtor increases the overall need for borrowing.

Graph 12. Repayment of debt under guarantees, in RSD billion

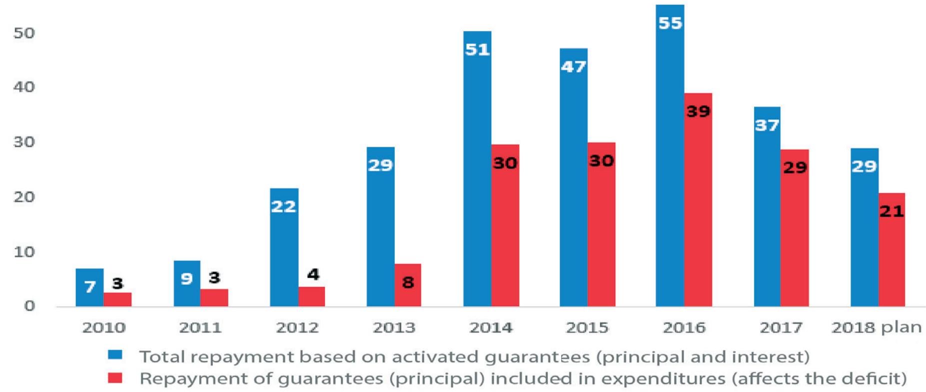


Table 12. Total paid liabilities under guarantees by beneficiary, in RSD billion

	2017			2018 (until 30 Sept.)		
Beneficiary	Principle	Interest	Total	Principle	Interest	Total
JP Srbijagas	21.8	0.7	22.5	11.1	0.2	11.3
JP Putevi Srbije (PE Roads of Serbia)	4.3	1.6	6.0	3.9	1.4	5.3
Železnice Srbije (Serbian Railways)	4.2	0.7	4.8	3.1	0.5	3.5
JAT	1.2	0.6	1.9	0.7	0.0	0.7
Galenika a.d.	1.0	0.6	1.6	0.7	0.0	0.7
Local governments	0.4	0.0	0.4	0.0	0.0	0.0
Železara Smederevo (Smederevo Steel Mill)	0.4	0.0	0.4	0.0	0.0	0.0
RTB Bor	0.0	0.0	0.0	0.0	0.0	0.0
Other beneficiaries	0.1	0.0	0.1	0.1	0.0	0.1
TOTAL	33.5	4.2	37.7	19.5	2.1	21.6

Source: Ministry of Finance

Execution of guarantee repayment expenditure by the end of 2018 will be below the initial plan. The guarantee repayment schedule (total principal and interest) in the 2018 budget amounts to RSD 29 billion, of which expenditure affecting the result includes RSD21 billion for the repayment of the guarantee principal.

The growing indirect debt and inclusion of a portion of payments under guarantees into the budget expenditure, and the consequent deficit increase have raised awareness of the growing fiscal risks resulting from issued guarantees. Therefore, measures have been taken to limit the

10 Repayments under guarantees from the central budget are included on the cash basis. Accrual basis international standards include the whole amount of outstanding debt in the expenditure at the moment of guarantee calling, while the debt repayment on this basis is treated as a financial transaction.

11 A portion of expenditure arising from the repayment under guarantees issued for JP Putevi Srbije (PE Roads of Serbia) is not included in budget expenditure, since this enterprise is a part of the general government, so the expenditure financed by guaranteed loans was included in the general government expenditure at the moment funds were spent, while the repayment is treated as a financial transaction (below the line).

issuance of new guarantees. Amendments to the Law on Public Debt prohibit any issuance of guarantees for liquidity loans. Amendments to the Law on the Development Fund of the Republic of Serbia suspended any 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 government guarantees, the key step in the reduction and prevention of fiscal risks on this basis lies in the reform of state-owned and public enterprises, guarantee beneficiaries, to make them capable of repaying their own loans. Quite a number of these enterprises, the main beneficiaries of these guarantees, are in the restructuring process, or in the process of implementation of restructuring plans prepared in cooperation with international financial institutions.

The annual budget for 2018 plans for the issuance of guarantees of up to RSD 58.6 billion, specifically for loans intended for the implementation of infrastructural projects.

The stock and composition of public debt based on contingent liabilities and the rising budget expenditure for guarantees suggest that significant fiscal risks can materialise in the following few years. In the years to come payments under guarantees are planned, but with a declining trend, from 0.4% of GDP in 2018 to 0.1% of GDP in 2021. Owing to the measures taken in the previous period, as well as to the negotiations with domestic commercial banks that resulted in lower interest rates for the guaranteed liabilities of JP Srbijagas and Galenika a.d., exposure of the Serbian public finances to this risk has been reduced[12].

Structural reforms of public and state-owned enterprises, making them capable of competing in the market and financially sustainable, on the one hand, and limited and targeted issuance of new guarantees, on the other, will contribute to the reduction of the corresponding fiscal risks and maintenance of expenditure at the planned, i.e. projected level in the coming medium-term period.

Public Enterprises

Operations of public enterprises are a significant source of fiscal risks both on the budget revenue and expenditure side. In their operations public enterprises are faced with numerous problems ranging from the collection of receivables to regular servicing of liabilities to creditors, government, employees, etc. The government as the founder and the only owner is responsible for operations, and is their protector of last resort in the case of illiquidity. Fiscal risks related to operations of public enterprises can materialise through several channels. Government guarantees issued for public enterprise loans are the greatest, but not the only risk. Sustainability, efficiency, and profitability of public enterprises affect budget revenue, i.e. the amount of profit they pay into the budget. The quality of products and services provided by public enterprises affects the efficiency and profitability of the private sector in general and, ultimately, the level of taxes they pay into the budget.

Public enterprises represent an important segment of the Serbian economy since they employ close to 71 thousand people. Public enterprises are set up as companies that perform activities of general interest. Their operations are regulated under the Law on Public Enterprises adopted

12 Euro-denominated loans with residual maturities of less than 2 years, as of 18 November 2016 have the interest rate of 1.75%+3-month Euribor; Euro-denominated loans with residual maturities of more than 2 years, as of 18 November 2016 have the interest rate of 2.75%+3-month Euribor; USD-denominated loans, as of 18 November 2016 have the interest rate of 3.00%+3-month Libor.

in February 2016, as well as subsectoral laws regulating some specific areas that remained beyond the scope of the Law on Public Enterprises (Energy Law, Company Law, etc.).

Key Financial Performance Indicators of Public Enterprises

Operating Results of Public Enterprises in 2017

At end of 2017 the total capital of central-level public enterprises amounted to RSD 1,673 billion, while the net profit generated totalled RSD 23.7 billion.

Table 13. Key financial performance indicators for public enterprises, in RSD billion

Description	2016	2017
Total assets	2,714	2,731
Own capital	1,680	1,673
Total revenue	517	517
Net profit	4.4	23.7
Subsidies	29.6	28.6
Subsidies, excl. JP Putevi Srbije	22.5	21.7
ROE, in %	0.3%	1.4%
ROA, in %	0.2%	0.9%
Subsidies, as % of total revenue	5.7%	5.5%

Source: Financial reports for 2016 and 2017

The operations of central-level public enterprises were additionally improved in 2017. Public enterprises generated in total a net profit amounting to RSD 23.7 billion, which is a major progress compared to a profit of RSD 4.4 billion in 2016. Improved profitability was also a result of the accounting income and expense categories, primarily gains on exchange, as well as lower impairment costs for accounts receivable, resulting from improved collection, in particular by Srbijagas.

The largest contribution to the positive result of public enterprises was given by the result of JP Srbijagas, which in 2017 generated a profit in the amount of RSD 16.7 billion. The second ranked is EPS Group (Electric Power Industry Group) with RSD 6.4 billion, while the third is Jugoimport SDPR with a RSD 3.1 billion profit.

In 2017 subsidies, as a percentage of total revenue, decreased slightly relative to the previous year and accounted for 5.5% of public enterprises' total revenue. Some subsidies take the form of capital investment, such as subsidies for JP Putevi Srbije totalling RSD 6.3 billion and intended for road infrastructure reconstruction.

In 2017, the largest loss was recorded by JP Putevi Srbije in the amount of RSD 8.1 billion. Since the road tolls were increased in early 2017, this resulted in higher sales revenue in this company and, consequently, a smaller loss relative to 2016 (RSD -11.6 billion). The largest generator of this company's losses are high depreciation costs (RSD 11.6 billion in 2017). If these costs are excluded, the company would have ended 2017 in the black[13].

13 Table 14 presents the operating results of public enterprises in the first half of 2018. In that period, JP Putevi Srbije posted a net profit, because the company books depreciation costs in the total amount for the given year only at the end of the year.

Public Enterprise Performance in 2018

In 2018, on aggregate, the positive trend of performance of central-level public enterprises continued. The total net result in the first half of the year is a profit amounting to RSD 15.1 billion. The current year's result is overestimated by the depreciation costs of JP Putevi Srbije, because the company books these costs only at the end of the year in the total amount for the given year.

Table 14. Estimated operating results of public enterprises on the day 6th June 2018, in RSD billion

Operating results	2016	2017	01.01–30.06.2018
Operating income	450.1	455.6	232.5
Operating expenses	396.6	423.8	206.1
Operating profit	53.4	31.8	26.4
Net profit	4.4	23.7	15.1
Wage costs*	113.7	115.7	52.5
Operating cash flow (net)	53.8	38.3	20.6
Number of public enterprises that generated profit	27	28	25

*Wage costs, wage benefits and other personnel expenses
Source: Financial reports for 2017 and quarterly reports of the Ministry of Economy for 2018

In the first half of the year, 25 companies posted a profit in the total amount of RSD 18.1 billion. This result is slightly below the plan for this period (RSD 19.2 billion).

The biggest impact on the positive net result in the period under consideration belongs to JP Srbijagas, which generated net profit amounting to RSD 6.8 billion. The second ranked was EPS Group, with RSD 4.4 billion, while JP Jugoimport – SDPR generated profit amounting to RSD 2.4 billion.

In the first half of the current year, eleven companies posted a net loss in the total amount of RSD 3 billion, which is a slightly better result that the planned for this period (-3.9 billion dinars).

In order to reduce the fiscal risks related to operations of public enterprises, restructuring processes have been initiated in the largest public enterprises (Železnice Srbije a.d, Infrastruktura Železnice Srbije a.d, Srbija Voz a.d, Srbija Kargo a.d, JP EPS and JP Srbijagas). The entire process is implemented in cooperation with the leading global financial institutions – the IMF, the World Bank and the European Bank for Reconstruction and Development (EBRD), so that these companies can be placed on solid foundations and can start operating in line with market principles, thus reducing any potential fiscal costs that can result from their operations.

JP Elektroprivreda Srbije (PE Electric Power Industry of Serbia). The rightsizing plan for the 2016–2019 period, prepared with the assistance of the World Bank, is being successfully implemented. With the help of the World Bank and EBRD, the possibilities of further improvement to company governance with regard to management, planning and procurement system are being considered. The company is to be transformed into a joint-stock company, while considering other possibilities for the continued development of the company with the aim of improving company performance and providing professional management.

Srbijagas. After changes were introduced in the company's organisational structure, establishing separate organisational units for gas transport and distribution, the plan for non-core asset sale was implemented, while a permanent solution is still being sought for the main debtors (HIP Azotara, HIP Petrohemija and MSK Kikinda), in order to reduce the risk of debt accumulation and need for interventions from the central budget. The collection rate was significantly improved in the previous period. By the end of 2018, in accordance with a new methodology, proposed by the World Bank, a capital investment plan will be adopted. The goal of these measures is the improvement of the financial position of Srbijagas, setting the company on a sustainable path, in order to gradually abandon the practice of servicing the company's debt by using budget funds.

Railway companies[14]. The implementation of the Railway Reform Plan 2016–2020 is in progress. It encompasses corporate reorganisation, rightsizing, infrastructure optimisation and renewal, so that this strategically important system could offer the highest possible quality of goods and passenger transport. The rightsizing plan was, for the most part, implemented in the previous two years, and in the following period it will continue through the process of attrition and hiring control. In the previous period, traffic was terminated on about 1,100 kilometres of tracks which were unused or assessed to be unprofitable, which will have a significant impact on the company's financial performance. On the other hand, important infrastructural projects have been initiated on international railway corridors, as well as for the purpose of rolling stock modernisation.

Payment of Profit into the Central Budget

Payment of profit by public enterprises and dividends by the companies in which the government has an equity interest, accounts for a significant part of non-tax revenues. Operating performance of these companies determines the amount of budget revenue from this source. Payments of recurring profits and dividends are recurring budgetary non-tax revenue, while payments from retained earnings are treated as one-off revenue, and do not represent a permanent source of revenue.

Table 15. Net profit of public enterprises paid into the budget, in RSD billion

	2017	2018 (Jan.–Sept)
Payment of profit into the budget	7.9	13.1
% of total revenue of the central budget	0.7	1.5

Source: Ministry of Finance

Budget revenue from the payments of public enterprises, either of recurring profit or retained earnings from the previous years, amounted to 0.7% of total budget revenue in 2017[15]. The public enterprises' profit that was paid into the budget up to September 2018 amounted to RSD 13.1 billion, which is equivalent to 1.5% of the budget's total revenue.

The 2018 RS Budget Law specified that public enterprises were obliged to pay at least 50% of the profit generated in the previous year into the central budget. In 2018, approximately RSD

14 Železnice Srbije a.d, Infrastruktura železnice Srbije a.d, Srbija Voz a.d. and Srbija Kargo a.d.

15 In 2017, the total amount of profit of public enterprises and public agencies, and dividends of companies in which the government has an equity interest, amounted to RSD 21.2 billion. We focus here only the profit of public enterprises from the standpoint of fiscal risk assessment.

5 billion was planned to be paid into the central budget on this basis (the rest of the planned amount of 15.5 billion refers to company dividends). The planned amount was exceeded and RSD 13.1 billion were paid into the budget by September.

Mitigation of potential risks stemming from public enterprise operations includes a series of measures related to accountability, profitability and transparency in operations of these enterprises. Namely, in early 2016, a new Law on Public Enterprises was adopted, which is expected to strengthen the governance structure and accountability of public enterprises. Restructuring processes have been initiated in JP EPS, JP Srbijagas, and Železnice Srbije a.d. Success of the restructuring process and speed of implementation of adopted measures will determine the future efficiency of operations.

State-owned Financial Institutions, Banking System and Deposit Insurance

Before the fiscal consolidation period, the Republic of Serbia faced significant fiscal costs of state-owned bank bailout. In the 2012-2015 period, the total costs of government interventions in the banking sector reached about EUR 900 million. This is the amount allocated for bank capital increase, different financial transactions when failed banks were merged with more successful banks, including the payment of insured and uninsured deposits (using the funds of the Deposit Insurance Agency).

Today, the Republic of Serbia has a direct interest in the capital of the following banking institutions:

- Banka Poštanska štedionica a. d. Beograd (74.5%),
- Komercijalna banka a. d. Beograd (41.74%),
- Jubmes banka a. d. Beograd (20.2%),
- Srpska banka a. d. Beograd (76.7%).

For the purpose of consistent implementation of the exit strategy and reduction of fiscal risks on this basis, reform activities are ongoing in the area of state-owned financial institutions.

Banka Poštanska štedionica. With the support of the World Bank, the implementation of a new strategy for Banka Poštanska štedionica will continue, with the focus on reorientation to business with individuals, sole traders, micros and small enterprises; improvement of the bank's internal organisation, corporate governance and risk management; improvement of IT infrastructure, as well as the operating plan for the 2018-2020 period.

Komercijalna banka. The activities related to Komercijalna banka's privatisation refer to the launching of the public call for submission of Expressions of Interest for the purpose of selecting the financial adviser for the sale of the stake of the Republic of Serbia in this bank's capital. The selection of the financial adviser will be followed by the next stage of implementation of the privatisation process after the government adopts a decision on initiating the process.

Jubmes banka. In March 2018, the Government recommended the initiation of the procedure of sale of Jubmes bank's capital, which is directly owned by the Republic of Serbia. Consequently, the Ministry of Finance received the Expressions of Interest. The privatisation of this bank can be expected in the near future.

Srpska banka. In accordance with the Government's strategy for state-owned banks, the procedure for the establishment of the Expert Working Group for the transformation of Srpska banka into a financial institution specialised for the provision of all types of financial services and support to the arms industry of the Republic of Serbia, has been initiated.

In February 2015, the regulations governing the Serbian financial system[16] were reformed. One of the features of this reform includes the transfer of competences for monitoring of operating results and management bodies in banks, insurance companies, and other financial institutions in which the Republic of Serbia is a shareholder, and organising and conducting the sale of shares in them, from the Deposit Insurance Agency to the Ministry of Finance as of 1 April 2015. Also, the regulatory reform included the transposition of the Bank Recovery and Resolution Directive (BRRD) entrusting the bank restructuring function to the NBS. In December 2016 a set of regulations was adopted implementing Basel III standards in the domestic regulatory framework, thereby achieving a significant level of alignment of domestic regulations with the corresponding EU regulations in this area, while during 2017 activities on improving domestic regulations governing the operations of banks resumed, with the aim of ensuring further alignment with EU regulations. The basic goals of adopting these regulations include increasing the resilience of the banking sector by increasing the quality of capital and introducing capital buffers, improving the monitoring and supervision of banks' exposure to liquidity risk, further strengthening market discipline and the transparency of banks' operations in the Republic of Serbia by publishing all relevant information regarding bank operations, as well as adapting the reporting system to new regulatory provisions.

One of the limiting factors of credit activity growth is a relatively high level of non-performing loans (NPLs). In August 2015, the NPL Resolution Strategy was adopted, and is implemented through two action plans: one prepared by the Government, and the other by the NBS. Both are aimed at reducing the level of NPLs. The key areas of implementation include building bank capacity to resolve NPLs, improvement of regulations for collateral valuation, development of NPL market, etc.

Since the adoption of the said strategy, a number of laws and implementing legislation have been adopted or amended, the institutional capacity has been improved, and numerous measures implemented in order to facilitate the write-off and transfer of bad debt through the adoption of the Law on Real Estate Appraisers (implementation start in June 2017), which, inter alia, introduced a new profession – licensed real estate appraisers and prescribed the mandatory appraisal conducted in the cases related to the Mortgage Law and the Bankruptcy Law, as well as when conducting appraisals as part of credit transactions secured by a mortgage; the formation of an expert committee (a technical body that should contribute to the regulation and improvement of the real estate appraiser profession) and the adoption of the National Standards, code of ethics, and rules of professional conduct for licensed appraisers (in July 2017), which, inter alia, define the bases for real estate appraisal, appraisal procedure, assumptions and significant facts that must be taken into account when preparing the appraisal report, the minimum content

16 The National Assembly adopted amendments to the Law on National Bank of Serbia and the Law on Banks, as well as the new Law on the Deposit Insurance Agency, Deposit Insurance Law, Law on Bankruptcy and Liquidation of Banks and Insurance Companies. The amendments to the set of financial laws required the adoption of amendments to the Law on Ministries.

of an appraisal report and the rules of professional conduct of licensed appraisers; adoption of amendments to the Corporate Income Tax Law and the Personal Income Tax Law, which enabled the introduction of a more relaxed tax policy for granting and writing off bank assets (at the end 2017); adoption of amendments to the Bankruptcy Law, expediting the bankruptcy proceedings, and improving the position of secured creditors (in December 2017); preparation of a feasibility study for the introduction of bankruptcy of individuals and sole traders in the Republic of Serbia (in July 2018) and other. Among the remaining activities, provided for by this strategy, the Draft Amendment to the Law on Civil Proceedings has been prepared and is expected to be formally sent to the National Assembly for adoption by the end of 2018.

The implementation of measures for NPL resolution continues to yield results. During the second quarter of 2018, commercial banks continued with NPL resolution activities, writing off RSD 15 billion and selling NPLs in the amount of about RSD 6.3 billion to non-bank operators. As of the start of 2018, the share of NPLs in total loans went down to 6.5% in August. After the NPL reduction peaked at 7.2 p.p. in 2017, the downward trend continued in 2018 as well, resulting in the NPL share being reduced by three and a half times since the adoption of the NPL Resolution Strategy. Strengthening banks' capacities for resolving NPLs and further development of the market of these loans were among the Government Strategy's main goals, and the progress achieved in those areas is also confirmed by the fact that the reduction in the amount of NPLs was mostly brought about by their write-offs and assignment.

The strategic and annual operational plans for the Deposit Insurance Agency and the NPL Portfolio Resolution have been adopted, and internal capacities for their resolution have been developed, resulting in the Deposit Insurance Agency planning to offer NPLs for sale in two stages, with the first part of the NPL portfolio being offered for sale at the end of 2019, and the second, larger one, by the end of 2020.

Deposit insurance is a mechanism set up to preserve financial stability and protect depositors. The deposit insurance system ensures that each protected depositor[17] has his/her entire deposit paid out in each bank up to the insured amount of EUR 50,000 in the case of the bank's bankruptcy or liquidation. Deposit insurance is regulated under the Law on Deposit Insurance.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor for the payment of insured deposits. In order to secure funds for deposit insurance, the Agency charges a deposit insurance premium from banks, and deposits these amounts into the account of the Deposit Insurance Fund, manages the Fund assets and pays out deposits up to the insured amount in the case of bank bankruptcy or liquidation. In the event of a shortage of funds in the deposit insurance fund, the Republic of Serbia provides for the payment either from the budget funds or by giving a guarantee for borrowing by the Deposit Insurance Agency.

These guarantees of payment of insured deposits by the government, either directly from the budget funds, or indirectly by issuing guarantees for loans taken by the Deposit Insurance Agency, are a source of fiscal risks and possible fiscal costs. However, owing to the achieved stability of the banking sector, since 2015 there has been no need to use government funds for payments arising from insured deposits.

17 The protected depositors are individuals (both residents and non-residents), sole traders (residents only), and micro, small and medium-sized enterprises (residents).

Mitigation of fiscal risks on this basis depends on the stability and sustainability of the banking system. Supervision of the banking system, caution in placement of funds, and improved quality of bank assets, are the main pillars of a stable banking system.

The results of the banking sector in Serbia at the end of 2017 and during 2018 point to stable bank profitability. The banking sector of the Republic of Serbia operated at a profit in 2017, with the net financial result before tax amounting to RSD 68.7 billion, while in the first 3 months of 2018 a positive net financial result before tax was recorded, amounting to RSD 17.6 billion, which is similar to the result in the same period of the previous year (RSD 18.1 billion).

The high rate of banking sector capitalisation, from the standpoint of capital adequacy ratio and of regulatory capital structure, has additionally increased, guaranteeing the resilience of the banking sector. At the end of June 2018, the average capital adequacy ratio at the level of the banking sector of the Republic of Serbia was 22.9%, (an increase of 0.3 p.p. compared to the start of the year), which is significantly above the legal regulatory minimum level of 8% and more than enough to cover all the risks to which the sector is exposed, which is also confirmed by the macroprudential stress tests regularly conducted by the NBS.

Other Fiscal Risks

In addition to the aforementioned fiscal risks, there are some other circumstances that, if they materialise, can also result in fiscal costs. Some risks are not substantiated with systematised data, but considering that some did materialise in recent past, their impact on public finances can be assessed. Their identification helps understand possible impact on fiscal standing of the country in the upcoming period.

Significant fiscal risks are associated with decisions by domestic and foreign courts, fines, and damages payable by government bodies. In the 2009–2017 period, the Republic of Serbia paid the amount of RSD 64.8 billion from the budget on the basis of court decisions[18]. The outstanding debt to military pensioners totalling RSD 10 billion that was assumed in 2015, although according to the court decision the debt was not recorded in these accounts, was treated in accounting terms as debt repayment, while in the report on fiscal aggregates of the general government, it was recorded as expenditure for social protection (pensions). Regardless of the manner in which this expenditure was accounted for, it represents a materialised fiscal risk arising from court decisions. A decision of the International Court in Strasbourg placed the Republic of Serbia under an obligation to pay the public debt stemming from unpaid foreign currency saving deposits that citizens of former Yugoslav republics and citizens of the Republic of Serbia placed with banks seated in the territory of the Republic of Serbia and their branches in the territories of the former Yugoslav republics. Among the fiscal risks stemming from the court decisions is also the judgement of the International Court of Arbitration, according to which the Republic of Serbia is obliged to pay USD 40 million in damages to the Greek company Mytilineos. Contingent liabilities can also result from judgements of the International Court in Strasburg, on the basis of claims of workers of former socially-owned enterprises (unpaid wages and contributions).

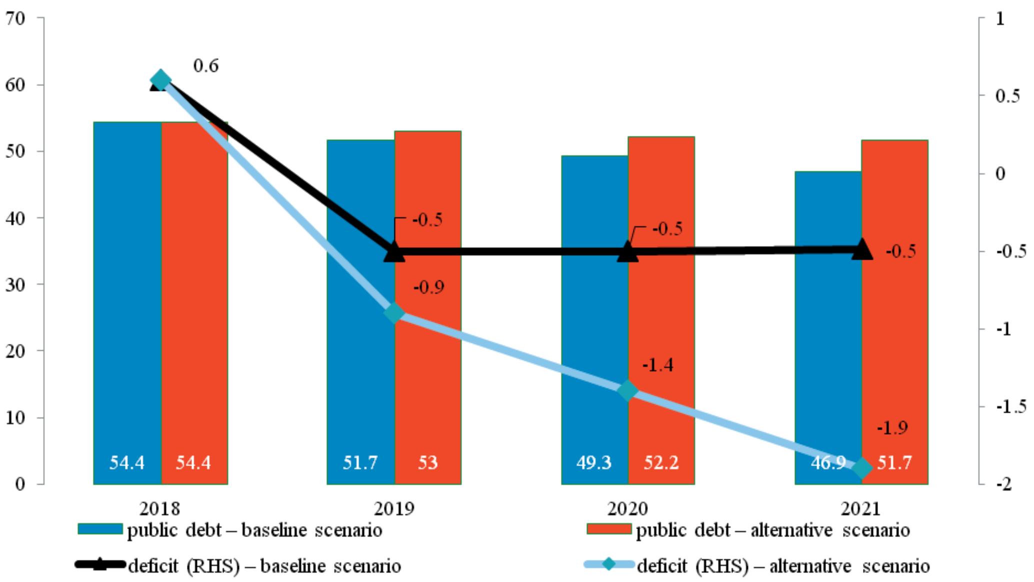
18 Expenditure recorded in the accounts for fines and penalties ruled by courts and judiciary bodies, and damages for injuries or loss inflicted by government bodies.

The ever-present risk of natural hazards and disasters necessitates investment in prevention programmes to mitigate potential fiscal costs related to recovery. In 2014 Serbia was faced with catastrophic consequences of flooding. Total damage (including losses) was estimated at over EUR 1.7 billion[19]. According to the Law on Eliminating the Consequences of Floods in the Republic of Serbia, the funds for recovery were provided from the budget sources at all levels of government, from donations, contributions and gifts, loans, EU financial aid, etc. A grant in the amount of approximately EUR 220.7 million together with about USD 300 million from the World Bank loan were provided for reconstruction. Having in mind the ever-present risks of natural hazards, mitigation of the related fiscal risks implies investment in prevention programmes. In December 2014 the Government adopted the National Natural Disaster Risk Management Programme, which will be implemented in cooperation with the World Bank, UN and the EU. So far, EUR 70 million has been provided for the implementation of prevention programmes.

An Alternative Scenario of Fiscal Developments in the 2018-2021 Period

The following graph shows the developments related to the respective shares of the deficit and public debt in GDP under an alternative macroeconomic scenario, which implies growth rates of 1.8%, 2.5% and 2.5% in the next three-year period.

Graph 13. Public debt and fiscal balance in % of GDP, baseline and alternative scenario



A slower GDP growth would also affect, through its components, the actual fiscal aggregates, primarily the revenue side, predominantly labour-related revenues and consumption taxes. Such GDP development would lead to a higher level of deficit and public debt. The deficit increase would not be of such magnitude that it would result in the public debt growth, but the pace of its reduction would be significantly slower, due to which the public debt level would not drop below 50% of GDP even at the end of 2021. The assumption in this scenario is the continuation

19 http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljenih-podrucja-infograf-15-04-2016-srb.pdf

of the measure of wage and pension trend following the GDP growth, meaning that in all three years the share of wages and pensions would remain at the same level, with the nominal amounts for capital investment remaining the same as in the baseline scenario.

Comparison with the Previous Programme

The medium-term fiscal framework has not been changed significantly compared to the previous programme. The medium-term goal continues to be an annual deficit of 0.5% of GDP as a sustainable deficit that enables a reduction of the share of public debt in GDP.

Economic growth in 2018 will be significantly above the level anticipated in the programme for the 2018-2020 period. The accelerated economic activity had an impact on the revenue side of the budget, primarily as a result of higher employment and consumption. Apart from that, higher revenue collection is also a result of higher profitability of the economy and continued efforts aimed at combating the informal economy. Since there has been a structural (permanent) increase in public revenue, the projection for the following three-year period has been raised.

In 2018, on the expenditure side, the execution of expenditure will be slightly above the planned level, mostly as a consequence of strong growth of capital investment. In the following period, the expected dynamics of public project execution is expected to continue, because of which the fiscal space created through better revenue collection will, for the most part, be used for additional increase in capital investment.

The pace of economic growth anticipated by the previous programme has been retained in this medium-term framework.

Table 16. A comparison of fiscal indicators of the two programmes, in % of GDP[20]

	2017	2018	2019	2020	2021
ERP 2018 - 2020[20]					
Revenue	41.3	39.7	39.0	38.2	–
Expenditure	40.6	40.3	39.5	38.7	–
Result	0.7	-0.6	-0.5	-0.5	–
ERP 2019 - 2021					
Revenue	41.5	41.1	39.9	39.2	38.7
Expenditure	40.4	40.6	40.4	39.7	39.2
Result	1.1	0.6	-0.5	-0.5	-0.5
Difference					
Revenue	0.2	1.5	0.9	1.0	–
Expenditure	-0.2	0.3	0.9	1.0	–
Result	0.4	1.2	0.0	0.0	–

20 The amounts have been calculated again based on the revision of the GDP series data from 2015 to 2017.

7. INSTITUTIONAL FRAMEWORK

Fiscal consolidation and structural measures implemented in the previous period enabled the stabilisation of public finance and created fiscal space for new policies. Stability and sustainability of public finance in the longer term, require a functional system of fiscal rules. The current fiscal rules were introduced back in 2010, but failed to contribute to interrupting the growth of the deficit and public debt. For that reason, the system needs to be redesigned in order to help protect the predictability and sustainability of fiscal aggregates and control fiscal and budget policy. The new IMF arrangement presents an opportunity to design and introduce a sound set of fiscal rules in the following two years, in cooperation with this international financial institution and the Fiscal Council. The Ministry of Finance established a working group tasked with amending the Budget System Law, which defines these rules. Therefore, efforts aimed at their amendments will be conducted within this framework.

Improved public finance management is necessary not only as a support to fiscal consolidation measures and structural reforms, but also as a process that raises the quality of public administration and ensures an attractive and desirable environment for investors. Reform efforts within different sub-systems of public finance management (PFM) are included in the Public Finance Management Reform Programme 2016-2020 (the PFM Reform Programme).

The Budget Execution Information System, ISIB, is part of the public finance management system which encompasses processes and procedures conducted in electronic communication with the Treasury Administration under the Ministry of Finance. The development of this system will enable the monitoring of all indirect beneficiaries of the central government. The system covers direct public fund beneficiaries, judicial bodies, and, as of this year, indirect beneficiaries of the Ministry of Culture and Information and the Penal Administration, which were not included in the previous system (FMIS). In 2019 social care institutions are expected to be included, after which only the indirect beneficiaries of the Ministry of Education, Science and Technological Development will be left outside the system. The financial plans of the social insurance funds will still contain the data on their indirect beneficiaries.

Public investment management is the area of public finance management that has been a special focus of attention and efforts aimed at its improvement. By strengthening the public investment management framework, the implementation of new infrastructural projects is stepped up and the quality of existing infrastructure raised. Capital projects and project loans have been integrated in the budget. In April 2018 the Law on the Planning System of the Republic of Serbia was adopted, putting in place the national planning framework and providing for the Development Plan and the Investment Plan. In order to improve the public investment management framework, in accordance with the recommendations of the IMF technical assistance and based on the Decree on the Content, Manner of Preparation and Evaluation, as well as the Monitoring of Implementation and Reporting on Capital Project Execution, a rulebook will be adopted, which will contain outlines of feasibility studies for large and strategic infrastructural projects, a Capital Investment Commission will be formed and the previously mentioned Decree will be amended, in order to include the projects financed by IPA funds and bilateral agreement between the Republic of Serbia and other states in the planning.

Public-private partnerships (PPPs), as a specific form of cooperation between the government and the private sector, require special attention and caution, which is why, in the future, the

Ministry of Finance will conduct an assessment of all proposals through a cost-benefit analysis and risk sharing analysis. The Law Amending the PPP Law introduces a requirement that for PPPs worth over EUR 50 million, before they are considered by the Government, an approval of the Ministry of Finance must be obtained. By the end of the year, additional amendments to the law will be adopted for the purpose of limiting the overall fiscal exposure and ensuring competitiveness of tender procedures.

The Action Plan for the Transformation of the Tax Administration for 2018–2023, adopted in December 2017, defines strategic guidelines and timeframe for the implementation of activities required for the creation of a modern tax administration, which will, by using modern electronic processes, provide a better and more comprehensive service to taxpayers, and better public revenue audit and collection, and support combating the informal economy, together with the reform and modernisation of inspection oversight. The Action Plan provides for the organisational separation of core and non-core activities, as well as a consolidation of core activities in a smaller number of organisational units. With the assistance of external consultants engaged to analyse business processes and required resources, an adequate organisational structure and management will be developed. Expert consultants will also assist in managing projects and designing an adequate staff structure. In the second implementation stage, the reforms will be focused on IT systems and their development and modernisation. Special attention will be given to reducing the average time needed for VAT refunds, while applying caution, in order to minimise potential for abuse. The time needed for VAT refunds will be reduced significantly after the VAT management software is upgraded.

The improvement of national statistics quality and transparency is ensured through the improvement of the comprehensive, timely and automated data exchange among competent institutions. In April 2018, the list was released of institutions comprising the general government sector, as well as other sectors, in line with the European System of Accounts (ESA) 2010 and GFSM 2014, on the basis of which the Statistical Office of the Republic of Serbia (in cooperation with the Ministry of Finance and the NBS) will regularly deliver data to the Enhanced General Data Dissemination System (e-GDDS). As part of the international project for enhancing the system of national accounts and GDP calculation, the SORS adopted the recommendations and positive experiences of European statistical offices with regard to the calculation of the most important macroeconomic aggregates.

IV. STRUCTURAL REFORMS IN THE 2019–2021 PERIOD

1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

Serbia's economy grew continuously during 2018. The service sector as the growth engine, together with high yields in agriculture and continued construction recovery, are the main drivers of such economic trends. The high contribution of industry to economic growth from the beginning of the year went down as a consequence of declining energy source production, so in the second half of 2018 industry had a negative impact on overall growth. Domestic demand continued to grow, driven by higher personal spending and investment. This is supported by the growth of real wages and employment in the private sector, higher retail trade volume and the growth in construction and capital investment. Rising foreign direct investment inflow contributed to exports increase.

After the successful implementation of fiscal consolidation, in order to preserve the achieved results and ensure further growth and improvement of competitiveness, a continued implementation of key structural reforms is of great significance. The implementation of structural reforms in various areas will intensify in the following period, in order to eliminate the key obstacles/challenges in certain areas, identified based on all available analyses and data.

Based on the fiscal results from the previous four years, in the following period investment in infrastructural projects is expected to increase. Investment shortfall significantly constrained the development in energy and transport. Investment in energy infrastructure will contribute to higher efficiency and diversification of supply sources. The road and railway infrastructure requires continuation of the modernisation, improved maintenance and safety, coupled with further alignment of legislation with the EU acquis in both areas.

The conditions are favourable for the development of agriculture, one of the key sectors in Serbia, but with increasingly frequent crises caused by nature, leaving ever more serious consequences (floods, droughts, hail and other). The unfavourable structure of agricultural holdings (farm fragmentation without enough incentives to join forces), technical and technological obsoleteness primarily of small and medium-sized holdings, as well as intensified pressures on farmers due to more demanding standards and regulations in the process of alignment with the EU Common Agricultural Policy, additionally impede the development of agriculture. The industrial growth in the past years was achieved on an economically sound basis, driven by investment and exports. On the other hand, the largest contribution to growth came from the manufacturing industry, although its structure is still dominated by low value-added products and upstream products. Thus, in the following period, the defined measures for eliminating obstacles to the development of industrial sectors, identified based on the highest growth potential, as well as bringing together the industrial, education and R&D policy, need to be implemented, while in the software industry proprietary products with export potential need to be developed, doing away with with the previous practice of exclusive service exports. In the service sector, the focus should be on increasing the level of knowledge and skills, further development of tourist offer, as well as e-commerce improvement.

Major progress has been achieved in improving the business and macroecnomic environment and Serbia remains committed to its further enhancement. Its credit rating has improved, and the ranking according to the most recognised international competitiveness indices has increased significantly, owing to the implementation of regulatory reforms, reducing the complexity and costs of doing business, and increasing predictability. The improvement of the legal framework in financial services is expected to continue (higher availability of existing and new sources of financing for small and medium-sized enterprises and sole traders – SMEST), as well as the improvement of viability of public enterprises and containment of fiscal risk, further development of the public-private partnership model, intensified inspections of unregistered businesses and employees for the purpose of formalising informal operations, as well as the establishment of an up-to-date cadastre in order to simplify the procedure for registering real estate and cut costs. The process of tax administration has been significantly improved with the introduction of new technologies and the development of e-filing and payment (eTax portal) which contributes to the growth of tax revenues and reduction of the informal economy. The implementation of regulatory reform (the so-called regulatory guillotine) is certain to continue, through elimination of the unnecessary and the simplification of administrative procedures and improvement of public services provided to businesses.

The large R&D potential should be unlocked further and used more appropriately, so that Serbia could become a knowledge-based economy. In the following period, the priorities include the establishment of an efficient model for science funding, greater support to business innovation, as well as stronger links between the business and academic community, resulting in higher private sector investment. Focus is on a greater availability and introduction of digital technologies, products and services, as well as standardisation of communication infrastructure. The key challenge is to stop the “brain drain” and attract talent from the country and abroad.

A full integration of Serbia in the international economic system requires a membership in the World Trade Organisation (WTO), for which the main obstacle in the previous period was the lack of alignment of Serbia's legislation regulating the trade in GMO products. There is also a need to define measures aimed at the modernisation of technological processes and introduction of technical regulations and standards, which would enable a shift towards a higher share of downstream products in total exports.

In the Serbian economy, which is increasingly dependent on knowledge and skills, higher investment in education presents a precondition for further human capital development. Special efforts should be invested in the regulation of the system of qualifications acquired by education, as well as the alignment of labour qualifications with the labour market needs. Apart from introduction of programming in elementary schools, entrepreneurship, as well as digital textbooks, further improvements will continue at all education levels, in line with specific problems.

Serbia’s labour market has recently been expanding, with the growth of employment and activation and lower unemployment. With the improvement of the employment service's capacities and reform of active employment policy measures, the quality of human capital would be preserved and improved (by preventing a loss of skills, self-confidence and motivation). The Government’s dedicated programmes are aimed at increasing capacity in terms of IT skills. More intensive implementation of measures which promote youth employment, the registration of informal workers and measures for improving the position of women in the labour market, are also expected.

The level of allocations to social assistance is in line with the current level of development in Serbia, so the key challenge in the area of social and child protection is the adequate redistribution of funds among the existing programmes in order to increase their availability. Since there is wide-spread poverty, which affects different population groups, with frequent multiple deprivation factors, in the following period more attention will be dedicated to connecting the centres for social work (among themselves and with other institutions), social card development, provision of higher quality services, as well as the strengthening of control and regulatory mechanisms.

On the basis of the identified obstacles and challenges in the area of competitiveness, structural reforms have been defined and presented in a form of a summary in section 4.2, and in detail in section 4.3. Since the ERP is a rolling programme which establishes a system for monitoring of and reporting on the implementation of structural reforms, whose execution requires a longer period of time, in this year's cycle of ERP preparation, the priorities have largely remained unchanged, i.e. the reforms presented in ERP 2019-2021 are the slightly amended reforms from ERP 2018-2020 with regard to the coverage and goals, with three new reforms added: one with an aim of establishing the system for environmental protection funding, the second with an aim of improving the conditions and eliminating barriers to trade, and the third with an aim of increasing the possibilities of employment of hard-to-employ persons and strengthening formal employment.

The selected structural reforms, which were the subject of a broad public consultation process, are aligned with the three-year plan of total budget expenditure determined by the Budget Law, priorities defined in the national documents, as well as constraints in terms of human capacities of the public administration with regard to the necessary number and skills for consistent and coordinated reform implementation. In particular, the recommendations by the EU Economic and Financial Affairs Council for the Western Balkans and Turkey of May 2018, as well as the recommendations and findings from the EC 2018 Progress Report on the Republic of Serbia, were taken into account.

2. STRUCTURAL REFORMS SUMMARY

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	ENERGY AND TRANSPORT MARKET REFORM		
1	**Energy market development coupled with energy infrastructure construction** *Harmonisation of the technical rules and codes governing the operation of the electric power and gas networks and construction of missing interconnectors to achieve reliability and facilitate trade in energy products in the national and cross-border markets (includes Niš-Dimitrovgrad trunk gas pipeline construction and Trans-Balkan Corridor).*	***ECOFIN 2018 R4 – Gradually adapt electricity tariffs so they reflect real costs including necessary investments to upgrade the energy network and to meet environmental standards*** ***ECOFIN 2018 R4 – Finalise the unbundling of state-owned enterprises alongside accelerating their restructuring, in particular Srbijagas and EPS*** *ECOFIN 2017 R4 – Gradually adjust electricity tariffs to reflect actual costs. Further improve payment collection and avoid future accumulation of arrears in the energy sector. Advance the announced restructuring of Srbijagas debt and the implementation of EPS's optimisation plan* *ECOFIN 2016 R4 – Make significant progress in the preparation of the construction of the Bulgaria-Serbia gas interconnector* *PR 2018, p. 74 – Fully implement the connectivity reform measures in the energy sector* *PR 2018, p. 74 – Strengthen human capacity and promote investment in energy efficiency and renewable energy* *PR 2018, p. 74 – Initiate reforms to introduce cost-reflective electricity tariffs fully taking into account investment needs for EU integration and social security implications* *PR 2018, p. 74 – Fully unbundle Srbijagas and develop competition in the gas market* *PR 2016, p. 53 – Improve alignment with the acquis, strengthen capacity and promote investment in energy efficiency and renewable energy as well as achieve cost-reflective electricity tariff* *PR 2016, p. 53 – Take measures to fully unbundle Srbijagas and develop competition in the gas market* *IMF – Ensure competition in the energy market, develop the electricity and natural gas markets and their connection with the EU single energy market, as well as more intensive regional interconnection of the RS energy system*	*Energy Sector Development Strategy of the Republic of Serbia until 2025 with Projections until 2030* *Berlin Process (Connectivity Agenda)* *Energy Law* *Law Establishing Public Interest and Special Procedures for Expropriation and Obtaining of Documentation for the Purpose of Construction of the Trans-Balkan Corridor 400 kV Power Transmission System* *Law on the Spatial Plan of the Republic of Serbia from 2010 to 2020*

21 ECOFIN – Recommendations by the EU Economic and Financial Affairs Council for the Western Balkans and Turkey of May 2016, 2017 and 2018 (R1 – Recommendation 1); PR – EC 2016 Progress Report on the Republic of Serbia (Progress Report 2016) and the EC 2018 Progress Report on the Republic of Serbia (Progress Report 2018); IMF – Policy Coordination Instrument (PCI), 2018

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
2	**Improvement of conditions for increasing energy efficiency and improvement of the existing infrastructure in energy consumption sectors** *Harmonisation of regulations with the EU EE legislation, implementation of the energy management system, establishment of a sustainable method of energy efficiency project financing*	***ECOFIN 2018 R4 – Increase investments in energy efficiency*** *PR 2018, p. 74 - Strengthen human capacity and promote investment in energy efficiency and renewable energy; and initiate reforms to introduce cost-reflective electricity tariffs fully taking into account investment needs for EU integration and social security implications*	*Energy Sector Development Strategy of the Republic of Serbia until 2025 with Projections until 2030*
3	**Improvement of the capacity and quality of transport infrastructure and services** *Alignment of standards and norms, i.e. the national legislation, with the EU legislation, with the aim of enhancing competitiveness and attracting traffic flows to Serbian transport routes*	*PR 2018, p. 72 – Improve road safety by taking measures to reduce fatalities and advance in Intelligent Transport Systems (define the strategic framework, adopt legislation, and improve capacity for implementation and enforcement).* *PR 2018, p. 72 – Comply with the requirements under the first transitional phase under the European Common Aviation Agreement (ECAA).*	*Plan for the Development of Railway, Road, Waterway, Air and Intermodal Transport in the Republic of Serbia from 2015 to 2020* *Berlin Process (Connectivity Agenda)*
4	**Reform of railways** *Operation of sustainable railway enterprises with clearly set aims and tasks, which will operate in accordance with market principles; improving and streamlining the railway network and services, and further market opening in accordance with the Treaty Establishing the Transport Community, EU legislation, European standards and practices.*	***EC ASSESSMENT 2018 - Serbia's plans to continue prioritising railway sector reforms are adequate, allocated with sufficient resources and, in line with the objective of progressive integration in the European rail transport market*** *PR 2018, p. 72 – Continue to focus on implementing rail reform including market opening, the network statement, infrastructure management and market monitoring* *PR 2016, p 51. – Continue its focus on reforming the railways*	*Law on Public Enterprises* *Railway Reform Plan 2016-2020*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	SECTORAL DEVELOPMENT		
	Development of the agricultural sector		
5	**Improvement of competitiveness of agricultural producers and processors** *Implementation of rural development measures through national and IPARD programmes and improvement of land consolidation process*	***EC ASSESSMENT 2018 – The real estate market for agricultural land is hindered by the weak state of cadastre/property registration, implementation of the restitution legislation, as well as the lengthy procedures for case settlements in courts. This kind of challenges could be in future addressed by the ERP reform measure on improving the geospatial sector.*** *PR 2018, p. 69 – Implement the measures entrusted under the IPARD II programme and seek entrustment with budget implementation tasks for other measures of the programme.* *PR 2018, p. 69 – Finalise and proceed with implementation of the action plan for acquis alignment in agriculture and rural development* *PR 2016, p. 48 – Take all necessary steps to fulfil the requirement in order to be entrusted with budget implementation tasks for the IPARD II programme, including allocating adequate resources and strengthening the capacity of all IPARD bodies and improving implementation procedures; adopt and proceed with implementation of the action plan for acquis alignment in agriculture and rural development.* *IMF – Adjust the level of subsidy per hectare according to the total number of actual applications received by a deadline of June 30, 2016, ensure that the total subsidy payments stay within the budget allocation*	*Law on Agriculture and Rural Development* *Agriculture and Rural Development Strategy of the Republic of Serbia 2014-2024* *National Agriculture Programme 2017-2020* *National Rural Development Programme 2017-2020* *Law on Incentives in Agriculture and Rural Development* *IPARD Programme for the Republic of Serbia for 2014-2020*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	Industrial sector development		
6	**Raising the competitiveness of industry** *Drafting of a new industrial development strategy building on the outcomes of the process of development of the Smart Specialisation Strategy and creation of conditions for new financial market development*	***ECOFIN 2018, R5 – Use findings of the smart specialisation exercise to finalise a new industrial strategy and ensure that all instruments of support to companies are in line with state aid rules.*** ***EC ASSESSMENT 2018 – Plans to increase the competitiveness of the processing industry consist of administrative steps to prepare a new industrial strategy. In parallel, new instruments of industrial support need to be introduced to benefit smaller and domestic investors. The current ERP omits development of new instruments and only deals with the process of the new strategy, which reveals low ambitions of the policy in this area*** ECOFIN *2016, R5 – Improve the business environment and promote private investment* *PR 2018, p. 82 – Develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation exercise* *PR 2018, p. 82. – Make efforts to improve the predictability of the business environment, with the emphasis on addressing the issue of unpredictable parafiscal charges* *PR 2016, p. 61 – Make efforts to improve the predictability of the business environment and SME support schemes, with emphasis on reducing the cost of access to finance*	*Industrial Development Strategy and Policy of the Republic of Serbia 2011-2020*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	Development of the service sector		
	BUSINESS ENVIRONMENT AND COMBATING THE INFORMAL ECONOMY		
7	**Tax Administration transformation** *Additional simplification and unification of the tax procedure and better training of staff, as well as improvement of operational activities on combating the informal economy.*	***ECOFIN 2018, R6 – Reduce the high non-wage labour cost of jobs at the lower sections of the wage distribution.*** *ECOFIN 2017, R2 – Support the fiscal scenario by reinvigorating reforms of the Tax Administration* *ECOFIN 2017, R5 – Put in place risk management systems in order to improve the functioning of the Tax Administration* *ECOFIN 2016, R2 – Further improve revenue collection in a systematic and business-friendly way by implementing the Tax Administration Transformation Programme* *PR 2018, p. 76 – Remove discrimination in the application of excise duties on imported spirits* *PR 2018, p. 76 – Step up the implementation of the tax administration reform programme to further simplify tax procedures, streamline the tax administration's activities and ensure sufficient human and IT resources, improve tax collection and combat the informal economy* *PR 2016, p. 55 – Continue to implement the Tax Administration Transformation Programme, especially by simplifying tax procedures and allocating sufficient human and IT resources, in order to improve tax collection and fight the informal economy*	*Tax Administration Transformation Programme* *Public Finance Management Reform Programme 2016-2020* *Public Administration Reform Strategy of the Republic of Serbia*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
8	**Improved capital investment management** *Establishment of a single platform for capital investment planning and a methodology for capital investment analysis and planning.*	***ECOFIN 2018, R2 – Further improve the composition of government spending by reducing non-interest current expenditure and increasing capital spending as a share of GDP over the medium term. In order to better plan and execute public investments, develop a single mechanism for prioritising and monitoring all investment regardless of the source of financing*** *ECOFIN 2017 R4 – Expand the scope of the Single Project Pipeline to cover all large investment projects regardless of their source of funding and establish clear links to the budgetary process* *ECOFIN 2016 R4 – Address the under-execution of public capital expenditure by improving its prioritisation and management* *PR 2018, p.10 – Serbia therefore still needs to develop a single mechanism for prioritising all investments regardless of the source of financing, as foreseen in the public financial management reform programme adopted by the government* *IMF – Improve execution and reduce gaps in the quantity and quality of public infrastructure. Clarify the roles of the MoF, Capital Investment Commission and Expert Commission and remove the exclusion of IPA-funded projects as well as those financed through government-to-government agreements*	*Public Finance Management Reform Programme 2016-2020*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
9	**Improved access to finance for SMEs and sole traders** *Creating conditions for the development of new financial instruments, as well as improving the readiness of SMEs and sole traders to access different sources of finance.*	***EC ASSESSMENT 2018 – The measure supporting innovations and technological development includes support to private companies through the Innovation Fund and is an example of a targeted and well implemented support activity for SMEs.*** ***EC ASSESSMENT 2018 - The measure to improve access to finance for SMEs should focus on the introduction of new financial instruments: high cost and collateral requirements for innovative, young and potential growth companies, underinvestment in areas such as innovation financing, infrastructure financing and environmental projects.*** *ECOFIN 2017 R5 – Develop the regulatory framework for new financial instruments, and improve the access to finance* *ECOFIN 2016 R5 – Putting in place a guarantee scheme for loans to SMEs* *PR 2018 p. 82 – Favourable loans and guarantees for SMEs are provided by the Development Fund and through joint programmes with commercial banks, including through COSME. Access to finance remains costly and is a key obstacle to further development of the sector. Payment discipline is weak. In response, Serbia should speed up alignment of its rules on payments, indemnity interest rates, expedited recovery procedures and compensations with the EU Directive in this area* *PR 2016, p. 35 – Better regulating and reducing the scope of para-fiscal charges, in particular for SMEs* *PR 2016, p. 61 – Make efforts to improve the predictability of the business environment and SME support schemes, with emphasis on reducing the cost of access to finance*	*Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 Period*
10	**Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund** *Establishment of a sustainable financial, legal and institutional framework that will ensure predictability, stability and continuity in investment in environmental protection.*	*PR 2018, p.87 – Enhance administrative and financial capacity by strengthening the Environmental Protection Agency, operationalising and adequately resourcing the Green Fund and further improving interinstitutional coordination, in particular between central and local levels*	*National Environmental Protection Programme*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
11	**Improvement of corporate governance in public enterprises** *Professionalisation of governance bodies in public enterprises and a public enterprise operation control system*	***EC ASSESSMENT 2018 – The proposed reform proposes to deal just with procedural rules for appointments. More ambitious steps should be taken to lock politics out of daily management of these companies*** *ECOFIN 2016 R2 – Continuing the organisational and financial restructuring of large utility companies* *PR 2018, p. 48 – Privatisation and restructuring of state-owned enterprises advanced, although challenges remain*	*Law on Public Enterprises*
12	**Simplification of procedures and other conditions for doing business** *Establishment of a single public portal for administrative procedures and elimination of the unnecessary ones (regulatory guillotine) and points of single contact (PSC) with information for service users, with the aim of reducing the cost of doing business, improving the business environment and the legal framework for doing business.*	***ECOFIN 2018, R5 – Implement the Law on Fees so that parafiscal charges will be predictable and based on a fee-for-service principle*** *ECOFIN 2017 R5 – Regulate the amount and number of para-fiscal charges at state level* *ECOFIN 2016 R2 – Advance the reform of the public administration as envisaged* *ECOFIN 2016 R5 – Improve the business environment and promote private investment by developing a more transparent and less burdensome system of para-fiscal charges, putting in place a guarantee scheme for loans to SMEs and re-launching the regulatory guillotine* *PR 2018, p. 47 – The business environment improved somewhat, but significant weaknesses still need to be addressed* *PR 2018, p. 51 – Better regulate and reduce para-fiscal charges* *PR 2018, p. 82 – Make efforts to improve the predictability of the business environment, with the emphasis on addressing the issue of unpredictable parafiscal charges*	*Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 Period* *Strategy for Regulatory Reform and Improvement of the Public Policy Management System 2016-2020* *National Programme for Combating the Informal Economy*
13	**Improvement of the effectiveness of inspection oversight** *Improving the coordination of inspectorates, legal regulation and establishment of the information system.*	***ECOFIN 2018 R5 – Ensure predictability and risk- based control of phytosanitary checks at the border*** ***ECOFIN 2018 R6 – Further attention should be devoted to tackling undeclared work*** *ECOFIN 2017 R5 – Ensure better targeting and efficiency of inspections* *ECOFIN 2016 R2 – Advance the reform of the public administration as envisaged* *PR 2018, p.24 – Reform of the inspection services was initiated to increase accountability. Effective supervision and deterrent penalties in cases of wrongdoing need to be applied consistently* *PR 2016, p. 40 – Reinforce the capacity and independence of inspectors*	*Public Administration Reform Strategy of the Republic of Serbia* *E-government Strategy 2015-2018*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
14	**Improvement of the geospatial sector as support to investment decision-making process** *Provision of support to investment decision-making by the effective provision of geospatial sector data, thus promoting investment climate improvement*	***EC ASSESSMENT 2018 – The measure should be upgraded into a country-wide fully digitised and up-to-date cadastre. For this, ministries and the judiciary need to be involved in the measure, which is at the moment under the sole responsibility of the Geodetic Authority*** ***EC ASSESSMENT 2018 – The real estate market for agricultural land is hindered by the weak state of cadastre/property registration, implementation of the restitution legislation, as well as the lengthy procedures for case settlements in courts. This kind of challenges could be in future addressed by the ERP reform measure on improving the geospatial sector***	*Strategy for Measures and Activities to Enhance Service Quality in the Area of Geospatial Data and Registration of Title to Real Property in Official State Records – The Republic Geodetic Authority Reform Pathway until 2020*
	RESEARCH, DEVELOPMENT, INNOVATION AND DIGITAL ECONOMY		
15	**Set of measures providing financial support to research and innovation contributing to the development of the knowledge-based economy** *Support to innovation and competitive projects in R&D organisations and private sector. Transfer of technology and commercialisation of R&D results contributing to the creation of knowledge-based society*	***ECOFIN 2018 R5 – Use findings of the smart specialisation exercise to finalise a new industrial strategy and ensure that all instruments of support to companies are in line with state aid rules*** ***EC ASSESSMENT 2018 – The measure supporting innovations and technological development includes support to private companies through the Innovation Fund and is an example of a targeted and well-implemented support activity for SMEs*** ***EC ASSESSMENT 2018 – The measure to improve access to finance for SMEs should focus on the introduction of new financial instruments, high cost and collateral requirements for innovative and potential growth companies, underinvestment in areas such as innovation financing, infrastructure financing, and environmental projects*** *ECOFIN 2017 R5 – Develop the regulatory framework for new financial instruments, and improve the access to finance* *ECOFIN 2016 R5 – Putting in place a guarantee scheme for loans to SMEs* *PR 2018, p. 85 – Implement the national research strategy, and in particular stimulate cooperation between industry and academia* *PR 2016. p. 86 – Adopt the action plan to implement the strategy and the science and research infrastructure road-map, foster cooperation between industry and academia and increase the level of investment in research* *PR 2018, p. 82 – To increase predictability in the business and administrative environment for SMEs and sole traders* *PR 2016, p. 35 – Better regulating and reducing the scope of para-fiscal charges, in particular for SMEs and sole traders* *PR 2016, p. 61 – Make efforts to improve the predictability of the business environment and SME and sole traders support schemes, with emphasis on reducing the cost of access to finance*	*Scientific and Technological Development Strategy of the Republic of Serbia 2016-2020* *Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 Period*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
16	**Improvement of e-government services through the development of national ICT infrastructure** *Improving the legislation, building high traffic networks, as well as consolidating the existing networks in order to provide modern e-government services to all users*	***EC ASSESSMENT 2018 – The measure stops short of describing specific services that the benefiting public institutions will provide on the improved network. The ERP does not envisage rules providing for e-government and e-services over the internet and it still remains to be developed. The sector needs investments but the weak market regulation hinders expansion, while there are still some protectionist measures in place*** *PR 2018, p. 68. – Finalise the harmonisation of the legislative framework in electronic communications with the 2009 EU regulatory framework* *PR 2018, p. 68 – Take effective measures to improve market operators' access to telecommunication infrastructure, in particular to ducts, antennas and fibre optic infrastructure* *PR 2018, p. 68 – Develop a national strategy on cyber-security*	*Strategy for Information Society Development in the Republic of Serbia until 2020* *Electronic Communications Development Strategy of the Republic of Serbia 2010-2020* *Next Generation Networks Strategy until 2023*
	TRADE-RELATED REFORMS		
17	**Improvement of the conditions and removal of barriers to trade** *Accession to the World Trade Organisation, implementation of the CEFTA Agreement and the Multi-annual Action Plan for a Regional Economic Area and activities of the National Coordination Body for Trade Facilitation*	*ECOFIN 2018 R5 - Ensure predictability and risk based control of phytosanitary checks at the border.* *PR 2018 page 93 - Complete its WTO accession by adopting a WTO and EU acquis-compliant law on genetically modified organisms and complete remaining bilateral market access negotiations;* *PR 2018 page 93 - Strengthen administrative capacity in the Ministry of Trade, Tourism and Telecommunications for dealing with trade with the EU, CEFTA and WTO accession, in particular view a view to implement the multiannual action plan for the regional economic area.*	*Law on the Ratification of Additional Protocol 5 to the Agreement on Amendment and Accession to the Central European Free Trade Agreement (CEFTA 2006)* *Law on the Ratification of the Decision of the EFTA-Serbia Joint Committee no. 2/2018 Amending Annex IV to the Free Trade Agreement between the EFTA States and the Republic of Serbia Concerning Trade Facilitation* *Decision of the Government of the Republic of Serbia on the Establishment of the National Coordination Body for Trade Facilitation* *Action Plan of the National Coordination Body for Trade Facilitation for 2018 and 2019*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	EDUCATION AND SKILLS		
18	**Qualifications oriented towards labour market requirements** *Vocational secondary education reform by introducing a dual and entrepreneurship education model*	***ECOFIN 2018 R6 – Involve closely all relevant actors for the country-wide roll-out of dual learning*** ***EC ASSESSMENT 2018 – Nothing has been done with regard to the NQF in the past three years (same measures are rolled over in the Gantt chart)*** *ECOFIN 2017 P6 – Develop dual learning in vocational education and training in close cooperation with social partners and the business community* *PR 2018, p. 85 – Increase participation in early childhood education, in particular by children from disadvantaged backgrounds* *PR 2018, p. 85 – Finalise the establishment of the national qualifications framework system* *PR 2018, p. 86 – The national work-based learning model in VET should focus on setting up quality assurance and monitoring mechanisms* *PR 2018, p. 86 – Study programmes in higher education needs to better match requirements in the labour market* *PR 2016, p. 75 – Continue implementing the Action Plan of Education Reform according to schedule* *PR 2016, p. 75 – Establish the National Erasmus+ Agency*	Strategy for Education Development until 2020

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	EMPLOYMENT AND LABOUR MARKET		
19	**Increased labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, and strengthened formal employment** *Adoption of new reform legislation whose implementation will facilitate greater labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, legal order and security for seasonal workers and flexibility and legal security for workers leased by an agency to another user employer for the purpose of performing temporary work under its supervision and management.*	***ECOFIN 2018 R6 – Increase substantially the inclusion of unemployed in active labour market measures, in particular women and Roma. Further attention should be devoted to tackling undeclared work*** ***EC ASSESSMENT 2018 – Advancing reforms of labour market institutions in Serbia could contribute to broadening employment opportunities and strengthening formal employment. The envisaged establishment of legal frameworks for the operation of private employment agencies and for seasonal work should be pursued without further delay*** *ECOFIN 2017 R6 – Target active labour market measures to vulnerable groups, including social assistance beneficiaries* *ECOFIN 2016 R6 – Step up the provision of targeted ALMPs to facilitate in particular the reintegration of workers made redundant in the resolution of state-owned enterprises and public administration rightsizing. Increase the capacity of the NES to roll out such measures to larger numbers of beneficiaries* *PR 2018 p. 80 – Increase financial and institutional resources for employment and social policies to more systematically target the young, women and long-term unemployed* *PR 2016, p. 59 – Ensure financial and institutional resources for employment to more systematically target young and long-term unemployed persons* *PR 2016, p. 59 – Significantly strengthen bipartite and tripartite social dialogue at all levels, including consultations on draft legislation* *PR 2016, p. 59 – The Labour Inspectorate's administrative capacity needs to be further strengthened, in order to support the implementation of the national programme for fighting the grey economy*	*Employment and Social Reform Programmes (ESPR)* *Action Plan of the Government of the Republic of Serbia for the Implementation of the National Programme for Combating the Informal Economy*

SR no.	Title of area and SR	Recommendations[21]	*Reference documents*
	SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES		
20	**Improvement of the adequacy, quality and targeting of social protection measures** *Improvement of social protection and adequacy of benefits for impoverished individuals and families and vulnerable groups, by establishing of IT links among different sectors (preparation of social cards). The improvement captures the cash social benefit beneficiary through the establishment of more functional cooperation among the centres for social work and branches of the National Employment Service with regard to labour activation of cash social benefit beneficiaries who are fit for work.*	***ECOFIN 2018, R6 – Accelerate the envisaged reforms for better targeting of social assistance*** ***EC ASSESSMENT 2018 – The reform is still at an early stage (despite having been included in the ERP for the past three years) not yet allowing an assessment of its impact with regard to tackling poverty*** *PR 2018, p. 80 – Increase financial and institutional resources for employment and social policies to more systematically target the young, women and long-term unemployed* *PR 2018, p. 80 – Improve the adequacy of the social benefit system to provide more effective support for parts of the population most in need* *PR 2018, p. 80 – **S**ignificantly strengthen the bipartite and tripartite social dialogue at all levels* *PR 2016, p. 59 – Ensure financial and institutional resources for social policy to more systematically target young and long-term unemployed persons* *PR 2016, p. 59 – Increase the efficiency of social benefits for people below the poverty threshold* *PR 2016, p. 73 – A sustainable institutional set-up for promoting gender equality (with adequate resources) is needed*	*Social Care Law* *Employment and Social Reform Programme (ESRP)*

3. ANALYSIS BY AREA AND STRUCTURAL REFORMS

3.1. Area ENERGY AND TRANSPORT MARKET REFORM

a) Analysis of main obstacles

Serbia has a pronounced need for higher investments in infrastructure and capacity building, for the purpose of efficient implementation of reforms in the energy and transport market. The energy sector needs to be transformed – by increasing energy efficiency, environmental sustainability and supply source diversification. The transport sector requires modernisation and better maintenance, coupled with road traffic safety improvement.

The state of energy and transport infrastructure in the region continues to be an obstacle to economic development and trade integration. Underdeveloped transport infrastructure coupled with a non-harmonised regulatory framework result in high transport costs and low levels of trade integration within the Western Balkan region and with the EU. The EU promotes trans-European networks in the areas of transport, energy and telecommunications in order to strengthen the internal market and contribute to the growth of GDP and employment.

The Decree on the Adoption of the Programme for Implementation of the RS Energy Development Strategy until 2025 with Projections until 2030, for the 2017-2023 period, defining strategic energy projects in the area of electric power energy (projects in the area of electric power generation, transmission and distribution of electric power and heat energy, renewable energy sources); oil (exploration and production, processing, transport, trade, possibility of processing shale oil); natural gas (gas interconnection projects, underground gas storage expansion, the construction of trunk and distribution gas pipelines); coal (coal deposit exploration, opening of new strip mines); energy efficiency in the electricity consumption sector, as well as funds needed for their implementation, **was adopted in October 2017**.

As regards the internal energy market, **the legal and regulatory framework in Serbia is aligned with the EU's Third Energy Package,** which is a prerequisite for the interoperability of CEE and EU energy systems. The implementation of efficient energy market reform requires the enhancement of institutional capacity. The legal unbundling of state-owned enterprises has been completed, with a need to finalise the initiated functional unbundling. The RS Energy Agency is legally and functionally independent, but its capacity to perform all regulatory tasks provided for in the Third Energy Package and new EU acquis needs to be improved further.

Progress has been achieved in the implementation of the liberalisation programme and introduction of competition in energy services delivered via networks. The electricity and natural gas market has been opened (gas since 2015), and all buyers have a right to select their suppliers.

The gas infrastructure is characterised by the linear natural gas transport system with only one inlet into the country (Hungary), which is unfavourable from the aspect of energy security and market development. The Bulgaria-Serbia gas interconnection project facilitates the diversification of Serbia's gas supply and also contributes to gas supply security for all of Europe. The Bulgaria-Serbia gas interconnector is expected to become operational towards the end of 2022.

Faster growth of the energy sector and regional integration is hampered by inefficient production capacity (the average age of over 35 years, and electricity distribution losses among the highest in the region), as a consequence of a lack of investment in new production capacity and underinvestment in the system development for many years. The demand for electricity and gas is arising, in particular in industry. The construction of a new coal-fired 350 MW unit in the Kostolac thermoelectric power plant, the construction of a new 140 MW gas unit in Pancevo and the construction of 500 MW wind farms will result in a substitution of energy from production facilities planned to be decommissioned due to the expiry of their useful life. The improvement of energy stability and regional integration will be contributed to by the construction of a 400 kV electric power transmission system Trans-Balkan Corridor, connecting the markets of Eastern and Western Europe.

Serbia has reached a high level of alignment with the EU standards in the area of supply security. The Energy Reserve Administration has been established, and the Action Plan for the Directive on Minimum Stocks of Oil needs to be implemented in the future.

According to the RS Energy Balance for 2018[22], the 2016 data for Serbia are as follows:

- Net import dependence of Serbia was 30.31%.
- Domestic electricity production met the needs, except in the winter period when electricity needed to be imported. However, the domestic production of crude oil met 42% of the needs, while the domestic production of natural gas met 30% of the needs, with the remaining quantities of crude oil and natural gas being imported.
- The domestic production of primary energy amounted to 10.845 mtoe, while the net imports of energy and energy sources amounted to 4.764 mtoe.
- Total primary energy consumption amounted to 15.717 mtoe in 2016.

The electricity price needs to be defined so as to reflect the costs of regulated activities (network fee), as well as the market prices of electricity. The electricity price in Serbia is at least 30% lower than the price in any other SEE country for households. An adequate long-term administered price policy, predictable for buyers as well as investors, is essential for the sustainable development of energy systems. There is a need for gradual adoption of new energy tariffs[23] and definition of a new electricity price that would reflect the costs of regulated activities (network fees), as well as the market price for electricity, and the stimulation of critical investments in energy efficiency.

The implementation of energy efficiency measures should be given priority, in view of very high energy intensity (high consumption of electricity primarily for electric heating). The RS Energy Law transposes, for the most part, the Renewable Energy Directive, and several bylaws have recently been adopted. The bylaw on biofuels is expected to be adopted. The Ministry for Construction, Transport and Infrastructure (MCTI) is working on the full alignment with the requirements of directives in the area of energy efficiency in the building sector, while the work on full alignment with Directive 2012/27/EU is set to start in early 2019, with the implementation of the project financed by IPA 2014 funds. Serbia adopted its third energy efficiency action plan in December 2016, and in June 2017 it filed its first annual report

22 Official Gazette of RS, no. 119/17. The documents presents the energy balance, including the outturn for 2016, estimate for 2017 and projections for 2018.

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under the Energy Efficiency Directive. It is necessary to significantly increase administrative capacities at all levels in terms of energy efficiency.

Serbia lacks a system of sustainable funding of energy efficiency measures. The operating capacity of the Budget Energy Efficiency Fund needs to be enhanced and the system of energy management in the private and public sectors introduced, which should cover about 70% of primary energy consumption. Amidst insufficient use of renewable energy sources (RES), energy plants with high greenhouse gas emissions have a negative impact on the environment and human health. Serbia's goal related to national renewable energy sources for 2020 is for them to account for 27% of gross final energy consumption.

In the area of transport, Serbia needs to strengthen overall administrative capacity for all modes of transport, as well as improve road traffic safety by taking measures to reduce fatalities and make progress in the development of intelligent transport systems (define the strategic framework, adopt the legislation and improve the capacity for implementation and enforcement); continue to focus on the implementation of the railway reform (including the opening of the market and infrastructure management); meet the conditions from the first transitional stage under the European Common Aviation Agreement (ECAA)[24]**.**

Serbia's road network is not fully constructed in terms of technical and operational performance, and a large portion of road sections is in a poor condition owing to insufficient allocations to road maintenance. The construction of large infrastructure projects is under way, in line with national and regional priorities (Corridor 10 (southern section towards Macedonia of 74.2 km – 96.9% of works completed; eastern section towards Bulgaria of 86.9km – 96.8% of works completed); Route 4: Belgrade – South Adriatic of 258.7 km at a 63.2% completion rate; Šumadija Corridor – construction began only in the second half of 2018), as is the implementation of the national road network rehabilitation programme and safety improvement on about 5,000 km of national roads. Large sections of the southern and eastern branch of the Eastern/Eastern Mediterranean corridor have been completed. The construction of the last section of the Belgrade ring road has started. With the increase in road toll prices since 2017 more funds have been provided for adequate road maintenance.

The existing non-physical, regulatory barriers and procedural limitations at border crossing points and along transport corridors increase transport costs and reduce reliability in doing business with partners in the region. The progress achieved by Serbia is reflected in the implementation of computerised customs systems (NCTS), systematic electronic exchange of data (SEED) and simplification of a number of border crossing procedures. Nevertheless, a range of problems persist: lengthy and costly inspections, inefficiency in customs officers' coordination, and insufficient railway interoperability at railway border crossing points.

The obsolete railway network enables very modest passenger and freight traffic and most of its sections are in need of modernisation. Serbia has 3,736 km of railway network, of which 1,546 km have been electrified. Over 55% of the railway network is over 100 years old, and train speeds exceed 100 km/h on only 3.6% of the network. The passenger transport volume of 376 million passenger kilometres and the 3.3 billion freight kilometres recorded in 2017 is, in comparison to CEETO sides, the signatories of the South East Europe Treaty on the Establishment of the Transport Union, in the first place in South East Europe. Railway

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infrastructure projects concerning Corridor 10 are especially important for railway network modernisation. In 2017, 135.8 km of tracks were reconstructed, while in 2018 the reconstruction of 114 km was completed. Work is in progress on 200.5 km of tracks (rail sections: Belgrade – Stara Pazova, Stara Pazova – Novi Sad, Rasputnica G – Rakovica – Resnik, Mala Krsna – Smederevo, Pancevo – Orlovat – Rimski Sancevi). Three new railway laws, which were adopted in 2018, are aligned with the EU acquis, and the preparation of implementing legislation (bylaws) is underway.

Further reform of public enterprises is important for the improvement of the railway network and overall railway transport service. Since August 2015, new railway companies have been spun off from Zeleznice Srbije a.d. (Serbian Railways Joint Stock Company), with the establishment of a new railway company: Infrastruktura Zeleznice Srbije a.d. (public railway infrastructure operator), Srbija Voz a.d. (passenger rail carrier) and Srbija Kargo a.d. (cargo rail carrier). Progress needs to be maintained towards the operational and financial sustainability of independent rail carriers/infrastructure operators. Domestic rail carriers have been able to use the railway infrastructure since 2016. Two state-owned and five private rail carriers are currently operating on the network. The market opening will be gradual in line with the implementation of the Treaty Establishing the Transport Community.

In April 2018, Serbia adopted the Law on Amendments to the Law on Road Traffic Safety. Also, at the end of May 2018, the new Law on Roads was adopted, which, inter alia, regulates the tools for improving road infrastructure safety. Legislation on railway transport safety is in force, but further improvements of capacity for training, testing methods and licensing procedures are in progress.[25] **Serbia has launched a unified database in the field of road safety, containing data on traffic accidents** (collected by the Ministry of the Interior (MoI) since 2016 in accordance with CADAS (Common Accident Data Set) requirements), traffic safety indicators etc. Data from the unified database are publicly available through the Road Traffic Safety Agency's web applications. Planned improvement of the capacity and quality of transport infrastructure and services is focused on the activities improving safety, as required by the network standards of the TENT programme.

Intelligent transport systems (ITS) have not been developed in Serbia, with the exception of the River Information System (RIS) implemented on the Danube and the Sava. One of Serbia's priorities in the area of transport is the ITS development, with the definition of the strategic framework, and the provision of capacity and necessary measures for its use. The new Law on Roads defines intelligent transport systems, introduces priority areas and priority activities for the ITS implementation and the possibility for the public road operator to manage traffic with the ITS. A framework for introducing an ITS for road and railway transport has been defined as part of the process of designing the Transport Strategy 2016-2025, which is currently being drafted and updated. A national strategy for ITS development and use, accompanied by an action plan, is supported by the WBIF (EUR 1.9 million), but the ITS implementation is facing delays.

The share of waterway transport relative to road and railway transport has been increasing in the past few years (during 2015 about 5 million tonnes of cargo were transported by inland waterways of the RS, in 2016 about 9.9 million tonnes, while in 2017 about 10.7 million tonnes were transported). With these quantities of cargo, Serbia ranks third among the European countries in terms of the volume of good transported on the Danube, immediately after Romania

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and Austria. In the period from 2018 to 2022, the implementation of several projects in the area of inland waterway transport is foreseen (port construction, training critical sections on navigable routes of the Danube and the Sava, Djerdap 1 and Djerdap 2 lock reconstruction, pulling a sunken WW2 fleet out of the water near Prahovo, as well as several ITS projects in this transport mode) in the total amount of EUR 200 million, to be funded partly by the proceeds of the Framework Loan for the Development of River Transport Infrastructure, financed by the EIB in 2018, and partly by grants from available funds (IPA, WBIF, CEF, etc.). Underdeveloped port infrastructure and obsolete port superstructure have a negative effect on reloading efficiency and speed in Serbian ports, resulting in a significant loss of time for cargo owners (in particular exporters of agricultural products) and ship owners, as well as a negative effect on competitiveness of Serbian goods in foreign markets. Based on the Law on Inland Waterway Navigation and Ports, the Port Governance Agency has been established as a regulatory body managing ports and harbours on the RS waterways. MCTI actively participates in the EU Strategy for the Danube Region (EUSDR). In the area of inland waterways, the main international treaties have been ratified and bilateral agreements with the neighbouring countries have been signed and ratified. In the area of inland navigable waterway transport, Serbia is highly aligned with the EU standards. The river information service system is operational and highly interoperable with the EU member states' systems. Part of MCTI is the Directorate for Waterways, which is responsible for technical maintenance of waterways and the Authority for the Determination of Seaworthiness. As for satellite navigation, Serbia is still not included in the Galileo programme[26].

In the area of air transport, Serbia has attained a good level of alignment with the EU acquis and made significant progress in the implementation of the first transitional phase and part of the second transitional phase of the European Common Aviation Agreement. In February 2017, the RS Government and AD Aerodrom Nikola Tesla Beograd (Nikola Tesla Belgrade Airport Joint Stock Company) published a public call for granting a concession for financing, development through construction and reconstruction, maintenance and operation of infrastructure of AD Aerodrom Nikola Tesla Beograd and the performance of airport operator activity. Vinci Airport from France was selected as the concessionaire in 2018.

<u>Structural reform 1</u> Energy market development coupled with energy infrastructure construction

1. Reform outline

The construction of the **Niš-Dimitrovgrad trunk gas pipeline**, 108 km in length, will provide the diversification of supply routes and sources, as well as improved security of supply for Serbia, Bulgaria and the entire region, while significantly reducing the burden on the northern part of the gas pipeline system. Apart from improving the supply safety and further development of the distribution network through Serbia, the project enables the integration of the existing and future natural gas storage capacities into a single energy system, which is the purpose of the establishment of the integrated regional market and the provisions of the Energy Community Treaty. The introduction of new gas pipelines in Serbia is planned by the RS Energy Sector Development Strategy until 2025 with projections until 2030 and the RS Law on the Spatial Plan from 2010 to 2020.

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The **Trans-Balkan Corridor** project (phase I) consists of four sections and is aimed at increasing the transmission capacity of Western Serbia's network, increasing the safety and reliability of electric power supply to consumers in the RS, as well as constructing new interconnection power lines (on the borders with Romania, Bosnia and Herzegovina, and Montenegro). The first section (400 kV double-circuit power line Pancevo – the border with Romania) has already been constructed and commissioned on the Serbian side. The section II activities (400 kV power line Kragujevac 2– Kraljevo 3), related to the selection of the consultant, were implemented in 2018. For sections III and IV, the preparation of technical documentation is planned to begin in 2018, but due to delays in donation disbursement, the timeline for the start of the preparation was moved to Q1 2019 for section III and Q2 2019 for section IV.

This reform is included in the Single Pipeline of priority infrastructure projects, as well as the Programme for the Implementation of the RS Energy Development Strategy (PIS) 2017-2023.

Planned activities

a) Activities planned for 2019:

Niš-Dimitrovgrad trunk gas pipeline: Completion of preparation of the Preliminary Design and Feasibility Study; preparation of the Project for Construction Permit and Obtaining the Construction Permit; preparation of the Implementation Project.

Trans-Balkan Corridor: For section II, a works contract is planned to be signed. For sections III and IV, the plan is to start with the preparation of technical documentation. The adoption of the spatial plan for the special-purpose area for section III is expected in Q4.

b) Activities planned for 2020:

Niš-Dimitrovgrad trunk gas pipeline: Preparation of tender documentation; tender procedure; construction.

Trans-Balkan Corridor: For section II, the performance of works on all three facilities (TS Kragujevac 2, TS Kraljevo 3 and power line Kragujevac 2 – Kraljevo 3). Completion of technical documentation preparation for section III.

c) Activities planned for 2021:

Niš-Dimitrovgrad trunk gas pipeline: construction.

Trans-Balkan Corridor: For section II, work completion and trial run of the power lines. Completion of technical documentation preparation for section IV.

2. Expected impact on competitiveness

Energy infrastructure development is a prerequisite for energy market development, both within the RS and at the regional level, and therefore also for competition development in the area of energy and freedom of choice for customers with regard to the supply of energy and energy sources. By building the Niš-Dimitrovgrad trunk gas pipeline, the number of interconnections with neighbouring countries will increase from 2 to 3, the number of incoming interconnections from 1 to 2, and the technical capacity of incoming interconnections from 5.238 bcm to 7.038 bcm. The Trans-Balkan Corridor project may have an impact on reducing the gap in wholesale electricity prices between our region and Italy. The reduction of price gap is also greatly impacted by the timelines of the construction of the undersea cable between Montenegro and Italy.

3. Estimated costs of activities and funding sources

The resolution of property-related legal matters on the route of the Niš-Dimitrovgrad trunk gas pipeline in 2019, requires a budget allocation in the amount of up to EUR 0.5 million. JP Srbijagas plans to allocate EUR 3.3 million from its own resources to the preparation of the design and technical documentation and obtaining permits in 2019. In 2020, EUR 6 million have been earmarked for resolving property-related legal matters, EUR 25.7 million for works, partly from the budget (EUR 8 million), from own funds of JP Srbijagas (EUR 0.2 million), and partly as financial support from donor funds (EUR 17.5 million). In 2021, EUR 46.2 million has been allocated to works, partly from the budget (EUR 15 million), from own funds of JP Srbijagas (EUR 0.2 million), and partly as financial support from donor funds (EUR 31 million). The Trans-Balkan Corridor project has no impact on the budget. Funding sources include EMS's own funds, donations and loans.

4. Expected impact on employment and gender

Direct impact on employment is reflected in additional hiring in jobs related to the management and maintenance of the constructed trunk gas pipeline. Indirect impact is felt through development possibilities resulting from the ability to use natural gas as a cheaper energy source. The impact of energy market development on gender in the longer term is reflected through the development of society as a whole, which implicitly creates greater possibilities for the government to assist socially vulnerable groups.

5. Potential risks

Potential risk for the reform implementation is the provision of sustainable source of financing the construction of the Nis-Dimitrovgrad trunk gas pipeline. A mitigation measure is the application for financial support of donor funds.

There is a high risk (75%) related to the provision of necessary financing for the implementation of the remaining sections of the Trans-Balkan Corridor project. For section III application has been submitted for WBIF donation in the amount of 20% of value of works and equipment. As regards section IV it is planned to develop a regional study that should determine share of the donation necessary for the implementation of this project.

6. Key performance indicators / structural reform implementation monitoring indicators

Indicators	2019	2020	2021
% of construction of the trunk gas pipeline – 100% (2022)	0	30	90
Number of kilometres of constructed power lines (km)			60
CO_2 emission reduction (tCO_2/y)			/

Note: CO_2 Emission Reduction Indicator will become useful only after the power lines are commissioned, which is the end of 2021, for power lines Kragujevac 2 – Kraljevo 3

Structural reform 2 Improvement of conditions for increasing energy efficiency and improvement of the existing infrastructure in energy consumption sectors

1. Reform outline

Within this reform, further efforts will be invested in improving the regulatory energy efficiency framework, as well as its further alignment with the EU legislation in this area. The reform is aligned with the RS Energy Development Strategy until 2025 with projections until 2030, the Programme of Implementation of the RS Energy Development Strategy until 2025 with Projections until 2030, for the period from 2017 to 2023, the Third Action Plan for Energy Efficiency in the RS, as well as the National Programme for EU Acquis Adoption (NPAA).

Planned activities

a) Activities planned for 2019:

Amend the Energy Efficiency Law for the purpose of introducing eco-design and improving the existing provisions of the Law in order to facilitate its implementation; review the modalities for the operation of the Energy Efficiency Fund as a separate institution (IPA project); start to collect the energy efficiency fee based on the Law on Fees.

b) Activities planned for 2020:

Amend the Energy Efficiency Law for the purpose of full transposition of Directive 2012/27/EU (IPA project); establish the Energy Efficiency Fund in the proposed new legal modality; finance energy efficiency projects.

c) Activities planned for 2021:

Adopt bylaws transposing the eco-design implementation measures; finance energy efficiency projects; energy reviews conducted by the designated parties of the energy management system.

2. Expected impact on competitiveness

Large energy consumers and public sector designated parties are expected to save 1% of primary energy per year, which will result in an increase in their competitiveness. With the alignment with the eco-design provisions, only energy efficient devices will be placed in the RS market. This measure is expected to result in savings of about 100 ktoe by 2021. The Fund activities should promote energy efficiency both in the public sector (about 40% per project) and in SMEs and households.

3. Estimated costs of activities and funding sources

The collection of energy efficiency fee is expected to start in April 2019. Annual revenues from this fee are estimated at about EUR 9 million. Until the establishment of the Energy Efficiency Fund as a separate institution, projects will be funded by the Budget Energy Efficiency Fund. In 2019, the fund is expected to have RSD 510 million at its disposal, to be followed by about RSD 900 million per year. Technical assistance activities are financed by IPA funds. After the Energy Efficiency Fund is established as a separate body, about EUR 30 million is expected to be provided for the operation of the fund by IPA funds. The future fund's operating costs for personnel, current costs and IT equipment procurement have been provisionally estimated at EUR 131,000 per year. The disbursement of development loans and donations is also important for the implementation of the reform.

4. Expected impact on employment and gender

Reform implementation may result in a significant increase in the demand for labour due to the implementation of a large number of energy efficiency projects, in particular in the building construction sector.

5. Potential risks

Delays in the establishment of the Energy Efficiency Fund – until this fund is established, projects will be implemented from the budget energy efficiency fund; weak administrative capacities – technical assistance secured.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019	2020
Energy Efficiency Law amended		yes	yes
Energy Efficiency Fund established			yes

Structural reform 3 Improving the capacity and quality of transport infrastructure and services

1. Reform outline

Since the RS is positioned at a crossroads of important European transport routes connecting Southern and Northern Europe, as well as Eastern and Western Europe, and in view of its candidate status for EU membership, major challenges lie ahead of the RS in terms of the alignment of standards and norms, as well as the national legislation with the EU acquis for the purpose of improving competitiveness and attracting traffic flows to Serbia's transport routes, which would certainly result in faster economic development.

In the road transport sector, in May 2018, the Law on Roads was adopted ("Official Gazette of RS", No. 41/18), providing grounds for activities contributing to the improvement of road infrastructure safety and the introduction of new standards to be met by transport routes which belong to the TEN-T (requirements which must be met by tunnels over 500 m in length, introduction of road infrastructure safety management tools, introduction of intelligent transport systems, electronic road toll collection). Implementing legislation (bylaws) enabling the establishment of the system of auditor and inspector licensing, as well as the implementation of modern tools for the improvement of road infrastructure safety (road audit and inspection from the point of view of traffic safety) is under preparation. Furthermore, the provisions related to the volume and type of road maintenance works have been aligned with the Law on Planning and Construction. Grounds have been laid for the introduction of a new method of performance-based road maintenance, whose implementation began during 2018 on 3,000 km, and will proceed for the remaining state roads (approx. 12,000 km). Moreover, all this is supported by further activities on the implementation of current projects of new road planning and construction, reconstruction and rehabilitation of existing roads, which will result in safer, more efficient and greener traffic on Serbia's roads. During 2019, in line with the recommendations of the Road Sector Reform in the RS project, necessary preparations will be conducted for the preparation for the first SLA Agreement (Service Level Agreement) between the Ministry of Construction and JP Putevi Srbije (JPPS - PE Roads of Serbia).

Planned activities

a) Activities planned for 2019:

Adopt the Rulebook on the Manner of Licencing Persons for Conducting Road Infrastructure Safety Audits and Inspections (based on the Law on Roads); adopt the Rulebook on the Manner of Conducting Road Infrastructure Safety Audits and Inspections based on the Law on Roads; continue with the transition to the new method of concluding contracts with companies engaged in maintenance of the remaining state road network (PBMC – 12,000 km) and prepare for the signing of the first SLA Agreement and JPPS reorganisation.

b) Activities planned for 2020:

Continue with the transition to the new method of concluding contracts with companies engaged in maintenance of the remaining state road network (PBMC – 12,000 km) and sign the first three-year SLA Agreement between JPPS and MCTI.

c) Activities planned for 2021:

Amend the legislation and further align with the EU legislation.

2. Expected impact on competitiveness

Efficient and safe transport infrastructure is conducive to increasing productivity, facilitating and encouraging the mobility of people and goods and creates prerequisites for balanced regional development and competitiveness of the economy. The direct contribution of transport infrastructure development is reflected in shorter travel times and higher level of traffic safety, attraction of international transit flows, tourism and construction development, as well as the development of international trade. The number of kilometres of constructed and rehabilitated roads, traffic volume increase, transition to the closed road toll collection system (collection based on the distance travelled), road toll collection increase and traffic accident reduction, are direct indicators of the implemented measures affecting the growth of competitiveness.

3. Estimated costs of activities and funding sources

The procedure of adopting implementing legislation based on the Law on Roads ("Official Gazette of RS", No. 41/18) will have no impact on the budget since the costs relate to the work of civil servants and the equipment/supplies needed for its adoption. The RS allocated significant funds to the projects of road infrastructure construction and modernisation, which are financed by loan proceeds, donor funds and the RS budget. Funds have been secured for the implementation of the projects referring to the introduction and development of the new performance-based road maintenance system for the remaining 12,000 km of state roads in the RS. Those are funds that are normally planned for the maintenance of that part of the state road network.

4. Expected impact on employment and gender

Further investment in infrastructure will certainly contribute to a rise in employment in connection with construction works, along with increased engagement of Serbian enterprises and higher employment of the local population. The introduction of new road infrastructure safety tools will lead to the engagement of new licensed professionals for their implementation.

5. Potential risks

Failure to find ways to fund sections for which projects are ready.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019	2020	2021
Implementing legislation adopted		Yes/No		
Number of kilometres of motorway built	17.7	101.7	17.6	-
Annual average daily traffic on Corridor 10, year-on-year growth in %	5%	6%	8%	7%
SLA Agreement signed		preparation	Yes/No	
Maintenance according to the PBMC method on the entire state road network		Yes/No	Yes/No	

Structural reform 4 Reform of railways

1. Reform outline

The essence of railway sector reform is the creation of permanently sustainable railway enterprises which were established in 2015, with clearly set aims and tasks, which will operate in accordance with market principles, while streamlining and improving the railway network, the number of staff and costs, as well as pursuing further market opening in accordance with the Treaty Establishing the Transport Community and improving the services in accordance with the EU legislation, European standards and practices. The priorities in terms of development, construction and reconstruction, as well as plans for railway infrastructure maintenance are set by the Decision on the National Programme for Public Railway Infrastructure for the 2017-2021 Period, adopted in May 2017 by the RS National Assembly. On 31 May 2018, the National Assembly also adopted the Law on Railways, the Law on Railway System Interoperability and the Law on Railway Transport Safety, ensuring further alignment with the EU legislation.

Planned activities

Implement new laws: Law on Railways, Law on Railway Transport Safety, Law on Railway System Interoperability; align the railway laws with the EU's 4th Railway Package; analyse the process implemented so far and continue with labour rightsizing in the railway companies;

analyse and monitor the key agreements (audit); adopt a decision on the withdrawal of the status of the good in public use; prepare and apply a new methodology for the calculation of the railway infrastructure access fee.

a) Activities planned for 2019:

Analyse and monitor the key agreements; analyse the process implemented so far and continue with staff restructuring; adopt the decision on withdrawing the status of good in public use; prepare a new methodology for the calculation of railway infrastructure access price.

b) Activities planned for 2020:

Analyse and monitor the key agreements; analyse the process implemented so far and continue with staff rightsizing; implement the new methodology for the calculation of railway infrastructure access price; align the laws in the area of railways with the 4th package of EU railway legislation.

c) Activities planned for 2021:

Analyse and monitor the key agreements; implement the new methodology for the calculation of railway infrastructure access price; align the laws in the area of railways with the 4th package of EU railway legislation.

2. Expected impact on competitiveness

The ultimate goal of the railway sector reform is to create a sound and open railway market, where the prices of transport service will be dictated exclusively by supply and demand. As part of the reform implemented so far, three new railway enterprises have been established and operate separately. Further efforts are invested in increasing their efficiency, in order to put them on solid footing and support an increase in their competitiveness. Investments in capital railway infrastructure projects have an impact on industrial output growth, engagement of domestic businesses, reduction in unemployment and, finally, GDP growth. At the moment, there are 2 state-owned and 5 private rail carriers operating in the market, while the number of private carriers (in particular in cargo transport), and their share in the quantity of transported goods are expected to increase. With the adoption of the new railway laws in May 2018, the competences of the Railway Directorate as the railway market regulator have been expanded, with precisely defined responsibilities and influence on competitiveness in railway transport.

3. Estimated costs of activities and funding sources

In February 2017, an IPA 2014 project titled Technical Assistance to the Ministry of Construction, Transport and Infrastructure (MCTI) and State-owned Railway Companies in Serbia – Comprehensive Reform of the Railways, was launched. Technical assistance is worth EUR 1,661,000. The expansion of the project to include the preparation of the Methodology for the Calculation of the Railway Infrastructure Access Fee and the new railway infrastructure access fee model is estimated at about EUR 300,000 in 2019. The remaining costs refer to the estimated value of the work of staff, activities related to the adoption of the Decision on the Withdrawal of the Status of a Good in Public Use, preparation and implementation of the Methodology for the Calculation of the Railway Infrastructure Access Fee and alignment with the 4th Railway Package, with the additional costs totalling EUR 12,395. The Railway Directorate estimated the cost needed for the engagement of a consultant with regard to the implementation of the Methodology during 2020 at EUR 1,250.

4. Expected impact on employment and gender

The number of employees in the railway sector has been reduced significantly by the workforce rightsizing process and will continue to decrease in the coming period (through attrition), along with adequate recruitment of new staff, in order to improve the employee age structure. This will result in higher productivity of the railway companies undergoing restructuring. In workforce restructuring, gender equality is taken into account to a great extent.

5. Potential risks

Reform risks are external, linked to the general conditions for doing business, as well as internal, linked to the capacity of railway companies' management to achieve a prominent position in the transport market and a positive business performance, relying on the comparative advantages of railway transport. The negative impact of the large volume of works on the railway service market is also worth mentioning (due to track closing caused by works, longer travel times, etc.).

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2015	2016	2017	2018	2021
Volume of freight carried (tonnes)	11,882,000	11,745,000	12,323,000	11,962,358	13,070,200
Number of passengers carried	6,258,190	6,086,078	5,600,386	5,161,000	6,884,000
Number of rail carriers on the railway network	2	3	4	7	13
Number of kilometres of railway lines reconstructed, km	36.3	43.3	135.8	114*	718

* works on 200.5 km of tracks are in progress

3.2. Area SECTORAL DEVELOPMENT

Development of the agricultural sector

a) Analysis of main obstacles

Agriculture is one of the key sectors in the economy of Serbia, which offers exceptionally favourable conditions for its development. However, obstacles in this sector arise from the unfavourable structure of agricultural holdings (technical and technological obsoleteness of small and medium-sized holdings, weak organisation in cooperatives and other forms of association based on common interest), pressures due to increasing demands of standards and regulations in the process of alignment with the EU Common Agricultural Policy, insufficient processing level at agricultural holdings and in the existing food industry, as well as a lock of efficient mechanisms for dealing with unfavourable weather conditions.

The relatively high share of GVA of the sector of agriculture and food industry in the total GDP of Serbia (6.0% and 2.8% respectively in 2017) is partly a reflection of favourable natural conditions and resources for agricultural production (geographic position, natural resources, climate), since the used agricultural land accounts for around 40% of the territory, but to a great extent it is also a consequence of the low technological level of the remainder of the economy. Over 20% of the total number of employees are those working in the agriculture and food sector, but a high level of informal employment is also present, pointing to new employment potential based on new legislation on seasonal work in the sector of agriculture, forestry and fishery.

The great potential of Serbian agriculture is also reflected in **the latest World Bank report on agriculture**[27] (*Enabling the Business of Agriculture 2017*), which presents the ranking list of the business environment for agriculture and companies operating in the sector. For the first time, Serbia has been included in the list (among 62 countries) with the following rankings: seed – 19, fertiliser – 4, mechanisation – 2, financing – 40, market – 8, transport – 13, water – 14, and information and communication technologies – 12.

Low economic power of the majority of agricultural operators presents the main challenge on the path of agricultural development in Serbia. Most farms are small or medium-sized and engage in subsistence farming, without specialised production in a certain sector. Farms of up to 5 ha account for 77.7% of the total number and use 25.2% of the land.

Technical and technological resources in the agricultural sector are not at a satisfactory level, and further investments in new tractors, specialised agricultural machinery, irrigation systems, and facility construction and equipment are needed.

The share of irrigated areas is low (about 3% of the total area of agricultural land in use). Apart from drought, other unfavourable weather conditions create problems for producers, due to insufficiently efficient mechanisms for combating them. This results in yields that are below potential. Bearing in mind, on one hand, the fact that the cost of weather insurance is determined by the risk that is usually high and, on the other hand, the economic strength of agricultural producers, agricultural insurance is not a practice as in other parts of Europe, so the state has created measures for subsidizing contracting agricultural insurance.

The Agrarian Budget for 2018 was increased by 13.8% compared to 2017, in order to maximise the potential and raise infrastructure capacities. The priorities include the development of irrigation systems, as well as the opening of the food safety control laboratory and national reference dairy control laboratory. For the first time, in 2018 the Instrument for Pre-accession Assistance in Rural Development (**IPARD)** became available, **for the purpose of raising infrastructure capacity in the pre-accession period and attaining the EU standards.** In order to use these funds, additional efforts are required in two basic areas: **stimulating agricultural operators to engage in long-term planning and investment** so that most economic operators, which are now close to meeting the requirements for this type of financing, could use programme funds as soon as possible; **stimulating the private and public service sector** to raise the capacity of professional staff participating in the preparation of tender documentation. The administrative capacity of supervisory bodies also needs to be strengthened, for the purpose of improving their efficiency.

27 In the report, the World Bank measured and pointed out legal obstacles for businesses operating in this area in 62 countries in over 12 covered areas, of which eight were rated with two types of indicators, legal indicators and efficiency indicators.

Most agricultural operators operate independently, not attempting to join forces with others, mostly due to the lack of quality management or mechanisms for efficient and equal representation of common business interests. The organised market entry of agricultural producers, as well as a better, more efficient and more profitable operation of cooperatives is enabled by the Law on Cooperatives (Official Gazette of RS, no. 112/2015), which resolves the property-related legal relations of the founders, the ownership of cooperative assets, as well as the method of management. **When producers join forces, the possibilities for processing industry development increase significantly**, enabling agricultural production to move from primary products to the products with higher value added.

The value of total exports in the January-September 2018 period was lower by 4.6% y-o-y compared to the same period of 2017 due to a reduction in frozen raspberry exports by 6%, frozen sour cherry by 15%, fresh apples by 20%, and above all due to a 52% reduction of commercial maize exports. The stated agricultural crops are important export products, since they have, for years, topped the list of exported agricultural and food products, both in terms of export value and quantity. Support needs to be provided to investments in agricultural production development in sectors where Serbia has comparative advantages, such as vegetable, fruit and livestock sectors, and especially through systems where these products are added value, such as organic production, production of traditional products, and products with geographical origin.

The trade in agricultural and food products is primarily based on trade in primary agricultural products. Primary agricultural products dominate with a 71% share in the structure of agricultural and food product exports for the January-April 2018 period (the share of processed agricultural products is about 28%, while the share of fish and fishery products in exports is very low, below 1%).

<u>Structural reform 5</u> Improvement of competitiveness of agricultural producers and processors

1. Reform outline

The improvement of competitiveness and the attainment of quality standards in primary agricultural production and agricultural product processing are to be achieved through the implementation of the measures envisaged in the IPARD Programme 2014-2020, the National Agriculture Programme 2018-2020, and the National Rural Development Programme 2018-2020.

The IPARD Programme defines the priority sectors where the highest level of competitiveness can be achieved on the local and foreign markets (sectors: milk, meat, fruit and vegetables, farm crops) and agricultural product processing (sectors: fruit, vegetables, milk, meat). The National Rural Development Programme and the IPARD II Programme are complementary, with a clear demarcation line, based on the farm size and production intensity, whereby the IPARD measures are intended for economically more powerful agricultural holdings, entrepreneurs and legal entities, while national measures focus on small agricultural producers, which has not been the case so far (all the registered agricultural holdings benefited from the national support measures regardless of their size and production intensity). The reform implementation at the national level is defined by the Law on Incentives in Agriculture and Rural Development through rural development measures “Official Gazette of RS”, Nos. 10/2013, 142/2014, 103/2015 and

101/2016), while the plan of their alignment with the Common Agricultural Policy CAA) is contained in the Action Plan for the Transposition, Adoption and Implementation of the EU Acquis in Negotiation Chapter 11 – Agriculture and Rural Development, which was adopted on 18 October 2018, as well as with the Strategy of Agriculture and Rural Development of the Republic of Serbia for the 2014-2024 period.

Because of the pronounced need for land consolidation and more efficient implementation of the land consolidation procedure due to the fragmentation of land parcels and agricultural holdings, caused by inheritance, restitution, etc., a need arose for the adoption of a separate law which would regulate this area and effectively facilitate communication between relevant bodies and institutions in terms of data exchange and other forms of cooperation. In the meantime, during 2018 the process of reconciliation of data entered in the real estate cadastre with the actual situation on the ground was initiated by conducting land inventory and recording, updating of incorrect entries both in terms of land type and crops, as well as entries of property rights. These procedures present a major improvement of land ownership records, which is the basis for the implementation of land consolidation, which will be facilitated after the adoption of the Law. Furthermore, the entire state-owned agricultural land is presented on a digital platform containing geospatial data on agricultural land, digital cadastre plans, orthophotographic and satellite images, in line with EC recommendations.

Planned activities

a) Activities planned for 2019:

Adopt and carry out annual competitions for the distribution of national and EU funds; Draft the rural development programmes for the new programming period (2021-2027); Draft IPARD III programmes for the new programming period (2021-2027); Draft and adopt rulebooks for IPARD implementation; Prepare the Draft Law on Land Consolidation and the Draft Amendments to the Law on Agricultural Land. Further activities in the following years will depend on the time needed for the adoption of the proposed laws.

b) Activities planned for 2020:

Adopt and carry out annual competitions for the distribution of national and EU funds; Draft rural development programmes for the new programming period (2021-2027); Draft IPARD III programmes for the new programming period (2021-2027); Draft and adopt rulebooks for IPARD implementation; Prepare and adopt the rulebook regulating closer cooperation between the relevant bodies, for the purpose of faster and more efficient implementation of the land consolidation procedure, in terms of defining the responsibilities of each body in this procedure, data exchange and its availability.

c) Activities planned for 2021:

Adopt and carry out annual competitions for the distribution of national and EU funds; Draft rural development programmes for the new programming period (2021-2027); Draft IPARD III programmes for the new programming period (2021-2027); Draft and adopt rulebooks for IPARD implementation; Implement the adopted bylaws in the form of a certain number of pilot land consolidations depending on available budget funds and interest of parties to the consolidation procedure.

2. Expected impact on competitiveness

The implementation of rural development measures from the national budget should strengthen small agricultural holdings, entrepreneurs and legal entities and raise their economic viability and improve their position on the market. The use of IPARD support ensures the raising of the production quality standard, thus ensuring competitiveness and better sales of agricultural and food products. Another set of measures from the national budget will support the diversification of activities in rural areas, providing possibilities for supporting the development of alternative (non-agricultural) activities that would result in the diversification of income, ensuring the sustainability of small holdings. A possibility is opened for farmers with high intensity production in certain sectors to invest in processing capacity based on IPARD programme funds and, in such a way, generate significantly higher income. Investment in the agricultural product processing sector should contribute to raising the standard of quality and safety of agricultural products, which will greatly facilitate the sales of products in the demanding foreign markets. Land consolidation should result in the integration of unfavourably shaped land plots based on economic considerations and includes the possibility of improving roads, transport routes, irrigation and drainage systems, and other common facilities, which should result in faster rural development.

3. Estimated costs of activities and funding sources

Funding for structural reform activities is provided by the budget of the Republic of Serbia and EU's Instrument for Pre-Accession Assistance in Rural Development (IPARD).

The EU funds allocated to IPARD for the programming period 2014-2020 amount to EUR 175,000,000 in total. The 2019 Budget Law provides for funds for agricultural incentives in the total amount of EUR 313,173,434.35 (RSD 37.2 billion). Structural reform measures which refer to competitiveness promotion in 2019 are funded in the total amount of EUR 118,463,804.72 (for rural development measures EUR 67,340,067.34; for IPARD measures EUR 51,660,224.11; EUR 38,342,803.03 from EU IPARD funds and EUR 12,780,934.35 co-financing from the budget of the Republic of Serbia). The increase in the total budget for planned activities in 2019 relative to 2018 amounts to EUR 35,621,546.58. The planned budgets for 2020 and 2021 are the same as the budget for 2019 in dinar amounts (differences between years arise due to exchange rate fluctuations in those years).

As regards the increase in capacities, both HR and equipment and the establishment of necessary institutions and systems, an overview of the necessary funds planned by the Action Plan for Negotiation Chapter 11 – Agriculture and rural development, is given in the amount of EUR 8,759,106.57 for 2019, EUR 12,797,433.01 for 2020 and EUR 11,598.776 for 2021.

Estimated funds for land consolidation are in total 3,243,418.69 euros. The funds related to professional and administrative support for management of agricultural land in 2019 are foreseen in the amount of 11,693.61 euros for the costs of salary, training and office equipment for the needs of one new employee, and the source of funding is the national funds for landscaping by land consolidation - Budget of RS for 2019, and other sources of financing. Funds related to professional and administrative support in the management of agricultural land in the amount of 500,384.00 euros in 2020 are foreseen for the costs of salaries, training and office equipment for the needs of four new employees in 2020 and one employee who would be employed in 2019, the engagement of experts in drafting by-laws, translation services, procurement of servers and the development of network infrastructure, and the source of financing are the national funds for landscaping by land consolidation - the RS budget, and other sources of financing. The funds related to professional and administrative support in land management in 2021 in the amount of 247,897.38 euros are foreseen for the costs of salaries, training and office equipment for the needs of five employees in 2019 and 2021, engagement of experts in drafting by-laws, translation services, procurement of servers and software development. At this point, it is not possible to precisely define the sources of financing of certain types of costs for 2020 and 2021, which would finance the costs for training, office equipment, capital expenditures and other, so the source of funding is the Budget of RS and other sources of financing. The funds related to the support of agricultural landscaping by land consolidation in 2021 in the amount of 2,483,443.71 euros are foreseen for the costs of implementing pilot land consolidation, and the source of financing is the Budget of the Republic of Serbia.

4. Expected impact on employment and gender

All the measures planned from the national budget and pre-accession assistance, within specific ranking criteria, incorporate special points-systems for the beneficiaries who belong to the category of young farmers (up to 40 years of age), as well as if the holders of agricultural holdings are women. Such a support system should intensify economic activities of such population categories in rural areas of Serbia. A stronger processing sector should generate jobs for additional, qualified labour of different professions and contribute to the development of rural areas and the reduction of poverty and inequality. Land consolidation results certainly lead to lower labour costs and greater ease of doing business.

5. Potential risks

Unfavourable conditions for pre-financing of IPARD investments; Quality of applications for IPARD incentives; Quality of implementation affecting cost eligibility; Adequate capacity of the Administration for Agrarian Payments (AAP); Numerous irregularities in implementation. There could also be difficulties in the implementation of laws because of the introduction of new work methods and procedures, which would require additional time in order to mitigate the risk.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019
Number of approved IPARD applications	0	
Number of approved applications for national measures	0	
Increase in the amount of funds earmarked for the implementation of the rural development programme (%)	/	
Law on Land Consolidation adopted and the Law Amending the Law on Agricultural Land adopted	/	yes
Implementing legislation adopted	/	yes
Number of pilot land consolidation procedures	0	

Industrial sector development

a) Analysis of main obstacles

Industrial sector growth was achieved in Serbia in the past few years through the growth of manufacturing output and stronger investment and exports. However, the manufacturing output structure is dominated by low value-added upstream products (due to insufficient investment in knowledge and innovation), connections among the inndustrial, education and R&D policy are insufficient, while industrial policy measures do not specifically target the promotion of industrial development, and in the software industry proprietary product development is missing.

Total industrial production in Serbia was 2.3% y-o-y higher in the first two quarters of 2018. Cumulative growth in the January-September 2018 period was recorded in two sectors: Processing industry (2.7%) and the Supply of electric power, gas, steam and air conditioning (3.6%), while a cumulative decrease of 4.5% was recorded in Mining. With its growth, the processing industry was the largest contributor to the total growth of industrial production (2 p.p.). In terms of areas, the processing industry posted growth in 18 of 24 areas (cumulative comparison). Despite usual seasonal fluctuations typical for this sector, since Q3 2014 the Manufacturing industry series has been exhibiting a stable upward trend.

The share of industry in total GVA generation has been growing in past few years, inter alia, owing to the recovery of the domestic processing industry, and, in 2016, it amounted to 26.39% (0.1 p.p. more than in 2014). **FDIs** in the processing industry **have contributed to the recovery of industry** (32% of total FDI in H1 2018). Productivity growth in industry was 1.28%, which is the result of this sector's GVA growth, amidst the mild increase in employment. However, the productivity of the processing industry of Serbia primarily (EUR 13,024 in 2016) was five times lower compared to EU-28 (EUR 66,407 in 2016)).

The largest contributor to export growth was a 10.8% growth in the manufacturing industry, accounting for 93% of total exports in the first half of 2018.

Insufficient correlation between the industrial, education policy and R&D policy is reflected in the 2.4 p.p. lower share of high-tech industries in the GVA of the processing industry during 2009-2016 (from 6.8% to 4.4%). According to the production process sophistication indicator, Serbia ranked 110th among 137 countries (2017 World Economic Forum Global Competitiveness Report). The challenge in this area is process digitisation and greater use of modern technologies that will enable a shift of domestic production towards higher value added processing.

As in the previous period, **industrial policy measures were not focused enough on the key comparative advantages**. In the process of preparation of the new Industrial Development Strategy, the results of consultations and public-private dialogue conducted with the business and scientific community will be used, in order to **define priority areas for knowledge-based investment, with a focus on own resources and comparative advantages.**

The challenge **in the software industry is the development of own products** which increase the strength of the entire economy. Currently, the largest number of developers in Serbia are coding for foreign countries according to the outsourcing model, which means that we export knowledge as a raw material, not as a product. In this area, the importance of further development of new technologies, such as robotics, virtual reality, biotechnology and artificial intelligence, is worth mentioning.

Creative industries, such as the film or audio-visual industry, are a very active segment of the Serbian economy. The creative sector accounted for 3.1% of the GVA generation and employed about 58,000 people (a share of 2.6% of total employment, and an annual increase of 0.3% on average) in 2016.

Structural reform 6 Raising the competitiveness of industry

1. Reform outline

This reform will help create a focused and better coordinated policy for the development of industry, as well as to contribute to improving the efficiency of the instruments for its implementation. The reform also includes the prioritisation of areas in which there is already economic, technological and innovative competitiveness in line with the smart specialisation principle and is based on the postulates of the New Industrial Strategy and Smart Specialisation Strategy, which are under preparation. These strategies will ensure the mutual connection between innovation, research and development and education, as well as other areas such as environmental protection and IT development. The new competitiveness policy framework will also be significantly supported by the projects of the Development Agency of Serbia which assist SMEs in entering supply chains, assist the processing industry, the internationalisation of SMEs and sole traders and their digital transformation.

Planned activities

In 2019, the plan is to engage in the drafting of a new Industrial Development Strategy in consultation with the private sector, building on the results of the "Entrepreneurial Discovery" Process (EDP), in the course of the preparation of the Smart Specialisation Strategy. The Ministry of the Economy is in charge of the preparation of the new industrial development strategy, while the Ministry of Education, Science and Technological Development is in charge of the preparation of the Smart Specialisation Strategy. The Smart Specialisation Strategy refers to a period of three years and will be revised every two years, while the new industrial strategy will be a long-term one, covering a 10-year period. The Industrial Development Strategy is expected to be adopted and the Action Plan for its implementation to be prepared during 2019. In 2020 and 2021, activities will be focused on the implementation and monitoring of implementation of the Action Plan activities.

2. Expected impact on competitiveness

The manufacturing industry of Serbia is still dominated by lower-productivity upstream sectors (labour and resource-intensive activities), with the situation being less favourable among SMEs and sole traders compared to large companies. The new industrial strategy will be centred on industrial restructuring, shifting the focus away from labour-intensive sectors towards innovative and technologically intensive sectors. Special accent will be placed on the activities aimed at increasing the competitiveness of industry and SMEs in line with the smart growth principles and greater integration in international value chains. Through its measures of industrial policy and entrepreneurship development policy, the RS will strive to base its competitiveness and investment attraction less on cheap labour, and invest more in the improvement of human resources through better education and training in line with business requirements to support the creation of innovative products with greater value added, using the benefits of digital technologies in business, as well as economic cooperation of domestic enterprises with European and international partners.

3. Estimated costs of activities and funding sources

The 2019 Budget Law allocated funds to technical and administrative support in the area of economic and regional development in the amount of RSD 800 million, i.e. no increase in costs relative to 2018.

4. Expected impact on employment and gender

Positive effects on the increase in the number of employees are expected, and the gender aspect will be taken into account when designing industrial policy instruments.

5. Potential risks

Potential risks include macroeconomic and fiscal instability, potential lack of financial resources, deterioration of the global economy.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2015	2016	2017	2018	2019	2020
Share of goods exports in GDP, in % - TV: 40.5% in 2021	33.7	36.6	38.4	35.7	37.1	38.9
Growth rate of industrial GVA, in % – TV: 5% (2021)	/	3,5	2,8	2,7	4,7	4,9
Number of participants in export promotion programmes who are involved in new export activities -TV: 1150 (2021)	85	90	95	100	105	110
Number of documented interest expressed by investors - TV: 108 (2021)	61	67	74	82	90	99

Development of the service sector

a) Analysis of main obstacles

In the past few years Serbia posted an increase in service exports and a significant surplus in that area. However, the development of the service sector, with special focus on raising the level of knowledge and skills in that area, tourism development and higher share of e-commerce, poses a challenge for further economic growth.

The largest positive contributor to GDP growth in the first half of 2018 **(1.8 p.p.) was higher activity in the service sectors**, which grew cumulatively by about 3.5%. The continuation of favourable trends in the trade sector is reflected in the growth of trade volume in the first half of

2018, while the higher number of tourist arrivals and nights points to a continuation of positive trends in the accommodation and catering service sector as well. Higher activity in the service sectors is also reflected in further employment growth, which was recorded in all sectors in the first half of the year.

Despite **a two-fold increase in the surplus (net exports) of services** in 2017 (EUR 951 million) compared to 2014 (EUR 465 m), **the share of services surplus in GDP remains at a relatively modest level** of 2.6% in 2017 (an increase of 1.2 p.p. compared to 2014). **The export structure** by service type is dominated by four groups of services: tourism, transport, and other business and ICT services, which, in the previous four years, recorded a significant growth of export share, by 4.4 p.p. (from 12.8% in 2014 to 17.2% in 2017).

A lack of skills and knowledge has been identified as **one of the main obstacles to the development of more complex services, i.e. higher value-added services**. The services sector accounted for almost 50% of Serbia's GDP in 2017, where knowledge-intensive services accounted for with only 23% of GDP (36.5% in the EU-28 countries in 2015), while less knowledge-intensive services generated 25.9% of GDP (29.5% in the EU-28 countries). Most horizontal measures and reforms implemented in other areas will also result in better functioning of the service sector, since services make up a large part of the economy.

E-commerce is still under-represented, which is, among other things**,** due to the insufficient increase in the number of domestic ICT users, but also due to relatively high fees for on-line payment services that are a result of insufficient competition in this area of service provision. In Serbia, in 2017 only 26.3% of internet users made orders/purchases via the internet (53% in the EU-28 countries). Insufficient confidence in this type of trade is explained by the impossibility of physical insight into the characteristics of the product. However, progress was noted in the NBS data as well: in the first half of 2018, the number of transactions involving purchases of goods and services by payment cards and electronic money increased on the domestic and foreign websites by 49% relative to the same period of the previous year (from 2,362,222 transactions in H1 2017 to 3,526,235 transactions in H1 2018). With the adoption of the Law on Electronic Document, Eletronic Identification and Trust Services in E-business at the end of 2017 ("Official Gazette of RS", No. 94/2017) and the Law on Interbank Fees and Special Operating Rules in Payment Transactions Based on Payment Cards ("Official Gazette of RS", No. 44/2018), necessary preconditions were created for faster e-commerce development. Namely, with the adoption of the Law on Interbank Fees and Special Operating Rules in Payment Transactions Based on Payment Cards in June 2018, a legal basis was created for reducing payment card acceptance costs and, consequently, increasing the number of points of sale where it is possible to pay for goods and services by payment cards, including online points of sale. This law, which has been implemented since 17 December 2018, contains a provision reducing the amount of interbank fees, which are the main generator of costs in card payments. With the adoption of the proposed legal provision, the amount of interbank fees in Serbia will be six times lower than currently. This will create conditions for lower merchant fees and an increase in the number of merchants that will accept payment cards at their points of sale, which will have a positive effect on end consumers as well. This law proposes a gradual reduction of interbank fees. In the first six months of the implementation of this law, interbank fees will be reduced to 0.5% for debit cards and 0.6% for credit cards, to be followed by a further reduction to 0.2% for debit cards and 0.3% for credit cards.

Tourism presents is a global phenomenon, which developed into one of the fastest growing economic sectors in the world and presents an important export sector for many countries. According to the UN World Tourism Organisation (UNWTO), in 2017 Europe recorded the fastest growth of foreign tourist trade of 8%, relative to 4.5% globally. Europe received 672 million foreign tourists and recorded a revenue of USD 519 billion in 2017, which is 8% more than in 2016. Serbia has also been recording a **steady increase in the number of tourists** for years. The increase in the number of foreign tourists by 17% in 2017 compared to 2016 led to an increase in foreign exchange inflows by 14% in 2017 (EUR 1.18 billion). In order to attract more foreign tourists, Serbia needs to further develop its infrastructure and connectivity, making it more accessible as a tourist destination, as well as intensify its promotional activities by using modern technologies. High-quality and well-developed tourist infrastructure and superstructure would contribute to the improvement of the tourist trade.

3.3. Area BUSINESS ENVIRONMENT AND COMBATING THE INFORMAL ECONOMY

a) Analysis of main obstacles

With the implementation of regulatory reforms reducing the complexity and costs of doing business, Serbia recorded significant progress and improved its ranking according to international competititveness indices. Further challenges to the improvement of business environment are posed by the improvement of the legal framework in the area of financial services (greater accessibility of the existing and new financing sources for SMEs and sole traders - SMEST), establishment of a legal framework regulating the administrative and parafiscal burden on economic operators, further development of the PPP model, combating the still high informal economy (inspecting the operation of unregistered operators and workers), as well as the establishment of an up-to-date real estate cadastre operating in real time.

Serbia has significantly improved its ranking on the World Bank's international Doing Business 2019 List – it ranked 48th among 190 countries inspite of fall of five positions in the previous year. **Serbia is among the 10 countries that implemented the most regulatory reforms reducing the complexity and cost of business since 2015**: it takes less time to register a company since the administrative fee for signature certification has been reduced; postregistration procedures (tax return, social security, licensing) have been simplified and the register is now more efficient; the system of electronic issuance of building permits (e-permits) has been introduced; property registration process has been improved as the cadastre system is now more reliable owing to the geodetic-cadastral information system, and effective deadlines for registering ownership rights in the real estate cadastre have been established. **Serbia has also recorded progress according to the Global Competitiveness Index** (GCI) – it ranked 65th among 140 countries in 2018 (4.1 has been the highest score so far), up by 12 positions. High tax rates and inefficient administration were quoted as major factors that weaken Serbia's competitiveness.

Access to financing SMEs is improving year after year, due to, among other things, implemented measures presented in the ERP in the previous years. This is supported by the data of the National Bank of Serbia collected on the basis of the survey, according to which the growth rate of the SME and sole traders loans in 2017 was around 4.6%, the share of SME and sole traders loans in total corporate loans rose to 30.3% (from 28.5 % in 2015), and lower interest rates on loans and longer repayment periods were recorded. However, **there**

is still a need to further improve access to financing and to develop new instruments, especially in relation to the needs of micro-enterprises, as well as those at the earliest stages of development, including innovative start-ups. The SME and sole traders sector has a significant role in economic activities in Serbia and in 2017 it represented 99.9% of total active enterprises, employed 2/3 employees in the non-financial sector and contributed to GDP with 56.7%, which is in line with the EU average. Out of total number of enterprises in the SME and sole traders sector, 96.2% are micro enterprises (344,279) while the number of newly established companies in 2017 was 43,448 (almost every eighth undertaking that operated in that year). A limited access to financing for young firms and micro enterprises is reflected in the fact that bank loans are the only sources of their funding and are not suitable for them because banks are still looking for good credit history, relatively high turnover, low level of debt and adequate collateral, which micro and young enterprises do not have. **The most difficult situation is for beginners in business, who, apart from support programs, do not have any access to financing, because banks do not usually give them loans.** This situation is also confirmed by the findings of the *ex-ante* study that assessed the needs of SMEs and sole traders in Serbia for financial instruments, done by the European Investment Bank in 2017, which concluded that **the largest gap in financing is in the credit offer for micro enterprises and start-ups, as well as in the offer of alternative sources of financing (venture capital, *equity*, microfinancing, etc.).** Consequently, the development of micro and young enterprises is slowed down. While all other indicators record a positive trend, the average of employed persons per enterprise in the SME and sole traders sector in Serbia remains below 2.5, which is significantly below the EU average and supports the fact that the **SME sector** and sole traders **remains too fragmented.** Without further improvement in access to financing, it is not possible to improve this structural weakness and free up the potential of the SME sector in order to make a stronger contribution to the economic development of the country in the future.

Drafting proposals for improving the legal framework in the area of financial services is a prerequisite for establishing an institutional framework that would allow for alternative sources of financing (e.g. alternative investment funds, non-deposit financial institutions). A gap in financing the debt of micro enterprises is estimated at about EUR 1 billion per year[28], which implies many missed opportunities for financing sustainable SME projects. On the other hand, **the lack of managerial skills and awareness of financial opportunities on the part of sole traders** weakens the capacity of SMEs and sole traders to access finance (the so-called investment readiness). There is also a need for technical assistance among start-ups, as well as among the already established small and medium-sized enterprises, especially in the field of managerial skills and business plans.

The Law on Fees for the Use of Public Goods was adopted in December 2018 (Official Gazette of RS, no. 95/2018), regulating all fees payable for the use of natural assets, goods of public interest and goods in public use (these fees were previously regulated by 19 separate laws). The business environment in the RS is burdened by numerous unnecessary costs and complicated administrative procedures for businesses, which has a negative effect on investment growth and SME sector development. For the purpose of **simplifying the procedures and other business conditions**, the Government initiated the **e-Paper project** in order to establish a single public register of administrative procedures and other requirements for doing business, which should enable businessees to access all information needed for business operation in the

28 Ex-ante Study to Assess the Potential Future Use of Financial Instruments to Deploy IPA Resources in Support of Small and Medium-Sized Enterprises (SMEs) in Serbia, EIB.

RS in one place and the first set of digitalised procedures. The simplification and elimination of unnecessary administrative procedures would lead to a reduction of costs for businesses by 15-20% by 2021, and a reduction of costs to 3% of GDP. **The administrative burden borne by economic operators in Serbia is 3.26% of GDP** (according to the study conducted by the 2016 USAID BEP project), which is 19.8% less than in 2010.

Establishing an up-to-date real estate cadastre in real time is a precondition for improving the efficiency of doing business and reducing the duration of procedures required for the registration of real estate rights in the Real Estate Cadastre. It is of public interest to register real estate rights quickly and electronically, increasing legal security. At the end of 2017, the process of cadastre digitalisation was initiated.

With the adoption of the Law on the Procedure of Registration in the Cadastre of Real Estate and Utility Lines (Official Gazette of RS, no. 41/2018), the obligations are prescribed for public notaries, public enforcement officers, courts, government bodies, local government bodies and other entities, who, as part of their legally prescribed responsibilities, issue decisions, compose or certify documents that present legal grounds for registration, to deliver them to the real estate cadastre service for the purpose of updating the cadastre. The timeline for the delivery of documents ex officio are shorter, as well as the timeline for the cadastre's actions. Cadastre registration applications are electronically filed through the **E-counter**. Public notaries and courts deliver tax returns to the Republic Geodetic Authority (RGA) for the purpose of further delivery to the Tax Administration and local government tax administrations. The number of procedures has thus been reduced from the existing 6 to 2 procedures. The efficiency and up-to-datedness of the real estate cadastre, and the simplification and acceleration of registration procedures will have a positive effect on the improvement of the RS ranking on the World Bank Doing Business list.

Public-private partnership (PPP) remains as the optimum option for the implementation of both local and regional and national infrastructure projects. So far, 91 PPP project proposals have been approved with or without concession elements[29]. These are mainly local projects in the field of urban and suburban passenger transport, public lighting, municipal waste collection, generation of heat and electricity using renewable energy sources. The concessionaire has been selected for the Nikola Tesla Airport. After an analysis of the alignment with the EU acquis was prepared, the working group for amending the Law on Public-private Partnership and Concessions was established in order to align the Law with the EU legislation.

Efforts combating the informal economy through an efficient and organised operation of inspection services and the Tax Administration in 2017 gave results reflected in the **growth of total tax revenue in real terms by 5.2%**, in all of the most important categories: VAT (2.6%), excise duties (2.3%), contributions (4.4%) and personal income tax (5.1%). A significant impact on the growth of total tax revenue, in absolute terms, was achieved on the basis of an increase in revenue from compulsory social insurance contributions (all compulsory social insurance organisations collected a higher amount of contributions, the Pension and Disability Insurance Fund in particular). As part of the inspection oversight procedure (53,424), in 2017 the Labour Inspectorate found 22,411 unregistered workers (an increase of 15% compared to 2016), after which 21,171 persons were registered for social insurance (20% more than in 2016). As the RS

29 Since 2012 when the Public-Private Partnership Commission was established and began its operation as a technical body of the Government of the Republic of Serbia, providing assistance in the implementation of PPP projects and concessions.

government proclaimed **2017 and 2018 for the Years of Combating Informal Economy**, the capacities of inspection services and the Tax Administration need to be strengthened and improved.

The volume of the informal economy in Serbia is lower than five years ago. According to the results presented in a most recent study[30], in registered economic operators, the informal economy related to product sales and wage payment, went down from 21.2% in 2012 to 15.4% of GDP in 2017. Business environment improvement and macroeconomic stability, registered GDP growth, labour market recovery, as well as improved operation of the inspectorates, stricter penalty policy and more efficient tax revenue collection have contributed to the reduction of the informal economy in this period.

Structural reform 7 Tax Administration transformation

1. Reform outline

The Tax Administration has initiated a comprehensive reform process defined by the Transformation Programme for the 2015-2020 Period, which entails a number of institutional, organisational and technological changes. The Tax Administration transformation and its goals are based on the need for establishing a modern and efficient administration, creating room for easier and fairer operating conditions for taxpayers and better communication of taxpayers with the Tax Administration. Reform areas have been divided into three interconnected and interdependent groups, which presents an additional challenge and requires great commitment and synchronisation.

In December 2017, the Action Plan to the Transformation Programme for the 2018-2023 Period was adopted, as well as the Decision on Core and Non-core Activities of the Tax Administration, focusing the Tax Administration on the core tax activities and the first phase of organisational unit consolidation. The activities planned during the previous years have been initiated and their implementation is in progress, since these are strategic activities.

Planned activities

For 2019, the Tax Administration plans to establish and implement a new organisational stream for managing all non-core activities, consolidate core tax administration in a smaller number of branches (the first phase of consolidation), as well as restructure the Head Office and provide adequate resources. During 2020, the Tax Administration plans to reengineer business processes for the introduction of international good practices in the operational functions of the RS Tax Administration and further consolidation of key functions of core tax administration in a few organisational units in the business network. The introduction of a modern document management system as part of a comprehensive information management model and preparation of the second phase of business network consolidation is planned for 2021.

30 Source: Informal Economy in Serbia in 2017, Estimate of the Volume, Characteristics of Participants and Determinants, NALED

2. Expected impact on competitiveness

The implementation of the Transformation Programme has an indirect impact on improving the competitiveness of domestic companies. Based on automated/electronic, simple and free tax procedures, the administration of tax obligations leaves companies with more funds and time that could be invested in the improvement of quality of products and services, which has a direct impact on higher competitiveness.

3. Estimated costs of activities and funding sources

All activities of the Tax Administration planned under this measure are to be financed from the budget of the Republic of Serbia, as well as funds from other creditors and donors.

4. Expected impact on employment and gender

Higher efficiency of the Tax Administration will make the process of tax assessment and payment simpler, more predictable, more consistent and economical, thus improving the level playing field for market participants.

Clear tax rules encourage citizens to start their own business and, in such a way, contribute to higher employment and overall economic growth. Better tax collection increases room for budget allocations to social protection, education and healthcare. This measure is expected to have an equal positive impact on both genders.

5. Potential risks

Potential risks that could affect the implementation of this reform include the delay in the introduction of new legislative frameworks based on ICT and the needs of the Tax Administration reform or a failure to accept amendments to the existing ones, a lack of coordination/communication among government institutions, a lack of trust among taxpayers caused by a fear of change, insufficient IT resources and skills for reform implementation, a lack of human resources and knowledge necessary for the functioning of the newly reformed Tax Administration.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2015/2014 (BV)	2016/2015	2017/2016	2018/2017	2019/2018	2020/2019	2021/2020
Newly-registered taxpayers in calendar year	112.93	106.46	114.68	143.21	109.86	119.26	118.53
Increase in discrepancies by year	131.30	95.76	90.96	141.96	90.32	106.97	108.15
Collection rate**	(2015)* 103.9	(2016)* 107.1	(2017) 107.9	(31.10. 2018) 104.1	101	101	101

*Total tax revenue includes net VAT as well as the projection, whereas for 2017 and 2018 gross VAT is included, as well as the projection.

** The indicator of the realization of the collection task is the ratio of collection of the most important budget revenues in a given year in relation to the budgeted amounts for the same year.

Structural reform 8 Improved capital investment management

1. Reform outline

The reform entails the establishment of a single methodology and platform for capital investment planning and implementation monitoring. All potential projects must be linked to sectoral strategies and subjected to a cost-benefit analysis beforehand for the purpose of their prioritisation. Public investment planning includes: assessment of capital projects proposed by budget beneficiaries and development of the implementation plan, coordination of planning and selection of capital projects/investments and, finally, monitoring of the implementation of approved capital projects in order to detect and remove obstacles in a timely manner and manage risks more efficiently. Capital project management is covered by the Public Finance Management Reform Programme 2016-2020. The Decree on the Content, Manner of Preparation and Assessment, as well as Monitoring of Implementation and Reporting on Capital Project Execution was adopted in June 2017, with January 2018 as the start of its implementation. It was agreed to form a working group at the beginning of 2019, which would be comprised of the representatives of all relevant institutions and deal with the harmonization of the single methodology for capital investments in the Republic of Serbia. Task of the working group would be to harmonize the system for selection, prioritization and capital investment management, taking into account all existing solutions and practices.

Planned activities

During the first half of 2019, a single methodology for capital project management is to be adopted, as well as relevant rulebooks for the implementation of this Decree. The plan for the period from 2019 to 2021 is to prepare the terms of reference for the development of the information system, as systemic support to the new capital project management methodology, establish a single capital project database, as well as conduct trainings of budget beneficiaries with regard to the implementation of the Decree and the use of the capital project database. In the same period it is planned to begin withcapital project assessment and selection.

2. Expected impact on competitiveness

Improving the management and increasing the execution of capital/public investments is an anti-recession and development-oriented economic policy measure with positive effects on economic growth in the short term. In addition to direct effects on employment and growth resulting from capital project construction itself, the improved quality of tangible capital, especially road and communication infrastructure, raises the competitiveness of the domestic economy and creates prerequisites for its faster growth. Public investments also have a long-term favourable impact on economic growth, as they raise the quality of infrastructure used by the private sector.

3. Estimated costs of activities and funding sources

All activities planned under this measure are to be financed from the regular budget expenditure of the Ministry of Finance, as well as funds from other creditors and donors.

4. Expected impact on employment and gender

Improved capital investment management has a direct impact on increasing investment, which results in higher employment in the short, medium and long term, both during capital project implementation and in service. In addition, the measure has an equally positive impact on the employment of both genders.

5. Potential risks

Insufficient human resources for project cost-benefit analyses, assessment and prioritisation of proposed projects and investment project management. It is necessary to improve the human resources management system and provide continuous training to employees.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2015 (BV)	2016	2017
Rate of programmed investment execution – TV: 80% (2020)	40%	65%	76%

Structural reform 9 Improved access to finance for SMEs and sole traders (SMEST)

1. Reform outline

The proposed reform presents further implementation of priority activities within the second pillar of the Strategy for Support for the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 Period. The goal is to provide adequate access to finance for each development stage of a company by improving the financial and capital market, creating conditions for the functioning and expansion of different financial instruments that were not present in the domestic market (guarantee schemes, venture capital funds, etc.), optimising public development financing (current programmes and the operation of public financial institutions) and improving the level of information and skills of SMEs and sole traders relating to the access to different types of financing.

Planned activities

In 2019, the plan is to prepare the Development Financing Strategy and pilot the first support programme which includes lending to start-ups in partnership with commercial banks, developed with the support of KfW. During 2019, the legislative framework for improving different financial market segments is to be prepared (Law on Alternative Investment Funds and the new Law on Investment Funds). The implementation of the credit guarantee project financed by IPA 2016, as well as the new annual cycle of implementation of three public RS budget support programmes are also expected during 2019. In 2020 and 2021, the focus will be on the implementation of the Development Financing Strategy, further development of the financial market, as well as the continuation of implementation of optimised public support programmes for SMEs and sole traders in accordance with the adopted strategy. The mobilisation of stakeholders to make a better use of the possibilities offered by EU programmes (COSME) and regional programmes (WB EDIF) will be conducted during all three years.

2. Expected impact on competitiveness

Improved access to financing for SMEs and sole traders has a direct impact on higher competitiveness of that part of the economy which has the largest contribution to GDP generation (56.7%) and employment (66%) in the non-financial sector. Investment growth driven by better access to finance will have a positive impact on capacity expansion, technological modernisation of production, productivity growth and introduction of new, innovative products and services by SMEs and sole traders, which is necessary for the improvement of their competitive position in the domestic and foreign market. The improvement of start-up financing will have a direct impact on a better use of entrepreneurial potential, because it will also enable those with a good business idea, but insufficient seed capital, to start a business, which is particularly important for certain target groups, such as the youth.

3. Estimated costs of activities and funding sources

Planned activities will be financed by the budget, public funds of public financial institutions and partly by loan proceeds and EU sources (IPA funds and EU programmes). An allocation of grants in the amount of RSD 1,700 million is planned directly in the 2019 budget for the implementation of three programmes for small enterprises, which is RSD 400 million more than in 2018, while RSD 103 million has been allocated towards the COSME membership fee. For the preparation of the Development Financing Strategy, RSD 240.6 million has been allocated from a World Bank loan.

4. Expected impact on employment and gender

Introduction of new financial instruments for starting a business and development of SMEs will contribute directly to job creation and self-employment. These programmes are also particularly important for the development for female entrepreneurship, as they usually ease the requirements with regard to security instruments when approving financing, which is important for women entrepreneurs since they generally own less property.

5. Potential risks

The following have been identified as risks: macroeconomic and fiscal instability, potential lack of cooperation and coordination among competent government bodies, organisations and bodies; growth of interest rates on the Euro market, potential lack of funding; insufficient interest of the banking sector and other financial institutions for new programmes, insufficient level of information of SMEs and sole traders.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2013 (BV)	2014	2015	2016	2017
Share of SME loans in total loans to economic operators, in % (source NBS) – TV 30% (2020)	18.9%	22.7%	28.6%	30.3%	30.3%
Development of the financial market, ranking* (source: GCI) – TV: ranking <60 (2020)	115/148	109/144	120/140	110/138	79/140
Total number of SMEs and sole traders (source: SORS) – TV: 350,000 (2020)	315,412	324,272	324,600	340,112	357,234

Structural reform 10 Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund

1. Reform outline

Environmental protection is one of the "most expensive" and the most complex chapters in the process of Serbia's EU accession negotiations. Serbia is obliged to significantly increase investment in this area, with estimated investment needs of about EUR 8.5 billion in the next ten years. The allocations need to increase from the current 0.3 to 0.4% of GDP to at least 1.2-1.4% of GDP, in order to meet the prescribed standards in this area, primarily through investment in infrastructure, and reach the goals of the National Environmental Protection Programme. Most environmental protection investment will be based on budget funds, where the existing funding system cannot ensure the necessary level of investment. In order to ensure a steady inflow of funds into the Green Fund and greater use of IPA funds, an efficient financial, legal and institutional framework, which will ensure predictability, stability and continuity of investment in environmental protection, needs to be established. In October 2018 an interministerial Working Group for Establishing a Sustainable Financing System Aimed at Implementing Projects in the Area of Environmental Protection and Energy Efficiency was formed.

Planned activities

a) Activities planned for 2019:

Identify, align and define measures and activities for the establishment of a sustainable financing system for the purpose of an efficient implementation of environmental protection programmes and projects, to be carried out by a dedicated Working Group.

b) Activities planned for 2020:

Implement the defined measures and activities for the purpose of establishing an institutional, legal and organisational framework for the establishment of a sustainable financing system in the area of environmental protection.

c) Activities planned for 2021:

Establish a fully functional system for sustainable financing in the area of environmental protection.

2. Expected impact on competitiveness

The implementation of this structural reform will result in faster economic growth in the short run. According to the estimates of the Fiscal Council (2018), an increase in public investment in the area of environmental protection to 1.3% of GDP (relative to the current level of 0.3-0.4% of GDP) would result in an increase in economic growth by about 0.5% in the short run. Higher investment in environmental protection will also lead to an increase in total general government investment from the current level of 3% of GDP to 4.5% of GDP potentially, resulting in an increase in the share of investment spending in total public expenditure. The final outcome of higher public investment would be higher competitiveness through the development of environmental standards and circular and green economy.

3. Estimated costs of activities and funding sources

In 2019 there will be no additional costs of implementing activities under this structural reform. The costs for 2020 and 2021 can be estimated when the necessary measure and activities for the establishment of the system are defined.

4. Expected impact on employment and gender

Employment is expected to increase due to the development of circular and green economy and faster economic growth, depending on the amount of public investment. The final outcome is the improvement of the quality of the environment and of the life of all citizens, both women and men.

5. Potential risks

A possible risk for the implementation of this structural reform is the inability of the relevant government authorities to reach an agreement on the optimal mechanisms and solutions for the establishment of an efficient system for smooth implementation of environmental programmes and projects. The harmonisation of different opinions will be conducted through the established Working Group within the Ministry of Finance and its operation based on data, analyses and experiences of other comparable countries.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018 BV	2019	2020	2021 TV
% of investment in infrastructure projects in the area of environmental protection				
% of GDP growth relative to investments implemented in the area of environmental protection				

Structural reform 11 Improvement of corporate governance in public enterprises

1. Reform outline

State-owned enterprises play an important role in economic development, which is why the improvement of corporate governance in public enterprises is of great importance for the enhancement of efficiency of their organisation and management. Good corporate governance of public enterprises is of key importance for the existence of efficient and open domestic and global markets. Public enterprises are the most important source of provision of public utility services, and their operation has an impact on the daily life of citizens and competitiveness of the rest of the economy.

With the Law on Public Enterprises (Official Gazette of RS, no. 15/16), apart from a number of novelties relating to governance and governance bodies, room has been created for the introduction of corporate governance, so that public enterprises would operate in accordance with market principles.

The introduction of corporate governance in public enterprises is based on two key pillars: professionalisation of governance bodies and operations control system, which include activities pertaining to the development of laws and bylaws, introduction of certification system for governance bodies, improvements in the monitoring and accountability system for state-owned enterprises.

In order to regulate the system of professional development of members of governance bodies, a draft certification model has been developed. A working group has been set up to prepare an accreditation/certification model and draft bylaws (programme for further professional development in the area of corporate governance, guidelines for the development of corporate governance codes, code of ethics, etc.).

In its further work, the working group on the introduction of certification of governance bodies in public enterprises, will define the following:

- Accreditation process in which the Ministry of Economy will accredit professional institution(s)
- Certification process in which the accredited institutions will test the candidates and award certificates.

Planned activities

During 2019, an assessment will be conducted of the training needs of supervisory board members in public enterprises. Furthermore, the plan is to define the system of accreditation of institutions providing training to governance bodies, as well as to prepare implementing legislation for the introduction of a certification system in order to conduct certification of governance bodies in public enterprises.

In 2020, the plan is to establish a register of institutions accredited for professional development, as well as to establish a register of certified persons. Furthermore, the plan is to conduct training in corporate governance, develop procedures for monitoring and evaluating the effects of corporate governance in PE and start the implementation of these procedures, as well as to continue with an analysis of training needs of supervisory board members in public enterprises.

Activities planned for 2021 include further implementation of procedures for monitoring and evaluation of performance of certified governance body members in public enterprises, as well as an analysis of the impact of the corporate governance system introduction in PE and correction of activities based on the conducted analysis. Moreover, the plan is also to implement procedures for monitoring and evaluation of the impact of corporate governance in PE, as well as to analyse the impact on the introduction of the corporate governance system in PE.

The Ministry of Economy is in charge of the implementation of all stated activities.

2. Expected impact on competitiveness

The introduction of the certification system will enhance management and organisational skills of the governance bodies in public enterprises.

The improvement of corporate governance in public enterprises will enable the attraction of financial capital, efficient business operation and long-term and sustainable development, taking into account both the interest of founders and of other stakeholders in public enterprises.

3. Estimated costs of activities and funding sources

Under the Priority Financing Areas for 2019-2021, funds are planned in the total amount of RSD 9,000,000 for 2019, 2020 and 2021 (RSD 3,000,000 for each year), while the 2019 Budget Law allocated the amount of RSD 3,000,000 in the Ministry of Economy's chapter.

4. Expected impact on employment and gender

The improvement of corporate governance has a positive impact on the improvement of organisational structure, improvement of efficiency of governance and control of public enterprises, as well as on the adaptation to changes imposed by the business environment. Quality corporate governance is a precondition for the improvement of gender aspect.

5. Potential risks

The key risk lies in the lack of comprehensive support to the introduction of corporate governance in public enterprises, while the expected effects primarily refer to the increase in efficiency of public enterprises, which will have a positive impact on higher efficiency of the entire economy.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2014 (BV)	2015	2016	2017
% of women directors and members of management boards of public enterprises out of the total number of directors and members of management boards of PE; TV – 30% (2020)	-	13	22	27
Total net loss of loss-making public enterprises, in million EUR; TV – 0 (2020)	640.1	146.9	150	109.8

Structural reform 12 Simplification of procedures and other conditions for doing business

1. Reform outline

The basic goal of simplifying procedures for doing business is to improve the business environment and regulatory reform based on the guillotine of procedures and regulations that unnecessarily burden the business in the Republic of Serbia, as well as provide all the necessary information for performing economic or other commercial activities in one place. After the analysis and calculation of costs according to the standard cost model, the procedures and other conditions for doing business are simplified, by amending legislation and eliminating unnecessary regulations, followed by the establishment of a Single Public Register of Administrative Procedures and Other Requirements for Doing Business. The establishment of the Register will provide economic operators and citizens with a transparent overview of all administrative procedures and other requirements for doing business that need to be fulfilled and implemented to ensure the provision of a particular service or business, including all costs in the form of fees, charges, etc., as well as electronic communication with the public administration. This also fulfils the requirement of establishing a point of single contact (PSC), which is a requirement in accordance with the Services Directive 2006/123/EC, the transposition of which is provided for in Article 59 of the SAA. The reform is defined in the Strategy for the Support of the Development of Small and Medium Enterprises, Entrepreneurship and Competitiveness for the 2015-2020 Period with the Action Plan, the Strategy of Regulatory Reform and the Improvement of the Public Policy Management System for the 2016-2020 Period ("Official Gazette of RS", No. 8/16) and the National Programme for Combating the Informal Economy ("Official Gazette of RS", No. 110/15).

The implementation of this structural reform began in March 2016, and is conducted in three phases, whereas certain activities are conducted continuously during the entire cycle. During the first phase, all administrative procedures were inventoried and analysed, and a methodology for the simplification of administrative procedure and cost calculation prepared. During the second phase, the optimisation of at least 50% of the most commonly used procedures will be conducted, as well as the digitalisation of the first 100 administrative procedures, and the legal framework will be prepared for the establishment of the stated register. In the third phase, the establishment of the Register and further optimisation of the remaining procedures are foreseen.

Planned activities

a) Activities planned for 2019:

Calculate the costs for the remaining administrative procedures within the procedure analysis and optimisation; update inventoried administrative procedures and inventory any new procedures; inventory and simplify the administrative procedures at the AP Vojvodina level; begin digitalization of the first 30 administrative procedures; adopt the Action Plan for Amending Regulations for the Purpose of Simplifying and Eliminating Unnecessary Administrative Procedures.

b) Activities planned for 2020:

Adopt the Law on the Single Public Register of Administrative Procedures and Other Requirements for Doing Business with implementing legislation based on the law; calculate costs for the remaining administrative procedures as part of the procedure analysis and optimisation; continue digitalization of 70 new administrative procedures; report on implemented recommendations relating to simplification and adopt a new Action Plan for Legislative Amendments.

c) Activities planned for 2021:

Establish the Register; completion of the digitalization of all 100 administrative procedures and up to 20 notifications, depending of the needs of the state administration bodies; adopt annual reports on the simplification and prepare a new Action Plan for amending regulations; inventory administrative requests and other requirements for doing business.

2. Expected impact on competitiveness

Administrative costs are expected to be reduced from 3.26% of GDP in 2016 to 3% of GDP in 2020 (a 15-20% reduction), and on the basis of the analyses and proposals for simplification and optimisation, at least 30% of the most common and most expensive administrative procedures will be cut. The impact on competitiveness is expected to be positive, since by enacting in 2018 the Law on Fees for the Use of Public Goods, covering all fees paid by businesses, the fees that were regulated by several separate laws are now regulated by a single law, contributing to the predictability of operating costs of economic operators, rational use of public goods and their transparency.

3. Estimated cost of activities and funding sources

Financial support has been provided by four projects in the amount of EUR 6,423,105. National Cofinancing has been provided in the 2019 RS budget in the amount of RSD 18,224,000.

4. Expected impact on employment and gender

An indirect impact on higher employment is expected, since costs for the economy in terms of administrative barriers will be reduced and savings achieved, which can result in job creation. A direct impact on the gender aspect cannot be anticipated, because the reform is gender neutral.

5. Potential risks

A risk is also a potential delay of the software project for the Register and PSC, which may be overcome by setting up the register directly on the e-Government Portal.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2012 (BV)	2014	2016
Administrative burden on businesses, in % GDP – (TV 2020: 3%)	3.7	3.46	3.26

Structural reform 13 Improving the effectiveness of inspection oversight

1. Reform outline

The effectiveness of inspection oversight will be improved further by amending certain legal provisions, such as the Law Amending the Law on Inspection Oversight adopted in December 2018 ("Official Gazette of RS", No. 95/2018). This law include novelties in inspection oversight through new institutes: mystery shopping, the implementation of the Plea Bargain in Misdemeanour Cases, mixed supervision and more efficient administrative enforcement.

The part of the reform which refers to the establishment of a single IT system **e-Inspector**, which was initiated in November 2017, enables the improvement of coordination of inspectorates, legal regulation and establishment of an information system in order to efficiently exchange data and electronic documents during planning and implementation of inspection oversight, which is a goal of the RS Public Administration Reform Strategy and the Law on Inspection Oversight.

The reform initiated in 2015 with the adoption of the Law on Inspection Oversight recorded very good results, primarily through the work of the Coordination Commission for Inspection Oversight and the improvement of inspection oversight planning, which is now based on risk analysis; interdepartmental coordination among inspectorates has been improved; the introduction of checklists has improved and harmonised oversight by simplifying it to a significant extent, both from the point of view of inspectors and the subjects of supervision. By introducing risk analysis in inspection oversight planning, the focus has been shifted to high-risk economic operators, resulting in a more efficient use of inspection service resources.

The transparency of inspection oversight has been enhanced with the publication of annual oversight plans, annual reports and checklists. The availability of checklists allows supervised entities to get information in advance about their obligations, perform self-check and possibly eliminate certain irregularities in their operation.

With its working groups, the Coordination Commission for Inspection Oversight has significantly improved cooperation among inspectorates, through joint oversight planning and implementation.

Planned activities

During 2019, the plan is to adopt the Action Plan for the Employment of Young Inspectors based on public competition results, analyse the capacities of central-level and local government inspectorates, as well as to establish a single IT system e-Inspector in central-level inspectorates and implement the Memorandum of Understanding with the Inspector Network Association.

In 2020, the plan is to adopt and publish annual plans of all central-level inspectorates, including the Border Phytosanitary Inspectorate.

For 2021, the plan is to continue with activities from 2020 – the adoption and publication of annual plans of all central-level inspectorates, including the Border Phytosanitary Inspectorate.

2. Expected impact on competitiveness

Further implementation of inspection oversight reform by applying the e-Inspector software, recruitment of young inspectors and cooperation with the Inspector Network Association will contribute to higher efficiency of inspection services and, consequently, a higher level of satisfaction of businesses with inspection oversight and informal economy reduction.

3. Estimated costs of activities and funding sources

Activities are funded by the budget, except for the wages of the staff in the Coordination Commission Support Unit, which are financed by the funds of the European Bank for Reconstruction and Development. The e-Inspector software implementation in all inspectorates will require the purchase of new IT equipment for inspectors, which will be provided through public procurement organised by the Office for IT and E-Government. Once the Action Plan for the Employment of Young Inspectors for 2020 is adopted, the costs of implementation of this activity will be known.

4. Expected impact on employment and gender

With the implementation of the Action Plan for the Employment of Young Inspectors, which will be adopted during 2019, the increase in employment is certain to take place during 2020.

5. Potential risks

The risks for the implementation of activities related to young inspectors' employment primarily relate to the ban on employment which has been extended to the end of 2019.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019	2020	2021
Annual plans of all Inspections adopted	December	December	December	December
Action Plan for the Employment of Young Inspectors adopted	-	Q3	30% implemented	60%
Implementation of the e-Inspector software in central-level inspectorates	Four inspectorates	All central-level inspectorates	All central-level inspectorates	All central-level inspectorates
Media Plan for Promoting the Profession of Inspector prepared	-	100% prepared	100%	100%
New portal of the Coordination Committee for Inspection Oversight developed	Public procurement procedure implemented	50%	50%	-

<u>Structural reform 14</u> Improvement of the geospatial sector as support to investment decision-making process

1. Reform outline

By establishing the National Spatial Data Infrastructure (NSDI), and improving the address register and the mass real estate appraisal system, a strategic **Digital Geosector Platform** is created, through which the cadastre will play an important role in most systems. The combined datasets available through web services, their efficient, fast and high-quality exchange will enable citizens, economic operators and education institutions to easily identify and comfortably access the desired data, thus obtaining information that is crucial for quality investment decision-making at all strategic levels.

The RGA defined its roadmap in 2017 in the document titled Strategies of Measures and Activities for Increasing the Quality of Services in the Area of Geospatial Data and Registration of Property Rights in Official Government Records – Reform Path of the RGA until 2020 (Official Gazette of RS, no. 8/2017).

The organisational setup of the Regional Centre for Geospatial Data Management has been completed; the National Geoportal GeoSerbia has been set up and brings together all spatial data at the central level, enabling the taking over of vector data; 30 services (datasets) have been established in line with the INSPIRE Directive; apart from public insight into the real estate market based on the Real Estate Price Register data, the functionality of online data provision to professional users has been established. Through the Improvement of the Address Register Project, the existing address registry and the register of spatial units will be improved and updated, and full interoperability with other registers using address data will be established.

Planned activities

a) Activities planned for 2019:

Prepare and adopt the implementing legislation on the NSDI and the NSDI Strategy; prepare and adopt the legislation and bylaws (implementing legislation) on mass real estate appraisal; prepare and adopt the Law on Address Register and Spatial Unit Register.

b) Activities planned for 2020:

Harmonise the RGA spatial data and improve the National Geoportal; develop and implement the mass appraisal system; update the data in the Address Register and the Spatial Unit Register.

c) Activities planned for 2021:

Support the harmonisation of spatial data of other entities, preparation of metadata and services for the National Geoportal; implement the mass appraisal system into the real estate taxation system; establish the interoperability of the address register data with the data of government bodies, organisations and local government units.

2. Expected impact on competitiveness

By supporting more efficient investment decision-making, availability of information and high-tech solutions to the R&D sector and businesses, the NSDI has an indirect impact on GDP increase. The development of the mass real estate appraisal system implies the registration of all real estate movements, development of a model for mass real estate appraisal and the collection of basic data (registration in records) of all properties in the RS territory. A direct impact is expected in the form of an increase in the share of property tax in GDP from 0.6% to 0.9% (after 2020). Furthermore, an indirect impact on GDP growth is expected through the support to the SME sector resulting from lower capital price and easier access to investment loans.

3. Estimated costs of activities and funding sources

The remaining activities on the development of the mass appraisal system under the Land Administration Improvement Project are projected to cost about EUR 5 million. All activities (excluding the wages of the permanent RGA staff) are financed by loan proceeds.

Planned activity costs of the Address Register Update Project amounting to EUR 6 million are financed by donations.

Estimated costs of the implementation of NSDI activities are EUR 15 million. The activities are financed by donations, loans and the RS budget.

4. Expected impact on employment and gender

No impact is expected on the gender aspect. The impact on employment is very indirect through the support of the SME development, and thus cannot be predicted with certainty.

5. Potential risks

Insufficient interdepartmental cooperation, inadequate technical resources and administrative capacity present a potential risk. The mass real estate appraisal system is established primarily and for the most part for the purpose of the property tax collection and implies interdepartmental cooperation, as well as cooperation with local governments

Activities within the NSDI and the Address Register are carried out through the cooperation of a large number of institutions and organisations with a very different level of technical equipment and require appropriate employee competencies, which is a major challenge for the implementation of the system. The adoption of the legislation and implementing legislation within the planned timeline is of key importance for schedule of all planned activities under the NSDI and the Address Register, and a lack of funds could result in a delay or prolongation of certain activities.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019	2020	2021
Share of property tax in GDP	0.80	0.85	0.90	0.95
Loan-to-value ratio	65%	69%	75%	79%
Number of settlements where the Address Register has been updated	81%	100%	100%	100%
Number of harmonised data sets within the NSDI	4	13	20	25
Number of available NSDI services	30	34	45	50

3.4. Area RESEARCH, DEVELOPMENT AND INNOVATION, AND DIGITAL ECONOMY

a) Analysis of main obstacles

Serbia has R&D potential, which should be fostered and leveraged more apporpriately if we wish to have a knowledge-based economy. Key issues in this area are the following: insufficiently efficient model of financing support to science, a lack of support to business innovations, insufficient private sector nvestment, insufficient links between the business and academic community, brain drain, low availability and slow introduction of digital technologies, products and services, as well as the need for communication infrastructure standardisation.

The academic and research network of Serbia is not integrated into European and global networks due to insufficient investment and a small number of financial instruments to support research and innovation. The total expenditure for science in Serbia amounted to 0.9% of GDP in 2017, which was half the EU-28 average (2.03% of GDP), with only a third coming from the private sector. Only 10.1% of total investment in science in 2017 came from the non-financial (business) sector, which was marginally higher than in 2016 (9.2%) and well below the EU-28 average (55%). One of the reasons for such low business sector investment is the lack of tax incentives for companies that carry out research and innovation activities, as well as the lack of favourable loans to innovative projects of companies.

The R&D orientation towards business is relatively low, which is also reflected in Serbia's ranking in the *2017-2018 Global Competitiveness Report* (GCI) – in terms of the quality of the cooperation between university and business, it is ranked 79 among 140 countries. What also poses a problem is the fact that scientists rarely move from academia to business and vice versa, and in order to raise the level of innovation in Serbia, this type of mobility is also needed. In order to improve cooperation with companies and increase investment in the private sector, Serbia proactively invested efforts in the preparation of the national smart specialisation strategy, in cooperation with the European Commission.

The evaluation of institutes will enable, together with the Smart Specialisation Strategy, the reorganisation of institutes in line with the needs and priorities of businesses and the government. The sectoral reform plan also includes the introduction of the result-based management system. The establishment and operation of the RS Science Fund presents an instrument which should improve and regulate the area of support to R&D activity for the purpose of providing conditions for a continuous development of R&D activities in the RS, which are necessary for the progress of knowledge-based society. The final outcome includes stable and better financing of researchers and science and a higher contribution of research and innovation to Serbia's economic development.

Institutional support of the Government through the Fund for Innovation Activity entails the facilitation of cooperation between investors and international donors, in order to secure higher investment funds, promote cooperation between universities and businesses so that scientific achievements would be transferred to the real economy, as well as support the work of SMEs engaged in innovation activities. The most important form of support originates from the Programme for Cooperation between Science and Business, promoting the commercialisation of R&D results and closer cooperation between science and business. Under the Fund for Innovation Activity through the Technology Transfer Facility (TTF), a new service has been launched for SMEs – innovation vouchers. Innovation vouchers are a financial incentive which enables SMEs to use the services of the R&D sector to raise the level of innovation of its products and become more competitive in the market. By the end of May 2018, when the first public call was closed, 114 contracts with 98 SMEs were signed as part of this service, in the total amount of about EUR 600,000. A new public call for the continuation of the Programme of Cooperation between Science and Business, as well as the second public call for innovation vouchers, were published on 3 October 2018. The funds for the implementation of both programmes were provided by the RS budget.

Statistical data on the number of researchers are not fully aligned with the international standards, which presents an obstacle to a more detailed dialogue on the policy in this area.

The lack of professional staff in the field of information and communication technologies (ICT) significantly limits economic growth and innovation. According to the country's capacity to retain and attract talents, Serbia ranked 132nd among 137 countries in 2017 (GCI). In Serbia, there are 3,244 employees in the research and development sector per million inhabitants, which is insufficient compared to 5,000 in the EU-28 countries. Among 16,182 researchers (65% or 10,583 with PhD degree) 10% are employed in the non-financial sector. The lack of "research visa" and unregulated reintegration of researchers – returnees, are some of the reasons for the low competitiveness of Serbia in the area of science.

According to the **Global Innovation Index** (GII), in 2018 Serbia ranked 55th (among 126 countries), rising seven positions relative to the previous year and placing above eight EU member states in the category of "moderate innovators" that recorded between 50% and 90% of the EU performance average. The largest progress (by 9 positions) was recorded in the area of *Business Sophistication*, while among the seven innovation criteria, the area of *Infrastructure* received the highest score (ranking 48th), while the *Market Sophistication* ranked the lowest (101st), covering ease of getting credit, investor protection and the number of projects financed by venture capital. On the other hand, in the *Technological Readiness and Innovation* pillar, Serbia moved up by 3 ranks relative to the previous year. In designing mobile phone applications, according to the new indicator which measures how the digital economy is developing globally, Serbia ranks 15th. According to the Global Innovation Index Report, Serbia ranks among the countries that improved their business climate, increased productivity and foreign investment inflow, and focused on the production of ICT goods and services. Consequently, the RS exports of ICT services reached EUR 899 million in 2017, up by 21.5% y-o-y.

In July 2018, the Government adopted the Action Plan for the Implementation of the RS Strategy for Scientific and Technological Development 2016-2020 – Research for Innovation. Based on the analysis of the state of play and key problems faced by our society, the action plan defines measures for improving excellence and relevance in the area of science and innovation ecosystem based on objectives defined by the Strategy, as well as instruments and guidelines for their achievement.

Serbia is well prepared in the area of science and research. Certain progress has been achieved with regard to innovation policy and participation in the EU research programmes. During 2019, the RS should implement the National Research Strategy and, in particular, promote cooperation between industry and academia[31].

31 EC Serbia Progress Report for 2018, p. 37

The communication infrastructure in Serbia needs to be systematically improved, both the regulatory framework and the area of investment. **The number of fixed broadband internet subscribers is stable at about 1.49 million, i.e. 59.52%, while 53.3% of fixed broadband internet subscribers use the speed of 10 Mbit/s to 30Mbit/s** (Overview of Electronic Communication Market for Q2 2018 by RATEL). **Access to computers and the internet in companies is widespread**, since all companies use computers and are connected to the internet.

According to the **Network Readiness Index**[32], which is an indicator of the country's digital economy development or the **readiness of the country to join the IT sector**, in 2016 Serbia ranked 75th among 139 countries ranked. Although Serbia has improved its position over the past few years, it still ranks below most Central and Eastern European countries: the Czech Republic (36), Poland (42), Slovakia (57), Hungary (50), Romania (66), and Bulgaria (69).

The World Economic Forum indicators (*Global Competitiveness Index and Network Readiness Index*) confirm the necessity of broadband system development, but do not point explicitly to the main causes of those low rankings of administration, which is why the DESI index is more acceptable in that respect. The DESI index is a digital economy and society index measuring the progress of EU member states in terms of the development of digital economy and society. For Serbia, DESI 2017, which refers to the data for 2016, is 0.367, ranking it 27th among 28 EU member states and the RS. This data shows that Serbia made progress relative to the previous year (when it was next to last in comparison with the stated countries). The low DESI 2017 value is predominantly a result of the lack of fixed broadband access. The DESI index could be increased by improving the Connectivity category, i.e. if fixed high-speed networks are provided.

High administrative costs and complexity of procedures for obtaining the necessary permits for construction of optical networks are some of the identified obstacles to the development of the communications infrastructure, which have been significantly reduced with the introduction of the system of electronic construction permit issuance based on the centralised software application for integrated procedure (one-stop shop). The unused network of optical cables with 80 nodes, which has been constructed on a grid of transmission lines of the total length of 6,500 kmt can be the basis for the formation of the national broadband network. The problem of a standardised communications infrastructure that would provide fast, reliable and secure connection to the internet to all the users within institutions can be resolved by using the national telecommunications network. Significant progress has been made in connecting education institutions, since the connection to the Academic Network of the Republic of Serbia (AMRES) was contracted for 1,750 primary and secondary schools. By June 2018, the total of 1,879 education, scientific and cultural institutions were connected to the AMRES network, of which 1,557 primary and secondary schools.

The development of digital economy in Serbia also depends on the improvement of legislation regulating this area. With the adoption of the Law on Electronic Document, Electronic Identification and Trust Services in E-commerce (Official Gazette of RS, no. 94/17) in line with the EU acquis, certain progress has been made in the area of electronic communications and ICT. Besides, by establishing the Office for Information Technology and E-government of the RS Government, Serbia became the first country in the region to have provided a legal and institutional environment in which the creation of digital economy has been set as the highest priority.

32 Source: The Global Information Technology Report, World Economic Forum

In October 2017, the Government approved the Bill on Electronic Communications. Since this bill, which defines the general framework for the development of this area, has still not been put in the parliamentary procedure, further activities on the preparation of the Draft Law on Broadband Communications Infrastructure are not proceeding in line with the planned timeline.

Structural reform 15 Set of measures providing financial support to research and innovation contributing to the development of the knowledge-based economy

1. Reform outline

Apart from support to innovation and technological development projects in R&D organisations and the business sector, this reform also involves support to technology transfer, implementation of joint projects by public R&D organisations and private companies, as well as the introduction of the research result-based management system.

The Law on the RS Science Fund (Official Gazette of RS, no. 95/2018) regulates the establishment and operation of the Fund, which will be established in 2019. The RS Science Fund presents an instrument which will improve and regulate the area of support to R&D activities, builds upon the institutional framework and, with the existing financing of innovation projects in the private sector (through the Fund for Innovation Activity) will have a larger effect on the progress of knowledge-based society.

During 2019 an independent international evaluation of Serbian public research and development institutes will be conducted in order to enhance their efficiency and capacities for collaboration with the private sector through technological projects. The Action Plan to the Strategy, which was adopted in July 2018, defines the measures and instruments which contribute to the improvement of this structural reform.

Planned activities

In 2019, the plan is to implement the Competitiveness and Jobs project for enhancing competitiveness and employment, financed by the World Bank funds, Early Development Programme and Innovation Co-financing Programme, as well as other programmes financed by the Fund for Innovation Activity, including innovation vouchers, TTF and the Programme of Cooperation between Science and Business. In the same year direct grant agreements under IPA 2013 and IPA 2014 will be implemented, as well as the Western Balkans Enterprise Development and Innovation Facility (within ENIF), and the RS Science Fund will be established.

In 2020, the implemetation of projects under the Competitiveness and Jobs project, IPA 2014 and ENIF, as well as the programmes of the Science Fund, is planned to continue.

In 2021, the implementation of the operational budget of the Fund for Innovation Activity is expected, as well as further implementation of the IPA 2014 projects, programmes of the Science Fund and ENIF, and the new direct grant agreement under IPA 2018.

2. Expected impact on competitiveness

With the new systemic solution involving the establishment of the Science Fund, the existing potential will be used, as in other countries which have succeeded in achieving a long-term economic development effect, demonstrating the key importance of science for sustainable economic growth, with the aim of supporting research for greater and better use of research results contributing to the country's economic development. In the long term, the reform will result in higher competitiveness of the economy, which will be capable of increasing budget revenue due to higher own revenue.

An analysis of the results achieved by the companies funded through the Innovation Support Project in Serbia (IPA 2011) in the period from 2012 to 2017, has shown a significant increase in the financed companies' operating income, from EUR 7.67 million in 2012 to EUR 20.19 million in 2017. A very high rate of survival of newly-established innovative companies of 89.5% is also worth mentioning (which means that 34 of 38 supported companies are still in business). During 2016 and 2017 (after the completion of project implementation), the operating income of supported start-ups increased by almost 60% relative to 2015 (from EUR 4.34 to 7.43 million).

3. Estimated costs of activities and funding sources

In the 2019-2021 period the structural reform is financed from several sources: three direct grant agreements from IPA 2013, IPA 2014, as well as the planned project from IPA 2018. Financing by IPA funds is planned in the total amount of EUR 17,799,748, accompanied by co-financing from the RS budget in the amount of EUR 7,124,895. The structural reform will be financed by the proceeds of the WB Competitiveness and Jobs loan in the amount of at least EUR 4,720,000, funds of the Enterprise Innovation Fund C.V. (ENIF) under the Western Balkans Enterprise Development and Innovation Facility in the amount of EUR 614,063, as well as the operating costs of the Science Fund in the amount of EUR 1,440,000 for the 2019-2020 period, while the exact amount of funds needed for the establishment and implementation of the RS Science Fund Programme will be determined during 2019 (estimated at EUR 87 million).

4. Expected impact on employment and gender

The positive impact on employment is expected through a contribution to the creation of long-term sustainable, well-paid and highly-skilled jobs. The Fund provides funding through its instruments, thus supporting the jobs for the duration of the project, and the analysis of the companies financed under the previous calls shows a very positive effect on the creation of new jobs, once the funding has run out. By supporting Fund Programmes, the Science Fund will also contribute to science excellence and relevance, with a higher impact on businesses and citizens.

5. Potential risks

Delays in funding provision and cash flows, insufficient coordination of participating institutions and inadequate capacities of institutions (with regard to hiring restrictions); inadequate implementation of other envisaged reforms in the sector of science and innovation; relatively low interest in cooperation on the part of businesses and science; lack of potential technologies for commercialisation in R&D organisations; low interest on the part of researchers in participating in the commercialisation process, as well as low interest of researchers employed in science institutes.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2016	2017	2018	2019	2020	2021
Number of newly established project partnerships between the business and academic sector	22	36	36	46	56	66
Number of newly established innovative companies	156	233	279	320	360	400
Number of registered patents	58	65	71	76	81	86
Number of highly-skilled staff employed through the supported projects	459	641	700**	750	800	850
Number of published papers in the Web of Science (*All documents*) *	7221	7038*	7100 (5071)*	7200	7300	7400
Number of researchers per million inhabitants	1238	1570	1600	1650	1700	1750

** Number of published papers for 2017 and 2018 is not final*
*** Number of highly-skilled staff – projection, at the time of preparation of this programme, no official data were available for 2018.*

<u>Structural reform 16</u> Improvement of e-government services through the development of national ICT infrastructure

1. Reform outline

Structural reform implementation implies, apart from legislative improvements, the construction of high-flow networks, as well as a consolidation of existing networks, in order to provide modern e-government services to all users. The Law on Broadband Communication Infrastructure (currently under preparation), aims at alignment with Directive 2014/61/EU on Measures to Reduce the Cost of Deploying High-speed Electronic Communications Networks. In the following years, more education and cultural institutions are expected to be connected to AMRES. The implementation of activities will depend on the availability of funding estimated at EUR 20 million. The unit in charge of broadband communications infrastructure will work on building administrative capacity in order to ensure the support to the implementation of a pilot project. A part of the reform are also the so-called Connected Schools, activities aimed at improving and modernising education institutions and improving the communication infrastructure in schools, which will provide technical requirements and tools for the envisaged education curriculum reform.

Since its formation, the digitalisation programme of the Government of Serbia, has mostly been implemented through the Serbia at Your Fingertips – Digital Transformation for Development project. This project consists of five segments. The first three refer to the development of the e-Government system, the fourth includes support to the implementation of activities on the Ministerial Councils' agenda, while the fifth includes support to the implementation of large infrastructural projects. An example of a large infrastructural project is the project of construction of a secondary State Centre for Data Management and Storage – Data Centre in Kragujevac, which will house the RS ICT infrastructure, contributing to the smooth provision of e-government services, safe storage of register data, as well as the development of future services, as well as the digital transformation of Serbia.

Planned activities

In 2019, the plan is to adopt the Law on Broadband Communications Infrastructure. In the same year, the speed of connecting education and cultural institutions to the AMRES is planned to be increased, project documentation for the pilot project prepared, as well as stable domestic or international funding found for the execution of works on the construction of access optical networks. In 2019, the plan is also to collect the data, conduct a needs analysis, prepare a feasibility study and terms of reference, select the location, prepare the design, obtain the necessary construction permits, construct the secondary State Centre for Data Management and Storage – Data Centre in Kragujevac, and procure ICT equipment for the secondary Date Centre. Moreover, the Decree on Detailed Conditions for Maintaining and Upgrading the State Centre for Data Management and Storage is to be adopted. In 2020, the plan is to construct FTTH networks, which will connect 30,000 – 40,000 households in rural areas, in proportion to the amount of secured funds. During the same year, the plan is to purchase additional ICT equipment for the secondary Data Centre and possibly expand infrastructure capacity. During 2021, the plan is to work on further implementation of incentives for high-speed network construction. Connecting education and cultural institutions to the AMRES, as well as the construction of wireless local area networks in primary and secondary schools in Serbia, Connected Schools, is envisaged as a continuous activity in the three-year period.

2. Expected impact on competitiveness

Communication infrastructure development is a reform measure that has a multiplier effect on the overall economy. Broadband access to the internet and ICT leads to faster, more secure and more efficient business operation, which will increase the productivity of companies and reduce operating costs. This reform has a particularly positive impact on the development of rural areas, interconnection of economic regions, as well as on the development of industrial zones and increased use of new technologies and innovations in business.

With education digitalisation, the new generations will be provided the adequate basis, so the children will be competitive relative to their peers globally. Systemic support to the digitalisation of formal education will contribute, inter alia, to the development of IT professionals. Innovative classes will stimulate the development of digital skills required for all jobs of the future. The project of construction of the secondary State Centre for Data Management and Storage – Data Centre in Kragujevac, in which the ICT infrastructure of Serbia will be housed, will improve the operation of public administration by accelerating procedures, introducing new services, increasing accuracy and efficiency, which will then result in a simplification of administrative procedures and provision of services to citizens and businesses, and contribute to Serbia's digital transformation.

3. Estimated costs of activities and funding sources

Broadband infrastructure development is planned to be funded mostly by the RS budget funds, in the amount of EUR 2,246,171 in 2019, EUR 22,440,969 in 2020 and EUR 34,304,868 in

2021. The activity of the adoption of the Law on Broadband Communication Infrastructure does not require the engagement of external experts or additional funds for implementation. The activity of connecting cultural and education institutions to the Academic Network of the Republic of Serbia (AMRES) is an on-going activity which does not require additional funds for implementation relative to 2018, the initial year. For the construction of the secondary State Data Centre, the following amounts have been planned in the RS budget: RSD 1,200,000,000 in 2019 and RSD 2,400,000,000 in 2020, whereas the funds required in 2021 will be defined at a later stage.

4. Expected impact on employment and gender

Broadband communication network construction, coupled with the consolidation of data warehouse and storage centres and data of different institutions and agencies into a single data warehouse and storage centre, which enables the provision of virtual services such as cloud services, will contribute to employment and encourage e-commuting and increase the number of jobs in practically all the sectors, including the ICT sector. Increasing the level of knowledge, competences and skills in the area of IT technologies will open up job opportunities in the IT area, but also in other areas in which new technologies are being introduced or increasingly used. The introduction of digital technologies into the teaching process will result in raising the level of digital literacy and digital competencies. The acquisition of knowledge and skills in the area of information technology, which presents one of the fastest growing industries in the world, will contribute to better competencies, greater possibilities, and easier employment of the youth in the future.

5. Potential risks

The following have been recognised as potential risks: difficulties in identifying funding sources in order to meet the defined timeline, weak cooperation between institutions, as well as institutions/companies managing unused optical fibres. Potential risks in the implementation of planned activities related to the construction of the secondary State Data Centre have been identified in the stated phases of the terms of reference.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2016 (BV)	2019	2020	2021
Fixed broadband network coverage, % of households **Source: DESI index**	89.2	93.5	94	94
Utilisation of fixed broadband access, % of households **Source: DESI index**	57.5	61.5	62.5	62.5
Fast-speed broadband networks subscribers, % subscribers >=30Mb/s **Source: DESI index**	17.2	23	25	25
Number of government authorities and organisations, authorities of the territorial autonomy and local government and public services which will use the secondary Data Centre, as well as companies which will use the Data Centre on a commercial basis		20	50	80

3.5. Area TRADE-RELATED REFORMS

a) Analysis of main obstacles

Full execution of investments from the previous period, economic recovery of Serbia's main trading partners, more favourable terms of trade and better business enviroment have contributed to a significant improvement of Serbia's balance-of-payment position. However, incomplete integration in the international economic system (in particular in the service sector) and unfavourable export structure present the greatest challenges in the following period.

Serbia's foreign trade volume has been increasing and grew from EUR 19 billion in the first six months of 2018 **by 10% y-o-y**, with imports growing at 11.7% (EUR 10.5 billion), slightly faster than exports that grew by 7.7% (EUR 8 billion). In the same period, **the foreign trade deficit increased by** 26.9% y-o-y, while the import coverage by exports was 76.4%. The terms of trade (indicator of export purchasing power per unit of import) went down by 1.8% in 2017.

The most important foreign trade partners of Serbia were the countries with which Serbia has signed free trade agreements. The EU member states account for 64.5% of total trade. In 2017, exports to EU rose by about EUR 1.1 billion (by 12.1% y-o-y), with the trade deficit also increasing by 12.9% y-o-y. **The second most important partner are CEFTA parties**, with which Serbia has a EUR 1.7 billion trade surplus, mainly as a result of exports of agricultural products (cereals and various types of beverages), iron and steel, metal products and road vehicles.

The growth of exports and total foreign trade volume was accompanied by an improvement of export structure. This is especially the case in trade with the EU, as the most important trading partner, where since 2013, the first place in exports after decades has been occupied by products of a higher processing phase (cars, machinery parts, electrical equipment) instead of raw materials and semi finished products, which was the case in the previous period. This trend is largely due to export-oriented EU investors in production activities that place their production on the EU markets.

Current account deficit reduction in the first six months of 2018, was, for the most part, a result of higher service account surplus, in particular due to ICT services. ICT service exports from Serbia reached EUR 516 million, which is a 26.2% y-o-y growth. Wide export dispersion is ensured by the diversification of FDIs in a large number of sectors producing tradeables.

Serbia retained its 23rd position on the *Doing Business 2019* list**, according to the foreign trade indicator**. The most important activity for a good ranking in this area is the **efficient implementation of the NCTS (New Computerised Transit System) by the Customs Administration,** as well as **the introduction of e-customs system. In the area of goods market** (Global Competitiveness Index 2018), Serbia was ranked 66th among 140 countries, with its best competitiveness ranking being *Tariff Complexity* (65th), while the worst ranking was for *Market Domination Volume* (106th). Improvement was recorded in most subindicators, with the largest progress related to the issues on the level of competition in the area of professional, retail and network services, as well as non-tariff barriers, while the largest decline was recorded in the level of international openness of the service sector.

Serbia is not fully integrated in the international economic system, because it is not a member of the World Trade Organization (WTO). WTO membership is a precondition for

EU membership, and in Europe it is only Bosnia and Herzegovina and Belarus that are not part of this organisation either. The process of Serbia's accession to the WTO has been in progress since 2005 and covers two components, multilateral and bilateral. As regards the multilateral component (systemic issues), the only open issue that remains is the ban on foreign trade in GMO products, which presents the greatest obstacle to the completion of the WTO accession process. Activities have been initiated for the purpose of aligning the domestic legislation regulating trade in GMO products.

For the purpose of deepening foreign economic relations, the free trade agreement (FTA) with Turkey has been revised, creating room for trade expansion through additional liberalisation for agricultural products and expansion of the Agreement to service trade. On 30 January 2018, the revised FTA with Turkey was signed in Ankara, ratified by both sides. The unification of the trade regime with the Eurasian Economic Union is aimed at harmonising the single trade regime, which would replace bilateral FTAs with the Russian Federation, Belarus, Kazakhstan, adding Armenia and Kyrgyzstan, by a single agreement, since the stated five countries are now part of a single customs area. Negotiations on the Unification of Agreements began in November 2017. As regards the FTA with Ukraine, no progress has been made in negotiations since 2013. The Serbian side has launched certain activities that should lead to progress in these negotiations.

Structural reform 17 Improving the conditions and removing barriers to trade

1. Reform outline

In the WTO accession process, Serbia met most of its obligations back in 2010. The open issues now remain within multilateral cooperation, and are related to the ban on foreign trade in GMO products, which is currently prescribed by the RS legislation, as well as unfinished bilateral negotiations with Brazil, Ukraine, Russian Federation and the US.

For the purpose of achieving the goals of regional trade integration provided for by the Multiannual Action Plan for the Regional Economic Area (MAP REA), activities are conducted aimed at the execution of obligations under the CEFTA Additional Protocol 5 on Trade Facilitation, adoption of the CEFTA Additional Protocol 6 on Trade in Services and opening of negotiations on the CEFTA Additional Protocol 7 on Dispute Settlement.

Under the National Coordination Body for Foreign Trade Facilitation (NCBFTF) and with the active participation of the private sector, in May 2018 four working groups were established: for agriculture, sanitary and phytosanitary measures; technical barriers and trade equalisation measures; customs procedures; and for coordination of trade facilitation activities under international and regional trade agreements. In July 2018, the **Action Plans for 2018 and 2019 were adopted** at the level of each of the four working groups. Significant concrete results have been achieved in eliminating individual barriers in the region, in particular with Bosnia and Herzegovina and Macedonia.

Planned activities

For 2019 the plan is to align regulations and bilateral negotiations within the process of the WTO accession. In the same year the CEFTA Additional Protocol 6 on Trade in Services is expected to be adopted and become effective, while the competent ministries and administrations are expected to coordinate their activities on the execution of obligations under Additional Protocol 5. Negotiations on the CEFTA Additional Protocol 7 on Dispute Settlement are expected to start in early 2019. The implementation of concrete activities is envisaged by individual action plans for 2018 and 2019 for each of the four working groups of the National Coordination Body for Foreign Trade Facilitation (NCBFTF). If the process of WTO accession on the multilateral and bilateral level is not completed in 2019, it will continue in 2020, when the CEFTA Additional Protocol 7 on Dispute Settlement is expected to be adopted and become effective. The activities of the NCBFTF working groups will be later defined by future Action Plans for 2020 and 2021.

2. Expected impact on competitiveness

The WTO accession, trade facilitation under the stated additional protocols to the CEFTA, as well as the NCBFTF activities related to trade facilitation, will have a significant impact on the lifting of trade barriers, and, consequently, increase in the competitiveness of Serbian companies in the regional market, as well as the growth and progress of Serbia's economy.

3. Estimated costs of activities and funding sources

Implementation of the stated activities will have an impact on the budget with regard to the increase in the number of staff working on these tasks. In view of the regional character of the activities stemming from the previously mentioned CEFTA additional protocols and MAP, support is expected from international sources. When it comes to project activities related to the implementation of this reform, for now, no increase in costs is expected in the coming years compared to 2018, which is taken as the base year.

4. Expected impact on employment and gender

The described activities will have a positive impact on employment growth and realisation of the gender equality principle.

5. Potential risks

One of the potential risks for reform implementation lies in the fact that the WTO accession implies multilateral negotiations and that the conclusion of the process also depends on other participants (WTO member states). Furthermore, the regional character of the reforms planned under the MAP REA entails the participation of a number of parties, which may lead to delays in the implementation of certain activities in this part of the reform, on which the Republic of Serbia does not have impact. Apart from exogenous factors, there is still a distinct lack of administrative capacity for the CEFTA and MAP implementation in the units dealing with the WTO accession, trade relations with the EU, as well as NCBFTF coordination in the Ministry of Trade, Tourism and Telecommunications.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018 (BV)	2019	2020	**2021**
Foreign trade growth rate – globally	10%	10.1%	11.5°%	12.0%
Foreign trade growth rate – CEFTA region	8.6%	9.0%	10.4%	11.2%
Foreign trade growth rate – EU	9.6%	10.5%	11.9%	12.7%

3.6. Area EDUCATION AND SKILLS

a) Analysis of main obstacles

Well educated and competent labour force has a major impact on the economy's competitiveness – it enables the development of high value-added products and services, stimulating domestic and foreign investments. However, apart from further investments in the education system for the purpose of human capital development, numerous challenges arise in this area: lower quality of primary education reflected in the ability to apply acquired key knowledge and skills, low share of population with university degrees, insufficiently regulated system of qualifications acquired through education, mismatch between labour qualifications and labour market needs, and the "brain drain".

The main challenges in social care for preschool children (children 0.5 to 3 years of age) **and preschool education** (children 3 to 5.5 years of age and children 5.5 to 6.5 years of age for whom the preparatory preschool programme is mandatory) **include insufficient capacity from the point of view of the number of children and network of institutions** (in 2017/2018 403 preschool institutions with 2,784 facilities). There is a significant disproportion between the number of children and institutions in rural and urban areas. **The coverage of non-compulsory preschool education is relatively low – around 62%**, still lagging behind the EU standard of over 85%. On the other hand, **the coverage of compulsory preschool education** (from 5.5 to 6.5 years of age) is relatively **satisfactory** at **98%**, although there are significant differences depending on the region observed.

About 22% of people over the age of 15 **have not completed primary education** (2011 Census), although primary education has been mandatory and free in Serbia for over 50 years. **The quality of primary education in Serbia is below the OECD average**, measured by the PISA[33] test in 2012 – 15-year-olds from Serbia scored on average 60 points below the OECD average of 500. However, according to the results of the 2015 TIMSS[34] study, students from Serbia scored **above average** – the average score for Serbia is 518 points, 18 points above the international average. For the purpose of modernising classes and improving digital literacy, since September 2017 a compulsory subject has been introduced for fifth-grade pupils – IT and computer science**.**

In 2017 **the coverage of children by secondary education** was **89,2%**, while the **dropout rate** was **1.5%**, according to the Statistical Office of the RS (SORS). Serbia is one of the few countries when secondary education is still not compulsory.

In order to address the mismatch between labour qualifications and labour market needs, in November 2017 the **Law on Dual Education** was adopted. In accordance with the Law on Dual Education, three rulebooks have been prepared, defining in more detail the work of the team for student career guidance and counselling in the dual education system, assigning students to learning through work and training programme, detailed conditions and other issues of importance for taking instructor exams. The goal of the law is to create conditions for acquiring, improving and developing competences in line with the labour market needs. In 84

33 The Programme for International Student Assessment (http://www.oecd.org/pisa) is the largest triennial international survey that tests the achievements of 15-year-old students. It measures student performance in reading, mathematical and scientific literacy, and as of 2018 financial literacy. Serbia did not participate in the 2015 PISA testing.

34 Trends in International Mathematics and Science Study, http://www.ipisr.org.rs/timss/o_istrazivanju_timss – a project of the International Association for the Evaluation of Educational Achievement is carried out once every 4 years, with fourth-grade and eighth-grade students. It is an achievement test in mathematics and science.

secondary vocational schools in the territory of Serbia, there are 33 dual education profiles in various areas of work. The total number of students enrolled in the first grade in the 2018/2019 school year is 2,960. The number of interested companies in which learning through work will be conducted is 600 (source: Serbian Chamber of Commerce (SCC)). In terms of the local economic development it is especially important that a number of companies interested and involved be in the category of small and medium-sized enterprises.

The share of the population with higher education in Serbia is low and amounts to only 10.6% (2011 Census). The situation is somewhat better when it comes to the share of the active working age population with a university degree – 25% (LFS, 2017). In **the field of higher education**, some of the key challenges have been identified: **enrolment quotas that do not correspond to market needs**, **duration of study** (almost twice as long as the duration of the study program), **limited opportunities for acquiring practical knowledge** (businesses do not participate in formulating the curriculum, and students are not encouraged to work on their professional development outside the faculty), **questionable quality of research papers**. Persistent challenges include a **lack of teaching premises** (especially in university centres outside Belgrade), relatively **outdated research equipment**, etc.

Current **investments in education, due to inadequate education systems**, are not sustainable, as they **do not create university educated young people who are competitive in the labour market**. Unemployment rate among young people aged 15-24 of 25.35% (LFS, Q3 2018), although declining, is still high and is one of the consequences of the education system. In order to ensure a better match between supply and demand, the challenge is to establish systemic monitoring of labour market needs and align curricula.

Structural reform 18 Qualifications oriented to labour market requirements

1. Reform outline

The purpose of establishing the National Qualifications Framework of Serbia (NQFS) is to organise and improve the qualifications system in accordance with the requirements of socio-economic development, to support the implementation of the lifelong learning concept and ensuring compatibility with the European educational space and to facilitate labour mobility.

Also, the establishment of a dual education system will enable high school students to move more easily from the world of education to the world of labour, encourage students to be more entrepreneurial and motivate them to start their own business and join the world of labour. The stated reforms will benefit both employers and individuals, and society as a whole.

Planned activities

The activities within this structural reform include the following: The establishment of an analytical system for monitoring and evaluation of dual and entrepreneurship education; Implementation of dual education in the area of higher education (preparation of the legislative framework); Establishment of and cooperation among education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia. The plan is also to prepare reports on links between the NQFS with the European Qualifications Framework

(EQF) and establish the NQFS Register and the system for validation of non-formal and informal learning.

a) Activities planned for 2019:

Implement dual education in the area of higher education (preparation of the legislative framework); Establish education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia; Prepare the report on connecting the National Qualifications Framework in Serbia (NQFS) with the European Qualifications Framework (EQF) and self-evaluation according to the European Higher Education Area and its adoption by the EQF Advisory Group.

b) Activities planned for 2020:

Establish the analytical system for monitoring and evaluating dual and entrepreneurship education; Ensure cooperation between education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia; Establish the NQFS Register which will comprise subregisters in accordance with the NQFS Law.

c) Activities planned for 2021

Establish an analytical system for monitoring and evaluating dual and entrepreneurship education; Ensure cooperation between education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia; Establish the system of validation of non-formal and informal learning, which will enable the qualifications also to be acquired based on work or life experience, in a special procedure, to be followed by the issuance of a certificate as a public document.

2. Expected impact on competitiveness

The purpose of establishing the NQFS is the development of a modern, relevant and flexible education system aligned with the requirements of socio-economic development, provision of support to the implementation of the lifelong learning concept and facilitation of labour mobility. With the establishment of the NQFS, it will be defined what each individual may and can do in line with acquired qualifications. By establishing a link with the EQF, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily the EU.

With the implementation of dual education at the secondary and higher education level, the improvement of human capital (knowledge, skills and competences), which will enable their easier and faster integration in the labour market, as well as of the competitiveness of economic operators operating in Serbia, is expected.

3. Estimated costs of activities and funding sources

For the establishment and implementation of the NQFS system, for 2019 funds in the amount of RSD 138,778,293 have been planned, of which RSD 4,600,000 under the MESTD and RSD 134,178,293 for the Qualifications Agency. Since the establishment of the NQFS system is one of Serbia's strategic priorities, it will also be supported by IPA 2014 and IPA 2016. Additional funds will be provided under the "Support for the Implementation of the Programme of Reform of Employment and Social Policy in the Republic of Serbia with the Focus on Employment Policy and Youth Employability Increase" project, Subcomponent 2.

In the 2019 Budget Bill, funds are planned for the establishment of and cooperation among education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia in the amount of RSD 34,480,000 and improving dual and entrepreneurship education in the Republic of Serbia in the amount of RSD 25,000,000.

4. Expected impact on employment and gender

The implementation of reforms will contribute to reducing the gap between education and labour market needs, ensuring the participation of social partners in the development of market-relevant qualifications, and therefore confidence in the (market) relevance of the education system as a whole. Attending dual and entrepreneurship education programmes will improve the level of competence and employability of students and facilitate their integration into the world of labour.

5. Potential risks

Potential risk can be the low level of participation of economic operators and other social partners in the establishment of the NQFS system and in the implementation and upgrading of the dual education model.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018 (BV)	2019	2020	2021
Number of qualifications entered in the qualifications database/register	140	190	240	290
Number of students attending the dual education system	3500	3850	4235	4665
Number of companies in which learning through work is conducted	600	800	900	1000
Number of established education training centres and excellence centres for the purpose of supporting dual education in the Republic of Serbia	1	6	6	6

3.7. Area EMPLOYMENT AND LABOUR MARKET

a) Analysis of main obstacles

Well educated and competent labour force has a major impact on the economy's competitiveness – it enables the development of high value-added products and services, stimulating domestic and foreign investments. However, apart from further investments in the education system for the purpose of human capital development, numerous challenges arise in this area: lower quality of primary education reflected in the ability to apply acquired key knowledge and skills, low share of population with university degrees, insufficiently regulated system of qualifications acquired *through education, mismatch between labour qualifications and labour market needs, and the "brain drain".*

Positive labour market trends in Serbia have persisted, although the EU level has yet to be reached. **The employment rate** of the population aged 15+ was 49.2% in Q3 2018 (EU-28: 60.5%, Q2 2018, Eurostat), an **increase of 1 p.p. y-o-y**. The **number of the employed grew to 2.9 million** (a 1.6% y-o-y increase) as a result of the increase in the number of employed persons in the formal sector by 76.9 thousand y-o-y (predominantly in the processing industry), so the total number of persons employed in the formal sector was 2.3 million.

The number of persons working in the informal economy decreased by 29.5 thousand y-o-y to 598.9 thousand informally employed persons (mostly in agriculture – 378.6 thousand). **The informal employment rate stood at 20.4%** (LFS, Q3 2018), which was a **drop of 1.4 p.p. y-o-y.**

Resolution of the high share of informal employment requires a **broad spectrum of measures** in order to mitigate the detrimental consequences on the country's economic development, in particular lower tax revenue, workers' limited access to social protection, inadequate labour contracts, low wages, as well as problems caused by job loss or retirement. The reform of labour legislation continues with the focus on work through temporary work agencies, seasonal work in certain activities, as well as social entrepreneurship and labour integration in social economic operators.

Unemployment in Serbia is at its lowest level in the past few years. The unemployment rate of the population aged 15+ was **11.3**% in Q3 2018 (EU-28: 6.8% for population aged 15-74, Q2 2018, Eurostat), which constituted a year-on-year decline by 1.7 p.p. However, there are still s**tructural unemployment challenges,** because a large number of unemployed persons have been seeking a job for more than a year (the long-term unemployment rate is 6.8%). **Long-term unemployment** leads to the obsolescence of knowledge and, since the probability of finding a job decreases proportionately to the length of unemployment, it can also **lead to permanent exclusion from the labour market**. This phenomenon is a direct consequence of the mismatch between supply and demand in the labour market.

The unemployment rate among the youth between 15 and 24 years of age of 25.3% (Q3 2018) **decreased by 3.5 p.p. y-o-y,** although it is still **significantly above the unemployment rate of their peers in the EU (**EU-28: 15%, Q2 2018, Eurostat). The decrease of the youth unemployment rate is not solely the consequence of the reduced number of unemployed people, but also of the negative demographic trend, i.e. the shrinking population aged 15-24. A particularly vulnerable group in the labour market are the youth who are not in employment, education or training (NEET). Although it dropped by 0.8 p.p. y-o-y, their share in the total number of youth was still 16.3% in Q3 2018.

Women's position in the labour market is still much more unfavourable than men's, as shown by all indicators. The disparity was the most pronounced between **employment rates**, where the difference was 15.6 p.p. (57.3% for men and 41.7% for women, LFS, Q3 2018). Women's share in the overall employed population in Serbia was 44% (LFS, Q3 2018), although their share in the overall general population was 51.3% (SORS estimate, 2017)[35].

35 It is worth reminding that in the Republic of Serbia the age retirement requirement for women is lower than for men, which affects labour market indicators.

Surplus labour due to the privatization process is a constant challenge. In the Ministry of Economy's portfolio, the status of 90 companies with about 39,000 workers has not been resolved yet. Severance pay has been paid to over 25,000 workers made redundant in 2015 and 2016, while in 2017 the number of public sector employees went down by 1,356 (947 women and 409 men).

The public employment service in Serbia **lacks human resources and infrastructure for providing high-quality support to unemployed persons,** especially for improving the labour market position of the prioritised groups (youth, redundant workers, long-term unemployed persons, cash social benefit recipients, women etc.). Employment counsellors face a heavy workload (the current average workload is 1,180 unemployed persons per employment counsellor), which decreases the efficiency and implementation of ALMPs and hampers the **targeted inclusion of unemployed persons in those ALMPs that will contribute the most to their more competitive participation in the labour market**. Most active employment policy measure beneficiaries, as many as 76%[36] of the total number of the persons included, use services aimed at active job seeking (such as job seeking training, job fairs), which have a low impact on employment. Measures such as employment subsidies and measures related to additional education and training have a much greater impact on employment, but also cost more.

In order to ensure better matching of labour supply and demand, i.e. the pairing of job seekers and employers who offer jobs, the challenge is to **establish the systemic monitoring of the skills gap in the labour market**. It is necessary to **improve counselling methods and techniques in dealing with the unemployed and employability assessment on a case-by-case basis** in line with the characteristics of individuals (education level, work experience, additional sets of knowledge and skills, gender etc.) and of the labour market. The process of certification of the National Employment Service (NES) employment counsellors has begun as part of a World Bank project.

<u>Structural reform 19</u> Increased labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, and strengthened formal employment

1. Reform outline

The adoption of new reform regulations whose implementation will result to higher labour activation of fit-for-work social welfare beneficiaries, hard-to-employ unemployed persons in accordance with employment legislation, and other hard-to-employ persons from particularly vulnerable groups, legal order and security of seasonal workers, as well as flexibility and legal security for workers leased by an agency to another employer for the purpose of performing temporary work under its supervision and management.

The establishment of the legal framework in the area of **social entrepreneurship** is expected to contribute to the activation of fit-for-work social welfare beneficiaries, hard-to-employ unemployed persons in accordance with employment legislation, and other hard-to-employ

36 Source: NES, Report on the Implementation of Service Level Agreements for 2017

persons from particularly vulnerable groups, by performing activities of public interest at the central, regional or local level.

By introducing the legislative framework for working through **temporary work agencies**, the labour legislation of the RS is aligned with the ILO and EU international standards. Although the current labour legislation does not regulate the stated agencies, they do exist in practice. With the clear definition of agencies and detailed regulation of the conditions for their operation, rights and obligations of the persons concluding employment agreements with agencies in order to be leased temporarily to the user employer, as well as other mutual rights and obligations of employees, agencies and user employers, order will be introduced in this area, maximising the protection of agency workers. The adoption of the Law on Temporary Agency Work is defined as a priority in the Action Plan for the Implementation of the Government Programme for 2017-2019 and in the NPAA.

Law on Simplified Arrangements for Seasonal Work in Certain Activities was adopted for the purpose of regulating the seasonal work in agriculture, since the survey data on labour market indicators point to a significant share of informal labour specifically in agriculture (according to the Labour Force Survey data for Q2 2018, the informal employment rate is 21%, while this rate excluding agriculture is 10.6%). This Law defines the normative framework for the regulation of the simplified employment system, which will free employers from unnecessary and onerous bureaucracy related to the registration and deregistration of seasonal workers, while enabling seasonal workers to work and access their labour-related rights. At the same time, the introduction of the new system should result in the reduction of informal employment and promote employment/work of previously unemployed persons belonging to the hard-to-employ groups, contributing to their labour activation and economic empowerment. The introduction of the legal framework for the establishment of the simplified seasonal work system, is defined as one of the measures in the RS Government's Action Plan for the implementation of the National Programme for Combating the Informal Economy.

Planned activities

a) Activities planned for 2019:

The plan is to adopt and start the implementation of the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators and the Law on Temporary Agency Work; the Law on Simplified Arrangements for Seasonal Work in Certain Activities comes into force on 7 January 2019, so its implementation is to start in 2019, with the software for receiving and processing data on employees/seasonal workers becoming operational in the Tax Administration, seasonal worker records being established in the NES, etc.

b) Activities planned for 2020:

Monitor the implementation and review the impact of the implementation of the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators and the Law on Temporary Agency Work; in connection with the Law on Simplified Arrangements for Seasonal Work in Certain Activities, during 2020 the implementation and achieved impact of the newly-established legislative framework will be monitored in cooperation with the NES, CROSO, MoF, Tax Administration and NALED.

c) Activities planned for 2021:

Monitor further the implementation and review the impact of the implementation of the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators and the Law on Temporary Agency Work; in connection with the Law on Simplified Arrangements for Seasonal Work in Certain Activities, during 2021 the implementation and achieved impact of the newly-established legislative framework will be monitored in cooperation with the NES, CROSO, MoF, Tax Administration and NALED.

2. Expected impact on competitiveness

With the establishment of the legal framework in the area of social entrepreneurship, conditions are created for further promotion of entrepreneurship and establishment of economic operators in this area. Furthermore, the position of fit-for-work social welfare beneficiaries, hard-to-employ unemployed persons in accordance with the employment legislation and other hard-to-employ persons from particularly vulnerable groups is expected to improve through their greater labour activation, contributing to their economic empowerment.

The Law on Temporary Agency Work will lead to the elimination of unfair competition among employers (agencies and user companies), because the cost of contracting employee leasing - hiring workers will be equalised (employee wage being equal to the wage of the comparable employee with the user employer plus the agency fee); It will contribute to greater competition among agencies leasing labour, on legal and market basis; It will have a positive impact on the overall economy because of the establishment of new economic operators in this area.

The implementation of the Law on Simplified Arrangements for Seasonal Work in Certain Activities will have a positive impact on the competitiveness of economic operators in agriculture: The estimated costs for employers under the new simplified employment system are expected to decrease by about a third per employee annually; The time needed for registering and deregistering a seasonal worker will be reduced significantly, i.e. a flexible method of hiring workers will be introduced by using an electronic platform, without visiting a registration office; The tax rate is expected to be lower than under the existing work models, resulting in a reduction of tax and contribution costs per seasonal worker, which will motivate employers to register their seasonal workers; The reduction of the share of economic operators in agriculture operating informally (mostly companies with a small number of employees) will enable them to receive financial support from the government or raise a loan for their current operation and/or production improvement.

3. Estimated costs of activities and funding sources

For 2019 the plan is to open a new budget line for supporting social entrepreneurship. The Law on Temporary Agency Work does not envisage costs of activities for 2019. As regards the Law on Simplified Arrangements for Seasonal Work in Certain Activities, funds for the development of software for electronic registration and training have been provided through a project.

4. Expected impact on employment and gender

The adoption and implementation of the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators and the Law on Temporary Agency Work are expected to have a positive impact on higher employment of persons to whom these laws pertain, as well as improve their competitiveness in the labour market. Because of the simplified procedure and lower costs of worker registration prescribed by the Law on Simplified Arrangements for Seasonal Work in Certain Activities, in the period of 5 years a larger number of seasonal workers are expected to shift from informal to formal work, owning to seasonal worker registration.

5. Potential risks

Failure to adopt the Law on Social Entrepreneurship and Labour Integration in Social Economic Operators and the Law on Temporary Agency Work within the planned timeframe; Insufficient interest on the part of employers in the use of the application and registration of seasonal workers; Inadequate technical resources and IT knowledge of potential employers related to seasonal worker registration.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019	2020	2021
Electronic database off the Tax Administration operational	/	yes	yes	yes
NES records of seasonal workers	/	yes	yes	yes
Effects - Number of employers hiring seasonal workers in accordance with the Law	0	100	110	121
- Number of seasonal workers hired in accordance with the Law	0	1000	1100	1210
Number of social economic operators established		50	80	80
Number of agencies established	0	30	40	50

3.8. Area SOCIAL PROTECTION AND INCLUSION

a) Analysis of main obstacles

In recent years, Serbia's labour market has been expanding, recording higher employment and activation and lower unemployment. However, there are numerous issues whose elimination poses a challenge for the following period: a significant share of informal employment, high rate of youth unemployment and long-term unemployment (a characteristic of structural unemployment), inflow of unemployed persons due to the finalisation of the privatisation and restructuring process in state-owned enterprises and public sector, inadequate capacities of the employment service for the provision of quality services, as well as less favourable position of women in the labour market.

Poverty in Serbia is widespread because 38.7% of the population (2.7 million citizens) were exposed to the risk of poverty or social exclusion in 2016[37], suggesting that the risk in Serbia was higher than in the European Union countries (EU-28: 23.5%, SILC, 2016). The at-risk-of-

37 Source: Survey on Income and Living Conditions (SILC), SORS

poverty threshold (relative poverty line) was RSD 15,416.00 (EUR 123) on average per month for a single-person household.

The inequality of income distribution is high, as indicated by the income quintile share ratio (S80/S20) – the most affluent 20% of the population had 9.7 times higher equalised income compared to the poorest 20%, with the Gini coefficient at 38.6, which is above its average value in the EU-28 countries – 30.8 (SILC, 2016).

Poverty dynamics varies by age group and employment status. The most exposed to the risk of poverty are persons in the 18-24 age bracket (32.7%) and persons under 18 years of age (30.2%). Considered by employment status, the most exposed group among persons aged 18+ are the unemployed (48%). The risk of poverty of children is largely influenced by their parents' labour market status, especially in conjunction with limited access to social services. In Serbia, as in many other countries, **certain groups are particularly disadvantaged**, most notably the Roma, especially those in informal settlements, as well as internally displaced persons, persons with severe disability, the elderly without pensions, individuals with no/low education and the non-urban population. Many poor households are **affected by multiple deprivation factors**, which requires complex preventive interventions, as well as active inclusion measures that combine cash benefits, employment/activation of beneficiaries and high-quality integrated social services.

The expenditure on social protection and security in Serbia in 2015 amounted to **22.1% of GDP** (SORS). However, expressed in purchasing power standard, the expenditure amounted to only 2,401 PPS per capita[38], i.e. three times lower than in the EU-28 (7,912, 2014, Eurostat). Lower expenditure than Serbia's, expressed in purchasing power standards per capita, were recorded in Turkey.

The structure of expenditure on social assistance and transfers is **dominated by expenditure on pensions**, whose GDP share decreased from 11.6% in 2016 to 11.2% in 2017[39]. **The social assistance expenditure amounted to about 3.6% of GDP**, which is consistent with the current development level and is comparable with the levels of expenditure for this purpose in the Southeast European countries. However, **the reallocation of these funds among the existing schemes presents a challenge**, since a large number of socially vulnerable persons do not receive social benefits although they should, whereas, on the other hand, social protection rights are also exercised by individuals who are not socially vulnerable.

The solution to this problem requires the **introduction of an integrated system for the creation of social cards** by linking a large number of various institutions (Tax Administration, MoI, Real Estate Cadastre, NES, etc.). With the establishment of connections among the stated databases, the procedures will be significantly simplified and accessibility of services improved for the users.

Social assistance (provided by centres for social work) and employment support services and measures (provided by the NES) require **better integration and coordination** in order to resolve the problems of persons in the state of social need. Another challenge in the field of social protection concerns the **continuous improvement of service quality, strengthening of control and regulatory mechanisms, monitoring and evaluation**. The social protection inspectorate

38 PPS – Purchasing Power Standards
39 Source: Consolidated Government Balance, Ministry of Finance

banned the operation of 132 homes for the elderly in the period from 2004 to September 2018, with 7 bans on the operation of illegal homes for the elderly issued in 2018 alone.

Gender equality is still not at a satisfactory level. Although women account for 51% of the general population, there are still **underrepresented among decision-makers**: women hold 37.2% of the seats in the parliament, and 22% of offices in the Government. Since 2017 the office of the Prime Minister of Serbia has for the first time been filled by a woman. When it comes to management positions in public enterprises, the situation has improved, because as many as 22% of general managers and board members were women in 2016, which was an increase of 9 p.p. compared to 2015 (one of the indicators for SR – Public Enterprise Reform).

Structural reform 20 Improvement of the adequacy, quality and targeting of social protection measures

1. Reform outline

This structural reform will be implemented through the adoption of the Law on Social Card and amendments to the Social Care Law. The Law on Social Card will enable the establishment IT connections between different sectors for the purpose of improving social protection and adequacy of social benefits granted to impoverished individuals and families and vulnerable groups of the population. The amendments to the Social Care Law are expected to improve the coverage of cash social benefit beneficiaries and cooperation between the centres for social work and the NES with regard to the labour activation of cash social benefit beneficiaries who are fit for work.

Planned activities

a) Activities planned for 2019:

Prepare the Draft Law on Social Card; prepare the Draft Law Amending the Social Care Law; Public consultations, adopt of the stated laws.

b) Activities planned for 2020:

Implement the stated laws; adopt the missing implementing bylaws.

c) Activities planned for 2021:

Continue with the process of implementation of the stated laws; implement bylaws; Monitor and evaluate the implementation and assess the impact on the adequacy, quality and targeting of social protection measures.

2. Expected impact on competitiveness

A precondition for increasing competitiveness and achieving economic growth is the existence of a system that can ensure the right to adequate and accessible social protection for its citizens. This implies greater adequacy of cash benefits, higher quality of social care services, greater availability of services, established control mechanisms in the social care system, higher work efficiency and time saving for the centres for social work, easier access to rights and services, better coverage with cash benefits, more equitable distribution of funds, greater cooperation between different sectors.

3. Estimated costs of activities and funding sources

The funding source is the RS Budget. The implementation of activities related to the Law on Social Card is proceeding as planned (part of costs were paid for equipment in 2018 in the amount of RSD 150,000,000). The remaining planned amount for 2019 for phase 1 totals RSD 60,000,000. The second stage of the IT system development will start in the second half of 2019. Funds for phase 2 in 2019 are planned in the amount of RSD 70,000,000, while the 2020 portion amounts to RSD 100,000,000.

4. Expected impact on employment and gender

Labour activation of cash social benefit beneficiaries who are fit for work will result in higher employment of these persons.

5. Potential risks

Delays in the adoption of the amendments to the Social Care Law and the Law on Social Card, as well as the reduction of total funds in the budgets for 2019, 2020 and 2021; The development of the complete social card requires connecting several institutions and opening their databases, which may pose a potential risk for the full implementation of the Law on Social Card.

6. Key performance indicators / Structural reform implementation monitoring indicators

Indicators	2018	2019
IT connectivity among different sectors	/	yes

V. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the 2019-2021 period amount to EUR 614.14 million relative to the 2018 baseline. By year, the additional costs of implementing structural reforms show gradual growth in the period under consideration and amount to EUR 128.89 million in 2019, EUR 222.60 million in 2020 and a total of EUR 262.65 million for 2021.

The cost structure of reform measures in the coming three-year period is dominated by capital expenditure with a 50.51% share in total costs, followed by subsidies and transfers with a 37.60% share, goods and services with 9.29%, as well as wages with a 2.60% share.

Viewed from the standpoint of funding sources in the 2019-2021 period, the key source of additional funding of structural reforms are central government budget funds with a 60.07% share in total costs, followed by IPA funds that present 16.41% of all available funding sources, as well as project loans with a 9.27% share. Local budgets and other domestic sources of funding have a negligible share in the total additional funding of structural reforms in the coming three-year period (their respective share is below 1% of total funds). The share of funding sources that are still to be determined for the funding of structural reforms stands at 11.24% and pertains to the funding of structural reforms in 2019 - 2021.

Funds for the implementation of structural reforms in 2019 are planned in line with the 2019 Budget Law ("Official Gazette of RS", No. 95/2018), in the form of budget funds and loan proceeds, donations or other sources.

Funds from the budget of the Republic of Serbia for the implementation of structural reforms in 2020 and 2021 must be planned in accordance with the assigned limits for those charged with their implementation during the budgetary procedure. Due to maintaining fiscal stability, securing additional funds for the implementation of structural reforms in 2020 and 2021 is limited and needs to be in line with budget constrains.

Detailed information about the additional impact of implementation of each individual structural reform on the budget and about potential non-budgetary financing is presented in Tables 10a and 10b in the Annex.

VI. INSTITUTIONAL MATTERS AND STAKEHOLDER PARTICIPATION

The preparation of ERP for the period from 2019 to 2021 began immediately after receiving the European Commission guidelines in April 2018 and Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, which were adopted in Brussels on 25 May 2018.

With the Decision of the Government of the Republic of Serbia of 28 August 2018, Minister of Finance Siniša Mali was appointed National Coordinator and Head of the Working Group for the ERP Preparation and Implementation Monitoring. With the Decision of the Minister of Finance, on 10 September 2018, a new Working Group for the Preparation of the Draft Economic Reform Programme (ERP) and Programme Implementation Monitoring was formed. The Republic of Serbia has a developed structure of ERP interdepartmental cooperation. Annex 2 contains a list of institutions that took part in the preparation of ERP 2019-2021.

In line with already established practice, the first part of the document (chapters I-III), which relates to the macrofinancial framework, was developed by the Ministry of Finance and the National Bank of Serbia and it relies, for the most part, on the 2019 Fiscal Strategy with projections for 2020 and 2021. Work on the preparation of the content of the remaining chapters of this document was coordinated by the Ministry of Finance and the Public Policy Secretariat of the Republic of Serbia.

The introductory meeting, chaired by the Minister of Finance, was held on 12 September 2018, with the participation of ERP Coordinators from the competent ministries and other relevant institutions of the Republic of Serbia and the EU Delegation. During the meeting, the results achieved in the previous period were presented, as well as the new European Commission Guidelines for ERP 2019-2021 preparation, recommendations of the ECOFIN Council and agenda.

As part of the OECD conference titled 2018 SEE Competitiveness Overview, which was held in Belgrade on 25-26 September, the ERP 2019-2021 preparation cycle was presented, as well as the OECD's assessment of ERP 2018-2020 with special emphasis on the findings and recommendations from the stated document. An ERP workshop was held on the main challenges and reform activities in the subject areas of education and skills; employment and labour market; and social protection and inclusion.

In October 2018, an update of the diagnostics in all reform areas was published and information was collected in relation to priority structural reform implementation for the 2018-2020 period. The preliminary list of structural reforms for the 2019-2021 period was formed based on the relevant institutions' proposals, which is precisely why a number of meetings were held with the competent ministries and the Working Group of the ERP Coordinators.

As until now, in the fifth cycle of ERP development, special attention was devoted to consultations with civil sector and academic community representatives. Consultations with all stakeholders were conducted in two cycles this year as well and were additionally strengthened.

The process of comprehensive consultations began on 14-28 November 2018, when the preliminary list of selected structural reforms was made available to the general public, with its uploading to the website of the Ministry of Finance and the Public Policy Secretariat. The first draft of the entire ERP 2019-2021 document was also made available to the general public from 4 to 18 January 2019 on the website of the Ministry of Finance and the Public Policy Secretariat. All stakeholders were thus given an opportunity to help improve the document through their comments.

For the third consecutive time, representatives of the Ministry of Finance took part in the Annual Assembly of the Standing Conference of Towns and Municipalities (SCTM) in Belgrade on 27 November 2018, at which the importance of the ERP and the overall European Semester Light process was presented.

On 11 December 2018 in Belgrade, in cooperation with the Serbian Chamber of Commerce, Minister of Finance Siniša Mali presented to businesses a preliminary list of selected structural reforms that are intended to help improve competitiveness, employment and economic growth in all eight key areas, and invited them to give their comments.

On 14 December 2018 in Novi Sad, at the joint session of the Social and Economic Council of the Republic of Serbia and the Provincial Social and Economic Council, Minister of Finance Siniša Mali presented the preliminary list of selected structural reforms and the ERP 2019-2021, while at the 85th regular session of the Social and Economic Council of the Republic of Serbia, held in Pirot on 25 December 2018, recommendations were given related to joint cooperation on the preparation of this document.

With the aim of improving the preparation of the financial effects of structural reforms, on 20 December 2018, an ERP 2019-2021 workshop - Structural Reform Budgeting was held in Belgrade, with the participation of representatives of the Working Group for the Preparation of the Draft Economic Reform Programme (ERP) and Programme Implementation Monitoring, which also involved a discussion of the new methodology and concrete issues related to the costing and funding of individual structural reforms.

Final consultations with representatives of interested parties were held on 18 January 2019, at the Sixth Plenary Session of the National Convention on the European Union, when ERP 2019-2021 was presented. The National Convention on the European Union brings together over 700 organizations of civil society and represents permanent body, within which a thematically structured debate on the accession of the Republic of Serbia to the European Union is held between non-governmental organizations, experts, industry, trade unions and professional associations on one side, and representatives of Government, on the other side, has very important role in this process. The National Convention has established within its structures the mechanism for monitoring and evaluation of the ERP and its members actively participate in this process.

Stakeholders' comments were largely integrated into the draft ERP 2019-2021, which contains a list of 20 structural reforms. Considering that the ERP is a rolling document, a large number of observations from the previous cycle was included in the ERP 2019-2021. A detailed overview of the consultations with stakeholders can be found in Annex 1. After the consultations with stakeholders and internal procedure are completed, the document approved by the Government of the Republic of Serbia will be submitted to the European Commission within the planned deadline, i.e. by the end of January 2019.

VII. ANNEXES

Table 10. Budgetary Implications of Structural Reforms

Table 10a: Costing of structural reform measure for the period 2019-2021 in EUR					
1. Energy market development coupled with energy infrastructure construction					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	3,800,000.00	3,800,000.00
Year X+1	0	0	0	38,990,000.00	38,990,000.00
Year X+2	0	0	0	50,405,000.00	50,405,000.00
2. Improvement of conditions for increasing energy efficiency and improvement of the existing infrastructure in energy consumption sectors					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	43,035,703.86	43,035,703.86
Year X+1	51,385.64	81,347.66	0	13,569,753.86	13,702,487.17
Year X+2	50,960.26	80,723.92	0	44,698,965.20	44,830,649.39
3. Improvement of the capacity and quality of transport infrastructure and services					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0
4. Reform of railways					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	303,515.00	0	0	303,515.00
Year X+1	2,220.00	4,580.00	0	0	6,800.00
Year X+2	2,220.00	1,110.00	0	0	3,330.00
5. Improvement of competitiveness of agricultural producers and processors					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	2,214,795.53	2,534,237.58	35,621,546.58	4,021,767.07	44,392,346.76
Year X+1	5,578,993.88	2,899,591.35	35,324,204.79	4,819,231.78	48,622,021.80
Year X+2	6,968,770.09	2,498,780.37	36,089,711.55	2,379,122.91	47,936,384.92
6. Raising the competitiveness of industry					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0
7. Tax Administration transformation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	733,164.98	0	5,616,228.96	6,349,393.94
Year X+1	0	0	0	3,899,899.83	3,899,899.83
Year X+2	0	0	0	3,867,615.89	3,867,615.89
8. Improved capital investment management					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	68,487.00	35,202.00	103,689.00
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0
9. Improved access to finance for SMEs and sole traders					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	2,025,252.00	3,367,004.00	0	5,392,256.00
Year X+1	0	0	4,757,930.00	0	4,757,930.00
Year X+2	0	0	6,266,556.00	0	6,266,556.00
10. Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	0	0
Year X+1	0	0	0	0	0
Year X+2	0	0	0	0	0

11. Improvement of corporative governance in public enterprises					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	25,253.00	0	0	25,253.00
Year X+1	0	25,042.00	0	0	25,042.00
Year X+2	0	24,835.00	0	0	24,835.00
12. Simplification of procedures and other conditions for doing business					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	655,437.00	0	0	655,437.00
Year X+1	0	465,578.00	0	0	465,578.00
Year X+2	0	0	0	0	0
13. Improvement of the effectiveness of inspection oversight					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	78,175.00	85,858.58	0	0	164,033.58
Year X+1	35,145.00	0	0	0	35,145.00
Year X+2	0	0	0	0	0
14. Improvement of the geospatial sector as support to investment decision-making process					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	720,000.00	180,000.00	0	0	900,000.00
Year X+1	240,000.00	60,000.00	0	0	300,000.00
Year X+2	0	0	0	0	0
15. Set of measures providing financial support to research and innovation contributing to the development of the knowledge-based economy					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	3,715,212.12	4,517,289.56	0	8,232,501.68
Year X+1	0	8,725,762.93	51,304,123.54	0	60,029,886.47
Year X+2	0	25,412,923.01	41,969,180.46	0	67,382,103.47
16. Improvement of e-government services through the development of national ICT infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	14,318.00	0	12,332,863.10	12,347,181.10
Year X+1	0	0	0	42,474,357.98	42,474,357.98
Year X+2	0	0	0	34,304,868.00	34,304,868.00
17. Improvement of the conditions and removal of barriers to trade					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	33,000.00	12,000.00	0	0	45,000.00
Year X+1	11,000.00	4,000.00	0	0	15,000.00
Year X+2	0	0	0	0	0
18. Qualifications oriented towards labour market requirements					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	2,048,174.79	0	0	2,048,174.79
Year X+1	0	2,598,812.50	0	0	2,598,812.50
Year X+2	0	1,833,507.76	0	0	1,833,507.76
19. Increased labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, and strengthened formal employment					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	8.42	0	8.42
Year X+1	0	0	5,843,071.79	0	5,843,071.79
Year X+2	0	0	5,794,701.99	0	5,794,701.99
20. Improvement of the adequacy, quality and targeting of social protection measures					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X	0	0	0	1,094,276.00	1,094,276.00
Year X+1	0	0	0	834,725.00	834,725.00
Year X+2	0	0	0	0	0
Total	**15,986,665.39**	**57,049,017.54**	**230,923,815.68**	**310,179,581.45**	**614,139,080.09**

Table 10b: Financing of structural reform measure for the period 2019 - 2021 in EUR								
1. Energy market development coupled with energy infrastructure construction								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	500,000.00	0	3,300,000.00	0	0	0	0	3,800,000.00
Year X+1	14,000,000.00	0	200,000	17,500,000.00	2,521,000.00	4,769,000.00	0	38,990,000.00
Year X+2	15,000,000.00	0	200,000	31,000,000.00	1,186,000.00	3,019,000.00	0	50,405,000.00
2. Improvement of conditions for increasing energy efficiency and improvement of the existing infrastructure in energy consumption sectors								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	2,943,650.13	1,183,095.04	0	0	1,046,000.00	37,862,959.00	0	43,035,703.86
Year X+1	6,309,694.90	2,042,908.47	0	0	4,696,000.00	653,884.00	0	13,702,487.17
Year X+2	6,257,512.00	1,827,253.60	0	0	92,000.00	6,653,884.00	30,000,000.00	44,830,649.39
3. Improvement of the capacity and quality of transport infrastructure and services								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0
4. Reform of railways								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	3,515.00	0	0	300,000.00	0	0	0	303,515.00
Year X+1	6,800.00	0	0	0	0	0	0	6,800.00
Year X+2	3,330.00	0	0	0	0	0	0	3,330.00
5. Improvement of competitiveness of agricultural producers and processors								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	20,061,319.31	0	0	16,661,868.69	0	0	7,669,158.77	44,392,346.76
Year X+1	27,196,980.31	0	0	16,522,787.98	0	0	4,902,253.51	48,622,021.80
Year X+2	29,088,917.62	0	0	16,386,009.93	0	0	2,461,457.37	47,936,384.92
6. Raising the competitiveness of industry								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0
7. Tax Administration transformation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	4,665,892.26	0	0	0	0	1,683,501.68	0	6,349,393.94
Year X+1	3,899,899.83	0	0	0	0	0	0	3,899,899.83
Year X+2	3,867,615.89	0	0	0	0	0	0	3,867,615.89
8. Improved capital investment management								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	35,202.00	0	0	0	68,487.00	0	0	103,689.00
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0
9. Improved access to finance for SMEs and sole traders								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	3,367,004.00	0	0	0	0	2,025,252.00	0	5,392,256.00
Year X+1	4,757,930.00	0	0	0	0	0	0	4,757,930.00
Year X+2	6,266,556.00	0	0	0	0	0	0	6,266,556.00
10. Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	0	0	0	0	0	0	0	0
Year X+1	0	0	0	0	0	0	0	0
Year X+2	0	0	0	0	0	0	0	0

11. Improvement of corporative governance in public enterprises								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	25,253.00	0	0	0	0	0	0	25,253.00
Year X+1	25,042.00	0	0	0	0	0	0	25,042.00
Year X+2	24,835.00	0	0	0	0	0	0	24,835.00
12. Simplification of procedures and other conditions for doing business								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	153,400.00	0	0	502,037.00	0.00	0	0	655,437.00
Year X+1	50,706.51	0	0	414,871.45	0.00	0	0	465,577.96
Year X+2	0	0	0	0	0	0	0	0
13. Improvement of the effectiveness of inspection oversight								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	85,858.58	0	0	0	78,175.00	0	0	164,033.58
Year X+1	0	0	0	0	35,145.00	0	0	35,145.00
Year X+2	0	0	0	0	0	0	0	0
14. Improvement of the geospatial sector as support to investment decision-making process								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	720,000.00	0	0	0	0	180,000.00	0	900,000.00
Year X+1	240,000.00	0	0	0	0	60,000.00	0	300,000.00
Year X+2	0	0	0	0	0	0	0	0
15. Set of measures providing financial support to research and innovation contributing to the development of the knowledge-based economy								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	8,232,501.68	0	0	0	0	0	0	8,232,501.68
Year X+1	60,029,886.47	0	0	0	0	0	0	60,029,886.47
Year X+2	67,382,103.47	0	0	0	0	0	0	67,382,103.47
16. Improvement of e-government services through the development of national ICT infrastructure								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	12,347,181.10	0	0	0	0	0	0	12,347,181
Year X+1	36,474,357.98	0	0	0	0	0	6,000,000.00	42,474,358
Year X+2	16,304,868.00	0	0	0	0	0	18,000,000.00	34,304,868
17. Improvement of the conditions and removal of barriers to trade								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	45,000.00	0	0	0	0	0	0	45,000.00
Year X+1	15,000.00	0	0	0	0	0	0	15,000.00
Year X+2	0	0	0	0	0	0	0	0
18. Qualifications oriented towards labour market requirements								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	1,284,329.07	0	0	750,000.00	13,845.72	0	0	2,048,174.79
Year X+1	1,848,812.50	0	0	750,000.00	0	0	0	2,598,812.50
Year X+2	1,833,507.76	0	0		0	0	0	1,833,507.76
19. Increased labour activation of social welfare beneficiaries who are fit for work, hard-to-employ unemployed persons in line with employment legislation and other hard-to-employ persons from particularly vulnerable groups, and strengthened formal employment								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	8.42	0	0	0	0	0	0	8.42
Year X+1	5,843,071.79	0	0	0	0	0	0	5,843,071.79
Year X+2	5,794,701.99	0	0	0	0	0	0	5,794,701.99
20. Improvement of the adequacy, quality and targeting of social protection measures								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X	1,094,276.00	0	0	0	0	0	0	1,094,276.00
Year X+1	834,725.00	0	0	0	0	0	0	834,725.00
Year X+2	0	0	0	0	0	0	0	0
Total	**368,921,245.56**	**5,053,257.11**	**3,700,000.00**	**100,787,575.05**	**9,736,652.72**	**56,907,480.68**	**69,032,869.65**	**614,139,080.05**

Table 11. Planned schedule for implementing the structural reforms

Structural Reform 1 *ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Niš-Dimitrovgrad trunk gas pipeline construction												
Develop preliminary design												
Develop the feasibility study												
Develop the design to obtain the building permit												
Develop the environmental impact study												
Resolve property-legal issues												
Obtain approval to the preliminary design and feasibility study												
Obtain the energy permit												
Develop an implementation design												
Implement the tender procedure												
Obtain the construction permit												
Construction												
Trans-Balkan Corridor												
Launch the reconstruction of the Kraljevo 3 transformer station, required to install the new Kragujevac-Kraljevo transmission line												
Reconstruct the Kragujevac 2 transformer station, which is required to install the new Kragujevac-Kraljevo transmission line												
Build the Kragujevac-Kraljevo transmission line												
Prepare the technical documentation for the Obrenovac-Baijna Bašta transmission line												
Develop the urban/spatial plan for the Bajina Bašta-Obrenovac transmission line												
Prepare the technical documentation for the Bajina Bašta-Višegrad-Pljevlja transmission line												
Structural Reform 2 *IMPROVEMENT OF CONDITIONS FOR INCREASING ENERGY EFFICIENCY AND IMPROVEMENT OF THE EXISTING INFRASTRUCTURE IN ENERGY CONSUMPTION SECTORS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Amend the Energy Efficiency Law for the purpose of introducing eco-design and improving the existing provisions of the Law in order to facilitate its implementation												
Amend the Energy Efficiency Law for the purpose of full transposition of the Directive 2012/27/EU (to be prepared through IPA project)												
Adopt bylaws transposing the eco-design implementation measures												
Improve operation of the existing budget fund for energy efficiency by drafting Rulebook that will develop new mechanisms for financing (IPA project)												
Proposal for improving operation and legal status of energy efficiency fund (IPA project)												
Review the modalities for operation of the energy efficiency fund as a separate institution, within the work of group established by the Ministry of Finance												
Start to collect the energy efficiency fee on the basis of the Law on Fees												
Establish the energy efficiency fund in the proposed new legal modality												

Finance energy efficiency projects	■	■	■	■	■	■	■	■	■	■	■	■
Establish several bodies for assessing compliance of products with the Directives 2009/125 and 2010/30 (IPA project)												■
Adoption of bylaws related to the implementation of energy audits				■								
Trainings for energy advisors					■	■	■	■				
Implementation of energy audits by the entities in the energy management system									■	■	■	■
Structural Reform 3 *IMPROVEMENT OF THE CAPACITY AND QUALITY OF TRANSPORT INFRASTRUCTURE AND SERVICES*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Rulebook on the manner of licensing persons for conducting road infrastructure safety audits and inspections on the basis of the Law on Roads	■	■	■	■								
Adopt the Rulebook on the manner of conducting road infrastructure safety audits and inspections on the basis of the Law on Roads	■	■	■	■								
Continue with the transition to the new method of concluding contracts with companies engaged in maintenance of the remaining state road network (12,000 km)	■	■	■	■	■	■	■	■				
Activities on preparation for the signing of the first SLA Agreement and JPPS reorganisation.	■	■	■	■								
Sign the first three-year SLA Agreement between JPPS and MCTI					■	■	■	■				
Amend the legislation and further alignment with the EU legislation								■	■	■	■	■
Structural Reform 4 *REFORM OF RAILWAYS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the decision on withdrawing the status of good in public use		■										
Prepare a new methodology for the calculation of railway infrastructure access price	■	■	■	■								
Application of new methodology for the calculation of a railway infrastructure access price					■	■	■	■	■	■	■	■
Align the laws in the area of railways with the 4th package of EU railway legislation						■	■	■	■			
Structural Reform 5 *IMPROVEMENT OF COMPETITIVENESS OF AGRICULTURAL PRODUCERS AND PROCESSORS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt and carry out annual competitions for the distribution of national and EU funds	■	■	■	■	■	■	■	■	■	■	■	■
Draft the rural development programmes for the new programming period (2021-2027)	■	■	■	■	■	■	■	■	■	■	■	■
Draft IPARD III programmes for the new programming period (2021-2027)	■	■	■	■	■	■	■	■	■	■	■	■
Draft and adopt rulebooks for IPARD implementation	■	■	■	■	■	■	■	■	■	■	■	■
Prepare the Draft Law on Land Consolidation and the Draft Amendments to the Law on Agricultural Land	■	■	■	■								
Prepare and adopt the rulebook regulating closer cooperation between the relevant bodies, for the purpose of faster and more efficient implementation of the land consolidation procedure, in terms of defining the responsibilities of each body in this procedure, data exchange and its availability					■	■	■	■				

Implement the adopted bylaws in the form of a certain number of pilot land consolidations depending on available budget funds and interest of parties to the consolidation procedure												
Structural Reform 6 *RAISING THE COMPETITIVENESS OF INDUSTRY*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Draft a new industrial development strategy in consultations with the private sector building on the results of the „entrepreneurial discovery“ process in the course of preparation of the Smart specialization strategy												
Develop and action plan for implementation of new industrial development strategy												
Implementation and monitoring of action plan for industrial development strategy												
Structural Reform 7 *TAX ADMINISTRATION TRANSFORMATION*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Establish and implement a new organisational stream for managing all non-core activities												
Consolidate administration of core taxes in small number of branches (the first phase of consolidation)												
Restructure the Head Office and provide adequate resources												
Reengineer business processes for the introduction of international good practices in the operational functions of the RS Tax Administration												
Further consolidation of key functions of administration of core taxes in few organisational units in the business network												
Introduction of a modern document management system as part of a comprehensive information management model												
Preparation of the second phase of business network consolidation												
Structural Reform 8 *IMPROVED CAPITAL INVESTMENT MANAGEMENT*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Rulebooks for the implementation of the Decree on the content, manner of preparation and assessment, as well as monitoring the implementation and reporting on the realization of capital projects												
Implement trainings for budget beneficiaries regarding the implementation of the Decree on the content, manner of preparation and assessment, as well as monitoring the implementation and reporting on the realization of capital projects and the Rulebooks												
Develop terms of reference and purchase the IT equipment and software to form the single information database of capital projects												
Trainings for budget beneficiaries												
Implement and update the single information database of capital projects												
Structural Reform 9 *IMPROVED ACCESS TO FINANCE FOR SMEs AND SOLE TRADERS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Prepare the Development Financing Strategy												
Implement the Development Financing Strategy												
Pilot the first support programme which includes lending to start-ups in partnership with commercial banks, developed with the support of KfW												

Improve different financial market segments (Law on Alternative Investment Funds and new Law on Investment Funds)												
Implementation of the legislative framework for financial market development												
Implement the credit guarantee project financed from IPA 2016												
New annual cycle of implementation of three public RS budget support programmes												
Continuation of implementation of optimised public support programmes for SMEs in accordance with the adopted strategy												
Mobilise stakeholders to make a better use of the possibilities offered by EU programmes (COSME) and regional programmes (WB EDIF)												
Mobilise stakeholders to make a better use of the possibilities offered by EU programmes from new perspective and regional programmes (WB EDIF)												
Structural Reform 10 *ESTABLISHMENT OF A SUSTAINABLE SYSTEM FOR ENVIRONMENTAL PROTECTION FINANCING BY IMPROVING THE FUNCTIONING OF THE GREEN FUND*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Identify, align and define measures and activities for the establishment of a sustainable financing system for the purpose of an efficient implementation of environmental protection programmes and projects												
Implement the defined measures and activities for the purpose of establishing an institutional, legal and organisational framework for the establishment of a sustainable financing system in the area of environmental protection												
Establish a fully functional system for sustainable financing in the area of environmental protection												
Structural Reform 11 *IMPROVEMENT OF CORPORATE GOVERNANCE IN PUBLIC ENTERPRISES*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Work of the working group to define the management body certification system in PEs												
Draft bylaws to introduce a management body certification system in PEs												
Training needs assessment (TNA) for members of supervisory boards in PEs												
Implement trainings for members of supervisory boards in PEs on corporate governance												
Define system of accreditation of institutions for providing training to governance bodies												
Certify the governance bodies in PEs and draft the bylaws for introduction of certification system												
Establish and manage the register												
Develop procedures in ME for monitoring and evaluating the effects of corporate governance in PEs												
Implementation of procedures in ME for monitoring and evaluating the effects of corporate governance in PEs												
Analysis of the impact of the corporate governance system introduction in PEs												
Correction of activities based on the conducted analysis												
Implement the procedures in ME for monitoring and evaluation of the impact of corporate governance in PE												
Structural Reform 12 *SIMPLIFICATION OF PROCEDURES AND OTHER CONDITIONS FOR DOING BUSINESS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*

Application of the Law on Fees												
Optimisation of procedures (in terms of costs and time for business)												
Promotional campaign												
Digitalisation Guide												
Digitalisation of administrative procedures												
Adopt the Law on single public register of administrative procedures and other requirements for doing business												
Adopt implementing legislation based on the Law on register												
Adopt and implement action plans for simplification of administrative procedures												
Structural Reform 13 *IMPROVEMENT OF THE EFFECTIVENESS OF INSPECTION OVERSIGHT*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Establish a common information platform for all inspections at the level of republic (E-Inspection)												
Training of trainers												
Production												
Handover with training												
Implement the Law on Inspection Supervision												
Regular sessions of the Coordination Commission and 11 working groups												
Implementation of the inspector training programme												
Continuous implementation of examinations for inspectors												
Improve the website of Coordination Commission – with subdomains for all inspections and video material on the rights and obligations of business entities in regular inspection control												
Adopt Action plan for employment of young inspectors on the basis of results of public procurement Capacity analysis of inspections at republic level and the level of local self-government												
Implement the Memorandum of Understanding with the Inspector Network Association												
Continuous professional training of inspectors												
Draft Media plan for the promotion of the profession of inspectors												
Adopt and publish annual plans of all inspections at republic level, including the Border Phytosanitary Inspectorate												
Structural Reform 14 *IMPROVEMENT OF THE GEOSPATIAL SECTOR AS SUPPORT TO INVESTMENT DECISION-MAKING PROCESS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the bylaws in the field of NSDI												
Adopt the NSDI strategy for period 2018-2022												
Establish a Regional Centre for Managing Geospatial Information												
Harmonize RGA spatial data												
Draft a National Geoportal in line with the INSPIRE directive												
Ensure technical conditions for E-Payment												
Support to other institutions (responsible bodies) in the harmonization of data, development of metadata and services for the needs of the National Geoportal												
Sign agreements on cooperation and participation in projects with institutions responsible for geospatial data within the European Union and the region												

Identify the responsible NSDI bodies for topics by priorities defined in the annexes of the INSPIRE directive												
Draft and adopt the Law on the Mass Valuation of Real Estate												
Harmonize other laws with the Law on the Mass Valuation of Real Estate and draft by-laws												
Enable the leasing/sale of data from the real estate market based on online requests and payments												
Develop the system for the mass valuation of real estate (market analysis, collection of data on real estate and definition of procedures)												
Calculate and assign values for all real estate within the „pilot“ territory												
Implement the mass valuation system into the real estate taxation system												
Update the data in the Address Registry and the Register of spatial units within the territory of RS												
Establish data interoperability of the Address Register with data from state bodies, organizations and local self-government units												
Develop and implement a central system for the Address Register												
Draft and adopt the Law on the Address Register and Register of Spatial Units												
Structural Reform 15 *SET OF MEASURES PROVIDING FINANCIAL SUPPORT TO RESEARCH AND INNOVATION CONTRIBUTING TO THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Implementation of projects by beneficiaries who were awarded financing, monitoring by the by Fund within the programme of cooperation between science and business - Direct Grant Contract IPA 2013												
IPA 2014												
a) Prepare the documentation for the grant programmes (Early Development Programme and Innovation Co-financing Programme, Mini Grants and Matching Grants) - issue a public call, promotional activities (info days) and Open doors and workshops, prepare applicants for submitting applications												
b) Assess the submitted project proposals and adopt a decision on financing, contracting												
c) Implementation of projects by the beneficiaries who were awarded financing, monitoring by the Fund												
„Competitiveness & Jobs“												
a) Implement the projects under 1 public call (Early Development Programme and Innovation Co-financing Programme) by beneficiaries and monitoring by the Fund for Innovation Activities												
b) Implement the projects under 2 public calls (Early Development Programme and Innovation Co-financing Programme) by beneficiaries and monitoring by the Fund for Innovation Activities												
c) Assess the submitted project proposals on 1 public call (Programme of Cooperation between Science and Business) and adopt a decision on financing, contracting												
d) Implement the projects under 1 public call (Programme of Cooperation between Science and Business) by beneficiaries and monitoring by the Fund for Innovation Activities												

Implementation of activities: 1. Collection of project proposals by the TTF and TTO, 2. Evaluation of received project proposals, and 3. Definition of a strategy for commercial exploitation - IPA 2013 and “Competitiveness & Jobs” + development of new service lines	ИПА 13	C&J	C&J	C&J	C&J	C&J	C&J	C&J	C&J	C&J		
Completion of the project of establishing service lines for technology transfer in the Central Technology Transfer Facility - IPA 2013 and “Competitiveness & Jobs”	ИПА 13											
Structural Reform 16 *IMPROVEMENT OF E-GOVERNMENT SERVICES THROUGH THE DEVELOPMENT OF NATIONAL ICT INFRASTRUCTURE*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adopt the Law on Broadband Communications Infrastructure												
Connect educational and cultural institutions to the Academic Network of the Republic of Serbia (continuous activity)												
Construction of wireless local computer networks in primary and secondary schools in RS – „ Connected Schools “												
Preparation of project documentation for the implementation of the pilot project												
Construction of FTTH networks that would include 40,000 households in rural areas * (the deadline for construction is 18 months from the provision of funds)												
Adoption of the Decree on Detailed Conditions for Maintaining and Upgrading of the State Center for Data Management and Storage												
Data collection												
Needs analysis												
Prepare a feasibility study and terms of reference												
Prepare the design												
Obtain the necessary construction permits												
Construct the secondary State Centre for Data Management and Storage – Data Centre												
Procure ICT equipment for the secondary Date Centre												
Structural Reform 17 *IMPROVEMENT OF THE CONDITIONS AND REMOVAL OF BARRIERS TO TRADE*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Negotiations on WTO accession – bilateral negotiations, adoption of regulations harmonized with the WTO rules and principles												
Coordination of activities and competent ministries and administrations on the execution of obligations under Additional Protocol 5												
Implementation of obligations in the field of trade policy envisaged by the Stabilization and Association Agreement between the EU and RS												
Implementation of obligations foreseen by the Law on Confirming the decision of the Joint Committee between the EFTA States and the Republic of Serbia No. 1/2018 amending Protocol B to the Agreement on Free Trade between the EFTA states and the Republic of Serbia on the definition of the term "originating products" and methods of administrative cooperation and the Decision of the Joint Committee between the EFTA States and the Republic of Serbia No. 2/2018 amending the Annex IV of the Free Trade Agreement between the EFTA States and the Republic of Serbia on Trade Facilitation												
Implementation of activities related to the MAP REA implementation												
Adoption of the CEFTA Additional Protocol 6 on trade in services liberalization												

Adoption of the CEFTA Additional Protocol 7 on Dispute Settlement												
Implementation of activities defined by the Action plans for 2018 and 2019 within the National Coordination Body for Foreign Trade Facilitation (NCBFTF)												
Adoption of new Action plans for each of the four working groups of the NCBFTF and implementation of defined activities												
Structural Reform 18 *QUALIFICATIONS ORIENTED TOWARDS LABOUR MARKET REQUIREMENTS*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Adoption of bylaws on the basis of the Law on NQFS												
Improve capacities of the Qualifications Agency												
Adoption of the Rulebook on the work of the Sectoral Councils												
Development of a methodology for the development of the sector profiles												
Development of 5 profiles / sector descriptions for the needs of sectoral councils												
Development of qualification standards												
Enter qualifications into the qualifications database												
Establish the NQFS Register												
Prepare the report on connecting the National Qualifications Framework in Serbia (NQFS) to the European Qualifications Framework (EQF)												
Harmonize proposed Report on referencing NQFS to EQS with social partners												
Notification and referencing NQFS to EQS												
Analyze and update the Concept of recognition of previous learning												
Piloting the process of recognition of previous learning												
Establishing a system of prior learning recognition												
Revise the enrollment policy in secondary vocational schools												
Implementation of service standards for career guidance and advising												
Create and implement the plan for promotion and visibility of dual and entrepreneurial education												
Create legislative framework for implementation of dual education in the field of higher education												
Monitoring of the activities of establishing cooperative societies in elementary and secondary schools in accordance with the Rulebook on student cooperatives												
Create and implement a strategy for the development and implementation of entrepreneurial education at all levels of education (student cooperatives...)												
Establish and work on the analytical system for monitoring and evaluation of dual and entrepreneurial education												
Develop additional analyses on dual education (Analysis of the impact of dual education on society, Quality, equity and efficiency of dual education, link between education and the labor market...)												
Report on the efficiency and quality of implementing dual education during the past year and recommendations for further work and the implementation of the Law on Dual Education.												
Modernize the existing and create new educational profiles for the dual model of education												

Structural Reform 19 *INCREASED LABOUR ACTIVATION OF SOCIAL WELFARE BENEFICIARIES WHO ARE FIT FOR WORK, HARD-TO-EMPLOY UNEMPLOYED PERSONS IN LINE WITH EMPLOYMENT LEGISLATION AND OTHER HARD-TO-EMPLOY PERSONS FROM PARTICULARLY VULNERABLE GROUPS, AND STRENGTHENED FORMAL EMPLOYMENT*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Entry into force of the Law on Simplified Arrangements for Seasonal Work in Certain Activities	■											
Operability of the software for receiving and processing data on employees/seasonal workers in the Tax Administration	■	■	■	■								
Establish the seasonal worker records in the NES	■	■	■	■								
Monitor the implementation and review the impact of the implementation of newly established legislative framework through the cooperation with the NES, CROSO, MoF, Tax Administration and NALED					■	■	■	■	■	■	■	■
Adopt the Law on social entrepreneurship		■										
Adopt the Law on Agency Work;		■										
Structural Reform 20 *IMPROVEMENT OF THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES*	**2019**				**2020**				**2021**			
	Q1	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*	*Q1*	*Q2*	*Q3*	*Q4*
Revise the benchmarks and criteria for costing social protection services			■	■								
Link centers for social work into a single network (by implementing software)								■	■	■	■	■
Increase the weightings (benefits) for children and youth with disabilities; relax property-related requirements, in particular raise the land ownership ceiling depending on land quality for elderly households							■	■				
Link cash benefits to the relevant services; review the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analyze the basic attendance allowance level									■	■		
Increase the adequacy of cash benefits		■	■	■								
Complete the process of standardizing services and licensing social protection institutions and professionals, and develop the relevant by-laws, but also establish and strengthen the education programme	■	■	■	■	■	■	■	■	■	■	■	■
Improve the quality of social protection services	■	■	■	■	■	■	■	■	■	■	■	■
Extend the regional foster care and adoption centers, and define and improve their control functions							■	■				
Harmonize the legislation related to social protection with the aim of connecting various sectors through information technologies			■	■	■							
Connect various sectors through information technologies			■	■	■	■	■	■	■	■	■	■
Decrease the deadlines for the exercise of rights			■	■	■	■	■	■	■	■	■	■
Strengthen inspection services (increase staff numbers, establish new organization and work methods)	■	■	■	■	■	■	■	■	■	■	■	■

Table 12. Report of the Implementation of Structural Reforms (SR) from ERP 2018-2020

	SHORT DESCRIPTION OF ACTIVITIES PLANNED FOR 2018 (activities from the Gantt chart)	**HAVE THE ACTIVITIES PLANNED FOR 2018 BEEN IMPLEMENTED**	**IF THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A SHORT REVIEW** (steps taken, timeline of implemented activities, difficulties and delays in implementation)	**IF ACTIVITY IS NOT BEING IMPLEMENTED, GIVE REASONS**	**OTHER ACTIVITIES** (unplanned but implemented activities with the aim of implementing the SR)
SR 1. Tax Administration transformation					
1.	Plan for retaining quality personnel, considering gradual change in age composition	Under preparation		The Law on Civil Servants and the Law on Salaries of Civil Servants and Employees, and the conditions for their promotion, reward and stimulation leave no room for favouring employees and making any plan as an independent document whose aim would be to retain quality staff in the Tax Administration.	
2.	Activities related to the establishment of a new risk management system	Progress in implementation	A new risk management system following the OECD risk management model is applied, according to the compliance plan. For this purpose, the Strategic Risk Department was established and it developed the Tax Compliance Plan for 2017, in accordance with recommendations and best practices. The selection of taxpayers should be based on inputs received from the Strategic Risk Department and the Operational Risk Department. The Strategic Risk Department is established at the Headquarters (at the Office of the Director of Tax Administration), while the operational risk units are set up within the core functions (Audit Department, the Center for Large Taxpayers and Tax Police Department). The departments lack the recommended level of staffing and active steps are being taken to fill vacant positions. The problems are, on the one hand, the required specific knowledge and skills, and, on the other, the salaries at the Tax Administration that are not attractive for relevant specialists.		

3.	A harmonised proposal for the new organisational structure at all levels	Continuation of implementation with initial results	The Act on Internal Organisation and Job Classification at the MoF - Tax Administration was adopted in August 2017 to reduce the number of organisational units from 178 branches and outlets to 78 branches. An Implementation Plan for the Organisational Transformation of the Republic of Serbia Tax Administration was prepared to cover 2018 and Q1 2019. This Plan envisages new field network and organisation of Headquarters and branches. Harmonisation is underway. The analysis stage within the project with a consulting firm Pricewaterhouse Coopers (PwC) has been finalized, with a aim of distinguishing core/non-core activities.		
4.	Review and revise LTPTA relatedto the use of indirect calculation methods and estimation methods directed to the audit of taxpayers' accounting data on the basis of risk/business	Continuation of implementation with initial results	Analysis of LTPTA and bylaws was prepared; A proposal based on the need for adopting of a bylaws was drafted, by which indirect taxation method of undeclared income is implemented into account. The key comparison parameters were defined. Benchmarks for the defined parameters were determined. The final version of the Rulebook on the Conditions for and Methods of Tax Base Estimation was drafted. The draft was referred to the MoF for further action and adoption.		
5.	Start of preparations for implementation and the implementation of the adopted proposal for the new organisational structure - Consolidate administration of core taxes in a smaller number of field offices (2 stages: stage 1 by June 2019, stage 2 by the end of 2023) - Establish organisational and management structures for a new non-core activities.	Continuation of implementation with initial results	Preparations for the implementation of a new organisational structure were planned; adoption of the new organisational structure and the job classification act has been initiated and partly implemented.		

6.	Re-engineer business process to introduce international good practices to the operative functions of the STA: - Analysis (2018) - Implementation (2019-2020)	Implementation commenced	Centralisation and automation of financial and material-resource bookkeeping; Software for financial and material-resource operations was developed (stage 2 of the project) which among other business processes, includes the operational system for budgeting and periodic reporting;; all major tax formes are covered by electronic services (electronic tax returns); A Sector for providing services to taxpayers has been established and a Strategy for providing services to taxpayers has been adopted. Automatization of regular and enforced payments has been conducted by support of the project ,, Development of a payment system in the framework of the integrated IT system of Tax Administration”. The project based on disjunction between core and non-core activities of the Tax Administration is underway and it is in line with the Programme of Transformation within Action Plan 2018-2013. The human resources project and development of new software are also underway.		
7.	Improvement of taxpayer services and develop a segmented approach to taxpayer service programmes	Progress in implementation	Taxpayer Service Department was established. A plan for the phased rollout of taxpayer services in field offices was developed. Training was organised for the staff assigned to do taxpayer service work in field offices; printed material about provision of information was presented to the training attendees. “Your Tax Officer” one-stop shops have been set up in 37 branches. Their main purpose is to provide assistance and services to taxpayers. Visits were made to newly registered entrepreneurs which are in the business of medical care services. “Open Day with the Tax Administration” meetings have been held in a number of cities across Serbia in collaboration with the Serbian Chamber of Commerce. Brochures for taxpayers were prepared.		
8.	Implementation of a more effective penalty regime for late payments	Implementation commenced	In the latest round of LTPTA amendments, only some of the proposals were made by the Department of Payment concerning a more effective penalty regime for late payment/non-payment of taxes were accepted.		
9.	Activities related to the establishment of a new staff training system in line with the needs of the organisation	Implementation commenced	The implementation of Basic Tax Training was completed, including the testing of attendees. A questionnaire to help analyse the training needs of the Tax Administration staff in 2019 was provided to be filled in. A review of required competencies of staff in the audit, collections and tax police functions to ensure the functioning of the new business model has started. Progress in defining an audit business model has been made. Activities concerning the preparation of the Tax Academy documents were finalised.		

10.	Improvement of the electronic services of the Tax Administration Stage 1 – finalised in Q1 2018 (January) Stage 2 – further development	Progress in implementation	Since January 1st, 2018, taxpayers have been able to file all tax returns electronically via the Tax Administration's portal, which enables fast, simple and safe filing from users' computers. Improvement of electronic communication with taxpayers has been continued. • Capital gains tax return (Form PPDG-3R) – continuing testing of the application used by tax auditors: accuracy of calculations and generation of tax acts, reports and decisions issued in the audit process; • Individual withholding tax return (Form PPP PD) – work on terms of reference: automation of the process of creating and ex officio filing of PPP PD; • Corporate income tax return (Form PP PDP) – Instructions for actions to be taken concerning requests to cancel the latest corporate income tax return in the Tax Return Administration (TRA).N35 application; Testing the requests to cancel the latest corporate income tax return and reversal it. • Tax return for tax and SIC contributions arising from wages /other income self-assessed by individuals as taxpayers (Form PP OPO) – Testing of the Tax Return Administration application has been carried out with respect to PP OPO tax return. • Request to postpone payment of owed taxes.		
	activity implementation percentage	**56%**			
SR 2. Improved capital investment management					
1.	Adoptton of the Rulebook on the Application of Decree on Contents, Preparation and Evaluation, and Implementation Monitoring and Reporting of Capital Projects	Implementation commenced	Rulebook on Contents of, Timelines and Procedure for Providing Capital Project Documentation was adopted. Other rulebooks, whose adoption is foreseen by the Regulation are currently being drafted.		
2.	Implementation of trainings to budget beneficiaries concerning the application of the Decree on Contents, Preparation and Evaluation, and Implementation Monitoring and Reporting of Capital Projects and the Rulebook	Under preparation		Awaiting adoption of all rulebooks	

3.	Development of the project terms of reference and procure IT equipment and SW for a single capital project database	Implementation commenced	ToR prepared		
4.	Implementation and update of the single capital project database	Not being implemented		Awaiting procurement of IT equipment and software for establishment of single information database of capital projects.	
5.	Train budget beneficiaries to use the capital project database	Not being implemented		Awaiting establishment of database of capital projects in order to start with trainings.	
6.	Capital project evaluation and selection	Implementation commenced		Full implementation upon establishment of the overall system – adoption of rulebooks and development of database	
	activity implementation percentage	**23%**			
SR 3. Energy market development coupled with energy infrastructure construction					
	Construction of the Nis-Dimitrovgrad trunk gas pipeline				
1.	Development of the expropriation study	Progress in implementation			
2.	Investigation works	Fully implemented			
3.	Development of the preliminary design	Implementation commenced			
4.	Development of the feasibility study	Implementation commenced			
5.	Obtaining location requirements	Progress in implementation			
6.	Development of the design to obtain the building permit	Under preparation			
7.	Development of the environmental impact assessment study	Under preparation			
8.	Resolving property issues	Continuation of implementation with initial results			

9.	Obtaining approval of the preliminary design and the feasibility study	Under preparation			
10.	Obtaining the energy permit	Implementation commenced			
11.	Development of the detailed design	Not being implemented		Not envisaged for 2018.	
	Trans-Balkan Corridor				
15.	Construction of the Pancevo - Resica transmission line	Fully implemented			
16.	Reconstruction of Pancevo 2 transformer station (TS), required to accept the new Pancevo - Resica double-circuit transmission line.	Fully implemented			
17.	Commenceinge reconstruction and extend Kraljevo 3 TS, required to commission the new Kragujevac-Kraljevo transmission line	Under preparation	The building permit for Kraljevo 3 TS was issued in 2016. The Consultancy Services Contract was agreed, approved by KfW and signed. Tender documentation for the pre-qualification procedure has been agreed by EMS and the Consultant; approval by KfW is pending. Development of tender documentation for the qualification procedure is underway.		
18.	Reconstruction of Kraljevo 2 TS, required to commission the new Kragujevac-Kraljevo transmission line	Under preparation	The Decision approving execution of works was obtained in 2016. The Consultancy Services Contract was agreed, approved by KfW and signed. Tender documentation for the pre-qualification procedure has been agreed by EMS and the Consultant; approval by KfW is pending. Development of tender documentation for the qualification procedure is underway.		
19.	Construction of the Kragujevac-Kraljevo transmission line	Under preparation	Transmission line building permit was obtained in February 2018. The Consultancy Services Contract was agreed, approved by KfW and signed. Tender documentation for the pre-qualification procedure has been agreed by EMS and the Consultant; approval by KfW is pending. Development of tender documentation for the qualification procedure is underway.		

20.	Preparing technical documentation for the Obrenovac – Bajina Basta transmission line	Under preparation	Adjustment of the existing technical documentation to the requirements of the national legislation (conceptual design, Feasibility Study and preliminary design, Environmental Impact Assessment Study) for the 400 kV Obrenovac – Bajina Basta transmission line was finalised in December 2017. EMS received a donation of EUR 0.25 million for this adjustment from the German development bank (KfW). KfW also provided support in obtaining a grant of EUR 0.8 million from WBIF for the preparation of the lacking technical documentation for Section 3 of the Trans-Balkan Corridor (the 400 kV Obrenovac – Bajina Basta transmission line). A consultant was selected to develop terms of reference (ToR) for the preparation of the lacking technical documentation for this transmission line. ToR was developed and approved by EMS and KfW.		
21.	Development of zoning /spatial plan for the Bajina Basta-Obrenovac transmission line	Under preparation	In 2018, the Government of the Republic of Serbia took a decision to make the Strategic Environmental Impact Assessment Study and the Spatial Plan of the Special Purpose Area for the purposes of the transmission line. Public procurement procedure was conducted to select the Plan Developer. The development of the Plan is underway, and the adoption of the Plan is expected to take place in the second half of 2019, pursuant to a Decree of the Government of the Republic of Serbia.		
22.	Preparing technical documentation for the Bajina Basta-Visegrad-Pljevlja transmission line	Under preparation	The permitting procedure has not started. The Government of the Republic of Serbia took a decision proclaiming the special purpose area spatial plan. The plan was prepared and approved by the Ministry of Construction, Transport and Infrastructure. The plan underwent the public consultations process in May 2017 and was accepted with no objections during the public inspection process. The Government of the Republic of Serbia adopted the Plan in November 2017 (Official Gazette of RS, no. 104/17). KfW provided support in obtaining a grant of 0.8 million EUR from WBIF for the preparation of the lacking technical documentation for Section 4 of the Trans-Balkan Corridor (the 400 kV Bajina Basta-Pljevlja-Visegrad transmission line) and for the updating of the Feasibility Study for Sections 3 and 4 (including technical and economic, and financial analyses). A consultant was selected to develop terms of reference (ToR) for the preparation of the lacking technical documentation for this transmission line. The process of reaching an agreement on the ToR is in the final stage.		
	activity implementation percentage	**43%**			

SR 4. Improving the capacity and quality of infrastructure and services in the field of transport					
1.	Enact the new Roads Law	Fully implemented	The Law on Roads was enacted on May 31st, 2018 (Official Gazette of RS, number 41/18)		
2.	Completion of the construction of Corridor 10	Progress in implementation	Numerous problems in design making and insufficient investigation works resulted in the delay.		
3.	Construction and design of the remaining sections of trunk roads	Progress in implementation	Design and technical documentation development is underway; commercial contracts will be signed based on this documentation.		
4.	Transition to a new method of contracting with companies for the maintenance of 3000 km of state roads	Implementation commenced	Six contracts were signed by between the state road operators and the road maintenance companies. Their implementation started on April 1st 2018.		
5.	Implementation of tools to improve the road infrastructure safety	Under preparation	The drafting of bylaws to regulate in greater detail the implementation of tools improving road infrastructure safety is underway.		
6.	Continued transition to a new method of contracting with companies for the maintenance of the remaining network of state roads	Under preparation	Preparation of the tender documentation for the maintenance of 12,000 km of the state road network is underway.		
	activity implementation percentage	**57%**			
SR 5. Reform of railways					
1.	Analysis and monitoring of key contracts (audit)	Progress in implementation	Consultants were hired within the Comprehensive Railways Reform IPA-funded project to develop a contract management plan. Within the scope of the project, existing contracts were reviewed to identify key points that need to be improved and relevant contract monitoring recommendations were made. A request was made to expand the scope of the project, which includes the amending of key contracts and developing of monitoring procedures.		
2.	Analysis of the process implemented to date and continued workforce restructuring	Fully implemented	Stage 3 of workforce optimisation was implemented in December 2018.		
3.	Start of implementation of the new Law on Railways	Fully implemented	The Law was enacted in May 2018 and published in the Official Gazette of RS, no. 41/18.		
4.	Start of implementation of the new Law on Safety in Railway Transport	Fully implemented	The Law was enacted in May 2018 and published in the Official Gazette of RS, no. 41/18.		

5.	Start of implementation of the new Law on the Interoperability of the Railway System	Fully implemented	The Law was enacted in May 2018 and published in the Official Gazette of RS, no. 41/18.		
6.	Adoption of a decision revoking the status of a resource in general use	Implementation commenced	Infrastruktura Zeleznice Srbije makes adjustments in line with the remarks of the National Geodetic Authority and the Republic Property Directorate.		
7.	Draft of a new methodology to calculate the price of access to the railway infrastructure	Under preparation	Request was made to expand the scope of the project to include the Technical Assistance for the development of a new Methodology of Calculating the Price of Access to the Railway Infrastructure within the Comprehensive Railways Reform Project.		
8.	Implementation of the new methodology to calculate the price of access to the railway infrastructure	Not being implemented		The new methodology has not been developed. A request was made to expand the scope of the project to include the technical assistance for the development of a new Methodology of Calculating the Price of Access to the Railway Infrastructure within the Comprehensive Railways Reform Project.	
9.	Harmonisation of the railways laws with the Fourth Railway Package of the EU	Implementation commenced	Certain minimal adjustments to the Fourth Railway Package were made in the Law on Railways; however, a decision was made to provide full harmonisation with the Fourth Railway Package by adopting a new law in 2021.		
	activity implementation percentage	**64%**			
SR 6. Improvement of competitiveness and status of agricultural holdings					
1.	Preparation of the Rulebook and the open competition procedure	Fully implemented			
2.	Adoption of the Rulebook and announce the open competition	Fully implemented			

3.	Publishing the call and implementing the open completion procedure	Progress in implementation	There were three public calls to submit applications for approval of projects to be subsidised from IPARD funds. The first public call for Measure M1: Investments in physical property of agricultural holdings – purchase of new machinery and equipment was implemented in the period 25 December 2017 through 26 February 2018. The second public call for the purchase of new tractors was implemented in the period 4 January 2018 through 26 February 2018.The third public call for IPARD Measure M3: Investments in physical property concerning processing and marketing of agricultural and fishery products – purchase of new equipment was implemented in the period 27 March 2018 through 28 May 2018.		
4.	Implementation of the structural reform (in accordance with the Plan for Publishing the Call for IPARD structural reforms adopted at the beginning of the year for the current year and bylaws)	Progress in implementation	The remaining public calls will be implemented following the adoption of the Amended IPARD Rulebook for Measures M1 and M3.		
5.	Preparation of a rural development programme for the new programming period (2021-2027)	Under preparation	A process has been launched to update the sectoral analyses to serve as the basis for preparing the rural development programme for the next programming period.		
	activity implementation percentage	**76%**			
SR 7. Raising the competitiveness of the processing industry					
1.	Draft and adoption of a new industrial development strategy in consultation with the private sector	Under preparation	Considering a close link between the Smart Specialisation Strategy and the Industrial Policy Development Strategy, a decision has been taken that the Ministry of Economy and the Ministry of Education, Science and Technological Development jointly conduct the Entrepreneurial Discovery Process (EDP), which is envisaged as a mandatory step in the methodology for the development of the Smart Specialisation Strategy and is based on consultations with the private sector. This process will lay foundation for further work on the industrial development strategy.		
2.	Development of an action plan to implement the new industrial policy strategy	Under preparation	Depends on the implementation of the preceding activity.		
3.	Development of action plans for the four selected industry sectors	Fully implemented			
4.	Implementation and monitoring the industrial development strategy action plans	Under preparation	Depends on the implementation of the preceding activity.		

	activity implementation percentage	**40%**			
SR 8. Package of measures to improve access to finance for SMEs					
1.	Negotiate on the drawdown of the loan of APEX credit line for additional 200 million EUR.	Not being implemented		This activity will not be implemented by the Ministry of Economy.	
2.	Prepare the APEX loan	Not being implemented		This activity will not be implemented by the Ministry of Economy.	
3.	Draw down the loan of the APEX credit line for an additional 200 million EUR.	Not being implemented		This activity will not be implemented by the Ministry of Economy.	
4.	Implementation of the project for the implementation of financial instruments financed from IPA 2016	Fully implemented			
5.	New annual cycle of implementation of three programmes for small enterprises	Fully implemented			
6.	Monitoring and targeted use of programmes	Fully implemented			
7.	Evaluation of effects of the implemented programmes	Fully implemented			

8.	Draft the legislative framework for introducing microfinance institutions	Under preparation	The National Bank of Serbia set up a Working Group to prepare a proposal for the improvement of the financial services legal framework, with the view of looking into the possibilities and scope of the regulatory framework for the operation of non-depository financial institutions. The activities to analyse the need to introduce this type of institutions were supported by the USAID Business Enabling Project. The conclusions of the comparative legal analyses about how non-depository credit institutions are regulated were the following: the regulatory framework for microfinance, i.e. non-depository financial institutions is quite diverse from comparative law viewpoint; the EU member states do not take a uniform approach; Serbia can opt either to put in place or to not put in place regulatory framework for non-depository financial institutions; even if Serbia does not put in place such framework, it cannot be deemed to be lack of harmonisation with the EU regulations and, in case the regulatory framework for non-depository financial institutions is put in place, relevant standards need to be cautiously considered and implemented, taking into account relevant EU directives and, particularly, complex issues of domestic market characteristics and experience, both positive and negative, in those legal systems where such framework has been in place for a number of years now.		
9.	Development of the market of microfinance institutions	Not being implemented		The development of a legal framework for introducing microfinance institutions is a precondition for preparation and further implementation of this activity. The implementation of the market development activities will be possible only after this prior activity has been implemented.	
10.	Draft the legislative framework for introducing venture capital funds	Progress in implementation			
11.	Animate financial institutions to become involved in the COSME programme	Fully implemented			
	activity implementation percentage	**60%**			
SR 9. The introduction of corporate governance in public enterprises					

1.	Work group activities on defining the management body certification system in PEs	Implementation commenced	The Working Group has been established to organise the training programme and implement the management body certification system in PEs; meetings were held to define a work plan for the development of the Training Plan.		
2.	Preparation of by-laws for implementation of management body certification system in PEs	Under preparation	Drafting of by-laws (additional training program in the area of corporate governance, guidelines for the development of code of corporate governance and code of ethics, etc.).		
3.	Training needs assessment (TNA) for members of supervisory boards in public enterprises	Fully implemented			
4.	Corporate governance training courses conducted for members of supervisory boards in PEs	Under preparation	To be included in the Training Plan.		
5.	Development of procedures by MoE to monitor and evaluate the effects of corporate governance in PEs	Under preparation	To be included in the Training Plan.		
6.	Implementation of procedures by MoE to monitor and evaluate the effects of corporate governance in PEs	Under preparation	To be included in the Training Plan.		
7.	Analyse the effects of implementation of corporate governance system in PEs	Under preparation	Following the implementation of the Training Plan.		
8.	Adjust activities based on the performed analysis	Under preparation	Following the implementation of the Training Plan.		
9.	Implement procedures at the MoE to monitor and evaluate the effects of corporate governance in PEs	Under preparation	Following the implementation of the Training Plan.		
10.	Analyse the effects of implementing a corporate governance system in PEs	Under preparation	Following the implementation of procedures for the assessment of effects of corporate governance in PEs.		
	activity implementation percentage	**30%**			
SR 10. Simplification of procedures and other conditions for doing business					
1.	Adoption of the Law on Services	Select option	Law on Services draft is prepared.		
2.	Adoption of Decree on the Electronic Point of Single Contact and establish the EPSC (Phase 1)	Select option	Draft Law on Services provides for the implementation of EPSC as a part of the Registry.		

3.	Finalise the harmonisation of sectoral regulations with the Services Directive and/or the Law on Services	Select option			
4.	Start of implementation of the Law on Reimbursements	Implementation commenced	Law on Reimbursments for the Use of Public Goods has been adopted in December 2018. Application begins on January 1st 2018.		
5.	General inventory of procedures/ processes and verification of the performed inventory; IPA 2013 (start)	Fully implemented	2,499 administrative procedures have been inventoried. 2,475 administrative procedures have been analyzed, with status reports prepared.		Inventory and simplification of administrative procedures at the level of AP Vojvodina during 2019.
6.	Streamline the procedures (from the viewpoint of expenses and time for business)	Implementation commenced	Calculation of expenses has been conducted for 1,151 administrative procedures. 533 proposals of recommendations for simplification and abolition of certain administrative procedures have been prepared. Application of 3 optimisation recommendations started on Jan 1st 2019. through Law on Ammendments to the Law on Pension and Disability Insurance (employers no longer have to deliver M4 and MUN forms, which results in annual savings (amounting 3,466,835,553 RSD) for business entities.		
7.	Promotional activities related to the establishment of the Registry (continual process)	Implementation commenced	Electronic page became functional on the Republic Public Policies Secretariat website, including all the necessary information and documents related to Registry. Programmes and materials for listing of administrative procedures have been prepared, after which the trainings of trainers and civil servants have been conducted. E-paper conference along with 2 promotional events has been held, so commerce would be included in the process of administrative procedure simplification.		The communication strategy and marketing plan for the continuation of promotional activities and development of promotional material were developed within the scope of E-Paper Project.
8.	Adopt a legal framework to inventory the remaining conditions for doing business	Fully implemented	A Conclusion was issued, specifying the mechanism for communication and inventory of administrative conditions for doing business.		

9.	Training of civil servants and inventory of the remaining business conditions .	Fully implemented	8 trainings were held and 122 civil servants received training.	List of other business conditions is planned for year 2020 and 2021, considering that during 2019, AP Vojvodina will be conducting an inventory of administrative procedures, with the aim of establishing a common Register.	
10.	Adopt a law for establishing a unified registry of administrative procedures and other conditions for doing business	Implementation commenced	A working group was set up to draft the Law on Single Public Registry of Administrative Procedures and Other Requirements for Doing Business; the draft Law has been prepared and is now being refined by the Working Group.	Adoption of the Law is expected in 2020.	
11.	Adopt by-laws based on the Registry Law	Under preparation		This activity is planned for the next period (2020). The activity has not been implemented as the adoption of the Law on Single Public Registry of Administrative Procedures and Other Requirements for Doing Business is a precondition for its implementation.	
12.	Establishment of the Registry	Under preparation		This activity is planned for the next period (2021). The activity has been postponed and is planned to be implemented in Q1 2021, according to the new plan.	
13.	Adopt and implement action plans for the simplification of administrative procedures	Under preparation		This activity is planned for the following period (2019).	
	activity implementation percentage	**35%**			
SR 11. Improving the effectiveness of inspection oversight					
	Establishment of a common information platform for all inspections on the Republic level (e-Inspection) - Phase II				
1.	Development of the e-Inspector system	Fully implemented	The development phase of 4 pilot inspections has been completed in line with the Project Plan. The planned implementation date and end-user training for remaining inspections is 1 March 2019.		
2.	Implementation	Implementation commenced	Integration and solution installation phase has been completed.		

3.	Training the trainers	Implementation commenced	Certaintraining is delivered on pilot inspections' locations. Comprehensive two-day training is planned to take place in the period after October 15 th.		
4.	Production	Implementation commenced	System installation, testing by pilot inspections, and harmonisation of the training scenarios are underway.		
5.	Handover and training	Under preparation	The completion of the solution installation and integration phase for 4 pilot inspections is planned to take place on October 2nd 2018.		
	Implement the Law on Inspection Oversight				
6.	Regular sessions of the Coordination Commission and Working Groups	Fully implemented	The Coordination Commission regularly meets on a bimonthly basis; more frequent meetings are held as needed. Ten meetings (regular and electronic) were held in 2018 alone.		
7.	Implementation the inspector training programme	Continuation of implementation with initial results	In collaboration with the National Public Administration Academy and the EU Support to Improving Business Environment Project.		
8.	Continuous implementation of inspector examination	Progress in implementation	Since the launch of the inspector examination, a total of 2,430 inspectors have passed the examination. Amendments to the Rulebook on the Programme and Method of Inspector Examination are planned for the next period in order to enable more efficient applying for and taking of the examination.		
9.	Promotion of online survey on the Coordination Commission website	Progress in implementation	The survey is promoted through business associations.		In addition to the online survey, active steps are taken to inform businesses about their rights and obligations in the course of regular inspection oversight. A brochure titled Rights and Obligations of Businesses in the Course of Regular Inspection Oversight was developed.

10.	Implementation of the Commerce Advisor	Not being implemented		Implementation of the Commerce Advisor is planned to take place with the support of the European Bank for Reconstruction and Development. Consequently, the Economic Advisor cannot be implemented unless the European Bank for Reconstruction and Development raises funds from its donors.	
11.	Improvement of the Coordination Commission website	Fully implemented	The Coordination Commission website undergoes continuous improvements. Now every inspection has its own sub-page on the website, including documents of relevance for the inspection oversight (laws, checklists, annual reports, oversight plans) and information about the work of every Coordination Commission working group, inspector examinations, and inspection news		
12.	Analysis of the inspections' annual reports	Fully implemented	Activity was implemented in Q1 2018.		
	activity implementation percentage	**63%**			
SR 12. Improvement of the geospatial sector as support of investment decision-making process					
1.	Enact the Law on the NGDI	Fully implemented			

2.	Enact NGDI bylaws	Implementation commenced	The Law on the NGDI was enacted in Q2 2018. The delayed enactment of the Law led to postponement of some of the activities. Article 7 of the NGDI Law stipulates that, in line with the applicable INSPIRE rules issued by the European Commission, the RS Government will adopt five bylaws, specifying rules for: 1) metadata; 2) interoperability; 3) network services; 4) access to geodata sets and services, including public access to and exchange of data by and between public authorities; 5) monitoring and reporting. The timeline for adoption of the bylaws under 1) and 5) is one year after the coming into effect date of the Law, i.e. April 14th 2019, while the timeline for the bylaws under 2), 3) and 4) is two years after implementationof the Law, i.e. April 14th 2020. Steps have been taken to draft the bylaws referred to in Article 7, item 1) metadata and item 5) monitoring and reporting, of the Law. Potential risk to adoption of the bylaws is the delayed establishment of the NGDI Council, which needs to nominate members of a working group to draft the bylaws. The establishment of the NGDI Council was delayed until October 25th 2018, when it was established pursuant to the Decision of the RS Government 24 Number: 119-9822/2018, in line with Article 5 of the Law on the National Geospatial Data Infrastructure.		
3.	Adopt the NGDI strategy for the period 2018-2022	Implementation commenced	As the NGDI Law was not enacted as planned, the implementation of other activities related to the Law has been delayed. The NGDI Council has been set up and the adoption of draft NGDI Strategy by the NGDI Council is to take place by the end of Q2 2019. The drafting of the NGDI Strategy has already started, internally at the RGA. According to the NGDI Law, the NGDI Council comprises 18 members, i.e. representatives of different ministries, bodies vested with public authorities, Standing Conference of Towns and Municipalities, and other.		

4.	Establishment of a Regional Geospatial Information Management Centre	Progress in implementation	Establishment of a Regional Geospatial Information Management Centre includes organisational and staffing arrangements. Organisational arrangements for the Regional Geospatial Information Management Centre have been made. Pursuant to the RGA Job Classification Act, a relevant organisational unit was set up and it became operational on January 1st 2018. Following a public announcement of vacancies at the RGA, eight job posts have been filled as of December 31st 2018, whereby the Centre has been staffed in accordance with the public announcement.		
5.	Harmonise the RGA spatial data	Implementation commenced	The harmonisation of the RGA spatial data has been completed for 5 sets of spatial data in accordance with the INSPIRE (a goal defined in the 2018 ERP is 5 harmonised data sets). The spatial data harmonisation process in underway. Projects envisaging the purchase of technical resources for the purposes of further harmonisation of the RGA spatial data are also underway.		
6.	Develop a National Geoportal in line with the INSPIRE directive	Continuation of implementation with initial results	The GeoSerbia geoportal was upgraded in the last quarter of 2017 and it is now live on a new platform (https://geosrbija.rs). Further improvements of the National Geoportal in line with the INSPIRE directive are underway. Lack of stronger participation of other institutions due to delay in the establishment of the NGDI Council (the establishment of the NGDI Council was delayed and took place on October 25th 2018, pursuant to the Decision of the RS Government 24 Number: 119-9822/2018; the responsible entities will be nominated by the NGDI Council) is hindering the process. Projects envisaging the purchase of technical resources for the purposes of the National Geoportal are also underway. New sets of spatial data were added to the GeoSerbia geoportal in 2018.		
7.	Provide technical conditions for e-payment	Not being implemented		This activity is not being implemented due to lack of funding for the implementation of SW solution, technical problems and understaffing.	

8.	Support to other institutions (responsible entities) in the harmonisation of data, development of metadata and services for the needs of the National Geoportal	Implementation commenced	The NGDI responsible entities are public authorities that are, pursuant to the Law, responsible for the generation, collection and maintenance of geodata for the purpose of their presentation on the National Geoportal, and the public authorities which use such geodata in performing the activities from within their jurisdiction. The responsible entities will be nominated by the NGDI Council within one year from the enactment of the NGDI Law. Namely, the NGDI Council will decide in a special document which public authorities will be responsible for certain geodata topics in line with the Law. At present, the RGA provides support to other institutions that use the digital platform pursuant to a relevant legal basis (agreement/contract/upon request based on law). Bylaws regulate technical issues of interoperability, i.e. harmonisation of spatial data sets and services, development of metadata and services for the geoportal. Untimely adoption of bylaws may slow down the implementation of the activity.		
9.	Signing agreements on cooperation and participation in projects with institutions responsible for geospatial data in the European Union and the region	Implementation commenced	International cooperation agreements were signed to implement IMPULS and SPATIAL projects, which are due to end in the first half of 2019.		
10.	Identifying the responsible NGDI entities for topics by priorities defined in the annexes of the INSPIRE directive	Under preparation	The NGDI Council will nominate the responsible entities within one year from the implementationof the NGDI Law. The establishment of the NGDI Council was delayed and took place on October 25th 2018, pursuant to the Decision of the RS Government 24 Number: 119-9822/2018. The responsible entities are expected to be nominated in 2019.		

11.	Draft and enactment the Law on the Mass Valuation of Real Estate	Not being implemented		The drafting of the Law on the Mass Valuation of Real Estate has been postponed pending the pilot project results (sample of 5 cadastral districts), which are to be provided in a comparative study.	1. Engaging of pilot municipality coordinators frommunicipal administrations to raise awareness. The role of the coordinator is close collaboration to facilitate obtaining of the required data. 2. Setting of timelines for mutually related activities in order to ensure timely and available basis for the implementation of the pilot projects.
12.	Harmonise other laws with the Law on the Mass Valuation of Real Estate and draft by-laws	Not being implemented		Conditional on completion of a prior activity: "Draft and enact the Law on the Mass Valuation of Real Estate"	Active involvement of the Ministry of Finance in the activities of the Improvement of Land Administration in Serbia Project (the Project funded by the World Bank loan and implemented at the RGA) to improve collaboration and drafting of legal amendments.

13.	Enable the leasing/sale of data from the real estate market based on online requests and payments	Progress in implementation	A function of on-line leasing of the real estate market data from the Application of the Real Estate Price Register was established (http://www.rgz.gov.rs/usluge/procena-i-vo%C4%91enje-vrednosti-nepokretnosti/registar-cena-nepokretnosti). Since April 30th 2018, accounts have been opened to access the application in order to lease the data from the Price Register. Users were trained to implement the on-line data leasing procedure. For the time being, users cannot make on-line payments, but rather need to enclose proof of payment with every request.		
14.	Development of the system for the mass valuation of real estate (market analysis, collection of real estate data and definition of procedures)	Continuation of implementation with initial results	Data collection has been implemented in the part of market data and data about buildings from satellite images. The Republic Geodetic Authority and the Ministry of Construction, Transport and Infrastructure worked together to set up a record of issued Decisions to demolish illegal buildings; an application was developed to keep record of the issued decisions to demolish illegal buildings. The decisions and metadata are entered in the application. Collection of tax databases and planning documents at the pilot municipalities is underway. The development of information system to link all the available databases to form a fiscal register will follow. Data collection has been implemented at the level of 30% of the overall system development and implementation in the pilot municipalities. Market analysis is implemented partly in the mass valuation IT system, and partly in commercial software. The plan is to broaden the software solution so that the entire analysis can be performed in a single mass valuation system. Market analysis has been implemented at the level of 30% of the overall system development and implementation in the pilot municipalities.		
15.	Amendments to the Decree on the Address Register	Not being implemented		The plan to amend the Decree on the Address Register has been abandoned as stapes are taken to enact a new Law on Address Register and Register of Spatial Units.	

16.	Update the data in the Address Register and the Register of Spatial Units in the territory of RS	Continuation of implementation with initial results	Within the scope of the Improvement of Address Register Project, which aims to update and improve the existing address register and the register of spatial units long with establishment of full interoperability with other registers using address data, the RGA has undertaken activities to make a study of the street system, which will enable the update of the existing address register with street names assigned to streets which have no name, and then the determination and marking of house numbers for all buildings which have no number, in collaboration with local governments. The activities of the Address Register update unfold as planned. The Study of Street Systems has been finalised and the development of a Study of House Numbers has started. The Address Register data is now improved in 19 municipalities (out of 170), which accounts for 11% of total implementation. The Register of Spatial Units data is updated in line with decisions published in official gazettes (in 2018 there were 8 Decisions of the Government, local governments or decisions taken based on legal regulations). When enacted, the Law on Address Register and the Register of Spatial Units will stipulate powers, obligations and responsibilities with respect to administrative procedures, which will simplify such procedures.		
17.	Establish interoperability of the Address Register data with those of state authorities, organisations and local government units	Implementation commenced	The RGA started work to ensure interoperability of the Address Register data with the Ministry of the Interior, for municipalities where the Address Register data had been updated. When enacted, the Law on Address Register and the Register of Spatial Units will stipulate powers, obligations and responsibilities with respect to administrative procedures.		
18.	Develop and implement the central system of the Address Register	Implementation commenced	Purchase of software financed by the World Bank loan for the implementation of the Central Address Register has been finalised. The activities of phase 2 of the World Bank project concerning the implementation of the central system of the Address Register and Register of Spatial Units have started. The project plan envisages that the central address register should become operational after the first half of 2019, while the entire system is expected to become operational in mid-2020.		

19.	Draft and enact the Law on the Address Register and Register of Spatial Units	Under preparation	Members of an Operational Group made up of the representatives of a number of competent authorities are involved in the drafting of the Law on the Address Register and Register of Spatial Units. The Operational Group had several joint meetings, and the RGA representatives had prepared an initial version of the Draft Law on the Address Register and Register of Spatial Units, which was provided to the Ministry of Public Administration and Local Governments for review. The established Address Register Update Steering Committee steers all the activities related to the update of the address register.	Continuation of work is awaiting the establishment of a new working group by the Ministry of Construction, Transport and Infrastructure.	
	activity implementation percentage	**40%**			
SR 13. Programme for supporting innovation and technological development in the public and private sectors					
1.	Implementation of projects by grant beneficiaries, monitoring by the Fund within the programme of cooperation between science and business - Direct Grant Contract IPA 2013	Continuation of implementation with initial results	Projects are implemented in line with the agreed schedule and the signed contracts with grant beneficiaries. Four (4) of 14 projects were finalised, while the remaining 10 will be fully implemented in Q1 2019. Monitoring by the Fund is performed in accordance with timeframes defined in the Manual for the Programme of Cooperation between Science and Business and Grant Contracts signed with grant beneficiaries.		
	IPA 2014				
2.	Sign the direct grant contract between the Innovation Fund and the Ministry of Finance	Fully implemented			
3.	Prepare documentation for the grant programmes (Mini Grants and Matching Grants) - issue a public call, promotional activities (info days)	Continuation of implementation with initial results	Direct Grant Contract was signed on May 31st 2018 and the implementation starts on December 1st 2018. Public call is to be issued in Q1 2019.		
	Competitiveness & Jobs				
4.	Implementation of the projects under public call (PC) 1 (Mini Grants and Matching Grants) by beneficiaries, and monitoring by the Innovation Fund	Continuation of implementation with initial results	Projects are implemented in line with the agreed schedule and the signed contracts with grant beneficiaries. Projects are still in the implementation phase and are expected to be finalised in Q2 2019 (projects from the Mini Grants Programme) and in Q2 2020 (projects from the Matching Grants Programme).		
5.	Issue PC 2 (Mini Grants and Matching Grants)	Fully implemented			

6.	Consultations and open days concerning PC 2 in mid-Q2, submission of applications	Fully implemented			
7.	Assess the project proposals submitted upon PC2 and decision on financing, contracting	Fully implemented			
8.	Implementation of PC 2 projects by beneficiaries and monitoring by the Innovation Fund	Continuation of implementation with initial results	All grant contracts with beneficiaries were signed in Q4 2018 within the scope of PC 2.		
	Issue PC 1 (Cooperation between Science and Business Programme)	Fully implemented			
	Consultations and open day concerning PC 1 in Q4	Fully implemented			
	Assess the submitted project proposals upon PC1 and decide on financing, contracting	Implementation commenced	Deadline for submission of project proposals was 28 December 2018. Application eligibility assessment is underway. International reviews of eligible applications and decision on short-listed applications will be made in Q1 2019. Final decision on the financing is expected to be taken in Q2 2019.		
	Implementation of PC 1 projects by beneficiaries and monitoring by the Innovation Fund	Under preparation			
9.	Implementation of the technological development programme – MESTD	Fully implemented	Research projects will continue to be financed until December 31st 2019 (Decision of the Government, Official Gazette of RS, no. 93 of November 30th 2018).		

10.	Set up service lines for technology transfer in the Central Technology Transfer Facility: 1. Collection of inventions by the applicants, 2. Assessment of technological and commercial readiness (triage), 3. Financing additional development to increase commercial readiness, 4. Defining the commercialisation strategy and tactics, 5. Implement the commercialisation strategy, 6. Identification of potential commercial partners, 7. Negotiation and conclusion of transactions, 8. Supervision and monitoring of further commercialisation developments – IPA 13 and Competitiveness & Jobs; Detailed self-evaluation report and pilot analysis by international experts – Competitiveness & Jobs	Fully implemented			
11.	Implementation of activities: 1. Collection of project proposals by the TTF and TTO, 2. Evaluation of received project proposals, and 3. Definition of a strategy for commercial exploitation - IPA 2013 and Competitiveness & Jobs + development of new service lines	Progress in implementation	These are ongoing activities implemented by the TTF.		
12.	Implement an analysis of institutions in the scientific research sector, based on the methodology arising from the analysis of pilot institutions in 2016 - Competitiveness & Jobs	Under preparation	The process to select an expert who will be tasked to prepare the institute self-assessment methodology has been completed. The expert hiring process within the C&J project is underway. Timelines within which the selected expert will, from the time of expert agreement signing		

13.	Plan of sectoral reforms, including the introduction of a results-based management system, both at the level of institution and individual is adopted by the Government - Competitiveness & Jobs	Under preparation	The Scientific and Technological Development Strategy Action Plan was adopted by the Government on July 30th 2018. (Official Gazette of RS, no. 60/2018). The Law on the Science Fund of the Republic of Serbia has been adopted (Official Gazette of RS, no. 95/2018). Establishment and operation of the Science Fund is a tool that will improve and regulate the support to R&D activities. Public consultations on the draft Science and Research Law were closed on January 3rd, 2019.		
14.	Completion of the project of establishing service lines for technology transfer in the Central Technology Transfer Facility - IPA 2013 and "Competitiveness & Jobs"	Progress in implementation	IPA 2013 Research, Innovation and Technology Transfer in Serbia Project ends on January 31st 2019, while the Competitiveness & Jobs Project ends on June 30th 2021.		
	activity implementation percentage	**74%**			
SR 14. Development and improvement of the national broadband communications infrastructure					
1.	Enact the Law on Broadband Communications Infrastructure	Implementation commenced	The Ministry initiated work to draft the Law on Broadband Communications Infrastructure.		On 19 April 2018, the Government adopted the Strategy for the Development of New Generation Networks by 2023. The main goal of this document is the providing of the required infrastructure for the development of the Digital Single Market in the Republic of Serbia, in line with the EU strategic framework in this area.

2.	Connect educational and cultural institutions to the Serbian Academic Network (SAN) (continuing activity)	Fully implemented	The schedule of the planned funds transfer to the SAN was implemented as planned; The Ministry of Trade, Tourism and Telecommunications and the SAN continued the project of connecting all educational, scientific and cultural institutions in a single SAN computer network. As of the first half of 2018, a total of 1,879 SAN users (institutions) have been connected to the SAN network, which is accessible in 50 towns across Serbia. The capacity of the link to the internet was increased from 10 Gbps to 20 Gbps through relevant activities and in cooperation with Geant and the European Academic Network. In addition, the number of points on the SAN network connected with links of minimum 10 Gbps has been increased to 21. The activity will continue in the future, focusing on increasing the access network bit rate.		
3.	Prepare and plan for the establishment of a unified national telecommunications network (UNTN)	Not being implemented	The Government issued a Decision to set up a Working Group to Define the National Broadband Network whose task is to prepare a plan for the use of resources of the state telecommunications infrastructure with the view of rolling out a unified national broadband network. The Working Group drafted the Efficient Use of Telecommunications Infrastructure Action Plan, defining activities related to the use of resources of the state telecommunications infrastructure. The Government issued a Conclusion Adopting the Efficient Use of Telecommunications Infrastructure Action Plan, 05 number 345-3335/2017-1 of 13 April 2017, which was published in the Official Gazette of RS, no. 36/2017. The Action Plan defines the activities to ensure sustainability and further development of the national broadband network.		
4.	Develop broadband access networks in municipalities across the country	Progress in implementation	In late 2018, the Ministry initiated the public procurement procedure for services: Needs Analysis and Development of Preliminary Designs for the Construction of Broadband Access Networks on the Local Level, worth RSD 5,500,000 in total; a contract is expected to be signed in the first half of January 2019.		

5.	Operational implementation of UNTN	Not being implemented	A detailed analysis of the possibilities for efficient and cost-effective use of the existing infrastructure will be made within the scope of a study including six economies of the Western Balkans, which is conducted by the World Bank, the European Commission and RRC Balkans Digital Highway. Following the delivery of the study results, the Ministry of Trade, Tourism and Telecommunications will advise the Government of the feasibility to establish an entity to manage the national telecommunications network. In case the Government decides to initiate operational implementation of the UNTN, 12 to 18 months from the time the required funding is provided will be needed for the UNTN to be operationally implemented.		
6.	Analysis, drafting and design of pilot projects	Continuation of implementation with initial results	The broadband mobile network accessibility maps for all mobile technologies have been completed and they are updated by the Ministry on a regular basis. The Ministry completed the development of WEB GIS application that will enable citizens, the institutions concerned and representatives of local governments to gain insight into the current state of network and the possibility for network upgrade. The data about the broadband fixed infrastructure accessibility will be collected after the enactment of a new Electronic Communications Law, which will provide legal basis for requests for information from operators. The MTTT conducted a study, together with the EBRD, to develop the National Programme for Broadband Access Development. In addition, the Korea Information Society Development Institute (KISDI) implemented a consultation programme titled Development of Fixed Broadband Access in the Republic of Serbia, in cooperation with the MTTT. Based on the results of the two projects, the MTTT developed a Project Proposal to pilot an incentives model in Serbia in 2019 through 2020, including, in the FTTH segment, 3 municipalities with the total of 40,000 households in extremely rural areas. The implementation of the project proposal will depend on the securing of finance estimated at EUR 20 million. In addition, administrative capacities of the project implementation unit responsible for the broadband communications infrastructure (Broadband Competence Office) at the Ministry need to be strengthened to provide support to the implementation of the pilot project.		

	activity implementation percentage	**40%**			
SR 15. Improving conditions for product safety and removing barriers to trade					
1.	Implement the Strategy for the Improvement of Quality Infrastructure (2015-2020)	Progress in implementation	Ongoing activity until 2020.		
2.	Adopt a new Law on the Technical Requirements for Products and Assessment of Conformity (LTR)	Continuation of implementation with initial results	Undergoing parliamentary procedure.		
3.	a) Adopt bylaws for the LTR	Not being implemented		This activity will be implemented after the new LTR has been enacted (linked to activity number 2).	
4.	Adopt amendments to the Law on Metrology (LM)	Implementation commenced	Work of the LM drafting working group is underway.		
5.	a) Adopt bylaws for the LM	Not being implemented		This activity will be implemented after the amended LM has been enacted (linked to activity number 4).	
6.	Further harmonisation of regulations covered by NC1: Freedom of Movement of Goods, in accordance with the NPAA and AP for the harmonised area	Progress in implementation	All technical regulations that MoE is responsible for have been harmonised; other ministries have not yet adopted all regulations.		
7.	a) Adopt the Strategy and AP for the harmonised area	Under preparation	Updated draft Strategy and AP were referred to the EC to render its opinion in December 2018.		
8.	b) Adopt new technical regulations in accordance with the Action Plan for the Harmonised Area and the revised NPAA	Progress in implementation	2 metrology regulations that ME is responsible for have been adopted; other ministries have not yet adopted all regulations.		

9.	Regulation of the non-harmonized area, through the implementation of the AP for the non-harmonized area and improving the capacities for the implementation of the Decree on the procedure of reporting and method of information regarding technical regulations, assessment of conformity and standards (Decree on Notification)	Progress in implementation	Draft AP for the non-harmonised area was updated and referred to the EC to render its opinion in December 2018. Improved implementation of the Notification Decree is under preparation; the total number of notified technical regulations under the CEFTA Agreement was 11 regulations in 2018.		
10.	a) Strengthen the contact point for the provision of information about technical regulations and implementation of Regulation (EC) No 764/2008	Under preparation	A by-law to enable the implementation of this activity will be adopted following the enactment of the LTR (linked with activity number 2).		
11.	b) Strengthen the capacity of line ministries to identify/remove barriers to trade in the non-harmonised area and conduct a legal analysis of the regulations from the Action Plan for the Non-Harmonised Area	Fully implemented	The result of this activity is the Draft AP for the non-harmonised regulations (linked with activity number 9).		
12.	c) Conduct a campaign on the need to notify technical regulations in the preparatory stage (as required by the revised Notification Decree)	Fully implemented			
13.	d) Repeal and update of outdated technical regulations, potential barriers to trade in the non-harmonised area	Continuation of implementation with initial results	Adoption of the AP, referred to activity number 9, will provide conditions for full implementation and finalisation of this activity.		
14.	Open and conduct negotiations under NC1: Freedom of Movement of Goods	Progress in implementation	An informative panel discussion with the non-governmental sector is planned to take place in Q1 2019. Work will continue to open negotiations once the EC renders its opinion on the draft Strategy and the two Action Plans.		
15.	Strengthen the capacities of line ministries, market oversight, IC institutions and conformity assessment bodies (CAB)	Progress in implementation	2 civil servants were recruited at the Product Quality and Safety Department to work on harmonisation of law and EU integrations. The Association of Control and Certification CABs was established at the Serbian Chamber of Commerce, with the support to the MoE.		

16.	a) Maintain membership of national institutions in European and international organisations for standardisation, accreditation and metrology	Fully implemented			
17.	b) Implement equipment procurement for CAB (IPA 2018 Project)	Progress in implementation	Of the total of 11 contracted batches (76 units of equipment), 73 units worth 4.2 million EUR have been delivered and are used.		
18.	c) Efficient use of procured equipment for conformity assessment (procured from IPA 2013 and IPA 2018)	Continuation of implementation with initial results	The final equipment acceptance for all the delivered units will be performed in 2019, when conditions will have been provided for their efficient use.		
19.	d) Deliver trainings for the relevant ministries	Progress in implementation	Ongoing activity.		
20.	e) Deliver trainings for more efficient market oversight of the technical regulations implementation	Progress in implementation	Ongoing activity.		
21.	f) Deliver trainings for designated and authorised conformity assessment bodies, i.e. potential notified bodies	Progress in implementation	Ongoing activity.		
22.	g) Prepare informational and promotional material: guides, publications and brochures	Progress in implementation	An Analysis of production, importation and export of select groups of industrial products the MoE is responsible for was prepared.		
23.	h) Hold round table discussions, informational events on the significance of IC for all stakeholders, particularly the industry	Fully implemented			
	activity implementation percentage	**67%**			
SR 16. Qualifications oriented towards labour market requirements					
1.	Enact the Law on NQFS	Fully implemented	The Law on the National Qualifications Framework was enacted.		
2.	Draft by-laws to implement the NQFS	Under preparation	Two working groups were formed to draft three bylaws that were assessed as priority for the implementation of the NQFS.		
3.	Form the NQFS Council	Fully implemented	The NQFS Council members were nominated pursuant to the Decision of the Government of the Republic of Serbia.		

4.	Establish the Qualifications Agency	Fully implemented	The Qualifications Agency was established and acting director was nominated pursuant to the Decision of the Government of the Republic of Serbia, after which the Agency was registered. Members of the Agency Management Board were nominated and an open competition procedure for the Agency director was conducted, pursuant to the Decision of the Government of the Republic of Serbia.		
5.	Hire staff and adopt the regulations of the Qualifications Agency	Fully implemented	In addition to acting director, another 9 persons were hired on a permanent basis in 2018. The staff to be transferred from the Education Improvement Institute and ENIC/NARIC (MESTD) was selected. The Agency Charter and the Rulebook on the Rights, Obligations, Responsibilities and Earnings of the Qualifications Agency Staff and Director were adopted. The 2019 Annual Plan and Financial Plan of the Agency were drafted and referred to the Ministry of Finance and the Republic Legislation Secretariat to render their opinions.		
6.	Functioning of the Qualifications Agency	Under preparation	All the regulations required for the Qualifications Agency to become operational were adopted in 2018. Offices are expected to be provided and transfer of staff from the Education Improvement Institute and ENIC/NARIC is expected to take place in January 2019.		
7.	Prepare 2 sector profiles / descriptions	Fully implemented	Profiles for the sectors of Transport, Construction and Education were developed in 2018.		One more sector profile is expected to be developed by the end of 2018.
8.	Make preparations for setting up sector councils	Fully implemented	The NQFS Council issued a Decision proposing the establishment of 12 sector councils.		
9.	Adopt the decision establishing sector councils	Fully implemented	12 sector councils were set up pursuant to the Decisions of the Government of the Republic of Serbia.		
10.	Delegate members of the sector councils	Fully implemented	Relevant institutions and bodies delegated their representatives to the sector councils.		
11.	Adopt regulations on the work of sector councils	Fully implemented	The NQFS Council issued Sector Councils Operation Guidelines.		
12.	Functioning of sector councils	Under preparation	Constitutive meetings of the sector councils are in preparation, pursuant to the Decisions of the Government of the Republic of Serbia.		
13.	Make preparations for referencing the NQFS to the EQF	Fully implemented	Contracts were concluded with 3 national experts to prepare a Referencing the NQFS to the EQF Report.		
14.	Notification and referencing of NQFS to the EQF	Not being implemented		Expected to start in 2019 after the Referencing Report has been prepared.	

15.	Registration and entry of qualifications in the qualifications database	Progress in implementation	New qualifications are entered into the qualifications database on an ongoing basis; 140 qualifications have been entered so far, of which 86 with qualification standards.		
16.	Establishment of the Qualifications Register	Under preparation	Working groups were set up to draft a Rulebook on the Qualifications Register and the Qualification Classification System, which will form basis for the design of software support for the NQFS register. In addition, the NQFS Register will be implemented with the support of experts from IPA 2014.		
17.	Develop curricula based on the qualifications standards	Continuation of implementation with initial results	For qualifications which have standards, curricula are developed based on the qualification standard.		
18.	Develop educational programmes / study programmes based on the qualifications standards	Continuation of implementation with initial results			
19.	Develop the qualifications standards	Progress in implementation	The qualifications standards are under continuous development, so that 86 qualifications with standards were entered in the qualifications database in 2018.		
20.	Define enrolment policies for secondary vocational schools	Fully implemented			
21.	Form a dual education development and implementation commission of the Government of the Republic of Serbia	Fully implemented			
22.	Draft by-laws as stipulated under the Law on Dual Education	Fully implemented			
23.	Form and open the Valjevo inter-regional information centre	Under preparation	The development of preliminary and final designs for the construction of the centre is planned to take place in 2019.		
24.	Draft the document - Rules of Operation of Student Cooperatives	Fully implemented			
25.	Prepare trainings and material required to implement the Action Plan for the popularisation and promotion of student cooperatives in primary and secondary schools	Implementation commenced	Activities have been initiated to develop material to be used in promoting student cooperatives.		
26.	Draft a document on the National Model of Student Apprenticeship and implement it within student centres for career guidance and counselling	Progress in implementation	The implementation of dual education in the area of higher education has started. Drafting of the Law on Dual Higher-Education Studies is underway.		

27.	Develop and implement a plan for the promotion and visibility of dual education, including promotion through the Spirit of Youth caravan	Progress in implementation	Continuation of activities promoting the national model of dual education. A promotional activity plan for 2019 was prepared.	Promotion of dual education will not be implemented through the Spirit of Youth caravan.	
28.	Create and implement a strategy for the development and implementation of entrepreneurial education at all levels of education (student cooperatives...)	Under preparation	The Strategy for the development and implementation of entrepreneurial education at all levels of education is in the preparatory stage.		
29.	Implementation and work on an analytical system for the monitoring and evaluation of dual education and entrepreneurial education	Under preparation	Questionnaire was developed to assess the level of information stakeholders have about dual education and their capacity to implement dual education.		
30.	Develop additional analyses on dual education (Analysis of the Dual Education Impact on Society; Dual education quality, equity and efficiency; link between education and the labour market...)	Not being implemented	Additional analyses will be made once conditions are provided therefore, or more precisely, after the dual education law starts to apply and when the first class of students has completed education in the dual system and entered the labour market.		
31.	Report on the efficiency and quality of implementing dual education during the past year and recommendations for further work and implementation of the Law on Dual Education	Under preparation	Dual education quality monitoring will be fully implemented following the adoption and implementation of bylaws regulating in greater detail the implementation of dual education, i.e. dual education quality assurance.		
32.	Modernise and design new educational profiles for the dual education model	Fully implemented	12 new educational profiles were designed and modernised in line with the labour market needs in the areas of information technologies, electrical engineering, mechanical engineering, civil engineering, food production and processing, hotel management and tourism for the year 2018/2019. Underway is the designing and modernisation of 9 new dual profiles in the areas of military and civil aviation, defence industry, trade and tourism, construction and automotive industry, which will be implemented in the school year 2019/2020.		
	activity implementation percentage	**67%**			
SR 17. Improving the effectiveness of active labour market policies, with special focus on youth, redundant workers and the long-term unemployed					

1.	Analyse the active labour market policies implemented in the previous t year, and draft and adopt the Report on the Implementation of the National Employment Action Plan for the year before	Fully implemented			
2.	Conclude the Agreement on the National Employment Service Performance for the current year	Fully implemented			
3.	The National Employment Service to announce public calls / open competitions for the implementation of active labour market policies, in line with the National EmploymentAction Plan for the current year	Fully implemented			On April 11th 2018, the National Employment Service published a Public Call for Self-employment Subsidies, for the unemployed; Public Call for subsidies for employing unemployed persons from hard-to-employ groups in new jobs, for employers; and Public Call to participate in the funding of training programmes as requested by employers, within the IPA 2013 Project.
4.	Decide on requests made in relation to public calls / open competitions for the implementation of active labour market policies; implement active labour market policies	Fully implemented			

5.	Implement active labour market policies and monitor the process	Fully implemented			Regional meetings with local governments.
6.	Adopt the National Employment Action Plan for the coming year	Fully implemented	The 2019 National Employment Action Plan was adopted at the Government meeting held on December 27th, 2018 and published in the Official Gazette of RS, no. 105/2018.		Two meetings of the working group drafting the 2019 National Employment Action Plan were held, on October 15th 2018 and November 30th 2018.
7.	Implement the subject matter activities from the National Youth Strategy 2015 - 2017 Action Plan in accordance with the established schedule and the National Youth Strategy 2018-2020 Action Plan, which is expected to be adopted in Q1 2018.	Progress in implementation	The implementation of the subject matter activities from the National Youth Strategy 2015 - 2025 is underway, and it takes place through 1. Open competition to incentivise various forms of youth employment, self-employment and entrepreneurship - 27 projects were supported (39,996,540.55) 2. Open competition to support local governments in the implementation of youth policy on the local level – 6 projects were supported (11,651,400.00). Adoption of the Action Plan for the implementation of the National Youth Strategy 2018-2020 is expected to take place in Q4 2018.		
	activity implementation percentage	**97%**			
SR 18. Improvement of the adequacy, quality and targeting of social protection measures					
1.	Revise the benchmarks and criteria for costing social protection services	Under preparation	Final version of the Draft Decree on the Criteria and Benchmarks for Social Services Costing was prepared.	The adoption of the Decree is planned after the adoption of the Law on Amendments to the Law on Social Protection.	

2.	Link centres for social work into a single network (by implementing software)	Under preparation	Centers for Social Work and the Ministry do not have a unique information system in the field of social protection, and development of this system is one of the priorities. An analysis of the current situation was carried out, but not yet analysis the existing software solution from the DILS project. In the first half of 2019, based on the analysis findings, the purchase of a new or improving the existing softwere solution will begin, and everything should be completed in the coming two-year period. The information system in the field of social protection is the basic data source for the social cards information system.		
3.	Increase the weightings (benefits) for children and youth with disabilities; relax property-related requirements, and in particular raise the land ownership ceiling depending on land quality for elderly households	Implementation commenced	With respect to child allowance for children with developmental challenges and disabilities, the Law on Financial Support to Families with Children sets more favourable requirements for exercising this right, including 20% higher threshold for and 50% higher amount of child allowance. Irrespective of their financial situation, families with children experiencing developmental challenges with respect to whom the families have exercised the right to attendance allowance shall also be entitled to child allowance.	Regarding the elderly, the Draft Law on Amendments to the Law on Social Protection does not foresee an increase in the land maximum in exercising the right to financial social assistance because of the inability to provide funds in the Republic budget for this purpose.	
4.	Link cash benefits to the relevant services; review the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analyse the basic attendance allowance level	Continuation of implementation with initial results	According to the Social Protection Law, local governments are obliged to provide for the co-financing of services by beneficiaries in their decisions; the co-financing of the attendance allowance is set at the level of 20%.	The issue of the rationale for the existence of the attendance allowance under two systems will be considered in 2019.	
5.	Increase the adequacy of cash benefits	Under preparation	Cash benefits are adjusted 2 times a year, as provided for under the law, and the level of cash benefits will be reconsidered and adjusted to the budgetary funds in the next period.	There was no change in the amount of cash benefits in the draft Law on Amendments to the Law on Social Protection, because of the inability to provide funds in the Republic budget for this purpose.	

6.	Complete the process of service standardisation and licensing of social protection institutions and professionals, and develop the relevant by-laws, but also establish and strengthen the education programme	Progress in implementation	By December 31st 2018, a total of 463 service provision licences were issued to social protection organisations. The licencing of professionals workers in the social protection system unfolds according to the planned schedule. A total of 4,945 licences have been issued since the licencing started, and until December 31st,2018, a total of 277 licenses were issued to professional workers in the social protection system. Except for the Rulebook on Detailed Requirements and Standards for Provision of Social Services („Official Gazette RS ", no. 42/13, 89 / 18), which is adopted, the drafting of the lacking by-laws has not started due to work to amend the Social Protection Law. The total number of service licences issued to social protection organisations in the period January to December 2018 was 125. All service providers have not yet been licenced. All social service providers providing services at the time of coming into effect of the Social Protection Law applied for licence within time set by the law (3 years after coming into force of the Rulebook on Detailed Requirements and Standards for Provision of Social Services - May 22nd , 2016).		
7.	Improve the quality of social protection services	Progress in implementation	Ongoing process, closely tied to the process of licencing of social services and professionals in the social protection system.		The draft Law on Amendments to the Law on Social Protection defines the new daily social care services in the community (shelter, personal child support, respite care) and new counseling therapeutic and social educational services (intensive support to the family with children at risk of relocation from the family).

8.	Extend the regional foster care and adoption centres, and define and improve their control functions	Under preparation	Currently, preparatory activities are underway to estimate the costs of setting up two foster care and adoption centres (staffing and material resources). Founder of two missing centers (Bela Crkva and Subotica) is AP Vojvodina.		
9.	Harmonise the legislation related to social protection with the aim of connecting various sectors through information technologies	Under preparation	A working group of the Ministry will draft the Social Card Law with the view of connecting various sectors using information technologies (social protection, child protection and veterans' disability protection).		
10.	Connect various sectors using information technologies	Under preparation	Implementation of activities related to the social card is running according to plan. Public procurement for the information system for social card, 1st phase, was implemented January 10, 2018 and practical implementation is in progress. The first results are expected in late July 2019 when, after unification of data from the internal system of the Ministry, will be able to analyze the data and the "inclusion error". The second phase of the development of the information system will begin in the second half of 2019 and will end in the second half of 2020. It will involve linking with external data sources with the goal of completing data from Phase 1, when the full implementation of the system begins and when the system will also be analyzed "exclusion error" and to have other information necessary for the conduct of social policy. According to the Action Plan of the RS Government social cards should be introduced before the end of its mandate the planning (2021).		
11.	Decrease the deadlines for the exercise of rights	Progress in implementation	Law on General Administrative Procedure (LGAP) provides for an obligation of the first-instance authorities to ex officio collect evidence in the proceedings; this takes place in the e-LGAP system through which the authorities can access databases of the Ministry of the Interior, RGA, MSC, Register Office, Republic Pension and Disability Insurance Fund, and Tax Administration.		
12.	Strengthen inspection services (increase staffing numbers, establish new organization and work methods)	Under preparation	By adopting Amended Social Protection Law, instructions of the Coordination Committee of the Government of RS and the Law on Inspection Oversight.		
	activity implementation percentage	**45%**			

Annex 1. Consultations with representatives of civil society and other stakeholders

Economic Reform Programme 2019-2021 is a result of intensive cooperation between the Ministry of Finance, Public Policy Secretariat of the Republic of Serbia, National Bank of Serbia and the Working group for drafting and monitoring implementation of the Economic Reform Programme (ERP), comprised of line ministries and other relevant institutions, which was established by the decision of the Minister of Finance.

Representatives of civil society, NGOs, experts, business community and social partners were involved in several different phases of the process of drafting the ERP 2019-2021 and had the opportunity to influence the drafting of the document in different ways. A chronological table overview of meetings and consultations with all stakeholders from the launch of the ERP 2019-2021 development is provided below.

No.	**Activities undertaken**
1.	**12 September 2018 – The Minister of Finance held the introductory meeting in Belgrade** on the drafting of the Economic Reform Programme 2019-2021. The introductory meeting gathered the ERP coordinators from line ministries and other relevant institutions of the Republic of Serbia (Public Policy Secretariat of the Republic of Serbia, National Bank of Serbia, National Employment Service, Statistical Office of the Republic of Serbia, Social Inclusion and Poverty Reduction Unit) and representatives of the Delegation of the European Union to the Republic of Serbia. The new – fifth cycle of the ERP development was presented at the meeting, including the results achieved in the previous period and plans for the following period, as well as the progress achieved in cooperation with the civil society. Also, new Guidance of the European Commission for drafting the ERP 2019-2021 and recommendations of the ECOFIN Council have been presented. http://www.mfin.gov.rs/newsitem.php?id=13933
2.	**25-26 September 2018** – **The OECD Conference "SEE Competitiveness Outlook 2018" was held in Belgrade.** On the first day of the conference, the findings of the OECD Publication „SEE Competitiveness Outlook 2018" were presented to the representatives of the Working Group for drafting and monitoring implementation of the ERP, as well as to the representatives of the academic community, civil society and international institutions who participated in collecting data for drafting of this document. The significance of the OECD publication is that it provides to the Republic of Serbia the important guidelines for further development in all 17 public policy areas, with clear idea for achieving levels of competitiveness equal as that of the members of the EU and the OECD. The strategic recommendation of the OECD publication is very important and it identifies two key priorities for our region: the improvement of human capital and the business environment, in order to attract investments and stimulate trade. Within this conference, the fifth cycle of the ERP development for the period 2019-2021 was also presented, as well as the OECD assessment of the ERP 2018-2020 with a special focus on the findings and recommendations from the aforementioned document. It was noted that many of the recommendations identified during the preparation of the OECD publication have been used in the preparation of the ERP for period 2018-2020, and will be important for drafting the ERP for the period 2019-2021. Within the conference, the ERP workshop was held dedicated to the main challenges and reform activities in specific areas of the ERP: education and skills, employment and labor market and social protection and inclusion, where representatives of the relevant bodies and institutions and representatives of the OECD discussed structural reforms in these areas. http://www.mfin.gov.rs/newsitem.php?id=13955

3.	**14-28 November 2018 – The Preliminary List of Selected Structural Reforms was made available to the general public** on the website of the Ministry of Finance and the Public Policy Secretariat, within the first round of public consultations. The preliminary list includes 20 structural reforms in 8 areas defined in the EC Guidance. http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/ERP%202019%20-%202021%20-%20 Preliminarna%20lista%20SR.pdf http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/ERP%202019%20-%202021%20-%20 Preliminarna%20lista%20SR.pdf Within the first round of consultations, a recommendation was received from the National Alliance for Local Economic Development (NALED), which stressed the importance of the field of environmental protection, which is included in the preliminary list of priority structural reforms through the reform called “Establishment of a sustainable system for environmental protection financing by improving the functioning of the Green Fund”.
4.	**27 November 2018 – At the 46th Annual Assembly of the Standing Conference of Towns and Municipalities (SCTM) held in Belgrade on topic “European Future of Local Self-Government”**, representatives of the Ministry of Finance presented the Preliminary list of structural reforms and the ERP 2019-2021, stressing the significance of the ERP and the overall process “European Semester Light”, with special emphasis on the participation of local self-governments in the implementation of structural reforms. This is the third year in a row that the ERP is being discussed with representatives of local self-governments at the Annual Assembly of the SCTM. http://www.skgo.org/vesti/detaljno/2066/prezentacije-o-projektu-adresnog-registra-i-listi-ekonomskih-reformi

5.	**11 December 2018 – In Belgrade, in cooperation with the Chamber of Commerce and Industry of Serbia (PKS), Minister of Finance Siniša Mali presented to the members of the Chamber of Commerce and Industry of Serbia the Preliminary list of selected structural reforms** that should contribute to improvement of competitiveness, employment and economic growth in all eight key areas foreseen by the Guidance for drafting the document. Minister of Finance Siniša Mali and president of the Chamber of Commerce and Industry of Serbia Marko Čadež invited the representatives of companies to submit their proposals in order to contribute to the quality and applicability of the Economic Reform Program, to be drafted in cooperation with the business community, and it was agreed that they will submit their proposals regarding the Economic Reform Program 2019-2021 to the PKS associations, which will then be sent to the Ministry of Finance and discussed with the competent authorities. http://pks.rs/Vesti.aspx?IDVestiDogadjaji=25343 In the process of drafting the ERP, the Chamber of Commerce and Industry of Serbia (PKS) subsequently submitted a number of recommendations, in various areas, from improving the business environment and combating gray economy, removing barriers to trade, agriculture, industry, environment, education and social policies: - In the area of agriculture, the PKS proposed introducing additional incentive measures for primary agricultural producers by introducing incentives for purchasing diesel fuel and increasing subsidies, as well as reducing excise taxes on diesel fuels in order to stimulate producers to invest more in agro-technical measures. - In the field of increasing competitiveness of industry, the PKS is actively involved in drafting the Smart Specialization Strategy, and proposes a number of instruments for financial support for linking economy and science. - In order to improve the business environment, the PKS proposes work on further harmonization with the EU standards in the field of wholesale of medicines and medical equipment, and provides a number of recommendations regarding the establishment of more efficient mechanisms for compliance with the Law on payment terms for settlement of financial obligations in commercial transactions. - When it comes to combating the gray economy, the PKS proposes reduction of contribution rate for pension and disability insurance and health insurance, and recommends a series of tax-related measures, from reduction of corporate profit tax rates, introduction of tax credit based on investments in fixed assets and amendments of the Corporate Profit Tax Law in the part of tax depreciation. - In the area of environmental protection financing, the PKS recommends the establishment of a Priorities Program that particularly emphasizes waste separation, GHG reduction technologies, treatment of aqueous effluent, awareness raising campaigns, procurement of equipment for hazardous waste collection, procurement of containers for sorting household waste, etc. - In the area of education, business community in Serbia has given great support to the development of dual education and proposes measures to exempt financial compensation from tax burden, as well as to grant financial support to enterprises for each student who is learning through work. A detailed list of PKS recommendations was distributed to the ERP Working Group.
6.	**14 December 2018 – A joint session of the Social and Economic Council of the Republic of Serbia and the Social and Economic Council of the Province of Vojvodina was held in Novi Sad**, where Minister of Finance Siniša Mali presented the Preliminary list of structural reforms and the ERP 2019-2021, and discussed it with the members of both councils. Particular interest was expressed for the field of agriculture and capital investments management, and it was pointed out to the importance of linking the Economic Reform Programme with the Employment and Social Reform Programme. http://www.socijalnoekonomskisavet.rs/cir/ses/2018%20cir.html

7.	**25 December 2018** – **The 85th session of the Social and Economic Council of the Republic of Serbia was held in Pirot**. Concrete recommendations regarding the ERP were given on this session: 1. The Economic Reform Program (ERP) and proposed structural reforms for the period 2019-2021 were presented to the members of the Social and Economic Council of the Republic of Serbia; 2. The Council welcomes the efforts made by the Ministry of Finance and Minister Siniša Mali to raise the importance and strengthen the work of the Social and Economic Council. 3. The Council recommends to form a working group of social partners, which would contribute to drafting the ERP document. http://www.socijalnoekonomskisavet.rs/cir/ses/2018%20cir.html
8.	**4 January 2019 – Draft ERP 2019-2021 was published on the web site of the Ministry of Finance and the Public Policy Secretariat, with deadline for submitting comments and proposals by 18 January 2019.** http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/ERP.pdf https://rsjp.gov.rs/wp-content/uploads/2019/01/Nacrt-ERP-2019-2021.pdf The Council for the Rights of the Child has submitted recommendations for structural reform 20. Improving the adequacy, quality and targeting of social protection measures concerning the methodology for calculating public allocations directed at children, amendments of the Law on Financial Support to the Family with Children, drafting the National Action Plan for Children, as well as amending the Law on Social Protection.
9.	**18 January 2019 – Final consultations with representatives of interested parties were held at the Sixth Plenary Session of the National Convention on the European Union in the National Assembly of the Republic of Serbia in Belgrade.** On this occasion, the ERP 2019-2021 was presented to the members of the National Convention on the EU, which brings together over 700 organizations, within which a thematically structured debate on the accession of the Republic of Serbia to the European Union is held between non-governmental organizations, experts, industry, trade unions and professional associations on one side, and representatives of Government, on the other side. The National Convention has established within its structures the mechanism for monitoring and evaluation of the ERP and its members actively participate in this process.

Annex 2 – The list of institutions participating in preparation of the Draft ERP

With the Decision of the Minister of Finance no. 119-01-281/2018-01, on 10 September 2018, a Working Group for the Preparation of the Draft Economic Reform Programme (ERP) and Programme Implementation Monitoring was formed. The members and deputy members of the Working Group are delegated from the following institutions:

- Ministry of Finance
- Public Policy Secretariat
- National Bank of Serbia
- Ministry of Trade, Tourism and Telecommunications
- Ministry of Foreign Affairs
- Ministry of Construction, Transport and Infrastructure
- Ministry of Economy
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Environmental Protection
- Ministry of Mining and Energy
- Ministry of Justice
- Ministry of State Administration and Local Self-Government
- Ministry of Defence
- Ministry of European Integration
- Ministry of Education, Science and Technological Development
- Ministry of Health
- Ministry of Labour, Employment, Veteran and Social Affairs
- Ministry of Youth and Sports
- Ministry of Culture and Information
- Office of the Minister without portfolio responsible for regional development and coordination of the work of public companies
- Office of the Minister without portfolio responsible for innovation and technological development
- Office for Information Technologies and E-Government
- National Employment Service
- Statistical Office of the Republic of Serbia
- Social Inclusion and Poverty Reduction Unit

Annex 3. Implementation of recommendations to Serbia by the EU Economic and Financial Affairs Council for the Western Balkans and Turkey of May 2018

EU RECOMMENDATIONS RELATED TO ERP PREPARATION (2019-2021)

(Meeting of the EU Economic and Financial Affairs Council for the Western Balkans and Turkey, Brussels, 25 May 2018)

RECOMMENDATION	PROGRESS ACHIEVED
Use any revenue over performance in 2018 for **debt reduction.**	In the January-September 2018 period, a fiscal surplus of RSD 54.5 billion (1.5% of GDP) was recorded, as well as a primary fiscal surplus of RSD 148.9 billion (4.1% of GDP). At the end of September, the general government debt was RSD 24.3 billion, or 56.6% of GDP, which is a reduction of 2.1 p.p. of GDP relative to the end of 2017. Instead of the planned deficit of 0.7% of GDP, in 2018 a fiscal surplus of 0.6% of GDP will be recorded, while the general government debt will be reduced by more than 4 p.p. of GDP at the end of the year.
Target a **balanced budget** over the medium term, in order to lock in recent fiscal consolidation gains and create sufficient buffers against fiscal risks.	In the following medium-term period, the main fiscal policy goal will be to post relatively low deficits, of about 0.5% of GDP a year, coupled with a continuation of the established trend of current expenditure reduction and capital investment increase.
Adopt a credible and binding **system of fiscal rules**, capable of anchoring fiscal policy.	In the following period, the Ministry of Finance will, as part of the amendments to the Budget System Law, also update the articles which refer to fiscal rules, for the general and local government. Fiscal rule amendments, including the setting of sanctions for a failure to comply with them, will be prepared in cooperation with the representatives of the EC, IMF, as well as the Fiscal Council, with the aim of defining the rules aligned with the EU acquis (in line with the obligations within the negotiation position for Chapter 17 Economic and monetary policy), while at the same time taking into account the specificities of the RS economy.
Further improve the **composition of government spending** by reducing non-interest current expenditure and increasing capital spending as a share of GDP over the medium term.	In the following medium-term period, the main fiscal policy goal will be to post relatively low deficits, of about 0.5% of GDP a year, coupled with a continuation of the established trend of current expenditure reduction and capital investment increase.
In order to better plan and execute public investments, develop a **single mechanism for prioritising and monitoring all investment** regardless of the source of financing	In 2017, the Decree on Capital Project Content, Manner of Preparation and Evaluation, as well as Implementation Monitoring and Reporting was adopted. One of the main reasons for adopting the Decree is better financial capital project management, i.e. establishment of a system that would ensure higher quality capital project preparation, selection, and implementation monitoring. These activities should enable the inclusion in the budget only of those capital projects that are ready for implementation, which would result in higher execution of planned capital expenditure and contribute to better fund allocation. The Decree applies to all capital projects financed or co-financed by public revenue and receipts, capital projects implemented through public-private partnerships and capital projects the implementation of which requires the issuance of the RS guarantees. This decree is applied at the local (municipal) level as well.

	Currently exempt from the scope of the Decree are capital projects financed by the pre-accession funds of the European Union. Further steps aimed at the establishment of a complete capital project management mechanism include the adoption of implementing legislation prescribed by the Decree and its upgrading in order to develop a single system for the prioritisation and monitoring of all investment, irrespective of the funding source.
Conduct monetary policy in line with achieving the **inflation target.** Consider to gradually allow for **more exchange rate flexibility** as macroeconomic stability is cemented. Implement the remaining action points from the **NPL resolution** Strategy and finalise the **privatisation process** of the remaining state-owned banks.	Amidst strong economic growth, inflation nevertheless remained low and stable at 2.1% y-o-y in September. According to the National Bank of Serbia's projection, as well as expectations of the financial and real sector, in the following two years, inflation will remain within the target 3±1.5% band. Monetary policy will remain committed to achieving low and stable inflation in the medium term, and monetary policy decisions will depend on the assessment of intensity of inflationary or disinflationary impacts of inflation factors from the domestic and international environment. The National Bank of Serbia will continue with the implementation of the managed floating dinar exchange rate regime, which is in line with the inflation targeting strategy. The National Bank of Serbia does not target any exchange rate of the dinar to the euro, nor does it influence the trend of this exchange rate; instead, it intervenes, as needed, both by selling and buying foreign currencies – euros, in order to smoothe excessive short-term fluctuations of the dinar exchange rate. This is confirmed by the fact that in 2017, the exchange rate of the dinar to the euro fluctuated even up to almost 5% - at the level of 2017, the dinar nominally strengthened against the euro by 4.2%, and in the period since the end of March, the dinar strengthened even more in 2017 (4.7%). In connection with this, the National Bank of Serbia will continue to implement the managed floating dinar exchange rate regime, which is in line with the inflation targeting strategy as well as the given recommendation. After the adoption of the Non-performing Loan Resolution Strategy in August 2015, the National Bank of Serbia conducted all activities in line with its Action Plan, in the area of bank supervision, accounting standards and reporting, disclosure, NPL market, as well as collateral management. The NBS also demonstrated its commitment to the resolution of this complex banking sector issue in line with its competencies, by continuing with regulatory activities in this context in 2017 as well, with the adoption of the Decision on Accounting Write-off of Balance Sheet Assets. Owing to the stated systematic approach, at the end of August 2018, the share of non-performing loans in total banking sector loans went down to 6.5%, their lowest level since the single definition was introduced and reporting obligation prescribed (September 2008). The significant reduction of this indicator by almost 16 p.p. was primarily a result of the reduction of the total amount of non-performing loans by more than 2/3 since the adoption of the Strategy. The process of state-owned bank privatisation is in progress. The process of sale of state capital in Jubmes Banka is expected to be completed in Q1 2019. The process of selection of privatisation adviser for Komercijalna Banka is in progress. The plan is for the process to start by 30 June 2019 and to be completed by the end of the year.

Continue to **promote the use of the local currency** inter alia by maintaining a favourable treatment of dinar reserve requirements compared to those in foreign currency and by **fostering the development of interbank markets and secondary markets for government securities.**	The sale of the so-called pilot NPL portfolio from the Deposit Insurance Agency's portfolio, of nominal value of about EUR 230 million, has been advertised and is expected to be completed by the end of the year. During 2019, the sale of non-performing loans from the DIA portfolio of nominal value of EUR 800 million is expected to be advertised. Dinarisation remains our strategic commitment. In the following period, the National Bank of Serbia will continue to implement measures and activities stimulating greater use of the dinar in the financial system. To that end, as far as the required reserve instruments are concerned, the National Bank will retain higher required reserve rates on foreign currency liabilities of banks compared to their dinar liabilities, thus continuing to promote greater use of dinar funding by banks.
Gradually **adapt electricity tariffs** so they reflect real costs including **necessary investments to upgrade the energy network and to meet environmental standards.** In parallel, increase **investments in energy efficiency.**	The fee for accessing the distribution system and electricity transmission is set by the energy entity in accordance with the Methodology for Determining the Fee for Accessing the System for Electricity Distribution and Transmission, which is adopted by the Energy Agency of the Republic of Serbia. Approval of the decision on the system access fee is given by the Energy Agency. The access fee is regulated and, as such, should enable the energy entity/system operator to generate income from the regulated activity, which will cover the eligible operating costs (operating costs and capital costs). The eligible costs are those costs that are necessary and inevitable (including the appropriate return on efficiently invested assets and investments) for the safe and quality performance of the regulated activity. The coverage of eligible costs is of key importance for ensuring the short-term supply security (through adequate maintenance and overhaul of the existing infrastructure), as well as for ensuring long-term supply security (through timely investment in development and capacity construction, in order to ensure that infrastructure is appropriate for the forecast consumption growth). Sustainable development of the electric power sector is thus ensured. In accordance with the Financial Consolidation Plan, as well as the IMF arrangement reviews, since 2015, JP EPS (Public Enterprise Electric Power Industry of Serbia) has increased electricity prices for guaranteed supply, as follows: • as of 1 August 2015 by 4.5% • as of 1 October 2016 by 3.8% • as of 1 October 2017 by 2.0% • In 2018, based on analyses, the WB did not recommend a price increase. During 2018, the Energy Agency did not receive any requests for adjustments of regulated prices for network access and public supply. The price of electricity for guaranteed supply, as well as the system access price, will be increased in the following period in line with the three-year operating plan of both JP EPS and the system operator. The price of electricity for guaranteed supply remains regulated according to the Energy Agency's Report on the Need for Regulation of the Prices of Electricity for Guaranteed Supply from September 2018. The 2019 Law on the RS Budget provides for significantly higher funds for the operation of the budget energy efficiency fund. This fund previously had an annual budget of about RSD 160 million, whereas the 2019 Budget Law provides for about RSD 500 million.

	The Law on Fees for the Use of Public Goods provides for the introduction of the energy efficiency fee, based on which about EUR 9 million of revenue is expected per year. About EUR 30 million is expected to come from IPA funds as support for the operation of the energy efficiency fund. The establishment of this fund, which would be a separate institution, is currently being analysed, and a modality is expected to be proposed in 2019. The ongoing IPA project titled Increasing the Capacity of the MME in the Implementation of the Budget Line for Enhancing Energy Efficiency, is designing mechanisms which will enable the granting of funds to individuals, and will propose modalities for the establishment of the fund. As regards energy efficiency, the distribution system operator is continually taking measures to reduce losses in the electricity distribution system, as the most important activity in this area in which the distribution system operator can achieve measurable and acceptable results. EPS has initiated and plans to execute by 2021 at the latest at least seven projects which should result in a reduction of technical and commercial losses and an increase in energy efficiency.
Finalise the **unbundling of state-owned enterprises** alongside accelerating their restructuring, in particular Srbijagas and EPS.	The reconstruction of five TS of 110/10 KV is in progress, as well as the execution of several projects involving the implementation of the system for managing a medium-voltage distribution network. In five distribution areas affected by floods in 2014 and 2015, the implementation project is financed by IPA funds, whereas in other locations the activities are financed by EPS's own funds. In December 2014, the RS Government adopted a Conclusion approving the Basis for JP Srbijagas restructuring. Društvo s ograničenom odgovornošću Transportgas Srbija Novi Sad (Transportgas Srbija Novi Sad LLC) and Društvo s ograničenom odgovornošću Distribucijagas Srbija Novi Sad (Distribucijagas Srbija Novi Sad LLC) were founded in June 2015 and registered with the RS Business Registers Agency in August 2015. This marked the completion of the legal unbundling of the transport system operator and the legal spinning-off of the activity of transport and transport system operation, and distribution and distribution system operation, in line with the provision of the Energy Law. During 2017 and 2018, efforts related to aligning the operation of JP Srbijagas with the provisions of the Energy Law continued, primarily by resolving property-related legal matters and improvement of corporate governance. The preparation of the agreement regulating the lease of the transport and distribution system between JP Srbijagas and the newly-established companies, the preparation of a number of documents necessary for the operation of new companies is in progress. On 25 February 2016, the Government adopted the Plan for Financial Consolidation of JP Srbijagas defining measures aimed at the financial stabilisation of JP Srbijagas. By the end of 2020, the plan is to transform JP EPS into a joint-stock company, as well as to review other possibilities for the company's further development in order to improve its performance and provide professional management. During 2016 and 2017, a total of 2,947 employees of JP EPS and EPS Distribucija d.o.o. Beograd terminated their employment and received incentive severance packages. The staff in JP EPS and EPS Distribucija d.o.o. Beograd are currently applying for consensual termination of employment and incentive severance packages in 2018.

Use findings of the **smart specialisation** exercise to finalise a new industrial strategy and ensure that all instruments of support to companies are in line with state aid rules.	In the following period, a public-private dialogue with businesses and academia is to be conducted for the purpose of drafting the Smart Specialisation Strategy and the future Industrial Development Strategy. The Ministry of Economy and the Ministry of Education, Science and Technological Development are jointly drafting the Smart Specialisation Strategy. The entrepreneurial discovery process officially began on 2 October 2018 and the first workshop will be held in December 2018. In the preparatory phase of the EDP process, the Ministry of Economy actively participated in the qualitative analyses during the summer of 2018, which were aimed at additionally verifying the findings of the quantitative analyses conducted in the previous year. Four vertical and two horizontal priority areas, which will be further examined through the EDP process, have so far been identified. The Ministry of Economy will continue to participate actively in this process in order to ensure that quality findings are reached for the preparation of the Industrial Development Strategy.
Implement the Law on fees so that **parafiscal charges will be predictable** and based on a fee-for-service principle.	The Working Group of the Ministry of Finance prepared the Draft Law on Fees for the Use of Public Goods, in late December 2017. Public consultations were conducted in the period from 3 January to 20 March. 2018. During the public debate, comments and suggestions about the draft law were presented and discussed in the meetings of the working group following the consultations. The Law on the Fees for the Use of Public Goods (Official Gazette of RS no. 95/2018) was adopted by the RS National Assembly in December 2018.
Ensure **predictability and risk based control of phytosanitary checks** at the border.	Phytosanitary Inspection is authorised to conduct official inspections of food and food of plant and mixed origin in the course of import procedure. Until 30 September 2012, each consignment of plant origin, mixed food and feed of plant origin, for which an import application was filed, was subject to a documentation review and physical inspection, as well as sampling and examination. Thereafter, sampling and examination have been risk-based, in terms of the type, origin and results of consignment examination, taking into account the number of non-compliant samples in the previous period, information from the Rapid Alert System for Food and Feed (RASFF) and International Food Safety Authorities Network (INFOSAN), as well as data on risky consignments defined by the Commission Regulation (EC) no. 669/2009 as regards the increased level of official controls on imports of certain feed and food of non-animal origin. The plan of official examinations of food of plant origin, mixed food and feed of plant origin during imports is adopted annually. For 2018, the Plan is based on the data on examinations of food and feed of non-animal origin during import procedure in the period from 1 October 2012 to 31 December 2017. Within the National Coordination Body for Trade Facilitation (NCBTF), with the active participation of the private sector, in May 2018 four technical working groups were established, including the Working Group for Agriculture, Sanitary, and Phytosanitary Measures. In July 2018, the **Action Plans for 2018 and 2019** were adopted at the level of each individual technical working group.

Reduce the high non-wage labour costs of jobs at the lower sections of the wage distribution.	Measures that will affect the level and taxation of wages include the reduction of unemployment contribution and increase in the minimum wage. The unemployment contribution rate will be reduced from 1.5% to 0.75%, i.e. the unemployment insurance contribution payable by the employer is eliminated.
Increase substantially the **inclusion of unemployed** in active labour market measures, in particular women and Roma.	The coverage of unemployed persons by AEP measures (active employment programme) was 145,356 persons in 2017. Apart from the stated number, and with the support of the IPA 2012 programme project support, the active employment policy measures included 8,880 unemployed (of whom 5,923 women), while, based on 43 technical cooperation agreements with local government units, active employment policy measures covered additional 2,633 unemployed persons. In 2018, (until September), 114,926 unemployed persons were covered by AEP measures, with additional 1,791 unemployed persons (901 women) included in active employment policies based on the support of projects from the IPA 2013 programme cycle. Furthermore, the implementation of 47 technical cooperation agreements with local government units is in progress, with the current coverage of 1,669 unemployed persons. The share of women included in AEP measures in the total number of registered unemployed women in 2016 was 21,55%, 24,07% in 2017, and 18.28% in 2018 (until September 2018). The share of Roma included in the AEP measures in the total number of registered unemployed Roma was 16.53% in 2016, 19.43% in 2017, and 17.33% in 2018 (until September 2018). In 2017, RSD 2.8 billion was allocated from the RS budget and RSD 550 million from the Budget Fund for Professional Rehabilitation and Promotion of Employment of Persons with Disability, while in 2018 this amount was RSD 3.65 billion from the NES funds and RSD 550 million from the Budget Fund for Professional Rehabilitation and Promotion of Employment of Persons with Disability.
Involve closely all relevant actors for the country-wide **roll-out of dual learning**	As one of the strategic priorities of the RS Government, in November 2017, the Law on Dual Education was adopted, regulating dual education in Serbia, setting dual education goals and principles, rights and obligations of parties participating in the implementation of dual education. With the adoption of the Law, legal foundations were laid for the implementation of dual education in Serbia. All relevant social partners, both local and foreign, were actively involved in the implementation and development of dual education, starting from the drafting of the Law and implementing legislation, the preparation of the master plan for the National Model of Dual and Entrepreneurship Education, design and modernisation of dual profiles, design of qualification standards for dual profiles, design of trainings for instructors in companies, design of promotional activities for the national dual education model, as well as the establishment of the system for dual education monitoring and evaluation in the RS, etc. All these activities involve the active participation of: the Ministry of Education,

	Science and Technological Development, the Serbian Chamber of Commerce, companies (in the 2018/2019 school year, learning through work will be implemented in about 600 companies), secondary vocational schools (in the 2018/2019 school year, in 84 schools one or more dual education profiles will be implemented), representatives of local government units, representatives of professional associations, the Institute for Education Improvement, National Employment Service, Centre for Education Policies, representatives of the Ministry of Youth and Sports, Ministry of Public Administration and Local Government, Ministry of Labour, Employment, Veteran and Social Affairs. Dual education development projects are implemented in Serbia in cooperation with foreign donors: German Corporation for International Cooperation (GIZ), Swiss Agency for Development and Cooperation in Serbia (SDC) and ADA.
Accelerate the envisaged reforms for better targeting of **social assistance.**	The final Draft Law Amending the Law on Social Care has been prepared opinions of relevant ministries, bodies and organisations regarding the Draft Law have been obtained and considered. The text of the Draft Law is now to be aligned with the opinions, comments, suggestions and sent, together with the supporting documentation, to the Government for consideration and adoption of the Bill.
Further attention should be devoted to **tackling undeclared work.**	Priority activities of the Labour Inspectorate are focused on increasing formal employment and reducing informal employment, increasing the number of registered economic operators, and reducing the number of unregistered operators, reducing the number of work-related injuries and occupational diseases, both by conducting inspection oversight ex officio and based on parties' requests, and by organising extraordinary enhanced supervision in a certain territory, or a certain activity, both in the first and in the second shift of the Labour Inspectorate, and at night and during weekends, often based on the principle of rotation, which in fact means that labour inspectors conduct inspections outside of the territory in which they normally work.