

ECONOMIC REFORM PROGRAMME FOR THE PERIOD 2021-2023

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1. GENERAL FRAMEWORK AND MAIN OBJECTIVES AND GUIDELINES OF ECONOMIC POLICY

In 2020, the world faced severe economic consequences of the global health crisis caused by the coronavirus pandemic. Since March 2020, when the first case of the virus was confirmed in the Republic of Serbia, epidemiological measures of various degrees of restriction have been in force: from the complete “lockdown” in the first month and a half of the pandemic, to the relatively normal functioning of the economy with the observance of prevention measures in order to slow down the spread of the pandemic.

The Republic of Serbia responded in a timely manner to the challenges posed to the economic, primarily fiscal policy, by the health crisis. The first and most important task of the state treasury was sufficient and unhindered financing of the fight to preserve the health and lives of the people. The health care system, which is on the first line of defence, has all the necessary support through unhindered financing and providing the necessary additional funds. Additional financing is provided for the purchase of consumables, medical equipment, etc. The construction of two completely new COVID hospitals has also begun in order to provide the necessary capacity for patients whose condition requires hospital treatment.

The basic goals set by the adopted Programme of Economic Measures to Support the Serbian Economy have been met. Economic capacities have been preserved and support has been provided in maintaining the liquidity of the economy during these extraordinary circumstances. This was another, no less important, task of public finances. Thanks to the macroeconomic and fiscal stability achieved in the previous period, the Republic of Serbia had enough space to help the economy with monetary and fiscal measures in mitigating the negative effects of the coronavirus pandemic. Fiscal policy envisages a comprehensive package of measures that provided assistance to the economy and whose positive effects were reflected in macroeconomic indicators (unemployment, a smaller decline in economic activity, etc.). The planned value of the total package of measures to help the economy and the population is estimated at 12.5% of gross domestic product (hereinafter: GDP).

In the medium term, gradual stabilization of public finances and directing the fiscal space to the growth of public investments in order to recover and grow the economy is envisaged. The basic scenario of economic trends presented in this document assumes the end of the health crisis and economic recovery. Under these assumptions, the medium-term deficit trajectory is declining and close to a sustainable level at the end of the observed period. Exceptionally, the increased share of public debt in GDP in 2020, having in mind the projected fiscal results, will decrease from 2021 onwards and return to sustainable limits. Experience in the previous period shows us that stable public finances are necessary not only as a precondition for sustainable growth, but above all as a prerequisite for an adequate response of the state in extraordinary circumstances such as this caused by the coronavirus pandemic. The available fiscal space in the next medium-term period is focused on public investments with a slight increase in their share in GDP, and then maintaining the achieved level of public investment. Public investment is a key factor in faster economic recovery and creating the basis for dynamic economic growth.

Macroeconomic and fiscal risks to the presented baseline scenario are significant and predominantly negative. There are uncertainties regarding the course and duration of the pandemic, the way and speed with which economies will recover, the need for additional economic assistance, as well as numerous obligations that may arise from implicit and explicit state guarantees given to support the economy during the pandemic.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Fulfillment of the Recommendation (Policy Guidance- PG) for individual policies as part of the Joint Conclusions, regarding the Economic Reform Program (ERP) 2020-2022, adopted at the ECOFIN Council meeting, held on 19 May 2020 in Brussels, within the framework of "Economic and financial dialogue between the EU and the Western Balkans and Turkey", are reflected in numerous reform measures and activities of the Government of the Republic of Serbia.

2.1. Fulfillment of the Recommendations of the ECOFIN Council from May 2020 for the Republic of Serbia

1. Allow automatic fiscal stabilisers to accommodate crisis-induced economic fall-outs and further mitigate the impact on growth and employment by appropriate discretionary fiscal measures. To reinforce the medium-term sustainability of public finances, contain overall spending on wages as a percentage of GDP, while allowing for due reinforcement of healthcare spending during the crisis, also by taking concrete steps towards implementing an appropriately designed public sector wage system reform. Adopt a credible and binding system of fiscal rules underpinning fiscal sustainability.

With regard to the containment of spending on wages - A new Law on Salaries of Civil Servants and General Service Employees, as well as amendments to the job catalogue for public sector institutions and other organizations in the public sector, have been postponed and are now expected to be adopted during 2021. We remain committed to implement the new system and make it effective as of 2022. General government employment framework is governed by the Budget System law, which regulates hiring decisions through the Employment Commission. There is a plan to replace this existing framework with a new system based on personnel planning for institutions. The system currently recognizes personnel planning in state bodies, bodies of the Autonomous Province of Vojvodina and local self-government units, and in the health care. The new system should ensure medium-term workforce planning in other public sector institutions (education, social protection, etc.) as well as alignment with budgetary constraints. During the transition to the new system, and through 2021, the Employment Commission will continue to allow the hiring of staff within the institutions' budget limits, if the number of new employees exceeds 70%¹.

With regard to the fiscal rules - due to the COVID-19 crisis, we have postponed the adoption of a new fiscal rules. As part of a broader revision of the budget system law, during 2021 we will adopt a deficit-based fiscal rule ensuring that the level of public debt is set on a downward trajectory. These changes will redesign general and specific fiscal rules, including special measures in case of non-compliance.

2. To support economic recovery, further increase growth-enhancing capital spending as a share of GDP in 2020 and over the medium term. Increase the transparency of the fiscal impact of state-owned enterprises by reinforcing fiscal risk analysis and by publishing quarterly reports on SOEs' financial performance. To reduce fiscal risks, improve the governance of state owned enterprises including via further restructuring.

Capital expenditures² reach, for now, a record level of 5.2% of GDP in 2020. The available fiscal space in the next medium-term period will be focused on public investments with a slight increase in their share in GDP, and then maintaining the achieved level of public investment.

The Group for Monitoring Fiscal Risks related to public sector (the “Group”) operates within Fiscal Risk Monitoring Department of the Ministry of Finance (“FRMD”). The Group is responsible for monitoring 35 strategically important State-Owned Enterprises (“SOEs”), as well as the financial institutions in the majority ownership by the State. The scope of Group’s activities include analysis and approval of annual business plans, analysis of quarterly and annual financial statements,

¹ More on the reform of the public sector wage system in the titles: 4.3. FISCAL PROJECTIONS IN THE PERIOD 2021-2023 p.59 and 4.7. QUALITY OF PUBLIC FINANCES, on pages 75 and 76.

² More on capital investments in the titles 4.2 BUDGET EXECUTION IN 2020 p.52 and 4.3. FISCAL PROJECTIONS IN THE PERIOD 2021-2023, pp. 60 and 61.

supplementary funding, and audit reports. The Group is monitoring the financial performance and execution of quarterly and annual plans through tailor-made financial models, also monitoring the relevant key-performance indicators, and scheduling regular business meetings with top management and financial executives of the SOEs. Additionally, the Group analyses and supervises liabilities covered by state guarantees issued on behalf of SOE's, as well as level of subsidies provided by the State. The Group generates and delivers to the executives of Ministry of Finance quarterly financial reports illustrating financial position, financial ratio analysis and summary report of SOEs performance.

The Group has also adopted hands-on approach on particular SOEs in case where the potential fiscal risk for the state is recognized. The approach is realized by frequent visits (e.g. 2-3 times a week), information gathering and information analysis of particular SOE, developing tailor-made financial models for monitoring monthly financial performance when necessary, performing on-site financial due diligence if necessity is recognized, as well as interviews with top management and remaining alert on any potential development that may influence going-concern nature of the business.

The Group has also been responsible for enforcing revision of 2020 annual business plan by SOEs in the light of the Pandemic and its likely negative implications on the financial performances of the SOEs. The Group initiated restructuring, adjustments of the projected budget and cost structure by insisting for each SOE to revise the 2020 cost structure and adjust downwards the projected operating expenses as well as capital expenditures plans. Herein, by undertaking the recommendations, the total projected combined financial savings by SOEs have amounted to EUR 290 million in operating expenses and EUR 256 million in capital expenditures. In addition, the Group was in charge of performing the cost-cutting proposition and execution for a several key State majority-owned companies in defence industry and companies in the portfolio of Ministry of Economy. The restructuring measures resulted in the combined savings of about EUR 500 million in operating expenses and about EUR 71 million in capital expenditures.

Structural reforms of public and state-owned enterprises will significantly reduce fiscal risks³.

3. Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed. Further implement the measures included in the 2018-2020 NPL strategy and related action plan, including those aimed at preventing the accumulation of new non-performing loans such as reforms of the bankruptcy frameworks. Enhance further the use of the local currency by fostering the development of secondary markets for government and corporate dinar securities, and support the use of hedging instruments.

In this regard, the National Bank of Serbia is carefully monitoring and reacting in a timely manner to the increased global uncertainty caused by the COVID-19 pandemic to preserve price and financial stability and minimize the negative effects on the real sector. The most important monetary policy measures taken in this manner are:

- the key policy rate cut by 1,25 pp relative to the level before pandemic;
- providing additional dinar and FX liquidity to banks at favorable rates (additional swap auction of FX purchases, repo auctions of dinar government securities, temporary change of the principle of realization at regular swap auctions so that the swap of purchase and swap sales of FX no longer had to be equal);
- interventions on the FX market, which preserved the relative stability of the dinar exchange rate against the euro and thus provided support for the preservation of overall financial stability;
- permanent purchase of dinar government securities from banks, which significantly contributed to maintaining stability in the secondary market of these securities;
- inclusion of dinar corporate bonds in the list of securities that may be subject to monetary operations, thus supporting the economy and corporate market development bond;

³ Details on Public and State Enterprise Reforms in Title 4.6 SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAM p.69-70.

- incentives for banks to approve dinar loans from the guarantee scheme of the Republic of Serbia at interest rates for at least 0.50 pp lower than the maximum rate defined by the scheme (1M BELIBOR + 2.5 pp). The National Bank of Serbia will pay the so-called remuneration rate on dinar obligatory reserve in the amount of these loans at an interest rate of 0.50 p.p. higher than the standard remuneration rate (currently 0.10%).

The NBS also adopted additional measures to alleviate negative effect of pandemic to real sector and thus preserve financial stability:

- prescribing a first moratorium on loan and leasing liabilities for clients who expressed their interest (individuals, companies, entrepreneurs and farmers) in March for up to 90 days and then another moratorium for liabilities that fall due in the period from August 1, 2020 to September 30, 2020, as well as liabilities that were due in July, and the debtor has not settled them.
- adoption of set of regulations to facilitate the repayment of certain loans granted to citizens by which banks are encouraged to offer debtors refinancing or change the maturity date of the last installments of consumer, cash and other loans (which is not a housing loan or current account deficit) approved by March 18, 2020. In this way, citizens have been enabled to extend the loan repayment terms by two years in relation to the currently valid repayment regime for these loans;
- adoption of set of regulations to facilitate access to housing loans by prescribing lower minimum degree of completeness of the building, thus providing support to construction industry; enabling the possibility of extension of housing loan repayment periods for maximum five years and;
- temporary relaxation of the approval procedure for household short-term dinar loans up to a certain amount
- in December 2020, new facilities were provided for debtors of banks and financial leasing providers affected by the COVID-19 pandemic in the form of granting a grace period of six months for loans and similar products.

The National Bank of Serbia will continue to take measures and activities aimed at increasing dinarization, which are defined in the new Memorandum on the dinarization strategy signed by the National Bank of Serbia and the Government at the end of 2018. Maintained price and overall macroeconomic stability, with additional measures to encourage dinarization, resulted in an increase in the degree of loan and deposit dinarization to the highest level so far – 36.8% and 38.6%, respectively in October, with dinar savings of citizens growing by 22% in 2018, 30 % in 2019 and additional 13% in the first ten months of 2020. The NBS will continue to promote the use of hedging instruments against exchange rate risk, but also against other risks, by regular updating the NBS website in the section on FX hedging, by advising banks to improve the offer of hedging instruments and by educating clients, primarily from the corporate sector.

4. With a view of mitigating the economic consequences of Covid-19 pandemic and stimulating economic recovery, ensure effective, transparent and non-discriminatory support to businesses affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed.

A total of RSD 690,3 billion (12.5% of GDP) was set aside to support the economy⁴ and the population in order to mitigate the economic consequences of the COVID-19 pandemic. In addition to tax policy measures and direct support to the private sector, measures to preserve the liquidity of the private sector and other measures (moratorium on the payment of dividends and fiscal incentives – and incentives to all adult citizens in the amount of EUR 100) are also covered.

The Republic of Serbia through the Development Fund of the Republic of Serbia implements the Program of financial support to economic entities to maintain liquidity and working capital in difficult economic conditions due to COVID-19 pandemics (hereinafter: the Program). The Program for granting loans for maintaining liquidity and working capital refers to entrepreneurs and companies from the segment of micro, small and medium enterprises according to the Law on accounting, as

⁴ Details on supporting the economy and especially SMEs in order to mitigate the economic consequences of COVID-19 in the titles: 3.2. CURRENT ECONOMIC TRENDS AND OUTLOOK FOR 2020 on pages 32, 34; 4.2 BUDGET EXECUTION IN 2020 pp. 46 and 47 and 4.6 SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAM p.71-72.

well as to cooperatives, i.e. economic entities of this sector of production, service, trade and agricultural activities, as well as economic entities in the field of tourism, hospitality and passenger transport, registered in the relevant register.

The main goals of the Program are to provide, in the difficult business conditions, caused by the COVID-19 virus pandemic:

- Support to economic entities for the procurement of working capital;
- Support to economic entities for maintaining current liquidity in order to regularly settle obligations to business partners, employees and the state.

Until October 20, 2020, 1692 requests in the amount of RSD 10,028,163,208.99 were approved.

Based on the Regulation on Fiscal Benefits and Direct Benefits to economic entities in the private sector and financial assistance to citizens in order to mitigate the economic consequences caused by the disease COVID-19 ("Official Gazette of RS" No. 54/20 and 60/20) for the period March-May a total of 93,783,504,934.38 dinars was paid.

The right to use direct benefits prescribed by the Regulation had business entities in the private sector, provided that starting from March 15, 2020, until the date of entry into force of the Regulation did not reduce the number of employees by more than 10% and provided they were established and registered with competent authority or organization, before March 15, 2020.

Direct support to economic entities in accordance with the Regulation refer to the right to payment of non-refundable funds from the budget in the amount obtained as a product of the number of employees and the amount of basic minimum wage for March 2020 for accounting periods March, April and May 2020, while a legal entity classified as a large legal entity could exercise the right to payment of non-refundable funds in the amount obtained as a product of 50% of the basic minimum net salary for March 2020 and the number of employees for whom a decision was made to terminate work on the basis of Article 116 of the Labor Law ("Official Gazette of the RS," No. 24/05 and 95/18), i.e. on the basis of Article 117 of the Labor Law.

Based on the Government Conclusion on the consent to allow economic entities direct payments in August and September from the budget of the Republic of Serbia in the amount of 60% of direct payments from the budget of the Republic of Serbia, paid to them in July 2020 ("Official Gazette of RS" No. 104/20 and 106/20) a total of RSD 37,320,000,000.00 was paid for the month of August and September 2020.

According to the Government's conclusion, the benefit of direct benefits was extended in August and September 2020, not in the amount of the basic minimum net salary, but in the amount of 60% of direct benefits from the budget of the Republic of Serbia paid to them in July 2020.

Also, this conclusion gives the possibility of exercising the right to direct benefits to economic entities that are registered after March 15, 2020 until July 20, 2020 in the amount of 120% of the basic minimum net salary for March 2020.

With sectoral support, the Government helps the hospitality industry, primarily the hotel industry, with funds allocated in the amount of EUR 350 per individual bed and EUR 150 per accommodation unit, and the right is exercised by categorized privately owned hotels.

Having in mind the situation created by declaring a state of emergency in the Republic of Serbia, and in order to enable mitigation of economic and financial consequences caused by the pandemic of COVID-19 disease, in addition to the mentioned program of the Republic of Serbia through the Development Fund the Decree on establishing a guarantee scheme as a measure of support to the economy for mitigating the consequences of the COVID-19 pandemic ("Official Gazette of RS", No. 57/20, 62/20-other regulation and 65 / 20-other regulation) was also passed. In December 2020, the Law on Determining the Guarantee Scheme was passed as a measure of economic support for mitigating the consequences of the COVID-19 disease pandemic ("Official Gazette of RS", No. 153/20), which came into force when the above-mentioned decree expired.

This Law constitutes the determination of the national guarantee scheme. Increasing the liquidity of economic entities through the mechanism of guaranteeing the Republic of Serbia for loans granted by banks to economic entities to finance liquidity and working capital is a measure that sublimates an extremely important and necessary mechanism of effects for all persons based in the Republic of Serbia, including farms, registered in the Serbian Business Registers Agency and classified as an entrepreneur, or micro, small and medium business company in accordance with the law governing accounting, and whose liquidity is a prerequisite for the functioning of the economy of the Republic of Serbia.

In accordance with the guarantee scheme, banks can conclude a loan agreement until June 30, 2021 and place loans until July 31, 2021 up to two billion euros whereby the amount of one billion euros, i.e. the amount of the initial maximum secured portfolio by banks is determined in accordance with the bank's market share according to the report of the National Bank of Serbia on February 29, 2020. After the bank reaches 90% utilization of the maximum insured portfolio, the bank can apply to increase its limit from the remaining amount of funds from the guarantee scheme under the same conditions to increase the maximum insured portfolio an unlimited number of times, provided that each individual request cannot be less than five million euros or more than 25 million euros.

The agreement on the guarantee of the Republic of Serbia for lending to the economy in order to mitigate the negative consequences of the COVID-19 pandemic with the Republic of Serbia and the National Bank of Serbia has been signed by 25 banks and the Government has approved about 30 requests to increase the maximum insured portfolio.

The Law on Determining the Guarantee Scheme as a measure of support to the economy for mitigating the consequences of the COVID-19 pandemic entered into force on December 29 2020.

Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy.

With intensified work of inspection services, and after the improvement of labor legislation and adopted measures that contribute to tax relief, the number of employees will continue to reduce in the grey zone and it will continue to transfer to the contingent of formally employed. By the end of November 2020, labour inspectors found 5,712 people working "illegally", which is 54% less than in the same period in 2019, when 12,313 people were found working "illegally". After the measures taken by the labour inspector, the employers established employment with 4,059 persons, i.e. with 71% of the total number of persons found at work "on the black market". In the same period, labour inspectors identified 325 unregistered entities, which is 50% less than in the same period in 2019, when 651 were determined, whereby, in addition to a natural person performing an unregistered activity, 232 persons were found working "illegally". Of the total number of identified unregistered entities, immediately after the measures taken by labour inspectors, 201 or 61% were entered in the appropriate register, while in the same period in 2019, 400 or 61% were entered in the appropriate register.

Include monitoring and evaluation of measures introduced and further improve the public consultation process by consulting businesses and social partners on the adoption and implementation of all new legislation concerning their operations.

The program of economic measures to reduce the negative effects caused by the COVID-19 virus pandemic and to support the economy of the Republic of Serbia envisages comprehensive measures (see table Overview of the package of measures to support the economy and the population, page 48) in the implementation of which several state authorities are involved. Therefore, it is necessary to coordinate the activities undertaken in order to implement that program, which was done by forming the Coordinating Body for the implementation of the program in question. In addition to members from ministries and special organizations, experts from various fields, as well as representatives of other bodies and organizations, may participate in the work of the Coordination Body, when invited, when discussing topics within their scope.

The legal framework for the consultative process in Serbia is successfully applied in practice and its provisions on the consultative procedure for regulations are clearly regulated in the following acts: Law on Planning System of RS, Law on Public Administration, Decree on Public Policy Management Methodology, Policy Analysis and regulations and the content of individual public policy documents and the Rulebook on guidelines of good practice for achieving public participation in the preparation of draft laws and other regulations and acts.

In order to further clarify all provisions of the RS Law on Planning System and the accompanying Regulation on Public Policy Management Methodology, Analysis of the Effects of Public Policies and Regulations and the Content of Individual Public Policy Documents, a Draft Manual on Public Policy Consultation and Coordination within the IPA 2015 Public Administration Reform Support Project was prepared. The Handbook on Policy Consultation and Coordination is expected to be applicable soon.

The Republic of Serbia Public Policy Secretariat (PPS) emphasizes to the proponents of regulations that the entire consultation process should be done in a manner that is fully in accordance with the Law on the Planning System of the RS and accompanying bylaws. The e-participation portal should be established, and when it becomes fully operational - it will be used as an accompanying tool for the consultation process and public debate on regulations and public policy documents, as well as for informing stakeholders about the organization of focus groups, round tables, etc. E-participation will enable monitoring and control of the implementation of consultations and public hearings on public policy documents and regulations, as well as control of reporting on the implementation of the consultation and public discussion process.

The PPS monitors the process of conducting a public hearing during the regulatory preparation process. Also, the PPS has prepared a form for proposers that contains information on the implementation of the public hearing process during the preparation of draft regulations, the implementation of which began in 2020.

At the proposal of the Office for Cooperation with Civil Society, on 30 January 2020, the Government of the Republic of Serbia, by Conclusion 05 No. 011-722/2020, adopted Guidelines for Inclusion of Civil Society Organizations in Working Groups for Drafting Policy Proposals and Draft Regulations ("Official Gazette of RS", No. 8/20).

The purpose of the Guidelines is to regulate and encourage the involvement of stakeholders and target groups, primarily civil society organizations, in working groups formed by state administration bodies and thus ensure their participation in the decision-making process as early as possible. They are based on the provisions of Article 34, Paragraph 7 of the Law on Planning System ("Official Gazette of RS", No. 30/18), which provide for the possibility of including representatives of stakeholders and target groups who participated in the consultation process in the working groups for drafting public policy documents. These provisions are further specified in Article 43, Paragraph 1 of the Regulation on the methodology of public policy management, analysis of the effects of public policies and regulations and the content of individual public policy documents ("Official Gazette of RS", No. 8/19) in accordance with which the proposer of a public policy document, i.e. regulation, as a rule appoints representatives of target groups and other interested parties, who participated in the consultation process, in order to take into account the results of consultations in the process of drafting that document or regulation.

During 2020, the Office for Cooperation with Civil Society published 10 public calls for participation in public hearings and consultations that were conducted within the process of preparation of regulations and policy documents. The mentioned calls were published on the website of the Office and for most of them the competent proposers turned to the Office for support in their distribution to the interested public, primarily civil society. As parliamentary elections were called in 2020, as well as due to the declaration of the COVID-19 pandemic, the legislative activity of public administration bodies was reduced.

The Office for Cooperation with Civil Society ceased its work on October 26, 2020, when the new Law on Ministries was adopted, and the competencies of the Office were transferred to the newly formed Ministry for Human and Minority Rights and Social Dialogue.

5. Ensure cross-sectoral coordination within the government and across public administration to effectively respond to Covid-19.

The Government of the RS has formed a Crisis Staff to eliminate the occurrence and prevent possible harmful consequences of the infectious disease COVID-19 on the economy. The task of the Crisis Staff is to monitor the situation, direct and coordinate the actions and activities of the competent authorities, organizations and services aimed at eliminating and preventing possible harmful consequences of the Covid-19 on the economy, as well as to propose measures to the Government and competent authorities from their competencies.

Take measures to preserve employment including through short-time work schemes and ensure increased provision of effective active labour market policies to the unemployed. Provide adequate unemployment compensation schemes for laid off workers in order to mitigate the social impact of the economic downturn.

On 28 February 2020, the National Employment Service (NES) issued public calls for the implementation of active employment policy measures, and their implementation is in progress. In the period January - September 2020, a total of 46,432 unemployed persons (of which 25,015 women) from the records of the National Employment Service were included in active employment policy measures. Active job search measures include 32,095 unemployed, additional education and training programs 4,305 unemployed, employment subsidy programs 5,726 unemployed, while the public works program covers 4,306 unemployed. After participating in the measure, 20,584 persons were employed (10,643 women), and the achieved effect on employment was 44.33%.

On 13 August 2020, the Government of the Republic of Serbia adopted the Decree on the Youth Employment Promotion Program "My First Salary". The Program will finance training with employer, for 10,000 unemployed young people up to 30 years of age, with secondary and higher education, in order to gain first work experience and increase opportunities for their more competitive entry into the labour market and employment. On 17 August 2020, the National Employment Service announced a public call for the implementation of the Youth Employment Promotion Program "My First Salary", when the registration of interested employers through the "My First Salary" portal began, which lasted until September 25, 2020. The number of employers approved to apply for their positions was 8,025. The number of positions for which the unemployed are allowed to register was 14,325. These positions covered 22,808 execution positions. Registration of unemployed interested in joining the program was realized in the period from October 8, 2020 until November 8, 2020, also through the portal "My First Salary". The process of selecting candidates by employers began in parallel and lasted until November 18, 2020. The final list of employers from the private sector with the number of approved employees for each employer was published on the portal "My First Salary" on November 26, 2020. The conclusion of the contract between the NES, the employer and the unemployed, which regulates mutual rights and obligations, will be done in the period from November 28, 2020 until 14.12.2020. The total number of unemployed registered on the portal "My first salary", who meet the conditions and have applied for one of the advertised positions, is 17,081. The number of employers with whom people applied is 7,524. Private sector employers selected 7,352 people who accepted on-the-job training. After the completion of activities with employers from the private sector, for the remaining number of planned candidates there is a possibility of involvement with employers from the public sector.

Compulsory unemployment insurance is part of the system of compulsory social insurance of citizens which provides rights in case of unemployment on the principles of obligation, reciprocity and solidarity. An unemployed person who has been compulsorily insured for unemployment for at least 12 months continuously or intermittently in the last 18 months is entitled to cash benefits. Uninterrupted insurance is also considered to be an interruption of insurance shorter than 30 days. The National Employment Service has enabled jobseekers to submit requests for exercising the right

to unemployment benefits to the competent branches electronically or by mail. In the period since the beginning of the COVID-19 crisis (March-November 2020), a total of RSD 7,2 billion have been paid for unemployment benefits.

6. Step up social transfers to ensure adequate income support for people at risk of poverty and social exclusion.

As the increase of social transfers and expansion of the scope of social protection beneficiaries by these transfers directly depends on the available budgetary possibilities, it is necessary to determine the scope and distribution of rights and services defined by law, in order to consider all existing social transfers realized by individuals and families taking into account their cumulative acting on social status. Namely, the right to financial social assistance is often a kind of “passport” for exercising other rights (e.g. the right to benefits in paying for utilities, free textbooks, scholarships for students, reimbursement of the cost of preschool, free meals in the soup kitchen etc.).

Therefore, it is necessary to introduce an integrated system of social maps as a documented way of measuring the socio-economic power of social protection beneficiaries, envisaged by the structural reform 23. Improvement of the adequacy, quality and targeting of social protection measures. This will enable a fairer distribution of funds intended for social protection. By connecting several databases, insight will be gained into the number of those who really need help, considering the total benefits paid from both the state budget and the local government unit budget (financial social assistance, allowance for assistance and care of another person, child allowance, parental allowance, exercising the right to a free meal in the soup kitchen, the right to reduce utility bills, various benefits in kind, the right to reimbursement of the costs of children's stay in preschool, free textbooks, one-time financial assistance, the right to various free social services in the community, etc).

So far, the first phase of the development of the Social Card Register has been completed, which includes the internal connection of the data subsystem at the level of the Ministry, and a draft law on the social card has been drafted. After the adoption of the Law the connection of external records will be done.

Reduce the tax wedge considerably for low wage earners to ensure living wages and to incentivise the formalisation of employment.

The minimum price of labor for the period January-December 2021 has been increased and amounts to RSD 183.93 (net) per working hour. The decision was adopted by the Government in September 2020. The adopted Law on Personal Income Tax (December 2020) increased the non-taxable personal income from RSD 16,300 to 18,300 per month (by 2,000 RSD), decreasing tax wedge.

Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens.

Health care is a constitutional right regulated by the laws of the Republic of Serbia.

Funds for financing the rights from the obligatory health insurance, as well as for the work and development of the health care system are provided from the contributions for obligatory health insurance and from other sources, in accordance with the law, and they represent the income of the National Health Insurance Fund. In order to achieve adequate and sustainable financing of the health system as a whole, the Republic of Serbia provides funds from the budget for various purposes, for the health care of persons suffering from rare diseases, for salary compensation in case of temporary incapacity for work due to illness or complications in connection with the pregnancy maintenance, for the health care of persons considered insured under article 16 paragraph 1 of the Law on Health Insurance, for support of the activities of the Reproductive Cell Bank, as well as for the reduced rate for health insurance contributions.

The Republic of Serbia reacted in a timely manner and undertook a series of measures and activities that contributed to adequate and sustainable financing of the health sector and in the new situation caused by the global pandemic of coronavirus COVID-19. Procurement of necessary equipment and medicines was completed, new laboratories and hospitals were built in order to provide quality health care for all citizens.

Strengthening the health sector with the aim of improving access to quality public health care for all citizens is one of the priority tasks of the Republic of Serbia.

2.2. Fulfilment of the Recommendations of the ECOFIN Council from May 2019 for the Republic of Serbia

<u>RECOMMENDATION OF THE ECOFIN Council from May 2019</u>	<u>REPORTS ON THE IMPLEMENTATION OF ERP RECOMMENDATIONS 2020-2022</u>	<u>AMENDMENT TO THE REPORT ON THE IMPLEMENTATION OF ERP RECOMMENDATIONS 2021-2023</u>
<u>Recommendation 1:</u>		
Maintain the identified medium-term budgetary objective close to balance.	Medium-term Fiscal Framework foresees a deficit of 0.5% of GDP annually throughout the period, as well as a reduction of the share of general government debt to below 50%. These objectives will be reached by containing the growth of the expenditure side of the budget, in particular the largest categories such as wages and pensions. The nominal growth of GDP will outpace that of total general government expenditure.	The fiscal deficit in 2020 is expected at 8.9% of GDP, while general government debt will amount to 59% of GDP. The one-time increase in debt and deficit is an inevitable consequence of intervention measures aimed at neutralizing the effects of the crisis. In the next medium-term period, economic and fiscal policy will depend on the development of the pandemic and success in the field of combating it. Fiscal policy objectives are certainly aimed at maintaining fiscal stability and reducing the share of public debt in GDP. The medium-term fiscal framework envisages a gradual reduction of the general government deficit to 1.0% of GDP by 2023 and a decline in the share of public debt to 56.0% of GDP. Fiscal policy in the coming period will be focused on continuing to reduce the overall tax burden, and on the expenditure side, priority will be given to infrastructure and capital projects, as well as pension and wage policy.
Contain overall spending on wages and pensions as a percentage of GDP.	During the next three years wages will remain at 2019 level of 9.5% of GDP. As of 2021, pensions will be indexed according to the Swiss formula, which will ensure a 5-6% nominal growth annually in the long term. On the revenue side, the plan is to continue reducing the tax burden, in particular the personal income tax rates and social insurance contributions.	The crisis caused by the pandemic affected the growth on the expenditure side, which led to a high, although one-off, jump in the share of the expenditure side of the budget in GDP. Such is the case with expenditures for employees, which reached the level of 10.4% of GDP in 2020, mostly owing to the extraordinary increase in salaries of employees in the health care system, as well as increased engagement of employees in the fight against the pandemic. In the coming period, wages will increase moderately, with control and reduction of their share in GDP, so that by 2023 they will reach the level of 9.6% of GDP. From

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		2021, pensions will be indexed according to the Swiss formula, which will provide nominal growth of 5-6% annually in the long run.
Implement the public sector wage system reform under the 2020 budget covering also security sector employees.	The new wage system for all public sector employees will be put in place in 2020 and ready for implementation in 2021. As part of preparation for this move, a decree setting coefficients in the new wage system is planned to be adopted.	The adoption of the new law on salaries of civil servants and state employees, as well as the amendments to the catalog of jobs in public services and other organizations in the public sector, has been postponed due to the pandemic and is expected during 2021. We still expect the new system to take effect and be in place from 2022.
<u>Recommendation 2:</u>		
Increase government capital spending supporting long-term growth as a share of GDP in 2019 and over the medium term.	Medium-term Fiscal Framework provides for an increase in the share of capital spending in GDP to 4.7% in 2022 relative to 4.4% in 2019. The originally envisaged expenditure level in 2019 was 4.2% of GDP, relative to 3.9% of GDP in 2018.	Capital expenditures have increased to 4.9% of GDP in 2019 due to the start of a new cycle of infrastructure projects, and in 2020 it is expected to reach the level of 5.2% of GDP, despite the problems caused by the pandemic. In the next medium-term period, further growth of investments in public infrastructure is expected.
Develop a single mechanism for prioritising and monitoring all investment regardless of the source of financing.	A single methodology / system for managing the planning and implementation of capital projects was adopted in 2019, while in July 2019 the Government adopted a new Decree on Capital Project Management, which enters into force in January 2020, and applies to all capital projects regardless of the source of financing. During April 2019, the Government of the Republic of Serbia also established the Capital Investment Commission as a key decision maker for capital projects, as foreseen by the new Decree on Capital Project Management. The Capital Investment Commission is composed of representatives of nine ministries and chaired by the Prime Minister of Serbia. The Ministry of Finance has established a new Group for Capital Projects Evaluation and Monitoring, published seven new rulebooks foreseen in the Decree on Capital Investment Management, which regulate in more detail the mechanisms foreseen by the Decree, organised	Pursuant to the Decree on Capital Project Management, the Minister of Finance issued rulebooks, as follows: Rulebook on monitoring the implementation of capital projects, Rulebook on the manner of drafting parameters of financial and economic analysis within the feasibility study and previous feasibility study, Rulebook on the content of capital projects database , Rulebook on the feasibility study and the previous feasibility study, Rulebook on the procedure of rationalization of capital projects, Rulebook on the procedure of including capital projects in the budget and Rulebook on investment documentation (with forms that are an integral part of this rulebook and provide the Group with the necessary information on strategic, economic and financial relevance of projects and the manner and deadlines of their implementation). The public investment management system includes an integrated database of investment projects, which is

<u>RECOMMENDATION OF THE ECOFIN Council from May 2019</u>	<u>REPORTS ON THE IMPLEMENTATION OF ERP RECOMMENDATIONS 2020-2022</u>	<u>AMENDMENT TO THE REPORT ON THE IMPLEMENTATION OF ERP RECOMMENDATIONS 2021-2023</u>
	training courses and workshops for future capital project beneficiaries and started drafting tender documentation for the development of the Capital Investment Management Information System.	currently being developed, and a single list of priority projects (Single Project Pipeline), so that the system will start functioning during 2021 and become fully functional in 2022.
Strengthen the fiscal responsibility framework by improving the system of fiscal rules, increasing its credibility and making it more binding and capable of anchoring fiscal policy.	Fiscal rules are expected to be fully in place in 2020, with implementation beginning in 2021. The Ministry of Finance has established a Working Group responsible for amending the Budget System Law, which contains provisions on fiscal rules. The first step in redesigning fiscal rules was to regulate a new pension indexation method. Fiscal rules will define the level and dynamics of public debt and fiscal result, as well as define the growth of public sector wages and pensions.	Due to the crisis caused by the COVID-19 virus pandemic, the adoption of a new set of fiscal rules has been postponed. As part of the broader revision of the Law on Budget System, during 2021, special emphasis will be placed on changing the general rules related to public debt and general government deficit, and special rules related to the sustainable level of expenditures for salaries and pensions.
<u>Recommendation 3:</u>		
Continue to promote the use of local currency, <i>inter alia</i>, by encouraging the development of interbank markets and secondary markets for government securities, and by considering additional ways to improve long-term bank financing in dinar and hedging instruments.	<p>The National Bank of Serbia will continue to use its measures to support the dinarization process. In December 2018, the National Bank of Serbia and the Government of the Republic of Serbia signed a new Memorandum on the dinarization strategy, https://www.nbs.rs/internet/english/30/Memorandum_Dinarisation_Strategy_2018.pdf, thus confirming the strategic commitment to further increase the use of domestic currency in the financial system of Serbia.</p> <p>In order to promote savings in dinars, the National Bank of Serbia regularly publishes various analyses and information, pointing out the benefits of saving in local currency. General stability leads to an increase in dinar savings by 22% in 2018 and about 30% in 2019. Additionally, in order to encourage greater approval of loans to the economy in dinars, the National Bank of Serbia adopted regulations at the end of 2019 introducing a maximum percentage for new foreign currency indexed non-purpose and non-investment loans and loans in foreign currency approved to the economy. In parallel, for purely dinar placements approved to small and</p>	<p>Due to the emergency health situation caused by the pandemic in May and November 2020, the National Bank of Serbia adopted regulations postponing the application of measures regulating the approval of foreign currency loans and foreign currency indexed loans adopted in December 2019. Approving more dinar loans compared to Euro-indexed loans to the economy within the guarantee scheme, to which the National Bank of Serbia contributes by adjusting the required reserve system, resulted in an increase in the degree of dinarization of loans to the economy and households to the highest level so far, of 36.8%.</p> <p>The National Bank of Serbia continuously promotes the use of instruments for protection against exchange rate risk.</p> <p>The website of the National Bank of Serbia is regularly updated in the part dedicated to foreign exchange hedging, including the list of banks and links to hedging instruments, and banks are advised to improve the offer of hedging instruments and invest more efforts in</p>

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	<p>medium enterprises and entrepreneurs (SMEs), banks will allocate less capital to cover risk than on the basis of non-dinar and foreign currency indexed placements, which, through more favourable conditions, provides additional support for dinar lending to SMEs.</p> <p>It will be continued with the improvement of the currency structure of public debt in favour of dinar and issue long-term reference dinar securities, expand the investor base and promote the secondary market of these securities, and will continue with activities on their inclusion in the international bond index (JP Morgan GB Index). The process of establishing a system of primary dealers and enabling clearing and settlement of dinar securities at Euroclear is underway.</p>	educating their clients, primarily from the corporate sector.
Implement measures that form part of the recently adopted problem loan resolution programme (NPL) as well as the accompanying action plan, including those aimed at further resolving problem loans in state-owned banks and government agencies.	<p>The implementation of the measures prescribed by the Programme for resolving problem loans and the accompanying action plan is progressing smoothly and in accordance with the envisaged deadlines. In 2019, the following activities were completed/started:</p> <p>In June 2019, the Deposit Insurance Agency, supported by the Ministry of Finance (MoF), successfully completed the sale of the so-called “Pilot Portfolio” of receivables managed by the Agency on behalf of and for the benefit of the Republic of Serbia and bankrupt financial institutions in the nominal amount of EUR 242 million. This is the first transaction that enables the preparation of the so-called “Big Portfolio”. In September 2019, the Deposit Insurance Agency, supported by the MoF, announced the sale of a portfolio of receivables in the nominal amount of EUR 1.82 billion, in accordance with the Programme for resolving problem loans. The deadline for the completion of this measure is the second quarter of 2020. Work has begun on two more measures prescribed by the Programme for Resolving Problem Loans, on the development of the Corporate Indebtedness Study and Prevention of Accumulation of Problem</p>	<p>Implementation of measures prescribed by the Programme for resolving problem loans for 2018-2020 and the accompanying action plan, is progressing with changed dynamics in accordance with the pandemic of COVID-19, and in 2020 the following activities were completed/started:</p> <ul style="list-style-type: none"> - In February 2020, the work on the preparation of a study on corporate indebtedness and prevention of problem loans in the real sector in the Republic of Serbia in cooperation with KPMG and FinSAC was successfully completed. - In accordance with the announcement of the sale of the so-called “Big Portfolio” of the Deposit Insurance Agency, supported by the MoF, all necessary activities were undertaken and the process was started in accordance with the deadlines. With the outbreak of the pandemic, and in accordance with the requests of investors who went through the second phase of the process, and due to the impossibility of implementing the “Due Diligence” process, the deadlines for submitting binding

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	Loans and the establishment of an Internet portal for online auctions of bankruptcy assets, which are planned to be completed in the first quarter of 2020.	bids were moved to 7 September 2020. The new deadline for the completion of this measure is the first quarter of 2021. - Activities on the establishment of the Internet portal for online auctions of bankruptcy assets are also underway, with delays caused by the pandemic.
Finalize the process of privatization and restructuring of the remaining state-owned banks.	The privatization process of Komercijalna Banka is underway, and is expected to be completed in mid-February 2020. In accordance with the Strategy of the Government of the Republic of Serbia for state banks, on 21 January 2019, the Working Group for the transformation of Srpska banka into a specialized financial institution was established to provide all types of financial services and support the defence industry of Serbia. The preparation of proposals on the scope of business, the specifics of the initial capital, the contributions of existing shareholders, recapitalization, cash and non-cash assets is underway, because all this needs to be regulated by law. Bank Poštanska štedionica JSC Belgrade is in the process of implementing the new strategy, with the main focus on (i) commercial reorientation of the bank to retail banking, entrepreneurs, micro enterprises and small enterprises, (ii) improvement of the bank's internal organization, corporate governance and risk management, (iii) improvement of IT infrastructure and (iv) Business Strategy of the Bank Poštanska štedionica for the period 2020-2022.	The privatization process of Komercijalna Banka was completed on December 30, 2020. All listed for: - Srpska banka JSC Belgrade - Bank Poštanska štedionica JSC Belgrade implementation is ongoing in accordance with the presented conclusions and recommendations.
Recommendation 4:		
Use the results of the implemented smart specialization activities in order to finalize the new industrial strategy.	In May 2019, the Working Group for the development of the Industrial Policy Strategy of the Republic of Serbia for the period 2021-2030 was established and for drafting the Research and Innovation Strategy for Smart Specialization (headed by a representative of the Prime Minister's Office, while two Deputy Assistant Ministers in the Ministry of Economy are in charge of working on the Industrial Policy Strategy and the State Secretary in the Ministry of Education,	On 5 March 2020, the Government of the Republic of Serbia adopted the Strategy of Industrial Policy of the Republic of Serbia from 2021 to 2030, which was published in the Official Gazette of the RS No. 35/20. The Ministry of Economy is working with all relevant stakeholders on an Action Plan for the implementation of this strategy. The action plan will be adopted for the period 2021-2023 and it will define specific measures and

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	<p>Science and Technological Development is in charge of the Strategy smart specializations). As part of the preparation of the Industrial Policy Strategy, in May and June 2019, 13 public-private dialogues were held throughout Serbia, in which 363 entities participated - companies, business associations, representatives of science, government institutions and city representatives. A report on the implementation of these forums has been prepared, which, upon completion of the diagnostic phase, will serve as a basis for defining strategic goals and initiatives for each of the areas of the Strategy.</p> <p>Bearing in mind that the public-private dialogue was completed within the drafting of the Smart Specialization Strategy, reports from both public-private dialogues were exchanged, and included as material in the drafting of the Industrial Development Strategy.</p> <p>On 17 September 2019, the final public-private dialogue was held in this phase of the development of the industrial strategy, at which the findings of the public-private dialogues held during May and June 2019 were presented and the opinions of all interested parties were exchanged.</p> <p>In December 2019, the Proposal of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 was prepared and put up for public discussion from 13 December 2019 to 3 January 2020. This strategy proposal contains a vision, a general objective and specific objectives with a set of measures within six horizontal areas of intervention.</p> <p>It is planned that the Government, during January 2020, will adopt the Draft Strategy of Industrial Policy of the Republic of Serbia from 2021 to 2030, while by the end of the second quarter of 2020, the finalization of the Action Plan with the implementation mechanism is planned.</p>	<p>activities to be taken in order to create conditions for achieving goals in the new circumstances, after the COVID-19 pandemic. Also, the Action Plan will include activities that will support the findings of the smart specialization process.</p> <p>A public debate on the proposed action plan was held in December 2020, while its adoption is expected in early 2021.</p>
Adopt special laws on alternative investment funds.	At its session on 10 October 2019, the Assembly of the Republic of Serbia adopted the Law on Open-End Investment Funds with a Public Offer and	

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	the Law on Alternative Investment Funds.	
Ensure that companies and all social partners are consulted in a timely manner on all draft new laws relating to their business.	<p>During 2019, the Republic of Serbia significantly improved the legislative framework which regulates and provides conditions for active participation of the public, both citizens and representatives of the economy and civil society, in the adoption of regulations and public policy documents. After the enactment of the Law on Planning System and amendments to Article 77 of the Law on State Administration in 2018, in the previous year, appropriate bylaws were passed in addition to the above laws, which created conditions for public participation in decision-making processes from the earliest stage. In accordance with the above regulations, state administration bodies are obliged to announce the start of work on new regulations and conduct ex ante analyses that should indicate key problems and potential solutions, as well as to involve the public in these processes through a consultation process. In addition to consultations that can be conducted in the earlier stages of preparation of regulations, the established legislative framework envisages the obligation to conduct public hearings on draft regulations, i.e. proposals for public policy documents, which represent the final phase in which the public can be involved in these processes. For the sake of comparison, before the changes in the legal framework initiated by the current Government, the obligation of state administration bodies to involve the public in drafting regulations existed only for certain categories of laws and in the form of public debate (in accordance with Article 41 of the Rules of Procedure), but not in the earlier stages, while in the case of the preparation of public policy documents there was no obligation for the public to be consulted. During 2019, through the Office for Cooperation with Civil Society, 44 calls were sent for consultations and public hearings conducted within the process of preparation of regulations and public policy documents, which is a significant</p>	See the appendix on fulfilment of ECOFIN Council recommendations from May 2020 for the Republic of Serbia, recommendation 4, part " <i>Further improve the process of public consultation by involving companies and social partners regarding the adoption and implementation of all new laws relating to their business.</i> "

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	step forward given that in 2018 the number of calls was 31. The mentioned calls were published on the website of the Office and for most of them the competent proposers turned to the Office for support in their distribution to the interested public, primarily civil society.	
<u>Recommendation 5:</u>		
Gradually harmonize electricity tariffs to reflect real costs, including the costs of necessary maintenance and investment to improve the energy network and meet environmental standards and climate goals.	The current methodology for determining the price of access to the electricity transmission and distribution system already envisages that the price of access to the electricity transmission and distribution system is determined in such a way as to compensate eligible operating costs, as well as appropriate return on efficiently invested funds in electricity transmission and distribution and management of the distribution system in order to ensure short-term and long-term security of supply, i.e. sustainable development of the system. Within the competences and activities of the Energy Agency of the Republic of Serbia, as a regulatory body, is to decide on the need to correct the determined price of access to the system based on an objective assessment of all elements that affect the price of access to the system for transmission and distribution of electricity. The average price of electricity for customers who are entitled to a guaranteed supply at regulated prices (households and small customers) is 7.3 dinars/kWh, without taxes and fees, and it is 3.9% higher than the current average price. The new price for guaranteed supply applies from 1 December 2019.	The recommendation has been implemented. The following were increased: the price of access and use of the transmission system by 10%, the price of access and use of the distribution system by 5.5% and the price of electricity for guaranteed supply by 3.4% (which fully covers the increase of access price to the transmission and distribution system). The new prices will be applied starting from 1 February 2021. The average price of electricity for customers who have the right to a guaranteed supply at regulated prices (households and small customers), without taxes and fees will be 7.867 dinars/kWh. Also, on 18 December 2020 the Government of the RS adopted the Decree on the amount of the special fee for the incentive of privileged electricity producers in 2021, which increased the amount of this fee to 0.437 dinars/kWh. The increase in the price of electricity for guaranteed supply and the incentive fee for privileged electricity producers will cause an overall increase in the average customer's bill on guaranteed supply by 7.9%.
Finalize the unbundling of state-owned energy companies: - fully implement the long-delayed separation of Srbijagas and Elektromreža Srbije (EMS), - complete the functional unbundling of Elektroprivreda Srbije	The functional unbundling of the transmission system operator (EMS) has been completed. JSC EMS has been certified, as a transmission system operator, by the Energy Agency of the Republic of Serbia, since 2017, in accordance with the provisions of the Energy Law. The legal unbundling of energy companies in the field of electricity has been completed. The legal separation of	The implementation of the recommendation is ongoing. The functional unbundling of JSC Elektromreža Srbije transmission system operator (EMS) has been completed. JSC EMS has been certified, as a transmission system operator, by the Energy Agency of the Republic of Serbia, since 2017, in

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(EPS) in an appropriate manner,	<p>PE EPS and ODS EPS Distribucija has been completed, and regarding the functional separation of PE EPS, it has adopted the statute, and the founding act of ODS EPS Distribucija has been harmonized and adopted. When the Government of the Republic of Serbia approves this document, and when it enters into force, conditions will be created for a complete legal and functional separation of the distribution system operator.</p> <p>In the past period, PE SRBIJAGAS continued continuous activities on the implementation of unbundling of energy activities in terms of creating business, financial and technical preconditions for functional and sustainable functioning of unbundled energy entities in open market conditions, all in accordance with decisions and recommendations of the International Monetary Fund and the World Bank, IPA 2013 Conclusions of technical assistance consultant, as well as the Energy Community Secretariat (telemetry system request).</p> <p>In that sense, PE SRBIJAGAS is in the process of procuring a telemetry system and the necessary measuring platform. In cooperation with the Ministry of Mining and Energy, the Ministry of European Integration and the EU Delegation to Serbia, through the mechanism of unallocated IPA funds, talks are underway on the possibility of securing intervention financing: "Metering equipment for TSO Srbijagas" and "Code Operation Platform" from unallocated IPA funds.</p>	<p>accordance with the provisions of the Law on Energy.</p> <p>The legal unbundling of energy companies in the field of electricity has been completed.</p> <p>The process of separation of PE EPS and DSO EPS is underway and will take place in accordance with the conclusion of the Government of 17 December 2020, the accepted Plan for the implementation of activities aimed at reorganizing "EPS Distribution", Belgrade. The implementation of this plan will ensure the independence of the DSO in terms of legal form, organization and decision-making from PE EPS and full harmonization of work with the provisions of the Law on Energy.</p> <p>By the conclusion of 10 December 2020, the Government accepted the Report on the implemented activities for the purpose of reorganization of PE "Srbijagas" Novi Sad and the Plan for implementation of activities for the purpose of reorganization of PE "Srbijagas" Novi Sad. The mentioned Plan envisages that the procedure of reorganization of PE Srbijagas and its transfer to a joint stock company will be completed by May 2021.</p>
- provide third parties with access to gas infrastructure.	<p>As of 1 October 2019, the transport system operator "Transportgas Serbia" works independently with more than 250 employees. The transport system operator "Transportgas Serbia" has dislocated employees who perform transport and management of the transport system to a new location, i.e. to the location of the company's headquarters.</p> <p>The regulation of business relations between PE "Srbijagas" and "Transportgas Serbia" is in progress. A</p>	<p>By the conclusion of 10 December 2020, the Government accepted the Report on the implemented activities for the purpose of reorganization of PE "Srbijagas" Novi Sad and the Plan for implementation of activities for the purpose of reorganization of PE "Srbijagas" Novi Sad.</p> <p>The mentioned Plan envisages that by May 2021, "Transportgas Serbia" will install metering devices at the remaining exits from the transport</p>

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	<p>Capacity Lease Agreement has been signed on an annual and monthly basis, as well as a Lease Agreement which regulates the lease of property for the purpose of performing the activities of the natural gas transmission system.</p> <p>The Agreement on the delivery of natural gas for the needs of the transport system is being prepared.</p> <p>Further harmonization and preparation of a number of acts necessary for the operational work of new companies is forthcoming.</p>	<p>system and publish a public call for the lease of capacities to fully harmonize its work with the Law on Energy.</p>
<u>Recommendation 6:</u>		
<u>Significantly increase funding and implementation of active labour market measures tailored to the needs of the unemployed, especially women, youth, including those who are highly qualified.</u>	<p>In 2018, RSD 3.65 billion were set aside for the implementation of active employment policy measures, and in 2019, the amount of allocated funds was increased and amounted to RSD 4 billion. The same amount of RSD 550 million in both years has been allocated in the Budget Fund for Professional Rehabilitation and Employment of Persons with Disabilities. In 2020, the amount of RSD 3.7 billion is projected for the implementation of active employment policy measures, as well as RSD 550 million from the Budget Fund for Professional Rehabilitation and Employment of Persons with Disabilities, which is a decrease compared to previous years.</p>	<p>The “My First Salary” programme is implemented in cooperation with the Government of the Republic of Serbia, the Ministry of Labour, Employment, Veteran and Social Policy, the National Employment Service and the Serbian Chamber of Commerce, and on the basis of the Decree on the Employment Incentive Program “My First Salary” which was adopted by the Government of the RS at the proposal of the Ministry of Labour, Employment, Veteran and Social Policy. Additional funds in the amount of RSD 2 billion have been provided for the realization of the programme.</p> <p>The programme finances training with employers, 10,000 unemployed young people up to 30 years of age, with secondary and higher education, in order to gain their first work experience and increase opportunities for their more competitive entry into the labour market and employment.</p> <p>For more information, see the appendix on the fulfilment of the recommendations of the ECOFIN Council from May 2020 for the Republic of Serbia, recommendation 5, part <i>“Ensure increased provision of effective active labour market measures for the unemployed.”</i></p>
<u>Adopt measures to encourage formalization of work in non-agricultural sectors.</u>	<p>The National Programme for the Suppression of the Grey Economy in Serbia in 2019 and 2020 and the accompanying Action Plan envisage the expansion of the scope of the Law on</p>	<p>A working group was formed to amend the Law on Simplified Work Engagement in Seasonal Jobs in Certain Activities, namely: construction, catering and home help.</p>

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	Simplified Employment in Seasonal Activities to other activities - home support services. The aim is to simplify the tasks of home help staff that are of limited duration, to be included in legal flows and to simplify the payment of taxes and contributions, and the manner of engagement, as well as to ensure the rights of employees in accordance with international standards (deadline for the implementation: third quarter of 2020).	
Reduce high non-wage labour costs for jobs at lower wage distribution levels.	The minimum price of labour for the period January - December 2020 has been increased and amounts to RSD 172.54 (net) per working hour. The decision was adopted by the Government in September 2019. The proposed amendments to the Law on Personal Income Tax and the Law on Compulsory Social Security Contributions (adopted by the Government on 31 October 2019) refer to: increasing the non-taxable amount of salaries from RSD 15,300 to RSD 16,300 per month (that is, the tax base on income and the amount of tax on that basis are reduced, thus providing a lower fiscal burden on income earned by individuals on the basis of work) and pension and disability insurance contribution rates, from 26% to 25.5%, and will be in force from the beginning of 2020.	The minimum price of labour for the period January-December 2021 has been increased and amounts to RSD 183.93 (net) per working hour. The decision was adopted by the Government in September 2020. The adopted Law on Amendments to the Law on Personal Income Tax (December 2020) increased the non-taxable amount of salary from RSD 16,300 to RSD 18,300 per month.

3. MEDIUM - TERM MACROECONOMIC FRAMEWORK

3.1. ESTIMATES OF THE INTERNATIONAL ECONOMIC ENVIRONMENT

The global economy has been hit by the most devastating public health crisis and is in the deepest recession in decades. The virus pandemic, which took over a million lives, and the consequent economic crisis that has engulfed the world, are a common challenge faced by almost all countries. However, the latest projections point to a slightly better situation than previously expected: an increase in the number of tests, more efficient therapy, faster vaccine development, strengthening of international solidarity, faster opening of economies and recovery after the “lockdown” period have led to somewhat milder recession forecasts. The upward revision for 2020 was also supported by the results from the second quarter, which were not as negative as initially expected, as well as stronger growth in China, and indications of a faster recovery during the third quarter. The macroeconomic results would have been significantly weaker had it not been for fiscal, monetary and regulatory reactions that were significant, rapid and unprecedented, thus preventing a financial catastrophe. International financial institutions expect the global economic recovery to be long and uneven, while the re-spread of the virus and the introduction of restrictive epidemiological measures will slow the return of economic activity to pre-crisis levels. Most countries face unusually high negative risks arising from the further course and duration of the pandemic and the response to it. The main challenges will be to preserve existing production capacities and implement structural changes aimed at creating stronger, fairer and more sustainable growth. The priority of the social and economic system is the timely provision of resources for the functioning of the health system and limiting economic damage. In order to achieve this, significant international cooperation and support to health systems is needed, as well as financial support to severely affected countries, support to countries in the process of normalization after virus suppression, but also the implementation of policies and economic measures concerning the public and corporate debt growth which is expected in the future. Global cooperation is also necessary due to the long-term problem of climate change and possible future health crises.

According to the analysis of the International Monetary Fund (hereinafter: the IMF), the global economy is recovering from the shock caused by the “Great lockdown”. Accordingly, the estimate of global economic growth in 2020 was adjusted to -4.4%, which represents a revision upwards by 0.8 pp compared to June -5.2%, but it is still a worse result than expected in April (-3.3%). The improvement in the outlook for 2020 inevitably, due to the base effect, was reflected in the revision of the downward projection of global economic growth in 2021 by 0.2 pp to 5.2%. Although, after the initial phase of the pandemic, a gradual easing of health measures and recovery of economic activity followed globally in May, there is still a high degree of uncertainty regarding the speed of recovery of the world economy, which is reflected in international commodity and financial markets. In addition to the challenges of the crisis, current projections point to certain reasons for optimism due to the faster recovery of advanced countries and China, but the expected return of the global economy to pre-pandemic levels is still uncertain and prone to high risks. The negative risks to the projection are significant and are mainly related to the re-emergence of the virus in the areas that “had” it. Slower-than-expected vaccine development or its uneven approach could also lead to slower virus suppression. Premature cancellation of support measures due to the crisis caused by the pandemic or their ineffective implementation also pose a risk, which with less favourable financing conditions could lead to a drop in liquidity and, in the long run, insolvency. On the other hand, a milder recession than originally forecasted, continued implementation of fiscal measures in 2021 and faster productivity growth would contribute to accelerating the global recovery and normalization of economic activity.

The revision of global economic growth upwards for 2020 is mainly the result of a better economic situation in advanced countries, where the decline in GDP is estimated at 5.8% instead of the previously expected 8.0%. The US economy will record a contraction of 4.3% in 2020, which is almost twice as small as expected in June, and the outlook for the eurozone has improved, despite the

sharp decline that is still expected. On the other hand, the outlook for emerging countries has remained virtually unchanged. The prospects for Asian developing countries (excluding China) remain uncertain, as large economies such as India and Indonesia continue to struggle to curb the spread of the virus. The positive outlook for China is confirmed by estimates that cumulative GDP growth in the period 2020-2021 will amount to about 10%, since the easing of health measures and the normalization of economic flows took place faster than expected, and economic growth was recorded in the second quarter. Although the forecasts for Russia have been revised upwards, this country is still facing a deep decline of 4.1% in 2020, and expectations for the next medium-term period are similar to those of other countries, and a slight weakening of economic activity is expected. Many Latin American countries have been hit hard by the pandemic and are facing severe declines in economic activity. A large decline is expected in the Middle East and Central Asia, as well as in oil-exporting countries in sub-Saharan Africa, which are further affected by low oil prices and civil conflicts.

According to the autumn forecast of the European Commission (hereinafter: the EC), economic activity in the eurozone has been severely affected by the restrictions imposed by the pandemic. After a fall in GDP in 2020 of 7.8%, economic growth will accelerate to 4.2% in 2021 due to the low base of the previous year, and then will stabilize at 3% in 2022. Projections are unusually uncertain assuming that certain safeguards will be in place over the observed medium-term period. Additional uncertainty comes from the precarious trade relationship between the United Kingdom and the European Union (hereinafter: the EU). The depth of the recession in 2020 and the speed of recovery in the medium term vary greatly between member states, due to the unequal strength of the pandemic and the degree of severity of protection measures, but also because of different economic structures and measures of economic support.

The economic consequences of the pandemic are not limited to Europe. The global economy plunged into an unprecedented recession during the first half of 2020. Significant macroeconomic support measures mitigated the negative impact and, together with the easing of restrictive measures, enabled a certain recovery during the summer. Certain protection measures will be in force during 2021, after which their gradual easing will follow. As a result, global growth (excluding the EU) will fall by 3.75% in 2020, which is a worse result than during the World Financial Crisis. Supported by the cyclical recovery of private consumption and accommodative macroeconomic measures, the projected growth of the world economy excluding the EU will be 4.75% in 2021 and 3.75% in 2022.

The eurozone growth projection for 2021 has been revised downwards by 2.1 pp compared to May, due to the re-acceleration of the pandemic. Particularly significant are the revisions of the projections of GDP growth in Germany to 3.5% and Italy to 4.1% in 2021, compared to the spring projections, which amounted to 5.9% and 6.5%, respectively. The lower-than-expected growth in Germany can be explained by a lower decline in 2020 and a slower recovery next year due to the second wave of the pandemic. Despite a large package of support, the Italian economy will slow by almost 10% in 2020, which is slightly worse than previously expected, and growth in 2021 will be slightly slower due to the recent new pandemic flare-up and new tightening of protection measures.

In the coming period, the key interest rate is expected to stagnate and the accommodative monetary policy of the European Central Bank (hereinafter: the ECB) to continue, with a focus on the purchase of securities, which was introduced as an emergency support measure during the pandemic in March.

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

	Current projection			Previous (spring) projection		Previous (autumn) projection*	
	2020	2021	2022	2020	2021	2020	2021
GDP	-7.8	4.2	3.0	-7.7	6.3	1.2	1.2
Private consumption	-8.7	4.3	3.3	-9.0	7.1	1.2	1.2
Government consumption	1.9	2.3	1.0	3.2	0.6	1.5	1.3
Gross fixed capital formation	-11.2	6.1	4.2	-13.3	10.2	2.0	1.9
Exports	-11.5	6.2	4.7	-12.9	9.5	2.1	2.3
Imports	-10.1	6.0	4.7	-12.9	9.7	2.6	2.7
Employment	-5.3	2.5	1.6	-4.7	3.9	0.5	0.5
Unemployment rate, labour force percentage	8.3	9.4	8.9	9.6	8.6	7.4	7.3
Inflation	0.3	1.1	1.3	0.2	1.1	1.2	1.3
Unit labour costs	4.2	-0.5	0.0	4.3	-1.9	1.4	1.4
General government fiscal result, % GDP	-8.8	-6.4	-4.7	-8.5	-3.5	-0.9	-1.0
General government gross debt, % GDP	101.7	102.3	102.6	102.7	98.8	85.1	84.1
Current account balance, % GDP	2.6	2.6	2.8	3.4	3.6	3.2	3.1

Source: EC, Autumn forecast, November 2020

* EC, Autumn forecast, November 2019

The pandemic has put the labour market in the EU under a heavy burden, however, support measures such as short-time work schemes have been enacted in a timely manner, so the impact has been limited. It is expected that the stabilization of activities will first lead to an increase in working hours, as short-time work schemes are being abolished, and after that an increase in employment can be expected. Also, the relocation of employees in the areas that were severely affected by the pandemic is a long process, so the employment growth is expected in 2022. An unemployment rate of 7.7% in the EU is projected for 2020, which will decrease to 8.0% in 2022 after growth in 2021 (8.6%), and similar trends are expected in eurozone.

A significant drop in energy prices led to negative inflationary trends during August and September. Base inflation also recorded a significant decline during the summer, due to low prices of tourist services, but industrial goods as well. The expected inflation in the eurozone for 2020 is 0.3%, while inflation rates of 1.1% and 1.3% are projected for the next two years, respectively.

Fiscal policy in 2020 will be extremely expansive due to significant fiscal measures to help defend against the pandemic, while in 2021 it is expected that the measures will be gradually abolished. The eurozone fiscal deficit is projected to increase significantly to 8.8% in 2020, while a gradual reduction is expected over the next two years due to the action of automatic stabilizers and the recovery of economic activity. In line with the expected increase of deficit, the share of total debt-to-GDP ratio will increase to almost 102% in 2020, while a cumulative growth of 1 pp is expected for the next two years, each.

There is an increased degree of uncertainty regarding the further development of the pandemic as well as the consequent economic prospects and the implementation of appropriate policies. Negative risks include the possibility of worsening of the pandemic, which would require stricter and longer measures to curb it next year, and thus a deviation from the baseline scenario in a negative connotation. It is also possible that the pandemic has more devastating consequences for the EU economy than expected and the possibility of shocks on the financial market both in the eurozone and in the rest of the EU should not be ruled out. On the other hand, faster development in the treatment and prevention of infected people, as well as timely and wide application of an effective vaccine would accelerate the relaxation of introduced emergency measures, improve trust in institutions and positively influence the normalization of the economic situation. A successful trade agreement between the EU and the UK, which is expected to enter into force in 2021, is also a positive risk.

3.2. CURRENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 2020

Real sector. Economic activity growth of 4.2% in 2019 was higher than the initial projection by 0.7 pp, which put Serbia in a small group of European countries whose dynamics of economic activity was better than expected. The higher rate than projected is the result of the materialization of positive risks related to the dynamics of agricultural production and construction. Economic growth combined with a favourable investment environment has had a positive impact on the labour market with a record low unemployment rate of 10.4% and real growth in average wages of 8.5% in 2019. Inflation throughout 2019 was low and stable and generally moved close to the lower limit of the allowed deviation from the target. At the same time, there was an extremely high net inflow of foreign direct investment (hereinafter: FDI) of EUR 3.6 billion, which was more than enough to fully cover the current account deficit.

According to the data of the Statistical Office of the Republic of Serbia (hereinafter: SORS), GDP growth in the first quarter of 2020 amounted to 5.2% y-o-y and was accompanied by positive developments in all economic sectors. Growth was driven by service activities (4.7%), primarily as a result of growth in the information and communication technology sector, but also trade, transport and tourism. Industrial production recorded a growth of 4.2%, while the increase in construction activity of 20.9% is the result of continued work on the implementation of infrastructure projects, as well as the activities of private construction operations. Observed from the expenditure side, economic growth was driven by domestic demand, with investments with a growth of 11.8% providing the most significant positive contribution to GDP growth. Also, economic activity was supported by the growth of private consumption due to improvements in the labour market, as well as the growth of government consumption. On the other hand, the negative contribution of net exports (-3.0 pp) was determined by the increased imports of capital and intermediate goods for the needs of the economy, but also by the somewhat slower dynamics of exports in March.

Although economic activity growth was solid during the first quarter, the onset of a slight slowdown in economic activity was observed in March as a result of dramatic changes in the international environment caused by the coronavirus pandemic. The economic activity of our most important foreign trade partners very quickly took on a recessionary character and began to spill over into the Serbian economy. In addition, the application of health measures in the domestic framework, as well as the introduction of the state of emergency on 15 March 2020, additionally affected the Serbian economy, so that in April a strong decline in economic activity of 13.4% y-o-y was recorded. The first to be hit were the sectors of tourism, transport, recreation and entertainment, since the health care measures taken directly affected them, as well as companies from the manufacturing sector. Export-oriented activities such as the automotive and metal industries, production of electrical equipment, rubber and plastics were particularly affected, and significant negative effects were also manifested in the sectors of micro and small enterprises and entrepreneurs. Companies in industries with a significant import component also faced major problems due to disrupted supply chains. During this period, many companies, if not completely stopped production, then at least significantly reduced their activity. Some activities of the manufacturing on which the influence of external factors is somewhat smaller, such as the food industry, were in a somewhat more favourable position, while the pharmaceutical and parts of the chemical industry significantly increased production due to increased demand. Thanks to the gradual “unlocking” of the economy and the improvement of the epidemiological situation, the economic decline in May was more than halved year on year, while in June economic activity fully stabilized.

According to the SORS, GDP decline in the second quarter was 6.3% y-o-y. The contraction of the economy in the second quarter is entirely a consequence of the effect of the implementation of health measures due to the coronavirus pandemic. The economic package of support to the economy and the population has significantly contributed to mitigating this shock and has resulted in a smaller decline in the economy, especially compared to other European economies, and turbulence in the labour market has been avoided. Observed from the production side, the dominant negative contribution to the GDP growth rate in the second quarter of 2020 came from the service sector (-3.6 pp), due to the

decline in the trade, transport and tourism sectors, as well as professional and technical services and activities related to arts, entertainment and recreation. At the same time industrial production with a drop of 7.6% y-o-y negatively contributed to economic growth with 1.5 pp, while the contribution of construction was slightly negative. Favourable agro-meteorological conditions resulted in a growth of agricultural production of 4.7%, which provided a positive contribution to the GDP growth rate of 0.3 pp. Observed from the expenditure side, in the second quarter of 2020, the effects of the pandemic had the greatest impact on private consumption, which negatively contributed to the GDP growth rate with 5.8 pp. Although the real incomes of the population have been preserved, the decline in personal consumption of households is a consequence of the temporary withdrawal of consumers from the purchase of durable consumer goods as well as less use of tourist, hospitality and transport services. Investments as the component of GDP that are most sensitive to global uncertainty recorded a decrease of 12.9% y-o-y and affected the decline in GDP by 2.7 pp. The alleviation of the sharp fall in GDP during the second quarter was influenced by increased health care expenditures expressed through the growth of government consumption for these needs. The shock in foreign trade resulted in a significant decline in export-import activity, but the contribution of net exports was still positive and amounted 1.3 pp.

The gradual recovery of economic activity was confirmed by the results achieved in the third quarter, when the real decline was 1.4% y-o-y. This represents a good result, especially considering the extremely high base from the same period in 2019. During the third quarter, industrial production fully recovered from the shock caused by the coronavirus pandemic and achieved a growth of gross value added (hereinafter: GVA) of 3.2%. A positive contribution was also made by agricultural production, which recorded an increase of 4.5%, with record yields of individual plants and crops. However, the positive developments in these two sectors have failed to fully offset the negative contribution that has come from construction and services. Due to the base effect, last year's extremely high growth in the construction sector affected the year-on-year decline in the third quarter of 2020 of 18%. The moderate recovery of economic activity in the services sector was not enough to avoid a slight decline of 1.9% y-o-y. Observed from the expenditure side, in the third quarter of 2020, all components, despite a noticeable recovery, had a negative impact on GDP. Net exports negatively contributed to the GDP growth rate with 2.8 pp, due to a smaller decline in imports than exports, and as a consequence of a faster recovery of the domestic economy than the recovery of foreign trade partners. Investments affected the decline in GDP by 1.3 pp. The contribution of private and government consumption was also negative, by 0.7 pp and 0.2 pp, respectively. The implementation of the economic package of measures to mitigate the negative consequences of the pandemic, faster recovery than expected after the lifting of the state of emergency, with a record good agricultural season, influenced the real decline in GDP in the first three quarters to be only 0.9% y-o-y.

High-frequency indicators of economic activity also indicate a solid economic recovery. The physical volume of total industrial production has been growing year-on-year since June, and in the first ten months the level of industrial production was higher by 0.3% y-o-y, with a positive contribution from the electricity sector and a neutral contribution from the manufacturing. After eliminating the seasonal and calendar effect, the level of total industrial production in October was 1.4% higher compared to the pre-crisis level in February 2020, although divergent trends were recorded by activities. Certain areas of industry, primarily those that are predominantly export-oriented, were more affected by the crisis, which primarily refers to the automotive industry, the production of basic metals, the rubber and plastics industry, as well as production of petroleum products. After April, when the negative effects of the pandemic were most pronounced, with the recovery of external demand, the level of production in these divisions gradually increased, while the recovery of certain activities such as the automotive and rubber industries was contributed by the activation of new production facilities as a result of FDI from the previous period. On the other hand, in divisions where domestic demand is more significant and the structure of production is such that the goods necessary to meet basic living needs are produced, such as the food industry, recessionary trends have been avoided, or the impact of the crisis has been much smaller. Also, the pharmaceutical and chemical industries, because of the

increased needs for health care resource due to the pandemic, recorded a significant increase in production, which in the first ten months amounted to 8.6% and 5.9%, respectively. The service sector is the part of the economy that is most affected by the coronavirus pandemic due to its structure. Although some service industries such as trade and the financial sector continued to move positively, some activities such as tourism, hospitality, transport, arts, entertainment and recreation declined dramatically. Turnover in retail trade, after a drop of 18.6% y-o-y in April, fully recovered in the following month and continued with positive trends, so that in the period January-October 2020, a real growth of 5.2% was achieved. On the other hand, the tourism and hospitality sector has suffered huge consequences. The number of overnight stays of foreign tourists (1,187,915) in the first eleven months decreased by 67.9% y-o-y, while the foreign currency inflow from tourism (EUR 957.8 million) decreased by 25.6% compared to the same period 2019, with a real decline in turnover in the hospitality by 23.5% in the period January-October. Reduced external demand due to lower economic activity was also reflected in a slowdown in exports of ICT services.

Labour market. The situation in the labour market is characterized by relatively favourable trends despite the negative effects of the coronavirus pandemic. This was significantly contributed by the package of economic measures of the Government, which was designed primarily to ensure the maintenance of production capacities of the economy, especially in terms of preserving jobs. With the same goal, the legal framework for the implementation of the second package of economic measures was adopted in July. After the implementation of the first set of measures, and the prolonged duration of the complex epidemiological situation, the Government decided to provide direct assistance of 60% of the amount paid in July 2020 for additional two months (August and September) to economic entities in the private sector except large enterprises, and to extend deferral of tax and salary contributions for another month. Despite the difficult conditions on both the international and domestic markets, in 2020 there are favourable trends in the labour market. According to the LFS data, the year-on-year unemployment rate decreased, so in the first quarter it decreased by 2.4 pp to 9.7%, in the second by 3.0 pp to a record low level of 7.3%, and in the third quarter by 0.5 pp to 9.0%. In addition to the decrease in the unemployment rate in the third quarter, there was an increase in the employment rate by 0.2 pp to 49.9%. Also, improvements are noticeable in other indicators, so in the female part of the population, the unemployment rate decreased by 1.4 pp to 9.4%, then the long-term unemployment rate decreased by 0.4 pp to 4.8% and the informal employment rate by 1.4 pp at 17.3%. Favourable trends in the labour market are also confirmed by the data from the Central Register of Compulsory Social Security, according to which in the period January-October the number of employees increased by 47.7 thousand persons, i.e. by 2.3%. This is almost entirely the result of growth in the number of employees in the private sector. In terms of sectors, the manufacturing leads in terms of employment with 16.0 thousand newly employed workers, followed by construction with 10.1 thousand and the information sector with 6.2 thousand. Also, another confirmation of good results in the labour market are the data of the National Employment Service (hereinafter: NES), according to which in the period January-October 2020 the number of unemployed persons decreased by 22.0 thousand, or 4.1%, y-o-y.

Positive wage developments continued in 2020, due to the implementation of a package of economic measures adopted by the Government on two occasions to combat the negative effects of the coronavirus pandemic. Also, the growth of the average salary was influenced by the decision of the Government at the end of 2019 to increase salaries in the range from eight percent in the state administration to 15 percent for nurses, but also the decision to permanently increase salaries for health workers by 10% starting from April 2020. In addition to this, the growth of wages was also affected by the decision to increase the minimum labour price to RSD 172.54 per working hour in 2020 from RSD 155.3 in 2019. Thus, in the period January-September, the average net salary increased by 9.4% in nominal terms and by 7.7% y-o-y in real terms and amounted to RSD 59,286. Real wage growth in the public sector was 9.4%, while real wage growth of 6.9% was achieved in the private sector. In terms of sectors, the largest contribution to the growth of average wages was made by health, trade and manufacturing industries.

External sector. Serbia has significantly reduced its current account deficit in the last eight years - from 10.9% of GDP in 2012 to 6.9% of GDP in 2019, and continues to reduce it to around 5.0% of GDP. Thus, the current account deficit will be below the limit that ensures its medium-term sustainability for the eighth year in a row (amounting to a maximum of 8% of GDP), and for the sixth year in a row it will be fully covered by net FDI inflows.

During the first nine months of 2020, the current account deficit was around EUR 1.7 billion (5.1% of GDP) and compared to the same period last year it was lower by 14.9% (EUR 300 million), and in the first quarter, the current account deficit amounted to EUR 956.6 million (8.7% of GDP), and in the period April-September 2020, it amounted to EUR 757.3 million (3.3% of GDP). Since the outbreak of the pandemic caused by the COVID-19 virus, i.e. in the period April – September, the current account deficit decreased by about 40% y-o-y. In this period, the lower current account deficit was mostly due to a larger decrease in imports of goods (by EUR 1.1 billion y-o-y) compared to a decrease in exports (by EUR 0.8 billion y-o-y), as well as a decrease in the primary income deficit (by EUR 0.5 billion y-o-y), while there was only a reduction in the secondary income surplus (by EUR 0.3 billion y-o-y) based on lower remittance inflows in the conditions of the global crisis and reduced labour mobility acted in the opposite direction.

Goods exports recorded an increase of 3.1% y-o-y in the first quarter of 2020, after which there was a decline of about 28% and 25% y-o-y, respectively, in April and May due to the influence of the pandemic outbreak. However, thanks to timely measures in the fight against the COVID-19 virus, investments from the previous period that increased the export supply and the gradual recovery of external demand, commodity exports have been recovering since June. In June, July and August y-o-y decline in exports ranged between 4% and 6%, while in September there was an increase in exports of 6.6% y-o-y, which practically returned exports to the average level recorded in the first quarter. The manufacture industry and agriculture also contributed to the recovery of exports. Observed by markets, the recovery of commodity exports was mostly influenced by the growth of exports to EU countries (increased by almost 7% y-o-y in September). In the period April-September, imports under the influence of the pandemic and lower energy prices decreased by 10.4% compared to the same period in 2019.

The export driver, which decreased by 5.9% during the first nine months of 2020, were tobacco products (with a positive contribution to export growth of 0.8 pp), agricultural products (0.8 pp) and food products (0.4 pp). On the other hand, during this period, the largest negative contribution to exports came from the export of motor vehicles and trailers (-2.6 pp), base metals (-2.3 pp) and rubber and plastic products (-0.7 pp). However, it should be borne in mind that the recovery of the car industry's exports has been noticed since July, which is the result of the recovery of the demand for cars in the eurozone.

Imports of goods in the first nine months decreased by 4.3% y-o-y, as a result of a decrease in imports of intermediate goods by 12.5% y-o-y due to reduced production and lower energy prices, while imports of capital and consumer goods increased by 8.6% y-o-y and 6.3% y-o-y, respectively. The largest contribution to the decline in imports during the first nine months of 2020 came from reduced imports of coke and petroleum products (contribution -2.1 pp), motor vehicles and trailers (-1.6 pp), basic metals (-1.4 pp), metal ores (-1.3 pp) and crude oil and natural gas (-1.0 pp). Imports grew in metal products, except machinery (1.0 pp), basic pharmaceuticals (0.8 pp) and food products (0.7 pp).

Having in mind the structure of cross-border trade in services, i.e. that Serbia is a net importer of tourism and transport services, the surplus in trade of services increased by 17.9% y-o-y during the first nine months of 2020, driven primarily by the growth of net exports of ICT services (13% y-o-y). The deficit on the primary income account was reduced by almost two thirds (to EUR 1.1 billion) due to smaller outflows based on FDI income, primarily reinvested earnings (by 75.2%, i.e. EUR 500.6 million y-o-y). The secondary income surplus was reduced by 14.8% y-o-y due to lower remittance inflows.

The financial transactions account (excluding changes in foreign reserves) in the period January-September 2020 recorded a net inflow of EUR 1.8 billion, and the largest part of this inflow was related

to FDI and portfolio investments. The net inflow from FDI in the first nine months of 2020 amounted to EUR 1.7 billion (inflow to Serbia amounted to EUR 1.8 billion) and fully covered the current account deficit (100.8%). Compared to the same period last year, the net inflow of FDI is lower by 33.1%, bearing in mind that the previous year was a record year in terms of FDI inflows. Also, a significant part of the decrease in FDI refers to lower reinvested earnings compared to the previous year, which is a direct consequence of the pandemic and increased uncertainty in the international environment. According to the first estimates for nine months, the inflow from FDI remained project-diversified, and was mostly directed to tradable sectors (over 60%), and observed by activities, most was invested in the manufacturing industry (about 33%), transport (about 18 %) and construction (about 15%). Broken down by country, most FDI came from EU countries (about 64%), Asian countries (24%) and non-EU European countries (8%). Portfolio investments in the period January-September 2020, recorded a net inflow of EUR 1.3 million, primarily thanks to the successful issue of Eurobonds in foreign markets, which was issued to finance comprehensive economic measures in the fight against the pandemic. During November, Serbia issued a new ten-year security worth USD 1.2 billion on the international market in order to early repay the dollar bond maturing in September 2021, replacing the debt issued at a coupon rate of 7.25% with debt at rates of *de-facto* 1.066% in euros (because the swap transaction was hedged and the debt in dollars was replaced by debt in euros), which are the most favourable conditions that Serbia has achieved so far. As regards financial loans, foreign net borrowing by residents amounted to EUR 749 million, with both the private sector (EUR 874 million net) and the public sector (EUR 125 million net) engaging in net borrowing. The foreign exchange reserves of the National Bank of Serbia (excluding intercurrency and price changes) decreased by EUR 434.1 million in this period, but remained significantly above the level that provides adequate protection against external shocks - covering almost six months of imports of goods and services and 259.6% of debt⁵ maturing in the next year.

Exchange rate. During 2020, depreciation pressures prevailed, which were primarily a consequence of the spread of the COVID-19 pandemic. Decreased economic activity at the global level affected the growth of demand for foreign exchange of domestic companies, and increased uncertainty in international financial markets was the cause of increased demand for foreign exchange of foreign portfolio investors, primarily at the end of the first and beginning of the second quarter. Thanks to timely and measured reactions of the National Bank of Serbia (hereinafter: NBS) in the foreign exchange market in the form of foreign exchange sales, but also overall measures of the NBS and the Government to mitigate the effects of the pandemic, macroeconomic stability has been preserved, including financial stability and relative stability of foreign exchange market. In some periods, appreciation pressures were also recorded, due to which the NBS appeared not only on the side of sales, but also on the side of buying foreign currency. In order to mitigate excessive short-term oscillations of the dinar exchange rate against the euro on the foreign exchange market during the first ten months of 2020, the NBS sold EUR 1,735 million net - sold EUR 1,940 million and bought EUR 205 million. Observed from the beginning of the year, until the end of November, the value of the dinar against the euro is almost unchanged.

Inflation remained low and stable in 2020, despite the emerging crisis caused by the COVID-19 virus pandemic. On the cost side, inflationary pressures remained low thanks to the relative stability of the exchange rate, lower world oil prices than before the pandemic, relatively low costs in food production, and the full supply of goods to the market. Pressures on the demand side also remained low, despite continued growth in wages and employment in most industries, as evidenced by the movement of core inflation (excluding prices of food, petroleum products, alcohol and cigarettes) at a low and stable level (1.6% on average in 2020). Anchored inflation expectations, which indicate increased monetary policy credibility, also contribute to price stability at the level of about 2% for the past seven years.

In line with NBS expectations, year-on-year inflation, after 2.0% in January, slowed down and in March, April and May moved below the lower limit of the target, to return to those limits in June. In

⁵ As of June 2020

July, inflation continued to rise to 2.0% y-o-y, mostly due to a decrease in the negative contribution of oil prices, and with the arrival of the new agricultural season in the coming months it slightly slowed down - to 1.8% in September and October, mostly under the influence of slower growth of prices of fruits, but also other foods.

Credit activity and monetary developments. Domestic credit activity continued the trend of stable growth during 2020 even in the conditions of the crisis caused by the pandemic, supported by measures of the NBS and the Government, whereby y-o-y credit growth in Serbia was the highest among the countries in the region. Domestic loans also recorded double-digit y-o-y growth in 2020, which, excluding the effect of exchange rate changes⁶, amounted to 12.1% in October (compared to 9.8% in December 2019), which is a result of the excellent realization of loans at the beginning of the year, the easing of the monetary policy of the NBS, the possibility of delay of loan repayment and the approval of loans from the guarantee scheme⁷. Since the beginning of H2 2019, lending to the economy has contributed to this growth to a greater extent than lending to households, which continued during 2020 (6.1 pp, compared to 5.8 pp in October).

The results of surveys on credit activity conducted by the NBS show that the perception of risk, which increased with the outbreak of the pandemic, led to the tightening of credit standards for the economy and households, while the demand for loans continued to grow.

A significant factor in alleviating the burden of the crisis is the Government's guarantee scheme, aimed at micro-enterprises, small and medium-sized enterprises and entrepreneurs. The scheme envisages the approval of a EUR 2 billion loan with a state guarantee by the end of January 2021, of which EUR 1.59 billion were approved by 31 December 2020. More than half of the loans approved under the guarantee scheme were in dinars (57.6%), which, together with the purchase of dinar corporate bonds and the usually high dinarization of newly approved loans to households (70% on average in ten months 2020), influenced that the share of dinar placements in total placements reached its maximum in October of 36.8% (of which the dinarization of placements to the economy increased to 19.8%, and to households to 56.3%).

A year-on-year growth in corporate loans in October was 11.8% (compared to 9.5% at the end of 2019). At the beginning of the year, this growth was mainly driven by investment loans, and with the growing liquidity needs in the crisis caused by the pandemic and the launch of the state guarantee scheme, the contribution of current assets loans grew. In October, y-o-y growth of current assets loans was 22.9%, while investment loans were higher by 10.5% y-o-y, which indicates that investment growth can be expected in the coming period. Observed by the size of enterprises, loans granted to the segment of micro, small and medium enterprises accounted for 67.8% of total corporate loans in October, and their y-o-y growth was 10.6%. The growth of loans to households in October amounted to 12.6% y-o-y (compared to 10.0% y-o-y at the end of 2019). As before, the growth was driven by cash and housing loans, which were higher in October by 18.0% and 12.1%, respectively, than a year ago. In addition, the growth of loans to households was also contributed by lending to entrepreneurs within the guarantee scheme.

Analysis of credit activity trends from the aspect of determining the level of the countercyclical capital buffer rate from June 2020 indicates that, despite the growth, credit activity measured by the share of total real loans in real GDP is below its long-term trend (-0.7 pp). Given that, in September 2020, the NBS decided to keep the rate of the countercyclical protective layer of capital at the level of 0%. Although there is a tendency to reduce the negative gap, the analyzed lending activity by sectors indicates that, neither in the corporate sector nor in the household sector, there is no excessive credit growth, while they are still below their long-term trend. This indicates that lending activity still does not pose a risk to either price or financial stability.

At the level of the year, total domestic loans are expected to increase by about 10%, calculated at the programme rate, while in 2021 credit activity is expected to slow down the growth under the influence

⁶ Calculated at the exchange rate of the dinar against the euro, Swiss franc and dollar on 30 September 2014 (the so-called programme rate used to monitor the arrangement with the IMF), taking into account the currency structure of loan receivables.

⁷ In accordance with the *Decree on establishing a guarantee scheme as a measure of support to the economy for mitigating the consequences of the pandemic of the COVID-19 disease caused by the SARS-CoV-2 virus*, "Official Gazette of the RS", no. 57/20.

of the high base effect, which is reflected in the moratorium during the second and mostly during the third quarter of this year, so that according to the NBS projection, the growth rate of total domestic loans will be around 6%. Also, it should be borne in mind that from May 2021, loans approved under the guarantee scheme should start maturing, while the positive contribution to lending activity will provide favourable financing conditions achieved by the previous easing of monetary policy of the NBS and the ECB, as well as the expected economic recovery after the crisis.

An extensive package of economic assistance, including measures and activities of the NBS in response to the pandemic, in the conditions of increased liquidity needs, contributed to the growth of the money supply in 2020. In October, y-o-y growth of all monetary aggregates M1 (31.2%), M2 (29.4%) and M3 (16.3%) was higher than at the end of 2019. The growth of the dinar money supply was primarily driven by the growth of transaction deposits of the economy and households. Dinar savings of the population increased during 2020 by RSD 10.5 billion, which reached its new maximum of RSD 89.5 billion in October. Such a movement of savings is an indicator of the population's confidence in the banking system and the domestic currency, the importance of which is especially evident in the conditions of growing uncertainty due to the pandemic. In addition, higher interest rates, as well as its more favourable tax treatment, contribute to the greater attractiveness of dinar than foreign currency savings. This resulted in an increase in the share of dinar household deposits from 8.8% at the end of 2012 to 25.5% in October this year, as well as an increase in the dinarization of total corporate and household deposits from 19.1% to 38.6%. This also confirms that the Dinarization Strategy adopted in 2012 and improved at the end of 2018 gives positive results. Foreign currency deposits increased by EUR 1,058.7 million in the first ten months of 2020, mostly due to the growth of foreign currency corporate deposits (by EUR 599.9 million), which was also contributed by foreign exchange inflows based on exports, FDI and corporate borrowing abroad. Foreign currency savings of households increased by EUR 441.0 million, reaching EUR 10.9 billion at the end of October.

Financial sector. There were no significant changes in the structure of the financial system of Serbia during 2020 - the banking sector is still dominant with a share of over 90% in the total assets of the financial sector. As of 31 October 2020, the banking sector of Serbia consisted of 26 banks, of which 19 are majority-owned by foreign persons (members of banking groups from 13 countries), 4 banks are majority-owned by the Republic of Serbia, while 3 banks are majority-owned domestic legal entities. The market is dominated by banks majority owned by foreign persons, which account for 76.6% of total balance sheet assets, 82.6% of total gross loans and 75.1% of total deposits of the banking sector. Observed individually by banks, there is no significant concentration in the banking sector in key balance sheet categories and market segments, which indicates a high degree of competition among banks.

At the end of October 2020, the total assets and capital of the Serbian banking sector amounted to RSD 4,516 billion and RSD 719 billion, respectively. The solid capital reserves that banks have built up over the past few years have made them more resilient to the negative effects of the pandemic. The capital adequacy ratio for the banking sector was 22.3%, and the leverage ratio (according to "Basel 3") 12.56% at the end of the third quarter of 2020⁸, which all together confirms the high solvency of the banking sector.

Liquidity reserves of the banking sector in Serbia are more than sufficient to cover potential needs for liquid assets, which is confirmed by the movement of key liquidity ratios and the maturity structure of assets and liabilities. The monthly liquidity ratio, which is calculated in accordance with domestic regulations, amounted to 2.11 at the level of the banking sector in October (the regulatory minimum is 1.0) and was above 2 throughout 2020. Liquid assets accounted for 36.46% of total balance-sheet assets and 49.98% of total short-term liabilities, while the liquidity coverage ratio (according to "Basel 3") was 210.31% at the end of October 2020.

⁸ The last available data is for 30 September 2020

Despite the pandemic, the banking sector managed to maintain satisfactory profitability in 2020 as well. The total net profit before tax realized from the beginning of the year to the end of October amounted to RSD 45.8 billion, with ROA profitability ratios of 1.28% and ROE 7.72%.

Although it has implemented all activities from its Action Plan for the Implementation of the NPL Resolution Strategy, the NBS has continued to take regulatory measures within its competence and use available instruments and supervisory mechanisms to encourage banks to solve NPLs more efficiently and establish a system to prevent their re-accumulation. Also, in accordance with the ***Decision on Accounting Write-off of Bank Balance Sheet Assets***, which is applied from 30 September 2017, banks are obliged to transfer to off-balance sheet records all NPLs that are fully impaired.

Five years after the adoption of the Strategy, the share of NPLs in total gross loans of the banking sector decreased by 18.8 pp to 3.45%, as it was at the end of October 2020. The balance of gross NPLs decreased by 77.75% in the same period (from RSD 427.3 billion to RSD 95.1 billion). The most significant channels for reducing NPLs were the direct write-off and sale of receivables. Since the adoption of the Strategy until October 2020, the total reduction of NPLs due to direct write-offs amounted to RSD 215.7 billion and is present in all banks. The total amount of receivables sold since the introduction of the Strategy amounts to RSD 95.2 billion⁹. At the end of October 2020, the share of NPLs in total loans to the economy amounted to 3.61%, while their share in total loans to individuals was 3.57%. At the end of October 2020, 62.1% of NPLs were covered by value adjustments made in accordance with international accounting standards, which represents a high degree of coverage. The positive effects of the prescribed measures to encourage the practice of sustainable lending to households adopted in December 2018 are reflected in the reduction of concentration risk indicators at the level of the banking sector by 11.05 pp in the period January 2019 - October 2020 (from 25.19% to 14.14%).

The NBS has undertaken a series of activities aimed at supporting the economy and citizens of Serbia with the aim of mitigating the negative economic consequences of the COVID-19 virus, while preserving financial stability in extraordinary circumstances.

Bearing in mind the need to maintain the achieved level and further strengthen the stability of the financial system in conditions of potential risks caused by the emergency health situation in the country, in March 2020 the NBS adopted decisions prescribing a delay in repayment of obligations (moratorium) for bank debtors and financial lenders which cannot be shorter than 90 days. Given that the health emergency situation continued, in July the NBS adopted decisions prescribing an additional delay in the repayment of liabilities to banks/financial leasing providers (additional moratorium) due in the period from 1 August 2020 to 30 September 2020, as well as the delay in the repayment of obligations that were due in July this year, and the debtor has not settled them. The importance and timeliness of decisions is evidenced by the fact that about 90% of bank clients used the first moratorium, and about 82% the additional, second moratorium.

In May and November 2020, the NBS adopted regulations aimed at delaying the implementation of measures regulating the approval of foreign currency loans and foreign currency-indexed loans adopted in December 2019, due to the emergency health situation caused by the pandemic. In that way, the implementation of measures that discourage the approval of new, non-purpose and non-investment, foreign currency indexed loans and loans in foreign currency to economic entities, entrepreneurs and farmers has been postponed for a total of one year. Due to the delay in application, the newly approved loans indexed by the foreign exchange clause and loans in foreign currency from 1 July 2021 are relevant for the calculation of the deductible item, and not those approved starting from 1 July 2020, as initially prescribed.

When it comes to housing loans, in June the ***Decision on Amendments to the Decision on Measures for Safeguarding and Strengthening Stability of the Financial System*** was adopted, which created regulatory preconditions for allocating a smaller share required for granting housing loans to first

⁹ Calculated on the basis of data from the NPL 3 report submitted by banks to the NBS.

apartment buyers by defining LtV indicators at a maximum of 90%, that is, that the amount of the housing loan secured by a mortgage on the real estate does not exceed 90% of the value of that real estate (exception in relation to the general rule when this limit is 80%).

In addition, in July 2020, the NBS adopted the following decisions in order to facilitate the repayment of certain loans granted to citizens by 18 March 2020: ***Decision on Amendments to the Decision on Capital Adequacy of the Bank*** and ***Decision on Amendments to the Decision on Concentration Risk Management Based on the Bank's Exposure to Certain Types of Products***. In accordance with the adopted regulations, banks are encouraged to offer debtors refinancing or change the maturity date of the last instalments of consumer, cash and other loans (which is not a housing loan or current account overdrafts) approved by 18 March 2020 for additional two years longer than the current repayment regime for these loans.

Finally, at the end of August, a decision was adopted defining measures to facilitate access to finance for individuals – ***Decision on temporary measures for banks in order to facilitate access to finance for individuals***. This decision prescribes three sets of measures that should enable the population easier access to housing loans. The first measure aims to support, in addition to easier access to housing loans, the economy, more specifically the construction industry, through faster turnover of funds - in the previous period the minimum level of construction of buildings whose purchase could be financed with housing loans was usually 80%, and with this measure, banks are encouraged to approve housing loans without waiting for the completion of the housing facility in full or to the greatest extent. The second measure refers to the possibility of extending the repayment period of housing loans to a maximum of five years, and the third to temporarily ease the procedure for access of the population to short-term dinar loans up to a certain amount.

Having in mind the complexity of the impact of the emergency health situation in the country on citizens and the economy, on 14 December 2020, NBS adopted additional measures, which primarily aim to provide relief to debtors (individuals, companies, farmers and entrepreneurs) affected by the COVID-19 pandemic and for that reason they are not able to settle obligations to the bank or financial leasing provider, i.e. they may have difficulties in settling those obligations. Repayment facilities are provided for settling liabilities based on loans and similar products and imply the approval of a grace period of six months with a corresponding extension of the repayment period in such a way that the amount of annuity, or monthly obligations of the debtor after the grace period, and by the end of the new repayment period is not higher than that amount before the relief.

The result of a comprehensive reform of the legal framework in the field of **payment services** is a stable, secure and reliable operation of the payment system in the country, as well as the fact that modern payment services are easily accessible to users throughout the Republic of Serbia. This was accompanied by a multi-year and continuous growth in the number of users of electronic and mobile banking services, as well as a constant growth in the number of transactions for the purchase of goods and services via the Internet (e-commerce), which proved particularly significant during the COVID-19 virus pandemic. These results represent an excellent basis for further development of the payment services market and for activities ahead of further harmonization of the domestic legal framework with the EU *acquis communautaire*.

The NBS supported the reform of the legal framework and the establishment of the instant payment system - IPS NBS system. With this introduction of the most modern technology in the field of payment systems, in 2018, the foundations were created for even simpler and faster execution of payment transactions, the offer of new digital services and greater competition among instruments for non-cash payments. A special incentive for the further development and popularization of non-cash payments in the country and competition with card payments from the beginning of 2020 is given by a new method of payment at merchants' points of sale, "IPS scan"/"IPS show", which banks have enabled users in mobile banking applications and which enables fast and easy payment, with the current availability of funds in the merchant's account. It is also easier to pay invoices to issuers of a large number of invoices, by scanning the NBS IPS QR code on bills/invoices, where the possibility of the payer making a payment error is minimized. Users are thus given the opportunity to pay their

debts at any time of the day and without going to the bank, and this proved to be especially good and useful during the pandemic, when one of the most important recommendations for health protection is maintaining physical distance and avoiding places with large number of people. Further development and improvement of the payment system infrastructure will continue during 2021, when users will be provided with other functionalities of the IPS NBS system.

Taking into account global trends, the Law on Digital Assets (“Official Gazette of the RS”, No. 153/20) was adopted in the Republic of Serbia for the first time, which comprehensively regulates the issuance of digital assets, secondary trading in digital assets, the provision of services related to digital assets and the supervision of the business of the persons providing those services.

In the coming period, the NBS will complete the started activities on drafting a law which will regulate group financing (crowdfunding) and alternative financing, which, while respecting the characteristics of the domestic financial market, will be harmonized with the relevant EU regulation adopted in 2020. In that way, additional support will be provided to the development of small and medium enterprises and start-up companies.

3.3. MEDIUM - TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, the cumulative growth rate in the period 2021–2023 will amount to 14.6% and will be determined by the growth of domestic demand. This source of growth is determined by both the permanent increase in investment and the growth of household consumption due to the growth of the living standard of the population. On average per year, the Serbian economy will grow at a rate of 4.7%. The increase in private spending is projected at a lower rate than the acceleration of economic activity and will average 3.7%. In the first year of the projection, a slightly higher growth of household spending than the average is expected, primarily due to the base effect, and then a gradual slowdown in growth. This increase does not contain disruptive elements; it is based on healthy sources, primarily on increasing employment, but also on the favourable impact of price and credit trends on disposable income. Stable growth of investments is expected, on average of about 10% per year, which will gradually increase their share in the structure of GDP, which at the end of the projection period should amount close to 25%. With the recovery of foreign demand and the activation of new production capacities, the volume of foreign trade will increase. In addition, the effect of FDI from the previous period will contribute to increased competition and affect the efficiency of domestic producers, while on the other hand, new sales channels will be activated and new market niches will be opened. Exports will grow at an annual rate of 9.3%, which is faster than the expected annual growth of imports, which will average 8.3%. This dynamics of foreign trade flows will improve the current account balance in the medium term and provide a slight reduction in the balance of payments deficit from 6.9% in 2019 to 4.6% in 2023.

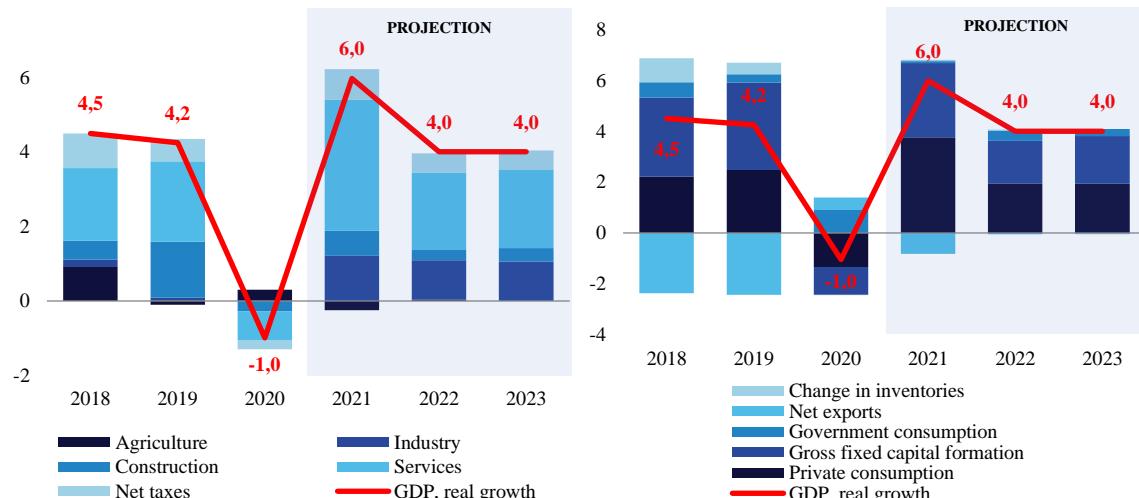
Table 2. Projection of basic macroeconomic indicators of the Republic of Serbia

	Estimation	Projection		
	2020	2021	2022	2023
GDP, billions of dinars (current prices)	5,517.3	5,997.7	6,408.1	6,871.3
Real GDP growth, %	-1.0	6.0	4.0	4.0
GDP deflator, %	2.9	2.6	2.7	3.1
<i>Real growth of individual components of GDP, %</i>				
Private consumption	-1.9	5.4	2.8	2.9
Government consumption	5.8	0.4	2.5	1.8
Gross fixed capital formation	-4.8	13.3	7.1	7.8
Exports of goods and services	-6.9	9.6	9.1	9.3
Imports of goods and services	-6.5	9.3	7.7	7.8
Balance of goods and services, in EUR, % GDP	-8.5	-8.9	-8.6	-8.0
Current account balance, in EUR, % GDP	-5.0	-5.5	-5.1	4.6
Inflation, period average, %	1.5	2.0	2.2	3.0

Source: Ministry of Finance

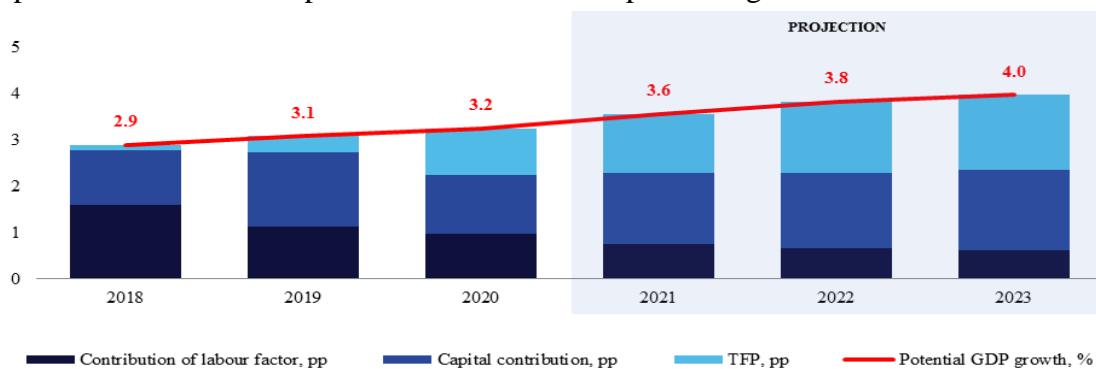
Viewed on the supply side, the service sector and industry will retain the role of dominant sources of growth and increase the generated GVA by an average of 5.0% and 5.2% per year, respectively. A positive contribution will also come from the growth of construction activity, which will average 9.6%. Achieving European standards and raising competitiveness in agriculture, by fulfilling the conditions for opening Chapter 11 and through the use of the EU IPARD II programme, will reduce the variability of production in this sector caused by agro meteorological conditions.

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



Even with this three-year scenario, the government remains committed to maintaining a model of economic growth based on investment and exports, which is supported by the growth of private spending on real and healthy sources. The share of gross fixed capital formation in GDP will be 24.6% at the end of 2023, which is about 2.1 pp higher than in the pre-crisis year 2019, while at the same time the share of exports of goods and services will increase by 1.9 pp. After the jump in 2020, government spending will gradually reduce its share in GDP, so that at the end of the projection period it will be close to the level from 2019. Through its activities and measures, the government is trying to strengthen the investment and export component of GDP. Acceleration of all administrative procedures that accompany these activities, tax relief of the economy in order to increase its competitiveness, signing agreements to ensure the preservation of existing and opening of new foreign markets, more intensive and efficient infrastructure works are just some of the measures to provide sound foundations for growth of the potential GDP. Consistency in preserving fiscal stability prevents the generation of imbalances and the creation of uncertainties, and reform processes should provide stronger positive dynamics of basic macroeconomic variables. The digital transformation and construction of the digital ecosystem remain the strategic orientation of the Government. More efficient work of the state administration, shortening of procedures for the population and the economy with a focus on digitalization will accelerate the convergence of our economy towards developed countries. The new system of fiscalization and changes in customs regulations will reduce the share of the grey economy in total economic flows, ensure affirmative competition and improve the economy and efficiency of procedures.

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



According to the central scenario, potential GDP growth is expected to accelerate in the medium term. After an increase of 3.2% in 2020, potential GDP will gradually increase and reach a rate of 4% at the end of the projection period. The slower growth of potential GDP than the previously expected is a consequence of the negative effects caused by the coronavirus pandemic. Nevertheless, an adequate economic policy has preserved the production potentials of the economy. Accelerating the implementation of capital projects and the continuation of the ongoing investment cycle, supported by both stable FDI inflows and domestic innovative activities, will provide an increasingly strong contribution of capital and factor productivity to potential GDP growth. Digitization will significantly speed up these processes and further increase the efficiency of the utilization of available capacities. Favourable labour market developments will also contribute to the growth of potential GDP but at a slower pace than in the previous period.

Employment and earnings. The coronavirus pandemic will inevitably affect the labour market. However, timely measures of economic policy makers, whose focus is primarily on maintaining employment, significantly mitigate the negative effects caused by the pandemic, and in 2020 no significant turbulence is expected in the labour market, neither when it comes to the number of employees, nor in terms of earnings. Although a record low unemployment rate was achieved in the second quarter, primarily due to a decrease in the number of people actively looking for work, it is expected to increase slightly by the end of the year, remaining below 10% annually. The favourable developments so far, the Government's commitment to increasing the number of employees, as one of the priority goals of economic policy, as well as the expected economic growth have determined the projection for the medium term. Positive developments are expected to continue, through the improvement of all labour market indicators, especially through a further reduction in the unemployment rate. Such expectations are the result of continuous work on improving labour market conditions, improving labour market institutions, encouraging employment and inclusion in the labour market of hard-to-employ persons, as well as support for regional and local employment policy. Also, we are continuously working on improving the workforce in terms of quality, as well as investing in human capital, all with the aim of easier general employment, especially in that part of the economy that has greater added value. Also, with the intensified work of inspection services, and after the improvement of labour legislation and adopted measures in the direction of tax relief of work, the reduction of the number of employees in the grey zone will continue and their transfer to the contingent of formally employed. These measures will improve working conditions, in terms of workers' rights and insurance, and the positive effect will be reflected in budget revenues. At the end of the medium term, complex reforms of the education system and an adequate response to the needs of the economy are expected, while active training, retraining and support for social entrepreneurship will facilitate the availability of jobs for socially vulnerable categories of society and thus further ensure economic growth. Average wages are expected to continue growing in the medium term. For the sake of economic sustainability, wage growth in the medium and especially long term should be based on productivity growth. This will require the continued creation of favourable conditions for economic growth, primarily through the growth of consumption and the attraction and growth of private investments.

Monetary policy, exchange rate policy and inflation

Since 2009, the NBS has been applying the inflation targeting regime as a monetary strategy. Thanks to the achieved price stability, anchored inflation expectations and a significant improvement in macroeconomic indicators and the outlook of Serbia for the next period, and above all a sustainable reduction of external and internal imbalances, the inflation target has been reduced since 2017 to the **level of 3% ± 1.5 pp and it is established at that level until the end of 2023**. This confirms the determination of the NBS and the Government to take measures to keep inflation low, stable and predictable in the medium term. The main instrument for achieving the inflation target is the interest rate applied in one-week reverse repo operations, while other monetary policy instruments (open market operations, credit and deposit facilities, required reserves and foreign exchange market interventions) have a supporting role. The reserve requirement policy is formulated in such a way that

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

The period before the outbreak of the pandemic was marked by favourable macroeconomic developments in the domestic market, while uncertainty in the international environment required caution in conducting monetary policy. The key policy rate was maintained in January and February 2020 at 2.25%, which was its lowest level in the inflation targeting regime until then. In addition to the present uncertainty in the international environment, when making decisions on monetary policy, the fact that the effects of the previous easing of monetary policy (reduction of the key policy rate during the second half of 2019 by a total of 75 bp) will be manifested in the coming period was taken into account.

The NBS was the first institution in the country and one of the first central banks in the region to respond to the pandemic by adopting concrete measures. At the extraordinary session on 11 March, a decision was made to reduce the key policy rate by 50 basis points to 1.75%, narrowing the corridor of basic interest rates, from $\pm 1.25\%$ to $\pm 1.0\%$ in relation to the key policy rate and other measures have been adopted in order to preserve favourable financing conditions for the economy and citizens. Assessing that the scale of the crisis in the world caused by the coronavirus requires additional monetary policy support, as well as that low inflationary pressures enable it, at the session in April and June, the NBS lowered the key policy rate by additional 25 bp to 1.25%, and then in December to 1%, while at the same time reducing the main interest rate corridor, from $\pm 1.0\%$ to $\pm 0.9\%$ relative to the key policy rate. This reduced the reference rate by 1.25 percentage point compared to the pre-pandemic level, which together with other monetary measures and a fiscal package worth about 12.5% of GDP reduced the negative effects of the pandemic on economic activity and employment and provided a relatively fast economic recovery in the coming months. It is important to emphasize that the elimination of internal and reduction of external imbalances thanks to responsible economic policy in the previous period contributed to increasing the resilience of the Serbian economy to the negative effects of external shocks, thus enabling successful monetary and fiscal measures without compromising price and financial stability.

In addition to reducing basic interest rates, since the outbreak of the epidemic, the NBS has preemptively supported banks' dinar liquidity on favourable terms through direct repo operations for the purchase of government securities and corporate bonds and bilateral operations for permanent purchase of government securities and corporate bonds on the secondary market, by organizing additional swap operations of foreign exchange purchase and temporary change of the manner of conducting auctions of swap purchase and swap sale of foreign exchange (in order to provide the necessary dinar and liquidity in euros at favourable interest rates), as well as expanding the list of collateral for monetary operations (inclusion of dinar corporate bonds issued by domestic companies, which meet the conditions of adequate creditworthiness, issued by the end of 2020, with the longest original maturity of ten years). With the obligatory reserve policy, the NBS continued to stimulate dinar and long-term sources of financing, and from July 2020, lending to the economy in dinars, supporting the Government's economic measures without jeopardizing price stability, by paying higher interest on the allocated dinar reserve requirement to banks that approve dinar loans on favourable terms in accordance with the Government's guarantee scheme. Thanks to the timely and measured reactions of the NBS on the foreign exchange market in the form of foreign exchange sales in the conditions of increased uncertainty on the international financial market, the relative stability of the exchange rate was maintained. A preventive repo line with the ECB has also been established as an additional option to provide liquidity in euros in case of need.

The NBS will continue to closely monitor the movement and impact of key factors from the domestic and international environment on inflation, financial stability and the speed of economic recovery. In this regard, it will continuously assess whether all measures are still optimally combined and whether

they are of adequate scope, in order to provide the necessary support to the recovery of economic activity, without jeopardizing price and financial stability. The NBS, in coordination with the Government, is ready to react in the coming period in accordance with the development of the situation regarding the further course of the pandemic in our country and in the world.

In accordance with the chosen monetary strategy, the NBS will continue to implement a managed floating exchange rate regime. Interventions in the foreign exchange market will be carried out in order to mitigate excessive short-term oscillations of the dinar exchange rate against the euro, preserve price stability and the financial system and maintain an adequate level of foreign exchange reserves. Timely and measured reactions of the NBS in the foreign exchange market and achieved macroeconomic stability with increased resilience of the domestic economy to external shocks, including shocks arising from the effects of the COVID-19 pandemic, will contribute to maintaining the relative stability of the dinar exchange rate in the medium term.

Medium-term inflation projection. According to the November central projection of the NBS, year-on-year inflation will move in the lower half of the target range, closer to the lower limit of the target by the end of 2021. Such a movement of inflation will be contributed by relatively low aggregate demand and inflation in the international environment, while the effects of the decrease in world oil prices will gradually disappear. After that, with further growth of economic activity and demand, which will support the expansionary measures of monetary and fiscal policy, inflation will begin to gradually move towards the central value of the 3% target, but will remain below it in 2022. Uncertainty regarding the realization of the inflation projection in the short run refers primarily to the movement of fruit and vegetable prices. In the medium term, the key risks of the projection continue to originate from the international environment, and they relate primarily to the speed of the recovery of the euro area, world prices of primary products, as well as capital flows to emerging countries. The risks to the projection also relate in part to the rate of recovery of domestic demand and the movement of domestic regulated and food prices, with the risks to the projection of inflation, taken together, being symmetrical.

External sector and its medium-term sustainability

Due to FDI inflow into export-oriented sectors, supported by attained macroeconomic stability, as well as a more stimulating business environment, the diversification of exports has increased in the past few years - both in terms of production and geography. This is indicated by the decrease in the value of the Herfindahl-Hirschman index (HHI) by products from 0.22 in 2013 to 0.20 in 2019, and by partner countries from 0.26 to 0.23. The level of concentration observed by products in the first nine months of this year remained unchanged and observed by country was further reduced to 0.22. It should be borne in mind that cereals are exported mainly through Romania, and motor vehicles through Italy, from where they are further placed on other markets, so that the actual degree of concentration of exports, observed by country, is actually lower than suggested by this index.

Broken by processing stage, in the structure of goods exports, the products of the middle stage of processing have the largest share in the first nine months of 2020 (31.8%). In second place are products based on resources with a share of 24.3%, followed by products of lower stages of processing with a share of 21.1% (furniture, iron and steel, plastic products, clothing), while primary products accounted for 14.2% of total exports. The share of high-tech products (mainly electrical machines) in total exports was 6.5% and 2.1% was the share of other products (electricity, non-classified).

When it comes to **price and cost competitiveness indicators**, it is important to emphasize that the real effective exchange rate of the dinar is relatively unchanged in the long run. After a real depreciation of 8.5% in the period 2014-2016 (calculated on the basis of consumer prices according to the basket of currencies consisting of the euro and the dollar¹⁰), the dinar appreciated by 7.1% in real terms in the period 2017-2018, mostly on the basis of favourable balance of payments developments, so that in 2019, the dinar recorded a slight real depreciation (of 0.2%). In the period January-October 2020, the dinar appreciated in real terms, by 1.5% y-o-y, primarily on the basis of higher inflation than in

¹⁰ In ratio 80:20

the eurozone, where y-o-y decrease of prices is recorded in the past few months due to the pandemic. Calculated on the basis of unit labour costs, the dinar depreciated against the euro by 8.1% in real terms in the period 2014-2016, and in the period 2017-2019, due to the growth of wages in the private sector due to the growth of economic activity, and partly due to the nominal strengthening of the dinar against the euro, a real appreciation of 17.8% was recorded. In the conditions of declining economic activity under the influence of the pandemic and continued growth of wages thanks to the reaction of economic policy makers, with a simultaneous decline in economic activity and wages in the eurozone, unit labour costs in Serbia increased more in three quarters of 2020 than in the eurozone, which alongside the nominal strengthening of the dinar against the euro by 0.3% y-o-y, resulted in a real appreciation of about 9% y-o-y. However, it should be borne in mind that the real appreciation of the dinar calculated on the basis of unit labour costs did not result in a reduction in cost competitiveness, as evidenced by the net inflow of FDI, which amounted to almost EUR 11 billion from 2017 to September this year.

Structural competitiveness of Serbia, which has a crucial impact on improving the competitiveness of the economy in the long run, has continued to improve. According to the last Doing Business list published in October 2019, Serbia advanced by four places, to 44th place among 190 countries, and approached the best world practice by 1.8 points (to 75.7 points). Regulatory reforms have been identified in six areas that have made it possible to improve business conditions: dealing with construction permits, getting electricity, protecting minority investors, paying taxes and enforcing contracts.

International investment position. From the point of view of the international investment position (IIP), Serbia was a net debtor in the amount of EUR 42 billion (91% of GDP) at the end of June 2020, which is EUR 1.6 billion more than at the end of 2019. The increase in the negative IIP position was mostly influenced by the issue of Eurobonds on the foreign market in May, but also by the growth of the most desirable foreign investments - FDIs. In the observed period, both the public and private sectors increased their negative international investment position by EUR 1 billion and EUR 0.6 billion, respectively. The growth of the negative investment position of the state was mostly influenced by the mentioned issuance of Eurobonds, which was partially mitigated by the growth of foreign exchange reserves. The position of the private sector as a net debtor increased due to higher FDI inflows (growth of FDI by EUR 1.5 billion in the first half of the year), while the decrease in net debt on trade loans (by EUR 1.1 billion) had the opposite effect. **Observed by instruments, at the end of the second quarter of 2020, about 88% of net IIP were FDIs, which indicates a good structure of IIP and less vulnerability to external shocks and contributions to external sustainability.**

On the liability side of the IIP, the share of debt instruments was 51.7%, of which intercompany loans accounted for 18.5%. Almost half of the **external debt** refers to the public sector (48.6%) and it is entirely long-term. The public external debt is dominated by three currencies - the euro (53.4%), the dollar (25.1%) and the dinar (11.6%). At the same time, the share of euros and dollars in foreign exchange reserves is 60% and 25%, respectively, so that the currency structure of foreign exchange reserves is well aligned with the currency structure of public external debt. More than two thirds of public debt was contracted at a fixed interest rate (68.6%).

In the structure of external debt of the private sector, the largest part refers to the corporate debt (73.7%). Over 95% of corporate debt is euro-denominated, and the fact that over 90% of export payments are made in euros contributes to the reduction of currency risk based on the external corporate debt. Observed by the remaining maturity, about 80% of corporate debt is long-term. Over 70% of banks' external debt is contracted at a variable interest rate, while 96% is denominated in euros. Observed by the remaining maturity, about 50% of the external debt of the banking sector (excluding deposits) is long-term.

Medium-term external sustainability. The current account deficit is expected to be around 4-5% of GDP in the medium term and to be fully covered by net FDI inflows, which contributes to medium-term external sustainability. Continued growth of services surplus is expected, as well as the

normalization of inflows based on secondary incomes, which have traditionally been stable. The low interest rates at which residents borrowed will lead to a stabilization of outflows based on primary incomes. It is estimated that the real growth of exports of goods and services in the years after 2021, in which double-digit growth rates of exports and imports are expected due to the low base, will stabilize at around 7-8% per year on average, which will result in a gradual reduction of deficit of goods and services in GDP at about 8%.

The expected trajectory of net FDI inflows will affect the return on their ownership to remain a solid outflow item in the primary income account. On the other hand, we will have a smaller outflow based on interest on loans and securities, primarily due to financing on much more favourable terms (as well as early repayments of previously incurred debt with high interest rates). A stable inflow of remittances of around 8-9% of GDP is expected on the secondary income account in the medium term as well.

The structure of capital inflows will be dominated by FDI (around 5-6% of GDP on average per year), which is expected to continue to fully cover the current account deficit. Also, net deleveraging is expected on the basis of public sector financial loans and net borrowing of the private sector to finance investments and further economic development.

Foreign exchange reserves are expected to remain at an adequate level in the medium term as well. It is estimated that the coverage of average monthly imports by foreign exchange reserves will be over 6 months, with an increase in the coverage of short-term debt (observed by remaining maturity) by foreign exchange reserves.

According to the estimates of the medium-term sustainability of Serbia's external position, the current account deficit, which stabilizes the external debt at the current level, ranges between 7% and 8% of GDP, while the current account deficit of about 6% of GDP leads to external debt reduction. Under all scenarios, except the historical one (based on ten-year averages of key macroeconomic indicators, which is a period marked by significant structural changes in the economy and cannot serve as a benchmark), after a temporary increase in 2020 (which occurred to mitigate the economic consequences of the pandemic), in the medium term there will be a reduction in Serbia's external debt. According to the baseline scenario, Serbia's external debt would be around 50% of GDP at the end of 2025. One of the main factors that will contribute to this reduction is the increase in the openness of the Serbian economy (measured as a percentage of exports and imports of goods and services in GDP) to over 120% of GDP. The increase in the openness of the Serbian economy and its greater integration into global trade flows was certainly influenced by the high FDI inflow, which in the period from 2013 to September 2020 amounted to about EUR 19 billion. Given that most of these investments were directed to tradable sectors, mostly foreign-owned companies are among the largest exporters in Serbia. Continuation of EU integration and opening of new chapters in the field of economic policy, together with bilateral free trade agreements (e.g. with Russia, Turkey, Belarus and Kazakhstan) and agreements with economic groups (CEFTA, EFTA, Eurasian Economic Union) concluded by the Government of Serbia and while maintaining the achieved macroeconomic stability, will lead to further improvement of the business climate, which will enable greater international exchange and continued growth of FDI.

3.4. ALTERNATIVE SCENARIO AND RISKS

The medium-term scenario of economic activity in the Republic of Serbia is accompanied by numerous risks both from the international environment and on the basis of domestic factors. The risks of the macroeconomic framework are unusually high and arise from the further course and duration of the pandemic and the response to it, especially after the re-aggravation of the epidemiological situation in the world and in our country, and partial or complete closure of individual countries. The baseline macroeconomic scenario assumes that the impact of the pandemic will weaken during 2021 as progress is made in finding and using vaccines, limiting virus transmission, and more effective therapies in treatment. Otherwise, the worsening of the epidemiological situation and the introduction of additional restrictive measures would lead to further

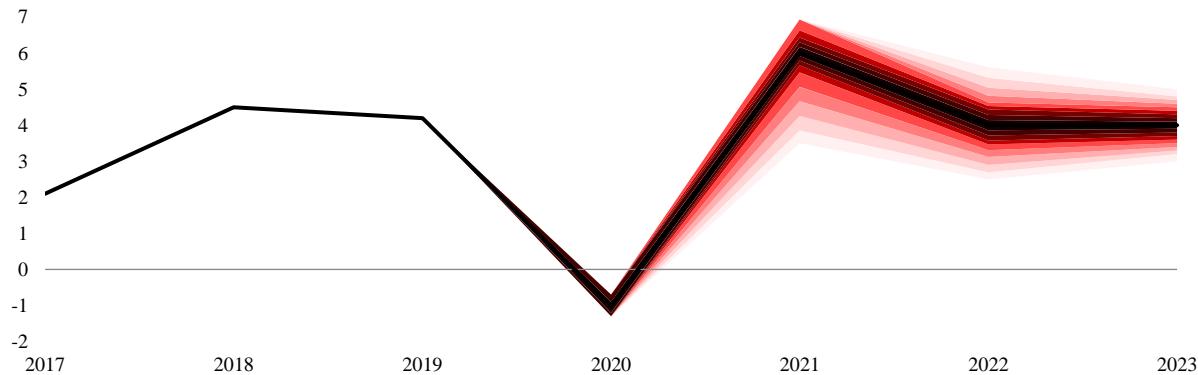
recessionary trends. The recovery of the eurozone and the region of Central and Southeast Europe, our most important foreign trade partners, in the coming period will depend on the efficiency of health measures, but also on the possibility of using the scope of fiscal and monetary incentives.

In the short run, exogenous risks are asymmetric downward based on multiple factors. Uncertainty in the international commodity and financial market, trade tensions and collapsed business confidence would have a negative impact on capital flows. Also, the slowdown in external demand and the stagnation in supply chains have a negative impact on export activity, a reduction in capital inflows to Serbia, and thus lower industrial production. As for the commodity market, the collapse of commodity prices can have a twofold impact on Serbia's economic growth. The movement of oil prices above the projected would have a negative impact on production costs, but would also change the structure of household consumption by increasing the share of imported goods, which would jointly slow down economic growth. Serbia has retained the role of a net exporter of base metals despite the reduction in exports, so that faster growth of their prices would affect economic activity and to some extent neutralize the effects of EU measures. The activation of new and expansion of existing export capacities, more favourable trade relations, but also the abolition of 100% tax on products delivered to Kosovo and Metohija will contribute to the mitigation of negative risks.

Endogenous risks have been identified as more pronounced upwards. Although the deterioration of the epidemiological situation and the temporary closure of the economy during 2020 affected the abstinence from consumption, its complete recovery is expected in 2021. On the other hand, the package of economic measures of the Government and the NBS preserved the disposable income of the population and the existing jobs, and ensured a faster recovery than expected. The course of the pandemic will determine developments in the service sector, especially in the transport, hospitality and tourism sectors. The damage caused by the pandemic in these sectors can spread to other industries. Other factors from the domestic environment relate to the volatility of agricultural production, efficiency in the implementation of public projects and the dynamics of the implementation of the initiated reforms. Continuation of structural reforms and further improvement of the business environment should contribute to faster growth. Despite the improvement and modernization of the agricultural sector, the production of major crops is still significantly dependent on agro meteorological conditions, which can lead to significant deviations from the long-term average agricultural production on the basis of which the movement of this sector is projected. The baseline scenario assumes a negative contribution of agriculture to GDP given this year's excellent season. The growth of construction in the coming period is based on the trends of this activity, predictive indicators and the announced investments of the state. Dynamics and efficiency in the implementation of public projects, after the relaxation of health measures, as well as activities in the segment of construction of buildings and production capacities carry with them symmetrical risks. The movement of industrial production is largely determined by external factors. Nevertheless, the electricity segment could contribute to growth above expectations, if the reform processes are intensified and investments from the previous period are effective in the coming period. Also, the reform of public enterprises is the basis for raising the level of productivity and efficiency, which would make production processes cheaper, increase competitiveness and expand investment capacities. The dynamics of the implementation of these reforms is clearly reflected in the dynamics of overall economic growth by influencing in the same direction, faster implementation of reforms brings faster economic growth and vice versa.

Although the neutralization of internal and external imbalances in the previous period has increased the resistance of the Serbian economy to external shocks, we should not lose sight of the fact that we are a small and open economy that is significantly exposed to them. Favourable macroeconomic prospects of the country, improved business environment, maintaining favourable financial conditions, continuation of the policy of encouraging foreign and domestic investments as an integral part of the investment policy and planned investment projects of the country will reduce the uncertainty present regarding the readiness for investment and expansion of production capacity.

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



The alternative scenario was created on the basis of identified endogenous and exogenous risks for the realization of the projection. It incorporates the potential materialization of risks related to the prolonged uncertainty regarding the course of the pandemic, which would be manifested primarily through a slower recovery of foreign trade and investment activity. Such a situation would inevitably affect the domestic labour market and, through it, the slower growth of personal consumption than expected, especially during 2021. Such developments would result in a lower rate of overall economic growth in the medium term scenario, at 3.2% in 2021 and 3.0% each in 2022 and 2023, respectively.

Table 3. Alternative macroeconomic scenario

	Estimation	Projection			
		2020	2021	2022	2023
GDP, billion dinars (current prices)	5,517	5,815	6,141	6,495	
Real growth of GDP, %	-1.0	3.2	3.0	3.0	
GDP deflator, %	2.9	2.1	2.5	2.7	
<i>Real growth of individual components of GDP, %</i>					
Private consumption	-1.9	3.9	2.2	2.3	
Government consumption	5.8	0.8	1.0	1.0	
Gross fixed capital formation	-4.8	6.1	8.1	8.2	
Exports of goods and services	-6.9	6.4	7.5	8.7	
Imports of goods and services	-6.5	6.9	7.0	8.0	

4. FISCAL FRAMEWORK FOR THE PERIOD FROM 2021 TO 2023

4.1. PUBLIC POLICY STRATEGY AND MEDIUM-TERM GOALS

The good state of public finances and the relatively favourable level of debt enabled a generous and timely response of the state to the crisis caused by the pandemic. The package of measures amounting to about 12.5% of GDP, combined with monetary measures, mitigated the negative effects of the crisis and stabilized macroeconomic developments.

The fiscal deficit in 2020 is expected at 8.9% of GDP, while general government debt will amount to 59% of GDP. The one-time increase in debt and deficit is an inevitable consequence of intervention measures aimed at neutralizing the effects of the crisis. The fiscal package consisted of three components. The first component was assistance to economic entities in the form of deferred payment of tax liabilities, direct assistance and facilitating access to credit. Another aspect of the package of measures was the fiscal stimulus to the population with the aim of preserving the standard of living. Finally, a significant part of the funds was invested in the health system in order to strengthen human resources and procure the necessary medical equipment, funds and medicines. At the same time, efforts were made not to stop development programmes and infrastructure projects financed from the budget, so that capital expenditures are expected to significantly exceed the plan from the beginning of the year.

The global pandemic is not over yet, so the upcoming period is full of uncertainty. The planning of economic and, in particular, fiscal policy will primarily depend on the suppression of the pandemic and its end. The general commitment is to enable a gradual balancing and stabilization of public finances in the post-pandemic crisis, in order to reduce the share of public debt in GDP and create the basis for stable economic growth. Until then, it is necessary to ensure the possibility of a timely response of fiscal policy in the event of a deepening crisis.

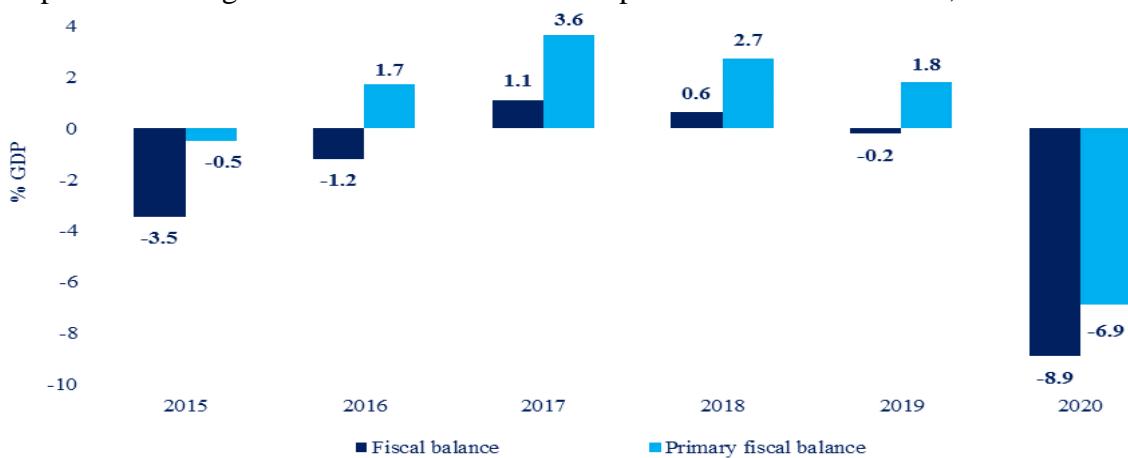
The medium-term fiscal framework envisages a moderate abandonment of expansionary fiscal policy. Given the uncertain economic situation, the budget will certainly be a “safety net” in case of escalation of unfavourable trends. On the one hand, the continuity of development and social programmes will be ensured, and on the other hand, the sustainability of public finances and the continuation of the reduction of the level of public debt in terms of participation in GDP will be ensured. Given the expected macroeconomic developments, the projected annual fiscal deficits allow for a reduction in the share of general government debt in the coming period.

Fiscal policy in the coming period will be focused on continuing to reduce the overall tax burden on labour, which further relieves the economy, i.e. increases the competitiveness of the private sector. On the expenditure side, priority will be given to infrastructure and capital projects, as well as pension and salary policies. At the same time, care will be taken not to go beyond the planned sustainable framework by increasing these two largest categories of expenditures. In addition, the planned changes to the Budget System Law will contribute to the stability of public finances and a sustainable fiscal framework, which will, among other things, redesign a set of fiscal rules, general and special, and define special measures and consequences in case of non-compliance. Special emphasis will be placed on amending the general fiscal rules related to public debt and the general government deficit, as well as special fiscal rules related to the sustainable level of expenditures for salaries and pensions.

4.2. BUDGET EXECUTION IN 2020

The general government fiscal deficit in 2020, according to the latest estimates, will amount to 8.9% of GDP. Compared to the result projected in the original budget for 2020, the deficit is higher by 8.4 pp of GDP. Such a significant revision of the general government fiscal deficit is primarily the result of the effects of the COVID-19 pandemic on global and domestic economic trends. The downward trend in the share of public debt in GDP, present since 2016, has been temporarily interrupted. In the coming period, it is expected that due to the stabilization of economic trends and economic recovery, the path of public debt will decline again.

Graph 4. General government fiscal result in the period from 2015 to 2020, % of GDP



Source: Ministry of Finance

The pandemic caused by coronavirus throughout 2020 had extremely negative health, economic and wider social consequences, both in the whole world and in the Republic of Serbia. Since March, when the first case of the disease was registered in the Republic of Serbia, epidemiological measures of varying intensity have been in force in order to preserve the health of citizens and reduce the pressure

on public health. The COVID-19 pandemic has posed enormous challenges to the country's economic policy in order to preserve economic activity, jobs and population standards.

At the beginning of April 2020, the Government adopted the "Programme of economic measures to reduce the negative effects caused by the COVID-19 virus pandemic and support the Serbian economy" which formulated a set of measures to help the economy in order to preserve liquidity and mitigate the decrease of employment and to preserve the standard of living and liquidity of population. The programme of measures presented the macroeconomic framework which quantified the negative effect of the pandemic on both global and economic trends in our country. The macroeconomic assumptions with which the programme was developed included a revision of real GDP growth by about 6 pp (from +4% to -1.8%).

The total volume of the package of measures to help the economy and the population was then estimated at over RSD 608 billion (11% of GDP), where it was assumed that all economic entities qualified to apply for a certain measure would use this opportunity. The effect of the adopted measures on the direct reduction of the expected revenues of the general government was RSD 177 billion (RSD 160 billion of deferral and rescheduling of tax liabilities on the basis of payroll taxes and advance payment of profit taxes).

The first group of tax policy measures referred to the postponement of the payment of taxes and contributions on salaries and profit taxes for the private sector, initially for a period of three months, with the subsequent repayment of liabilities incurred in instalments from 2021 at the earliest. Additionally, the postponement measure was extended for another month. All companies (regardless of sector/activity) are entitled to this assistance, if they have not reduced the number of employees by more than 10%. The aim of this measure was to preserve jobs and increase the liquidity of economic entities.

The second set of measures included the payment of direct aid in the amount of the minimum wage for entrepreneurs, micro, small and medium enterprises, i.e. subsidies of 50% of the minimum wage to large enterprises, whose employees were sent on forced leave due to reduced business volume or complete suspension.

The goal of the third set of measures was to preserve the liquidity of economic entities in the conditions of the economic crisis expected during and after the end of the state of emergency caused by the COVID-19 virus pandemic. The financial support programme referred to loans that the state will give to companies directly through the Development Fund of the Republic of Serbia, and they are intended for entrepreneurs, micro, small and medium enterprises, as well as agricultural farms. The second part of the financial support to the economy refers to lending through commercial banks with a state guarantee for these loans.

In addition to these measures aimed at the economy, the payment of a sum of money to all adult citizens of the Republic of Serbia in the amount of EUR 100 in dinars calculated at the official middle exchange rate of the NBS, in order to help the population, preserve living standards and stimulate domestic demand. As part of the package of measures, additional support was provided to health workers by increasing salaries by 10% from April this year, as well as a one-time assistance to pensioners in the amount of RSD 4,000.

By considering the economic trends during the second and third quarters, the situation on the labour market, the effects of the implemented set of measures, and in the conditions of prolonged duration of the complex epidemiological situation, the Government extended the duration of measures to support the economy. It was decided to provide direct assistance of 60% of the amount paid in July for additional two months (August and September) to all but large enterprises and to extend the postponement of the payment of taxes and contributions on wages for another month. The goal of these measures was to strengthen the economy in Serbia, but also to provide additional time for entrepreneurs to adapt to the existing circumstances. Also, a programme of assistance to a part of economic entities in the field of tourism and hospitality was additionally prepared and adopted. The total volume of economic assistance measures to the economy and the population in 2020 thus

reached 12.5% of GDP (around RSD 690 billion), including guarantee schemes for easier access to the economy with credit funds.

Additional expenditures to support the public health system in the fight against the coronavirus pandemic are estimated at over RSD 60 billion, or 1.1% of GDP.

The package of economic measures was aimed at preserving the production capacities of the entire economy, maintaining the living standard of the population and providing liquidity to all economic entities. In that way, the Government and the NBS significantly helped to mitigate the immediate economic damage from the shock caused by the pandemic, but also to create conditions for a faster economic recovery in the coming period. The implementation of the package of measures to support the economy, as of September 2020, is estimated at about 10% of GDP. An additional decline in revenue due to the slowdown in economic activity was 1.7% of GDP. The sum of the effects of measures and economic activity did not fully increase the fiscal deficit, given that other fiscal trends (one-time revenues and expenditures, better collection of certain tax categories, etc.) had a positive effect on the result of 0.7% of GDP. It is estimated that in the absence of measures to support the economy and the population, the decline in GDP in 2020 would be greater, and would amount to about 5%.

Table 4. Estimated fiscal impact of the pandemic crisis, in% of GDP

description	one-time discretionary measures	slowdown of economic activity
Revenues	-2.0	-1.7
Expenses	5.4	0.0
Outcome	-7.4	-1.7
Public debt	10.0	1.7
Indirect obligations	2.6	0.0

Source: Ministry of Finance

Review of the package of measures to support the economy and the population

	Plan	Realization until 30 September 2020		
	in billion RSD	in % GDP	in billion RSD	in % GDP
Tax policy measures				
Deferred payment of payroll taxes and contributions for the private sector during the state of emergency and for one additional month; private companies will repay these obligations in instalments, but not before January 2021	168.0	3.0	97.3	1.8
Deferred advance payment for the second quarter of 2020 corporate income tax	21.0	0.4	13.5	0.2
Exemption from VAT for all donors	-	-	-	-
Total	189.0	3.4	110.8	2.0
Direct support to the private sector				
Direct support to entrepreneurs who pay a flat tax and entrepreneurs who pay real income tax, micro, small and medium enterprises in the private sector - three months of payment of the net minimum wage and two additional months of payment of 60% of the net minimum wage	128.8	2.3	130.1	2.4
Direct support to large private companies - support in the amount of 50% of the net minimum wage (during a state of emergency) to employees who have received a decision on termination of employment (based on Articles 116 and 117 of the Labour Law).	4.5	0.1	1.6	0.0
Direct support to the hotel sector - 350 € per bed, 150 € per room, in dinar equivalent calculated according to the official middle exchange rate of the NBS	2.0	0.0	1.2	0.0
Total	135.3	2.4	132.9	2.4
Measures to preserve private sector liquidity				
COVID-19 financial support programme during the crisis through the Development Fund of the Republic of Serbia	24.0	0.4	14.6	0.3
Guarantee schemes to support the economy during the COVID-19 crisis	240.0	4.4	145.1	2.6
Total	264.0	4.8	159.7	2.9
Other measures				
Moratorium on dividends until the end of the year, excluding public companies and loss of income arising from dividends	16.0	0.3	-	-
Wage increase measures and other direct financial assistance (10% increase in salaries of health workers, direct financial assistance of RSD 4,000 to all pensioners, support to agricultural producers)	16.0	0.3	16.0	0.3
Fiscal incentive - payment of EUR 100 to all adult citizens	70.0	1.3	72.0	1.3
Total	102.0	1.9	88.0	1.6
Assessment of the impact of fiscal measures	450.3	8.1	346.3	6.3
Total package of measures	690.3	12.5	491.4	8.9
Other costs related to COVID-19 (medical equipment and medicines)	-	-	60	1.1
Total costs related to COVID-19 as of 30 September 2020	690.3	12.5	551.4	10.0

In principle, the impact of the COVID-19 pandemic on the movement of the fiscal result can be divided into several categories:

- Impact on the decline in revenues through automatic stabilizers caused by the decline in GDP;
- Additional decline in income caused by measures of epidemiological protection of the population. This is reflected in the restriction of movement, the inability to consume certain services, the performance of administrative tasks in a certain period, the decline in transit and tourism revenues;
- Increase in expenditures for additional health and epidemiological protection of the population, including the construction of additional health capacities and procurement of equipment;
- Income losses and increased expenditures for the implementation of the economic package of measures to help the economy and the population.

During April, the first rebalance of the budget for 2020 was adopted. This rebalance enabled the operationalization of the Programme of Economic Measures, unhindered financing of the fight to preserve the health and lives of people, and the reduction of the negative economic consequences of the pandemic for the economy and citizens. The revenue side of the budget was changed taking into account the new projections of economic trends, as well as the estimated effects of the adopted fiscal measures. Changes in the volume and structure of public spending have been identified, in order to further adapt it to the new economic circumstances, adopted measures and the needs of unhindered and sufficient financing of the country's health system to the circumstances caused by the pandemic. With this rebalance, the general government budget deficit is planned at the level of 7.2% of GDP.

The estimated revenues of the general government were then revised downwards by RSD 230 billion, and expenditures increased by about RSD 136 billion. Due to great uncertainty regarding epidemiological and economic developments, another budget revision was expected by the end of the year.

In November 2020, the Government determined the proposal of the second budget rebalance, which, compared to the previous one, increased the estimate of general government revenues by RSD 113 billion, while the increase on the expenditure side amounted to about RSD 210 billion. The general government fiscal deficit of RSD 492.3 billion (8.9% of GDP) is projected. The most important reasons for revising the assessment of revenues, expenditures and results in relation to the previous rebalance are:

- shorter and milder effects of the most severe epidemiological measures (prohibition of movement and performance of certain activities) and faster establishment of domestic and, to a certain extent, international economic flows;
- milder decline in total economic activity compared to the forecast, with significant changes in the structure of GDP;
- prolonged effect of the pandemic on economic trends at the international level in relation to the originally planned;
- lack of transit traffic and a drastic drop in the number of foreign tourists;
- conservative planning of certain categories of tax revenues (income tax and dividend taxes) and payment of originally unplanned non-tax revenues;
- cautious approach in assessing the use of economic assistance programmes by economic entities;
- positive impact of part of the programme of economic measures on labour market developments;
- additional package of economic assistance measures in the form of tax deferrals and direct assistance to companies;
- additional expenditures for the implementation of health care measures and within the procurement of goods and services and capital investments;
- increase in investments in road infrastructure and acceleration of the execution of capital investments.

Table 5. Revenues, expenditures and results of the government sector in 2020, in billion dinars

	budget 2020	estimate April 2020	new estimate 2020	New/budget difference	% change	2020 new pr. % of GDP
PUBLIC REVENUES	2,340.8	2,110.7	2,223.5	-117.3	-5.0	40.3
Current revenues	2,324.3	2,094.2	2,207.5	-116.8	-5.0	40.0
Tax revenues	2,084.5	1,867.8	1,962.3	-122.2	-5.9	35.6
Personal income tax	215.8	180.0	202.1	-13.7	-6.3	3.7
Corporate income tax	114.4	98.6	122.3	7.9	6.9	2.2
VAT	582.0	565.8	547.5	-34.5	-5.9	9.9
Excises	311.1	296.1	299.7	-11.4	-3.7	5.4
Customs	52.0	44.4	51.0	-1.0	-1.9	0.9
Other tax revenues	84.0	82.8	79.6	-4.4	-5.2	1.4
Contributions	725.2	600.0	660.0	-65.2	-9.0	12.0
Non-tax revenues	239.8	226.4	245.2	5.4	2.3	4.4
Donations	16.5	16.5	16.0	-0.5	-3.0	0.3
PUBLIC EXPENDITURE	2,369.8	2,505.5	2,715.8	346.0	14.6	49.2
Current expenditures	2,090.0	2,262.1	2,379.4	289.4	13.8	43.1
Expenditures for employees	554.8	565.2	575.9	21.1	3.8	10.4
Purchase of goods and services	394.7	412.2	453.6	58.9	14.9	8.2
Repayment of interest	113.6	109.1	110.5	-3.1	-2.7	2.0
Subsidies	114.2	206.3	258.3	144.1	126.2	4.7
Social assistance and transfers	824.8	827.3	814.1	-10.7	-1.3	14.8
<i>of which pensions</i>	594.2	588.2	586.2	-8.0	-1.3	10.6
Other current expenditures	87.8	142.0	167.0	79.2	90.2	3.0
Capital expenditures	260.0	207.5	286.7	26.7	10.3	5.2
Net lending	13.1	27.1	41.9	28.8	219.8	0.8
Activated guarantees	6.7	8.8	7.8	1.1	16.4	0.1
Fiscal result	-29.0	-394.8	-492.3	-463.4		-8.9
Fiscal result, in % of GDP	-0.5	-7.2	-8.9	-8.4		

Source: Ministry of Finance

The innovated fiscal framework for 2020 envisages a fiscal deficit of 8.9% of GDP. In relation to the budget, the planned fiscal framework, the revenue estimate was reduced by RSD 117 billion. On the expenditure side, there was an increase of RSD 346 billion, with significant changes in their structure.

The revenue side of the general government budget was mostly affected by the movement of general economic activity, measures of an epidemiological nature, as well as the adopted measures concerning the postponement of tax liabilities. There is also a certain positive effect of better realization of total revenues at the end of 2019, which serves as the base year for the projection.

The estimated VAT collection was reduced by RSD 34.5 billion due to the nominal decline in personal consumption since the beginning of the pandemic and the accompanying negative economic trends. Although the normalization of economic flows began earlier than expected, there was no recovery in the services sector, partly due to reduced inflows from tourism and transit. A more detailed analysis of trade in goods and services confirms these conclusions. Namely, the decline in total taxable turnover in the first nine months of 2020 amounted to about 1.5%, with the turnover in retail trade increasing, while the taxed turnover in other service activities decreased. Although the disposable income of the population was not significantly reduced (except in the part of remittances), the inability to consume certain types of services, as well as the caution of the population in uncertain epidemiological conditions, affected the decline in personal consumption.

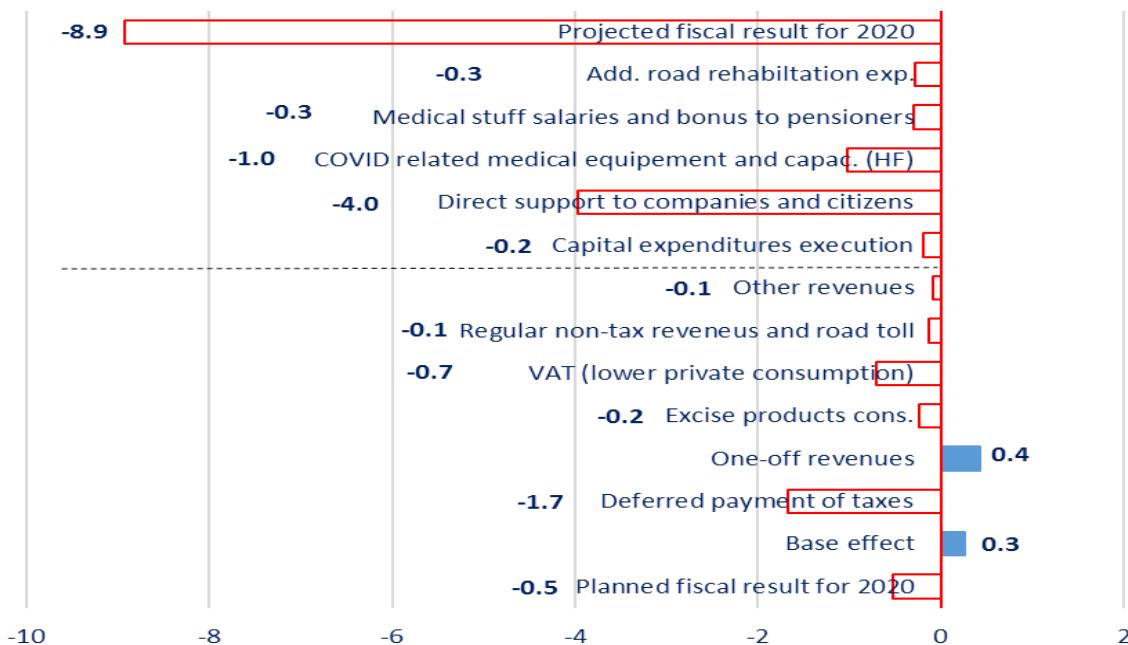
Revenues from excises decreased by RSD 11.4 billion compared to the original budget. This category of income, in addition to the general slowdown in personal consumption, was largely influenced by measures to limit population movements and the absence of transit traffic during the summer months. Therefore, the largest decrease was recorded in revenues from excises on petroleum products. The first estimates of losses were higher, but due to the shorter duration of the most severe epidemiological measures, this did not materialize. Revenues from excise duties on tobacco are minimally reduced.

The estimate of personal income tax was reduced by RSD 13.6 billion. Within this category, the largest part is the wage tax, for which the programme of measures provided for the postponement of

the tax liability for the next two years. According to the latest available data, a total of around RSD 15.2 billion of net liabilities on this basis have been deferred. A similar explanation can be applied to the movement of social security contributions. According to the latest data, the total net delay in the payment of social contributions amounts to RSD 77.8 billion. It can be expected that some taxpayers will partially make payments of their deferred liabilities by the end of the year. After periods in which there was a possibility of deferral of obligations, social contributions recorded high growth rates (more than planned in the original budget), compared to the previous year, which testifies to the positive effects of the package of measures on preserving employment. If the effects of tax deferral were excluded on the positions of payroll taxes and social contributions, it can be concluded that the collection of these two tax forms would significantly exceed the values given by the original projections. Within other income taxes, there is a significant increase in payments based on the annual income tax, primarily due to a significantly higher number of tax returns compared to the previous period.

Corporate income tax is a tax category whose assessment has been revised upwards. During the preparation of the budget for 2020, the assumption of moderate growth of the profitability of the economy in the Republic of Serbia was used, because the final business results were not known. Due to the precautionary principle, the initial budget estimate was slightly underestimated.

Graph 5. Contribution of individual factors to the correction of the fiscal result in relation to the plan for 2020, % of GDP



The estimate of total non-tax revenues has increased in relation to the original budget by RSD 5.4 billion. Non-tax revenues are a heterogeneous category of revenues with different movements by individual forms. Regular non-tax revenues are various fees, charges, penalties, revenues of bodies and organizations and all other revenues that are generated at a steady pace during the year in approximately similar amounts on a monthly basis with certain seasonal variations. Extraordinary non-tax revenues include payments of profits of public companies and agencies, budget dividends, revenues based on collected receivables of AOD, bond issuance premiums, etc. Regular non-tax revenues were significantly affected by the economic and epidemiological situation in the country. A special example of this is road toll revenues. The cessation of certain economic activities, as well as the impossibility for certain legal and administrative affairs to take place, had the greatest impact on the reduction of revenues from court and administrative fees, revenues of bodies and organizations and revenues from fees. Due to the decrease in activity, there was a drop in the collection of fines. However, after more favourable epidemiological conditions, shorter duration of the state of

emergency and faster normalization of activities, the decline in this category of income has slowed down. Extraordinary non-tax revenues were adjusted upwards due to the payment of previously unplanned amounts of profit belonging to the budget of the Republic as well as other forms of extraordinary revenues (NBS, Komercijalna Banka, Traffic Safety Agency, Medicines Agency, etc.).

The estimate of general government expenditures has increased by RSD 346 billion in relation to the original budget. The largest part of this increase relates to the implementation of packages to help the economy and the population. The rest consists of expenditures related to the direct fight against the pandemic and the improvement of the country's health capacities. In the period January-September, public expenditures grew at a rate of 21.7% compared to the same period in 2019, and by the end of the year it is expected that the total growth of expenditures will slow down to some extent and reach 18.3%.

Expenditures for employees increased by RSD 21.1 billion compared to the originally planned. Most of this growth is the result of a 10% increase in healthcare wages since April. The rest refers to the increase in the number of people engaged in the health system, increased engagement and the number of working hours in other sectors that participated in the control of the epidemiological situation. One part of the increase is a consequence of a slightly larger execution at the end of 2019.

Expenditures for goods and services have increased significantly by almost RSD 60 billion. The largest part of the increase goes to the increase of expenditures for the purchase of medical equipment and funds by the NHIF in the amount of RSD 47.5 billion, and the increase of expenditures for current maintenance of roads at the PE "Roads of Serbia" of RSD 16.7 billion. At other levels of government, there was a minimal reduction in this category of expenditures.

Subsidies were also significantly increased compared to the original plan, by over RSD 144 billion. From this category of expenditures, direct aid was paid to companies and entrepreneurs to overcome the crisis caused by the pandemic. According to the latest available data, by the end of September, about RSD 133 billion had been paid for these purposes, with an average of about 237,000 employers and over a million employees using direct assistance per month. The rest of the increase in expenditures for subsidies is largely due to increased subsidies in agriculture.

Expenditures for social protection are lower by RSD 10.7 billion compared to the original plan. The largest part of the reduction refers to lower expenditures for pensions of RSD 8 billion. Pensions in 2020 were indexed according to the "Swiss formula", the parameters of which were known during the planning of pension expenditures. However, due to conservatism in the planning process, a certain increase in the number of retirees was assumed, which did not materialize during 2020. Expenditures on pensions temporarily slightly increase their share in GDP to 10.6%, as a consequence of the slower growth of nominal GDP caused by the current economic situation. In addition to these expenditures, there was less execution of certain categories of social protection in relation to the budget plan.

Other current expenditures increased by RSD 79.2 billion compared to the original plan, primarily due to the payment of direct financial assistance to the population (EUR 100 to all adult citizens in dinar equivalent calculated at the official middle exchange rate of the NBS) in the total amount of RSD 72 billion. The rest of the increase refers to a larger allocation for the payment of old foreign currency savings to the citizens of the former Yugoslav republics. At the time of planning these funds, not all decision-making processes on the submitted claims were completed, so the amount was increased compared to the originally planned.

The position of net lending increased by RSD 28.8 billion. Within this category of expenditures, funds for credit assistance to the economy were transferred through the Development Fund of the Republic of Serbia.

The realization of public investments is expected in a larger volume than planned by RSD 26.7 billion. Execution of capital expenditures in the period January-September 2020 compared to the same period last year is higher by 14.6%. Capital expenditures reach a record level of 5.2% of GDP in 2020. One part of the larger execution is based on investments in new health facilities, as well as equipment that has a longer service life. These expenditures are part of the total expenditures for epidemiological protection of the population from COVID-19, as well as the improvement of the health care system

in the future. It is also significant that there is an increase in allocations to new and existing infrastructure projects, primarily to road and railway infrastructure. In this way, to a certain extent, through the growth of investments, there is a positive effect on the current movement of GDP, but also preconditions are created for accelerating its growth in the future. In earlier crisis periods, there was a decrease in capital expenditures, but this was not the case now, which is a qualitative positive change in public financial management.

The estimated fiscal deficit of 8.9% of GDP is significant but is comparable to the results that will be achieved in EU countries and the region. On the other hand, in the analysis of the structural fiscal position, it is concluded that it has not been significantly disturbed. On both the revenue and expenditure sides, about 7% of GDP of one-time effects has been identified, which in the case of realization of assumptions from the basic macroeconomic scenario will not be realized again.

Table 6. Revenues, expenditures and result of the government sector, January-September, in billion dinars

	I-IX 2019	I-IX 2020	I-IX growth/decline rate %	2020/2019 growth/decline rate in %
PUBLIC REVENUES	1,646.4	1,599.6	-2.8	-2.5
Current revenues	1,639.0	1,591.6	-2.9	-2.6
Tax revenues	1,454.2	1,418.9	-2.4	-1.6
Personal income tax	146.4	143.8	-1.8	-0.8
Corporate income tax	102.7	95.8	-6.7	-3.5
VAT	395.1	398.8	0.9	-0.6
Excises	225.5	221.8	-1.6	-2.2
Customs	34.3	37.3	8.9	6.0
Other tax revenues	60.8	58.2	-4.3	-3.1
Contributions	489.4	463.2	-5.4	-2.3
Non-tax revenues	184.8	172.7	-6.6	-10.2
Donations	7.4	8.0	8.3	7.6
PUBLIC EXPENDITURE	1,611.3	1,960.4	21.7	18.3
Current expenditures	1,445.7	1,757.6	21.6	18.5
Expenditures for employees	380.0	426.1	12.1	11.5
Purchase of goods and services	260.4	304.8	17.0	17.3
Repayment of interest	97.4	87.0	-10.6	1.9
Subsidies	69.5	209.1	201.1	113.2
Social assistance and transfers	577.8	593.8	2.8	3.9
<i>of which pensions</i>	419.9	437.3	4.2	4.8
Other current expenditures	60.7	136.7	125.1	80.6
Capital expenditures	152.4	174.7	14.6	7.6
Net lending	4.6	22.5	386.9	284.8
Activated guarantees	8.6	5.7	-34.2	-27.7
Fiscal result	35.1	-360.8		

Source: Ministry of Finance

The arrears (over 60 days of delay)* of budget users and organizations of compulsory social insurance on the last day of September 2020 amounted to RSD 6.7 billion (about 0.05% of GDP), and increased compared to the end of 2019 by RSD 0.9 billion. Budget users and PE "Roads of Serbia" created arrears of RSD 5.3 billion, while the state of arrears of organizations of obligatory social insurance is RSD 1.4 billion.

Table 7. Arrears of budget users and OOSO, 2019 and January-September 2020, in billion dinars

	31 December 2019	30 September 2020
Budget users and PE "Roads of Serbia"	4.4	5.3
OOSO	1.4	1.4
TOTAL	5.8	6.7

Source: Ministry of Finance

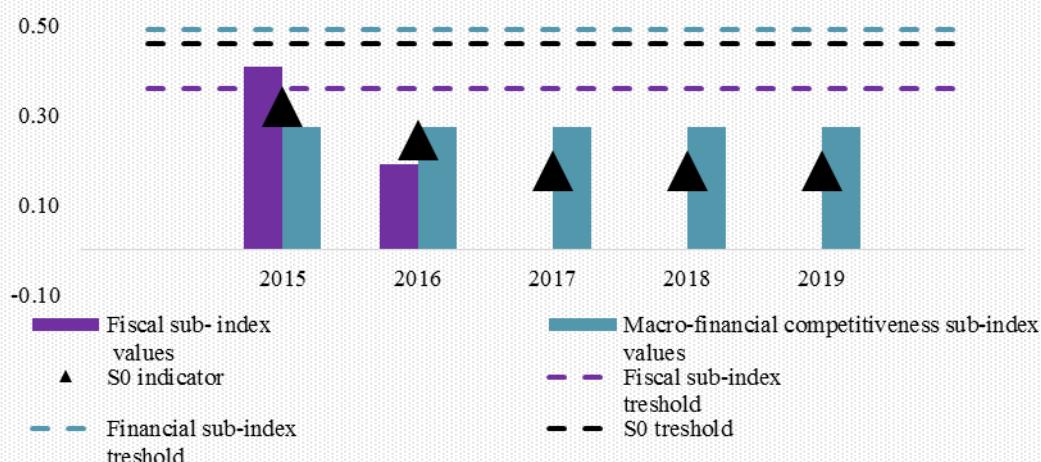
* In accordance with the definition used in the purposes of monitoring the implementation of the arrangement with the IMF.

S0 indicator of short-term fiscal sustainability

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

In 2019, the value of S0 indicator, as well as both sub-indices for the Republic of Serbia were below the defined threshold, which indicates in principle that there was no short-term danger of any macroeconomic instability, and that there were no risks arising from the areas covered by sub-indices. The recession in 2020 was not caused by economic factors, and the successfully preserved macroeconomic and fiscal stability established in the previous period provided space for rapid and significant fiscal and monetary support measures.

Graph 6. S0 indicator for Serbia in the period 2015 - 2019



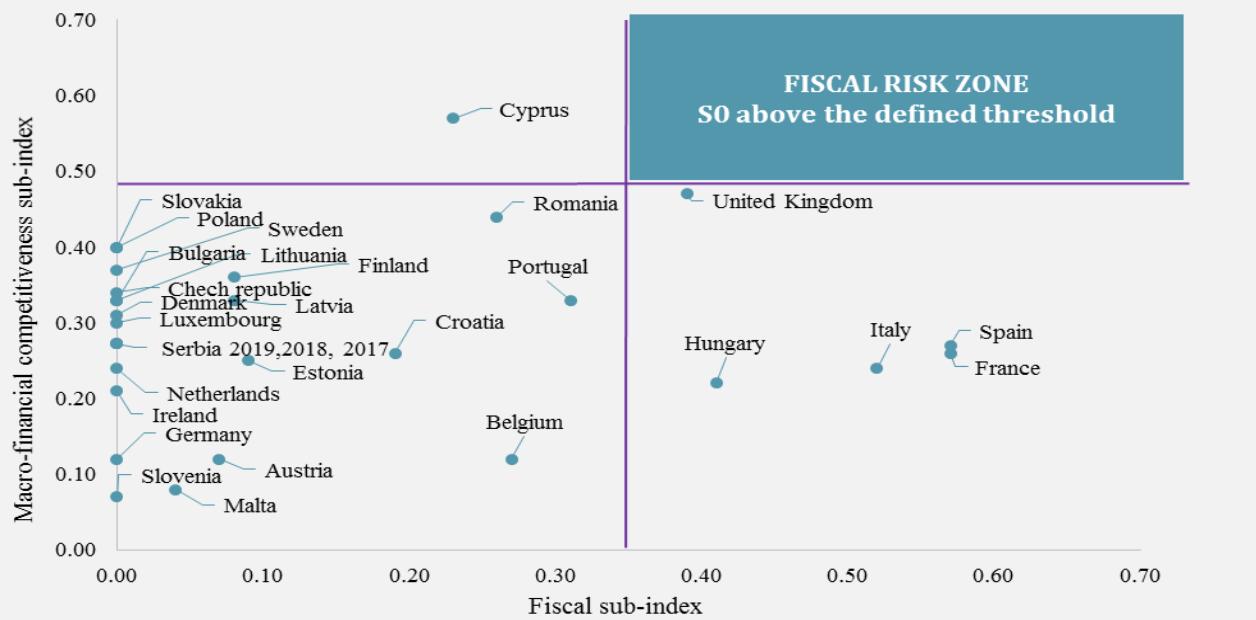
Source: Ministry of Finance calculation

Based on EC data for EU countries for 2019 and the calculation of the Ministry of Finance for the Republic of Serbia, for the period from 2016-2019 we conclude that none of the observed countries was exposed to short-term risk of fiscal stress, since the value of S0 does not exceed the defined threshold. Some countries faced fiscal and macro-financial challenges, while the Republic of Serbia, together with most EU countries, was still within the defined thresholds of S0 indicators. Minimizing the potential risks for the occurrence of fiscal stress in the observed countries contributed to the creation of space for the adoption of unprecedented economic policy measures, and in response to the health crisis that spread into all spheres of the economy.

The calculation of S0 indicator for the Republic of Serbia was done by the Ministry of Finance and is based on the EC methodology.¹¹

¹¹A more detailed definition of the S0 indicator as well as a description of the methodology and results used can be found in the Fiscal Strategy for 2018 with projections for 2019 and 2020 via the link <http://www.mfin.gov.rs/pages/issue.php?id=8382> and the EC report "Fiscal Sustainability report 2015" 25 January 2016, 157–158.

Graph 7. Fiscal sub-index and sub-index of macro-financial competitiveness for EU countries for 2019 and Serbia for the period 2017 - 2019



Source: Ministry of Finance calculation

4.3. FISCAL PROJECTIONS IN THE PERIOD 2021–2023

In the next medium-term period, economic and fiscal policy will depend on the development of the pandemic and success in the field of combating it. Fiscal policy objectives are certainly aimed at maintaining fiscal stability and reducing the share of public debt in GDP. The medium-term fiscal framework envisages a gradual reduction of the general government deficit to 1.0% of GDP by 2023 and a decline in the share of public debt to 56.0% of GDP. Projections of fiscal aggregates in the period from 2020 to 2023 are based on projections of macroeconomic indicators for that period, planned tax policy which implies further harmonization with EU laws and directives and fiscal and structural measures, including further reform of large public companies.

Thanks to the measures of fiscal consolidation in the previous period, a fiscal space was created which enabled a rich package of measures within the fight against the effects of the crisis caused by the pandemic during 2020. The same impact of the pandemic is not expected in the next year, which would require a similar package of measures, but certain reserves will be provided in case of a new worsening of economic trends. In 2021, the fiscal space will be used to increase capital investments, additional investment in the health system, a moderate increase in pensions and salaries in the public sector, and to relieve the tax burden on the economy. These measures and their fiscal implications are designed not to jeopardize the stability of public finances and the pace of public debt reduction, to maintain the living standards of the population and help economic development, but also to ensure flexibility in responding to possible new crises.

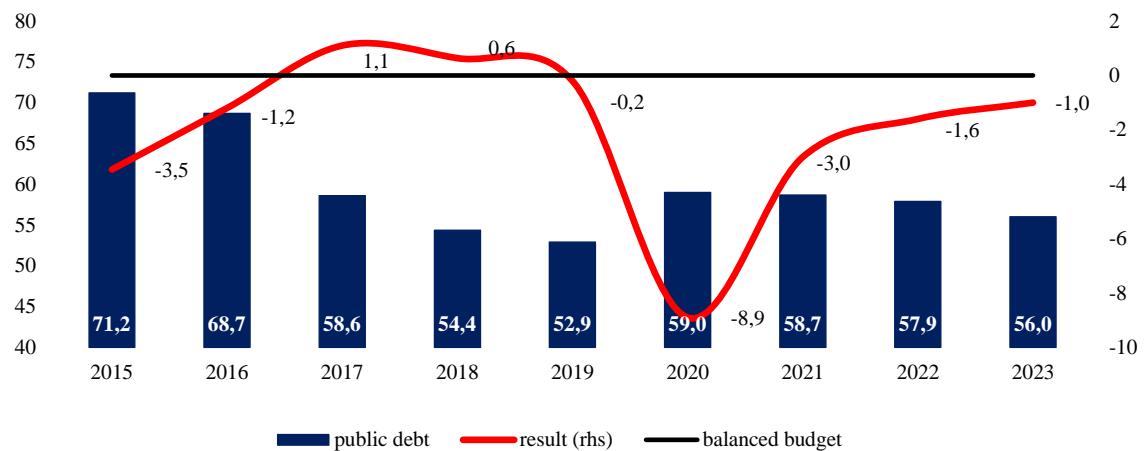
Table 8. Fiscal aggregates in the period 2019–2023, % of GDP

Description	Execution	Estimate	Projection		
	2019	2020	2021	2022	2023
Public revenues	42.1	40.3	40.4	40.5	39.7
Public expenditures	42.3	49.2	43.4	42.1	40.7
Consolidated fiscal result	-0.2	-8.9	-3.0	-1.6	-1.0
Primary consolidated result	1.8	-6.9	-1.1	0.1	0.6
General government debt	52.9	59.0	58.7	57.9	56.0
Real GDP growth rate	4.4%	-1.0%	6.0%	4.0%	4.0%

Source: Ministry of Finance

The goals of fiscal policy in the next medium-term period will be the stabilization of public finances and the return of public debt to a declining trajectory. The reduction of the share of debt is closely related to the reduction of the deficit as the main factor of borrowing, so that the dynamics of reducing the deficit also determines the change in the movement of debt. Financial transactions, such as replacing expensive debt with cheaper one, as well as a better position of the state on the international financial market, will contribute to further debt reduction.

Graph 8. General government fiscal result and debt, % of GDP



Expansive fiscal policy during 2020 mitigated the negative economic consequences of the pandemic. In the next medium-term period, a moderate reduction of the general government deficit is envisaged in order to ensure the necessary flexibility of the national economy to possible external shocks through fiscal policy. This, above all, refers to the expenditure side, in the form of increased public investment, as well as additional investment in the health system. On the revenue side, the priority will remain to further reduce the tax burden on wages.

The projection of income in the period from 2021 to 2023 was made on the basis of:

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

Table 9. Total revenues and donations in the period 2019–2023, % of GDP

Description	Execution	Estimate	Projection		
	2019	2020	2021	2022	2023
PUBLIC REVENUES	42.1	40.3	40.4	40.5	39.7
Current revenues	41.8	40.0	40.1	40.2	39.4
Tax revenues	36.8	35.6	36.2	36.3	35.6
Personal income tax	3.8	3.7	3.8	3.8	3.7
Corporate income tax	2.3	2.2	1.8	1.8	1.8
VAT	10.2	9.9	10.0	10.1	10.1
Excises	5.7	5.4	5.3	5.1	4.9
Customs	0.9	0.9	0.9	0.9	0.9
Other tax revenues	1.5	1.4	1.4	1.4	1.3
Contributions	12.5	12.0	13.1	13.2	12.8
Non-tax revenues	5.0	4.4	3.9	3.9	3.9
Donations	0.3	0.3	0.3	0.3	0.3

Source: Ministry of Finance

The most significant measures of the tax policy in 2021 will be the increase of the non-taxable census from RSD 16,300 to RSD 18,300 and the collection of part of the deferred taxes and contributions from 2020. The collection of deferred liabilities from 2020 will increase the level of income above what was expected in 2021 and 2022, which will significantly strengthen the fiscal position. The projection of tax revenues implies maintaining the existing level of collection.

The predominant form of income tax is the wage tax, so the movement of the wage bill and employment are the main factors influencing the movement of this tax form. The increase in the non-taxable census will have a negative effect of around RSD 5.5 billion on personal income tax revenues, but it is expected that the increase in wages and employment growth will fully compensate for this loss. In addition, these revenues will be increased by the collection of part of the deferred wage tax from 2020 as part of the package of measures in the fight against the pandemic in the amount of about RSD 7 billion. In the coming period, the wage bill is expected to grow faster than nominal GDP as a result of continued favourable developments in the labour market, and wage tax revenue will grow in terms of share in GDP. The increase in the minimum wage will also affect the growth of the total wage bill in the economy, and thus this tax category.

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

Reducing the tax burden on salaries will have a negative effect of around RSD 2.5 billion on income based on contributions. Wage growth is expected to be higher than nominal GDP growth, so this loss will be fully compensated. The movement of the share of this tax form in GDP has a similar trajectory as the movement of the share of the wage tax, considering that the same assumptions on the movement of wages and employment were used for their projection. Part of the income will be collected from the collection of deferred contributions from 2020 in the amount of about RSD 32 billion. Contributions are the tax category in which tax indiscipline is most pronounced and the largest debt of taxpayers is registered, and the consequences of a possible increase in fiscal indiscipline are most visible in this form of taxation.

Revenues from corporate income tax in the period 2021-2023 will depend on the path of economic growth, the relative stability of the dinar exchange rate and the general profitability of the economy. Estimates of income on this basis may be uncertain due to economic factors, as well as the possibility of using a tax credit or refund, as well as differences in accounting and tax balances. The decline in 2021 represents the expectation that the effects of this year's crisis will affect profitability and corporate income tax collection. The revenue projection on this basis is conservative in the period after 2021 and assumes the collection of income tax in line with GDP trends.

The movement of VAT revenues is characterized by a stable share in GDP. The main determinant of VAT trends is domestic demand driven by disposable income of the population. Disposable income as the largest determinant of consumption depends on the movement of wages in the public sector, pensions, social assistance, the movement of wages in the private sector and other forms of income, including remittances, as well as the dynamics of banks' lending to households. As with personal income tax, the risks to the VAT projection in the coming period, in addition to uncertainty regarding the pandemic, relate to the movement of wages in the private sector, growth of economic activity, as well as the degree of grey economy, i.e. efficiency in reducing it.

The results of more efficient collection and control of taxpayers were evident in the previous period and it is expected that this trend will continue, with the effects of the fight against the grey economy not explicitly included in the medium-term projection of public revenues. The increase in the level of VAT collection in terms of the implementation of independent anti-erosion measures in the field of VAT has

given certain results in the past period. In this segment, there is room for further improvements, through strengthening and modernizing the tax administration.

The projection of excise revenues is made on the basis of the valid excise policy and projected consumption of excise products. Within the excise policy for tobacco products, further gradual harmonization with EU directives is expected in accordance with the medium-term plan of gradual increase of the excise burden. In the case of cigarettes, it will be directed through a gradual increase in excise duties, in order to reach the EU minimum of EUR 1.8 per pack in RSD equivalent in a reasonable time, calculated according to the official middle exchange rate of the NBS. In the coming period, for the needs of the projection of excise revenues, due to caution, a further natural decline in the market of tobacco products is planned, on average of about 3% per year. Unlike tobacco products, the situation on the market of petroleum products is much less volatile. Better control and labelling effects of petroleum products have reduced the possibility and cost-effectiveness of illegal activities. In the coming years, due to caution, the growth of consumption of petroleum products is not expected to continue, although it can be expected that the acceleration of economic activity will contribute to the growth of consumption. Revenues from excises on alcoholic beverages, coffee and electricity are projected in accordance with the existing consumption structure. The current nominal amounts of excise duties on alcoholic beverages and coffee are in line with the expected amounts of the inflation rate in the medium term. Collection of revenues from electricity excise in the period 2021–2023 is planned to amount to about RSD 18 billion annually, taking into account the trend of annual consumption and current prices.

Customs revenues will stabilize at 0.9% of GDP in the coming period. The projection of the collection of customs revenues was made on the basis of the projected movement of imports, the exchange rate and consumption.

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

The share of non-tax revenues in GDP is projected to decrease, from 5.0% as much as was earned in 2019 to 3.9% as expected in 2023. In 2019, the obligation to pay funds based on the reduction of salaries for a part of the public sector was reduced, while in 2020, this measure was completely abolished. Another reason for reducing the projected share of non-tax revenues in GDP is the exclusion from the base 2020 of all those revenues that are not considered structural, i.e. permanent, and primarily refers to extraordinary categories of non-tax revenues. Extraordinary non-tax revenues are mostly one-time, to some extent uncertain, both in terms of amount and at the time of payment. The largest part of these revenues are extraordinary payments of profits of public companies and agencies, budget dividends, revenues based on collected receivables of AOD, bond issue premiums, etc. Regular non-tax revenues include various fees, charges, penalties, revenues of bodies and organizations and all other revenues that are generated at a steady pace during the year. These non-tax revenues are indexed to the realized inflation in the previous year or follow the change in the value of the basis on which they are applied and as a result are adjusted by projected inflation.

The process of bringing the country closer to EU membership increases the available funds from IPA and IPARD funds, which make up the predominant part of grant revenues. The projected amounts based on donations also include funds based on EU sectoral budget support. Revenues from donations are neutral in relation to the result, since they are equal to expenditures on this basis.

Responsible fiscal policy in combination with good macroeconomic performance in the next medium term will ensure the relaxation of wage and pension policy and a significant increase in capital investment as an important component of economic development. Special attention will be paid to improving the efficiency of state capital investments. The social component of the budget has been improved by better targeting of social assistance programmes and greater allocation for health and education functions. The method of indexation of pensions has also been defined. Salaries and pensions together account for over 50% of general government expenditures and their stabilization is crucial for the sustainability of public finances.

Table 10. Total expenditures in the period 2019–2023, % of GDP

Description	Execution	Estimate	Projection		
	2019	2020	2021	2022	2023
PUBLIC EXPENDITURE	42.3	49.2	43.4	42.1	40.7
Current expenditures	36.9	43.1	37.3	36.1	34.8
Expenditures for employees	9.5	10.4	10.0	9.8	9.6
Purchase of goods and services	7.0	8.2	7.6	7.4	7.1
Repayment of interest	2.0	2.0	1.9	1.7	1.6
Subsidies	2.2	4.7	2.2	1.8	1.7
Social assistance and transfers <i>of which pensions</i>	14.5	14.8	14.1	14.0	13.7
Other current expenditures	10.3	10.6	10.4	10.3	10.1
Capital expenditures	4.9	5.2	5.5	5.6	5.7
Net lending	0.2	0.8	0.4	0.2	0.1
Activated guarantees	0.2	0.1	0.2	0.2	0.1

Source: Ministry of Finance

In 2020, there was a change in the trend in public expenditures, given that it was necessary to react to the crisis caused by the pandemic. The measures were significant on the expenditure side, which led to a high, albeit one-time, jump in the share of the expenditure side of the budget in GDP.

Such is the case with expenditures for employees, which reached the level of 10.4% of GDP in 2020, thanks to, among other things, the extraordinary increase in salaries for employees in the health care system. Given the limited fiscal space in the coming period, wages will increase moderately, with control and a decrease in their share in GDP.

Wage cuts, employment control and streamlining of public sector employment were the measures that contributed most to spending cuts and the success of fiscal consolidation. The Budget System Law envisages lowering the level of wages without contributions at the expense of the employer to 7% of GDP, however, it seems that the targeted level of wages is set quite low. Currently, the share of such defined wages in GDP is around 10.4%. The average level of wages at the level of the general government in the EU is about 10% of GDP. In the previous period, a comprehensive reform of the public sector wage system was initiated, which aims to ensure fairness and reduce the gap between the salaries of public sector employees. The implementation of the new reformed salary system in the public sector should start in 2022.

During the consolidation process, a ban on employment in the public sector was in force. On the one hand, this enabled control of the level of salaries, but on the other hand, the number of fixed-term employment contracts increased, as well as the lack of staff in certain parts of the public administration. A more flexible way of controlling employment is now in place, based on medium-term staffing in all areas of the public sector in line with budget constraints.

Expenditure on goods and services will gradually decrease in the medium term in terms of share in GDP and return to 7.1%, given that nominal growth is projected to be slower than nominal GDP growth. The jump in 2020 is largely the result of higher health expenditures.

The reduction of interest expenditures is one of the best indicators of a successful fiscal and monetary policy, as well as their full coordination in the previous period. Good fiscal results in the previous period reduced the need for borrowing, which, together with the easing of monetary policy, led to a decline in interest rates. In 2023, the level of interest expenditures will decrease to 1.6% of GDP.

Social assistance and transfers to the population represent the largest expenditure category of the general government budget. The largest single item of this group of expenditures, and at the same time the largest item of all expenditures, are pensions, which in 2020 will reach the level of 10.6% of GDP. From 2020, pensions will be harmonized with the so-called "Swiss formula", in order to simultaneously ensure the growth of the living standard of pensioners and the sustainability of the pension system and the public finance system. The "Swiss formula" implies indexation, i.e. an increase in pensions equal to the sum of half the growth rate of the average salary and half the growth rate of consumer prices. It is estimated that in the next period, the indexation would amount to between 5 and 6%, and in 2021 specifically, it will amount to 5.9%. Other forms of social benefits and transfers to the population in the coming period will be harmonized by applying the prescribed indexation, current and planned policy changes in this area and with the projected number of users. The share of expenditures for social benefits in GDP decreases from 14.8% in 2020 to 13.7% in 2023.

The reduction of subsidies that serve to help inefficient segments of the public sector enables an increase in the part of subsidies that represent real incentives to the economy, primarily agriculture and small and medium enterprises, and which lead to an acceleration of economic activity. The goal is to redirect subsidized funds to development programmes in the economy and agriculture. The growth of subsidies in 2020 is the result of the implementation of measures to overcome the problems caused by the pandemic crisis.

Categories of other current expenditures consist of various expenditures, such as grants to associations, political parties, religious and sports organizations, fines, damages, etc. As with subsidies, the one-time growth was caused by the fiscal response to the crisis, and a reduction in these expenditures in GDP is expected in the coming period.

During 2018 and 2019, the efficiency of public investment was significantly improved. Capital expenditures have increased to 4.9% of GDP in 2019 thanks to the start of a new cycle of infrastructure projects, and in 2020 it is expected to reach the level of 5.2% of GDP, despite the problems caused by the pandemic. In the next medium-term period, further growth of investments in public infrastructure is expected. Reducing current government spending has provided fiscal space that will be used in part to increase investment. The most significant infrastructural works are on road, railway and water infrastructure, which are mainly financed from international loans. In addition to the transport infrastructure, funds have been provided for additional capital investments in health, education, culture, defence and other areas that represent the most important functions of the state. This is all part of a new investment cycle at the national level that is made possible by the creation of fiscal space and supported by favourable conditions for borrowing in the international financial market.

The general commitment of fiscal policy in the medium term is to increase investment in infrastructure at all levels of government. According to the estimates of the Fiscal Council, investments of local self-government in the medium term should increase by at least 75% compared to their current level, i.e. by about EUR 250 million. These are primarily investments in water supply and sewerage infrastructure, waste management, local road infrastructure and more.

In the medium-term fiscal framework, by the end of 2023, a balanced overall fiscal position of local self-government is projected. This means that in total, all cities and municipalities have an approximately balanced budget. The projection was made on the basis of trends in the previous period, in which the collective local self-government units were usually in surplus. This situation at the level of all local governments is a consequence of deleveraging in the previous period. This does not mean that individual local self-government units cannot go into deficit. It primarily depends on the fiscal position of each individual municipality and city.

The level of budget borrowing and guarantee debt repayment is a good indicator of the success of fiscal consolidation. The total share of these two categories in GDP was reduced to 0.4% of GDP in 2019 with temporary growth in this and next year. By the end of 2023, these expenditures will be minimal, with a share of up to 0.2% of GDP.

Repayment on the basis of issued guarantees and payment of guarantees on commercial transactions are obligations based on the debt of public companies that the republic budget has assumed, since those companies could not execute them independently. These expenditures have been a major burden on the budget given the long-term inefficiency of a large number of state-owned enterprises and companies. In the previous period, these expenditures were significantly reduced, and the repayment plan envisages that from 2020, these expenditures will amount to only about 0.1% of GDP.

4.4. CYCLICALLY ADJUSTED FISCAL BALANCE SHEET

Cyclically-adjusted fiscal balance is the fiscal balance from which the isolated impact of the business cycle is excluded, and the identity from which it starts is the following¹²:

$$FB = CB + CAB$$

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

Table 11. Fiscal balance and components for calculation of cyclically adjusted balance in the period 2005–2023, % of GDP*

	Production gap	Fiscal balance	Primary fiscal balance	Cyclical component of fiscal balance	Cyclically-adjusted fiscal balance	Structural fiscal balance	Structural primary fiscal balance**	The nature of fiscal policy - fiscal impulse
2005	0.0	1.1	2.0	0.0	1.1	1.3	2.2	
2006	-2.9	-1.4	-0.1	-1.0	-0.4	0.3	1.6	1.1
2007	1.4	-1.8	-1.2	0.5	-2.3	-1.9	-1.4	2.6
2008	4.5	-2.5	-1.9	1.6	-4.1	-4.1	-3.6	1.8
2009	0.0	-4.2	-3.6	0.0	-4.2	-4.2	-3.6	0.0
2010	-0.6	-4.3	-3.4	-0.2	-4.1	-4.2	-3.3	-0.4
2011	0.1	-4.5	-3.4	0.0	-4.6	-4.8	-3.6	0.2
2012	-2.0	-6.4	-4.7	-0.7	-5.7	-5.7	-4.0	0.6
2013	0.5	-5.1	-3.0	0.2	-5.3	-5.1	-2.9	-0.9
2014	-1.9	-6.2	-3.5	-0.7	-5.5	-4.7	-2.0	-0.3
2015	-1.4	-3.5	-0.5	-0.5	-3.0	-2.3	0.6	-2.9
2016	0.0	-1.2	1.7	0.0	-1.2	-1.1	1.8	-1.7
2017	-0.3	1.1	3.6	-0.1	1.2	1.1	3.6	-2.1
2018	1.1	0.6	2.7	0.4	0.2	0.1	2.2	1.4
2019	2.1	-0.2	1.8	0.8	-1.0	-1.1	0.9	1.3
2020	-2.1	-8.9	-6.9	-0.8	-8.2	-1.2	0.8	7.2
2021	0.2	-3.0	-1.1	0.1	-3.1	-3.7	-1.8	-5.0
2022	0.4	-1.5	0.3	0.1	-1.6	-2.3	-0.5	-1.3
2023	0.4	-1.0	0.6	0.2	-1.2	-1.2	0.4	-0.3

* For the period 2020–2023, the projected values are shown.

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

Source: Ministry of Finance

The cyclically-adjusted deficit decreases rapidly after 2014, in parallel with the movement of the general fiscal result, and in 2017 it enters the surplus zone. The structural primary balance cleared of one-time factors in 2017 also recorded a high positive value. Structural changes in the tax system during 2012 and 2013 began to yield results in the coming period, thus essentially beginning the process of fiscal consolidation. The next phase of fiscal consolidation, carried out during the

¹²A more detailed description of the methodology and results used can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or via the link <http://www.mfin.gov.rs/pages/article.php?id=8626>

arrangement with the IMF, but this time with an emphasis on structural adjustment on the expenditure side, has significantly improved the country's fiscal position. The analysis and quantification of the structural primary balance can isolate, first of all, one-time effects on the expenditure side, although, in some years, one-time effects in the form of unplanned payments on the revenue side are not insignificant. The analysis of the structural primary balance assessed the fiscal position of the country. Thus, in the period from 2014 to 2019, the fiscal position was significantly improved, which confirmed the assessment of the success of the fiscal consolidation programme.

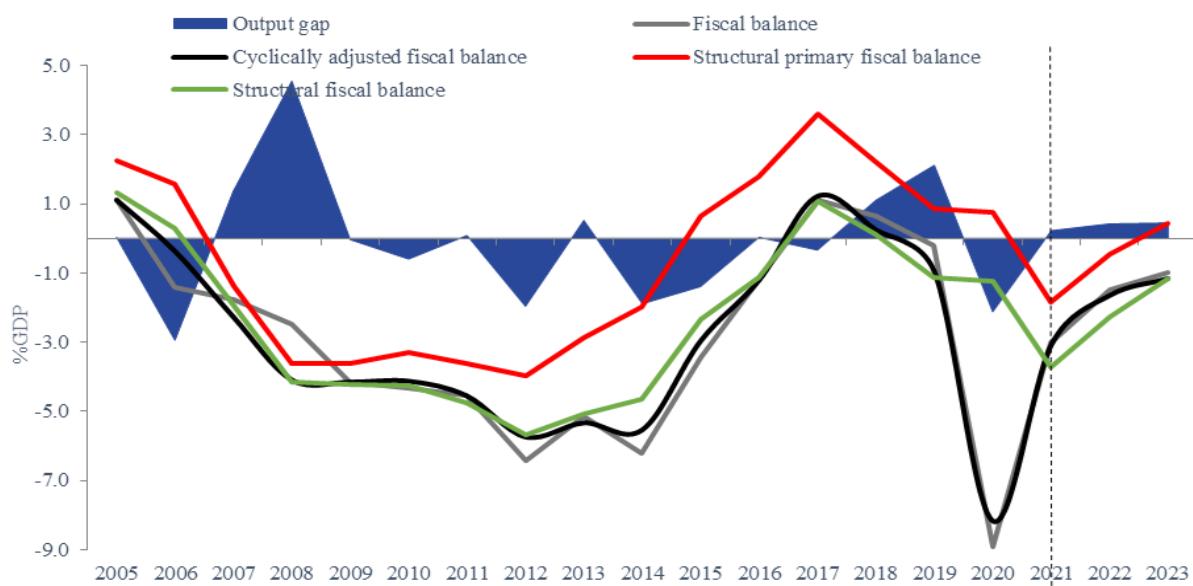
The fiscal space created in the previous period and the significantly structurally improved fiscal position of the country enabled the relaxation of fiscal policy in times of crisis.

With the outbreak of the pandemic and the introduction of measures for the health protection of the population, the global economy has entered an unprecedented crisis. The specificity of the crisis is reflected in the cause itself, which is not economic but health in nature, and the way of fighting to curb the further spread of the virus produces additional negative economic effects. The impact on the fiscal position is visible through reduced budget revenues, which are a consequence of the slowdown in economic activity due to the pandemic, and dramatically higher expenditures due to higher health care costs and the adoption of a comprehensive package of assistance to businesses and citizens. In such a situation, the usual analysis of the economic cycle, quantification of fiscal multipliers and assessment of the elasticity of the fiscal balance in relation to the production gap does not give quite correct assessments of the country's fiscal position.

The fiscal policy response to the complex economic situation caused by the coronavirus pandemic is represented by a comprehensive package of economic assistance measures estimated at 12.5% of GDP. It is estimated that the direct impact of the economic package on the cyclical position of the country is about 10% of GDP, with a negative production gap of about 2.1% of GDP. In the absence of measures to support the economy and the population, the decline in GDP in 2020 would be significantly higher, and would amount to about 5% due to greater economic contraction and slower recovery, and the production gap would reach about 6% of GDP.

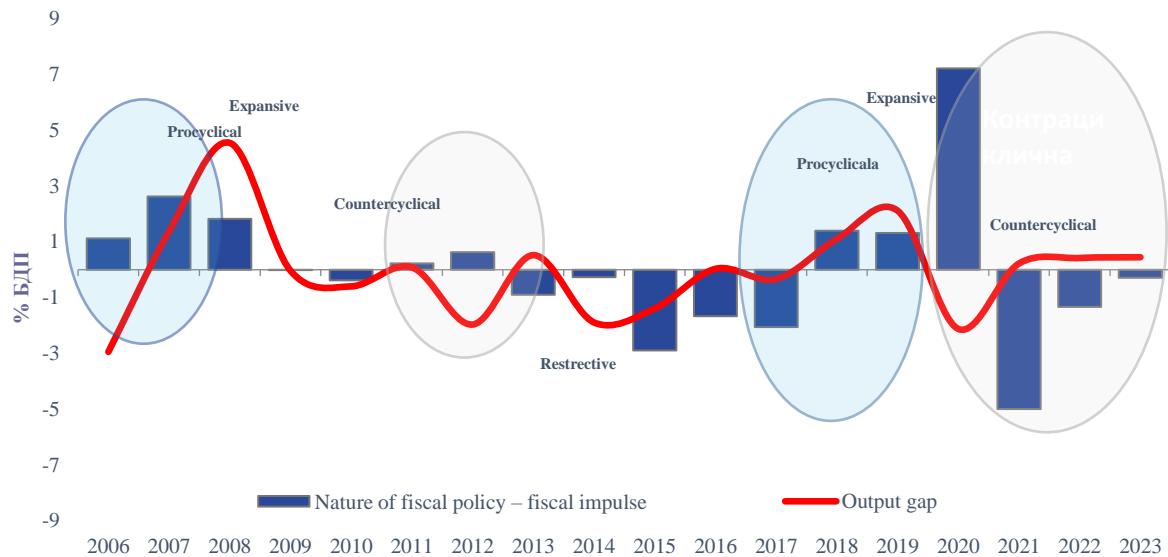
The estimated negative cyclical component of the fiscal result in 2020 is only 0.8% of GDP. Although the cyclical analysis of the fiscal result suggests that the savings generated by the non-implementation of the package of measures would outweigh the fiscal losses due to a larger decline in GDP, the long-term negative effects of the loss of production potentials and human resources would be immeasurably greater.

Graph 9. Production gap, real, cyclically adjusted and structural fiscal balance in the period 2005–2023, % of GDP*



Source: Ministry of Finance

Graph 10. Character and effects of fiscal policy in the period 2006–2023, % of GDP



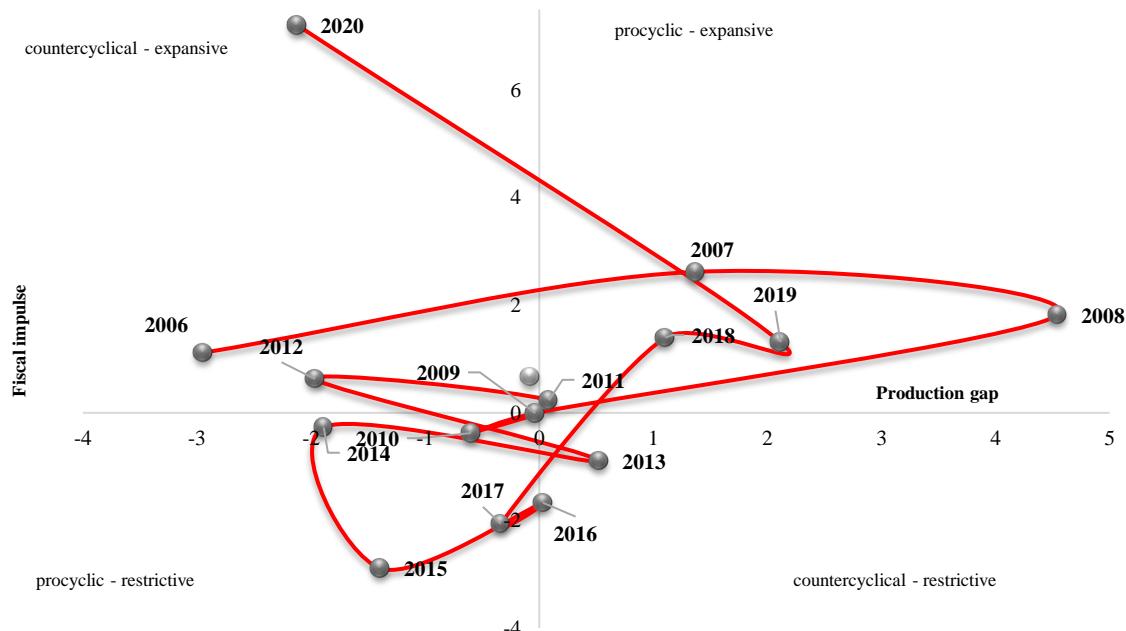
* For the period 2021–2023, the projected values are shown.

Source: Ministry of Finance

The structural fiscal position of the country has not been disturbed due to the implementation of measures to assist the economy in the field of temporary fiscal policy. However, in the next medium-term period, the movement of the structural fiscal result will be affected by the transferred tax liabilities from 2020 to 2021 and 2022. Payment of revenues based on tax and contribution deferrals in 2020 will have a temporary (non-structural) effect on the structural balance in 2021 and 2022.

As the fiscal impulse is defined as the difference between two consecutive cyclically adjusted (primary) results, we estimate that the fiscal policy during 2018 and 2019, in the conditions of a positive production gap, had a pro-cyclical character. On the other hand, fiscal policy during 2020 is expansive-countercyclical, aimed at mitigating the negative economic cycle. In the period from 2021 to 2023, fiscal policy has a generally countercyclical character, which is reflected in the set goal of rapid balancing and stabilization of public finances.

Graph 11. Character and effects of fiscal policy in the period 2006–2020, % of GDP



Source: Ministry of Finance

4.5. PUBLIC DEBT MANAGEMENT

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

At the end of October 2020, the total general government debt amounted to RSD 3,184.6 billion, or 57.7% of GDP. Out of that, RSD 3,137.5 billion referred to the obligations of the central government, while RSD 37.1 billion referred to the unguaranteed debt of local self-government units and RSD 10.0 billion to the unguaranteed debt of PE Roads of Serbia and LLC Koridori Srbije. Direct liabilities of the central government amounted to RSD 2,970.7 billion, and indirect liabilities of the central government amounted to RSD 166.8 billion. The internal public debt of the central government amounted to RSD 1,323.9 billion, and the external public debt RSD 1,813.6 billion. According to the data from 31 October 2020, the largest percentage of the general government debt of the Republic of Serbia is still denominated in euros and amounts to 47.3%. Then the most represented are the dinar with 29.5% and the US dollar with 16.4%. The rest of the debt is denominated in special drawing rights 2.3% and other currencies 4.5%. As of 31 October 2020, the largest part of the general government debt of the Republic of Serbia is with a fixed interest rate - 85.4%, while the public debt with a variable interest rate is 14.6% of the total public debt. Among the variable interest rates, EURIBOR and LIBOR per euro are the most represented, accounting for 82.6%, followed by the interest rate for special drawing rights 11.9% and LIBOR against the US dollar 3.3%, while the share of liabilities with other interest rates is 2, 2%.

Fiscal framework in the period 2021-2023: COVID-19 2019 pandemic and its effects on world and domestic economic trends marked the year 2020. A one-time increase in the deficit and public debt is an inevitable consequence of intervention measures aimed at neutralizing the effects of the crisis. The fiscal package of measures was aimed at helping businesses, preserving the living standards of the population and investing in the health system. At the same time, efforts were made not to stop development programmes and infrastructure projects financed from the budget. As the COVID-19 pandemic is not over, the upcoming period is full of uncertainty. The planning of economic and, in particular, fiscal policy will primarily depend on the suppression of the pandemic and its end. The general commitment is to enable a gradual balancing and stabilization of public finances in the post-pandemic crisis, in order to reduce the share of public debt in GDP and create the basis for stable economic growth. Until then, it is necessary to ensure the possibility of a timely response of fiscal policy in the event of a deepening crisis. Fiscal policy objectives are certainly aimed at maintaining fiscal stability and reducing the share of public debt in GDP.

Having in mind the projected result of the budget of the Republic of Serbia for the period 2021-2023, including the volume of withdrawal of credit funds for project financing from budget users, the effects of changes in the exchange rate of the dinar against the euro and the US dollar, in the basic macroeconomic scenario, the central government debt should be at 55.0% of GDP by 2023.

Table 12. Basic projection of the state debt of the general level of the state until 2023

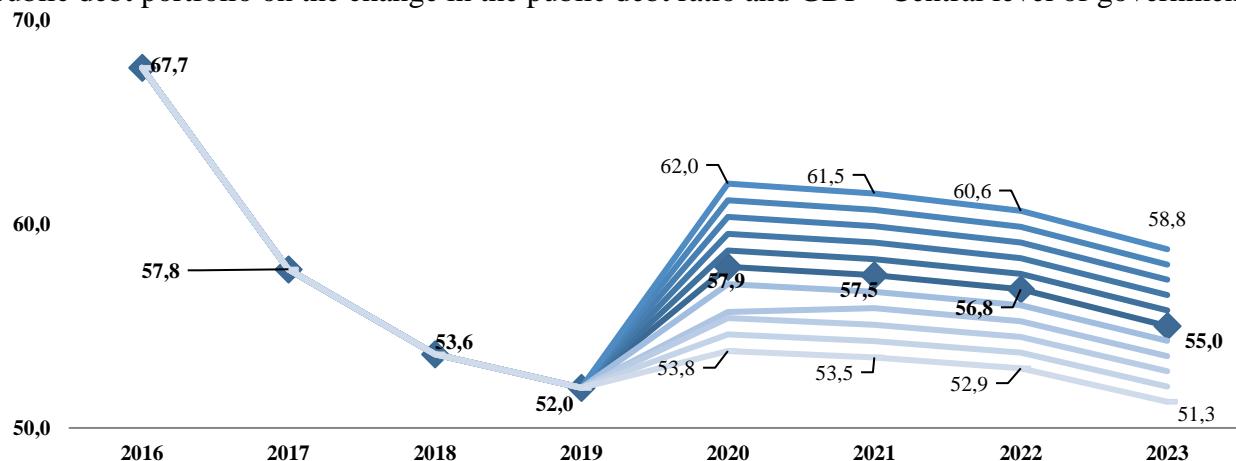
	2020 p	2021 p	2022 p	2023 p
Public debt (central government)	3,193.8	3,447.8	3,639.0	3,781.1
Central government debt, in% of GDP	57.9%	57.5%	56.8%	55.0%
Unsecured debt of local self-government units, in% of GDP	1.1%	1.2%	1.1%	1.0%
General government debt, in% of GDP	59.0%	58.7%	57.9%	56.0%

It is predicted that the unguaranteed debt of the local level of government will be at a relative level of about 1.0% by the end of 2023. At the end of 2023, the general government debt should be at the level of 56.0% of GDP.

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

Due to the high share of debt denominated in foreign currency (70.5%), it is evident that foreign exchange risk will determine the behaviour of public debt/GDP ratios in the coming period and significantly condition the success of fiscal policy measures on consolidating public finances and reducing public debt share in GDP.

Graph 12. Impact of changes in the dinar exchange rate against the basket of currencies from the public debt portfolio on the change in the public debt ratio and GDP - Central level of government



The graph presents the movement of public debt ratios of the central government and GDP depending on the change in the dinar exchange rate against a certain basket of currencies. The basic projection is presented with alternative scenarios depending on the appreciation, i.e. depreciation of the dinar exchange rate in the range from 10% appreciation to 10% depreciation of the dinar in relation to the currency basket. Applying the above scenarios, it can be seen that the ratio for 2023 would range from 51.3% to 58.8%, while for the baseline scenario it would be at the level of 55.0%.

In order to reduce the exposure to variable interest rates, due to the expectation that there will be an increase in the variable interest rate with the largest share in public debt - Euribor, contracting new liabilities will be done at fixed interest rates, where possible, especially in the field of loans financing investment projects.

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

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

In the coming period, we will actively work on the introduction of a system of primary dealers. Namely, the Law on Amendments to the Law on Public Debt from December 2018 envisages the introduction of primary dealers on the domestic capital market as an incentive for liquidity in the secondary market of government securities and a reduction in the risk of debt refinancing. These amendments to the Law also provide for the operation of financial derivatives that would be used to perform transactions for risk management, including the reduction or elimination of the risk of changes in exchange rates, interest rates and other risks.

Activities have been undertaken to enable the settlement of government securities on the foreign market. Amendments to the Law on Public Debt from December 2019 enable the clearing and settlement of government securities issued on the domestic market, in addition to the Central Register, by another foreign legal entity that performs clearing and settlement operations.

4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

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

In the previous decade, the Republic of Serbia faced the realization of numerous risks that seriously jeopardized its fiscal position. The financial crisis and recession have worsened the state of public finances, causing high deficits and accelerated growth of public debt. The global financial crisis, as an external factor, has also activated internal risks, and repayments based on guaranteed loans, execution of court decisions, resolving issues of state financial institutions and taking over the obligations of public companies into public debt have further worsened the fiscal position. In 2014, the Republic of Serbia also faced the catastrophic consequences of floods. The total damage (with losses) is estimated at more than EUR 1.7 billion¹³. Given the previous experience and the significant deterioration of the fiscal position caused by the materialization of these fiscal risks, it is crucial to return to a sustainable level of deficit, after the crisis caused by the pandemic.

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

Guarantees issued by the state affect the amount of public debt, but also the amount of the deficit, if the repayment of the loan is taken over by the state instead of the original debtor. According to the definition determined by the Law on Public Debt, issued guarantees are part of indirect obligations and are included in the total amount of public debt¹⁴. Restrictions on the issuance of new guarantees

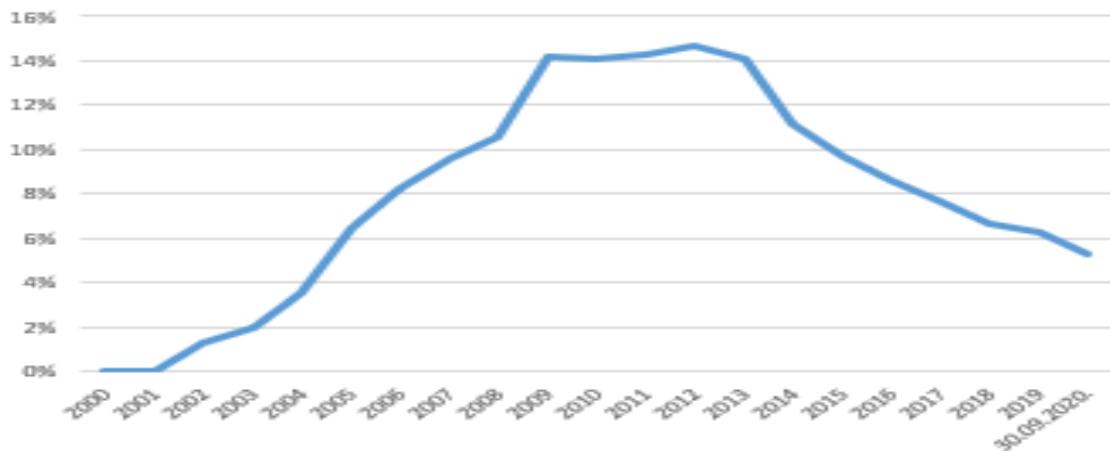
¹³ <http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljennih-područja-infograf-15-04-2016-srb.pdf>

¹⁴ The definition of debt, according to the Maastricht criteria, among other things, treats issued guarantees differently, in relation to the definition of public debt according to domestic legislation. According to the Maastricht criteria, only activated guarantees enter the

have yielded results and the share of indirect liabilities in total public debt is declining. Indirect liabilities (guarantees issued by the Republic of Serbia) participated with 6.2% in the total public debt, according to the national methodology, at the end of 2019. The share of these liabilities in public debt is declining in the current year, and at the end of September 2020, they account for 5.3 of total public debt. The largest share of these liabilities in public debt, just over 14% on average, was recorded between 2009 and 2013.

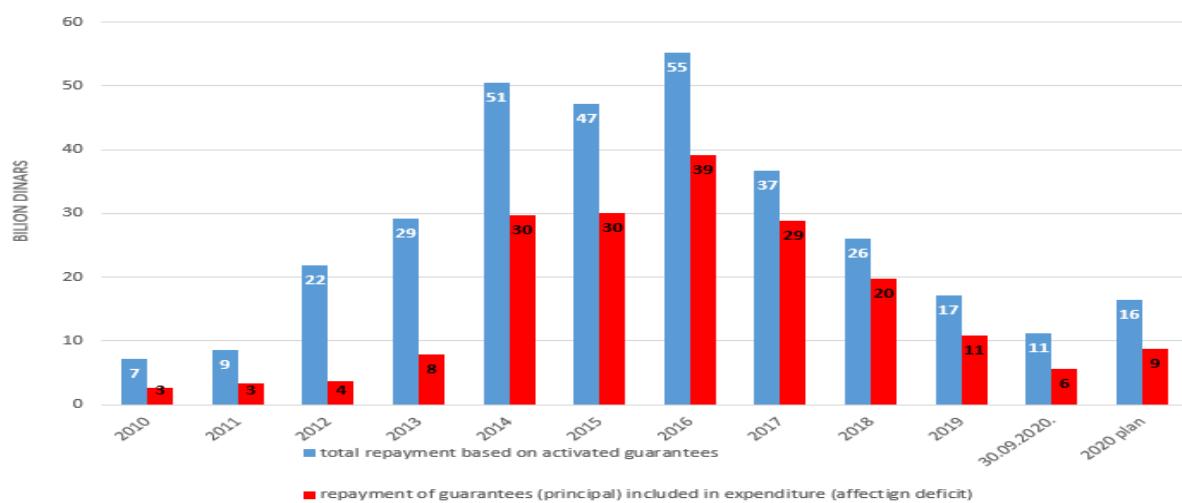
At the end of 2019, the debt on the basis of issued guarantees amounted to EUR 1.488 billion, or 3.2% of GDP. The debt on this basis was reduced by nearly EUR 36 million compared to the end of 2018. By September of the current year, the debt related to guarantees was reduced by EUR 79 million, compared to the end of 2019, and amounts to EUR 1.409 billion on 30 September 2020.

Graph 13. Share of indirect debt in the total public debt of the Republic of Serbia



The total repayment of the principal on the basis of guaranteed loans in 2019 amounted to RSD 15 billion, of which RSD 11 billion affect the deficit. Until 2014, the accounting methodology did not include guarantee¹⁵ repayments in expenditures. Since 2014, part of these expenditures has been included in budget expenditures¹⁶. Regardless of the budget and accounting presentation, the debt paid by the state instead of the main debtor increases the total borrowing needs.

Graph 14. Debt repayment based on activated guarantees, in billion dinars



public debt (general government debt). Domestic legislation has a more conservative approach to this issue and includes all issued guarantees in the public debt.

¹⁵ Repayment on the basis of guarantees from the republic budget is included in expenditures on a cash basis. International standards, which are based on an accrual basis, include the entire amount of the remaining debt in expenses, at the moment the guarantee is activated, while the debt repayment itself is treated as a financial transaction on that basis.

¹⁶ Part of the expenditures on the basis of repayment under guarantees for PE "Roads of Serbia" is not included in budget expenditures, because this company is part of the general government sector, and expenditures financed by guaranteed loans were part of general government expenditures at the time of spending, while repayment itself is treated as a financial transaction ("below the line").

The repayment plan based on guarantees (total principal and interest) in the budget revision for 2020 amounts to RSD 16.4 billion, of which RSD 8.8 billion are included in the expenditures that affect the result for the repayment of principal under guarantees. As of 30 September 2020, the total repayment on the basis of guaranteed loans amounted to RSD 11.2 billion.

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

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

With the rebalance of the budget for 2020, it is planned to issue guarantees up to a maximum of RSD 108 billion, for loans intended for the realization of infrastructure projects. In the coming years, repayment on the basis of guarantees is planned, but with a declining trend, so that their share in GDP decreases from 0.2% of GDP in 2019 to 0.1% of GDP in 2023.

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

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

Public companies represent a significant segment of the Serbian economy that employs about 81,000 people. Public companies are established as companies for performing activities of general interest. Their work is regulated by the Law on Public Enterprises, which was adopted in February 2016, as well as sub-sectoral laws that define specific areas that are not covered by the Law on Public Enterprises (Law on Energy, Law on Companies, etc.).

The total capital of the republic's public companies at the end of 2019 amounted to RSD 1,751 billion, while the final result was a net loss of RSD 18.1 billion.

Table 13. Main financial indicators of public companies, billion dinars

Description	2018	2019
Total assets	2,805	2,854
Owner equity	1,795	1,751
Total revenue	509.9	524.3
Net profit	-1.9	-18.1
Subsidies	30.8	33.4
Subsidies, without PE "Roads of Serbia"	23.0	24.3
Subsidies, % of total revenues	5.9%	6.4%

Source: Financial reports for 2018 and 2019

In 2019, subsidies, expressed as a percentage of total revenues, are at a slightly higher level compared to the previous year and account for 6.4% of total revenues of public companies. Certain subsidies have a capital character, such as subsidies for the PE "Roads of Serbia", which are intended for the reconstruction of road infrastructure.

The total net result determined in the first half of 2020 is a profit of RSD 8.9 billion. In the first half of the year, 22 companies made a profit in the total amount of RSD 11.5 billion. This result is higher than planned in this period (RSD 5.5 billion). In the first half of the current year, thirteen companies made a net loss in the total amount of RSD 2.6 billion, which is a worse result than planned in this period (RSD 2.3 billion).

Mitigation of potential risks, which arise as a consequence of the operations of public companies, includes measures related to responsibility, profitability and transparency in the operations of these companies. At the beginning of 2016, a new Law on Public Enterprises was adopted, which will strengthen the management structure and responsibility of public enterprises. In order to reduce fiscal risks associated with the operations of public enterprises, restructuring processes of the largest public enterprises are underway (groups of companies engaged in railway transport - "JSC Serbian Railways", „JSC Serbian Railway Infrastructure", „JSC Srbija Voz", „JSC Srbija Kargo", PE EPS and PE „Srbijagas"). The entire process is carried out in cooperation with the world's leading financial institutions - the IMF, the World Bank and the European Bank for Reconstruction and Development (hereinafter: EBRD), in order to put these companies on a sound footing and start operating on a market basis, and reduce potential fiscal costs that may arise from their operations.

PE "Elektroprivreda Srbije". Employee optimization plan for the period 2016-2019, made with the help of the World Bank, is being successfully implemented. With the help of the World Bank and the EBRD, the possibilities of further improving the company's management in terms of management, planning system and procurement are being considered. The Action Plan for Improving Corporate Governance, based on the recommendations of the EBRD and adopted by the Government in February 2019, is being successfully implemented.

It is envisaged that, during 2021, EPS will change its legal status and register as a joint stock company, which is in line with the current process of restructuring and financial consolidation of the company, with the aim of improving profitability and professionalizing company management. In this regard, during the last quarter of 2020, a public call was published to assess the value of the company's fixed assets. Also, during 2020, an analysis of the tariff system was made, which would enable the company to be able to service the entire operating costs from regular operations, then the costs arising from the increased volume of expenditures arising from production from renewable energy sources, and the need for additional capital investments in existing and new production capacities.

Due to the need to adequately collect its receivables, EPS regularly updates the list of the 20 largest debtors to the company on the website. Also, it is planned to implement all necessary measures for the collection of overdue receivables, which arose during the state of emergency.

PE "Srbijagas". The pandemic and the introduction of the state of emergency partially affected the level of collection of receivables in that period. The company regularly updates the list of the 20 largest debtors on its website, with the intention of taking all necessary measures to collect overdue receivables. The intention of the company is to be able to independently service the financial obligations incurred in the period 2008-2012 by the end of 2020.

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

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

- JSC Banka Poštanska Štedionica Belgrade (79.01%),

- JSC Srpska Banka Belgrade (76.68%).

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

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

In order to mitigate the economic and financial consequences of the COVID-19 pandemic caused by SARS-CoV-2 virus, the Bank has been able to fully implement the Guarantee Scheme Regulation as a measure to support the economy in mitigating the effects of the COVID-19 pandemic caused by SARS-CoV-2 virus, and to place funds to local self-government units, and the limits of exposure to companies that existed until then in the case of the Bank Poštanska štedionica were eliminated.

Komercijalna Banka. On 26 February 2020, representatives of the Ministry of Finance of the Republic of Serbia and JSC Nova Ljubljanska Banka Ljubljana signed an agreement on the purchase of shares of this bank owned by the Republic of Serbia, according to which 83.23% of the bank's ordinary shares were sold for EUR 387 million. The privatization process of Komercijalna Banka was completed on 30 December 2020.

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

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

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

Since the adoption of the mentioned strategy, a number of laws and bylaws have been adopted and amended, institutional capacity has been improved and numerous measures have been implemented to facilitate the write-off and transfer of uncollected receivables. These regulations aim to prevent the emergence of NPLs in the banking sector and encourage prudent risk-taking by banks by focusing on sustainable lending and avoiding excessive exposure to certain types of credit products, without

undermining the growth trend of lending activity and taking into account the rights and interests of users of the services provided by banks, all in order to preserve and strengthen financial stability in the Republic of Serbia.

By creating stable business conditions, our economy entered the investment cycle in 2015, and since then investments by volume represent a good part of economic growth. The profitability of the economy is growing in conditions of low and stable inflation and a relatively stable exchange rate. All of these were key factors for the sustainable resolution of NPLs. This is clearly seen from the fact that in the branches that are also the carriers of our growth, the largest decline in NPLs was recorded - which is evident in the manufacturing industry and construction.

Deposit insurance is a mechanism that contributes to the preservation of financial stability and provides protection for depositors. The deposit insurance system ensures that each protected depositor¹⁷ is paid the full amount of deposits in each bank up to the insured amount of EUR 50,000 in the event of bankruptcy or liquidation of the bank. Deposit insurance is regulated by the Law on Deposit Insurance.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor of the payment of insured deposits. For the purpose of providing deposit insurance funds, AOD collects deposit insurance premiums from banks for the account of the Deposit Insurance Fund, manages the fund's assets and pays deposits up to the insured amount in case of bankruptcy or liquidation of the bank. In addition, the funds of the fund can be used to finance the process of bank restructuring to the extent and under the conditions established by the law governing banks. In case of missing funds in the deposit insurance fund, the Republic of Serbia provides payment either with funds from the budget or by providing a guarantee for borrowing by AOD.

The guarantee of payment of insured deposits by the state, either directly from the budget, or indirectly by issuing guarantees for borrowing by AOD, is a source of fiscal risks and possible fiscal costs. However, thanks to the achieved stability of the banking sector, since 2015 there has been no need to use the funds of the deposit insurance fund, nor the state on the basis of payments of insured deposit amounts. Reduction of fiscal risks on this basis depends on the stability and sustainability of the banking system. Supervision of the banking system, prudence in the placement of funds and improvement of the quality of banks' assets are the basic pillars of a stable banking system.

The achieved results of the banking sector of the Republic of Serbia at the end of 2019 and the first ten months of 2020 show a stable profitability of banks. The banking sector of the Republic of Serbia operated profitably in the first ten months of 2020, with a net profit before tax in the amount of RSD 45.8 billion, and the ROA and ROE ratios of 1.28% and 7.72%, respectively. The banking sector of the Republic of Serbia is adequately capitalized both from the point of view of the achieved level of capital adequacy indicators and from the point of view of the structure of regulatory capital. At the end of September 2020, the average value of the capital adequacy ratio at the level of the banking sector of the Republic of Serbia was 22.41% (after corrections of a bank conducted in the process of indirect control, this indicator would amount to 22.27%), which is significantly above the prescribed regulatory minimum of 8% and more than enough to cover all risks to which the sector is exposed, which is confirmed by macroprudential stress tests that the NBS regularly conducts.

Having in mind the situation created by declaring a state of emergency in the Republic of Serbia, in order to enable mitigation of economic and financial consequences caused by the COVID-19 pandemic, measures were taken to support the economy aimed at increasing liquidity. One of the measures was the adoption of the Decree, i.e. the Law on establishing a guarantee scheme as a measure of support to the economy for mitigating the consequences of the pandemic of the COVID-19 disease caused by the SARS-CoV-2 virus.

This law constitutes the determination of the national guarantee scheme. Increasing the liquidity of economic entities through the guarantee mechanism of the Republic of Serbia for loans granted by

¹⁷ Protected depositors are: natural persons, entrepreneurs, micro, small and medium legal entities, after the exclusion provided by the Law on Deposit Insurance

banks to economic entities for financing liquidity and working capital, which is enabled by concluding the Agreement on Guarantee of the Republic of Serbia for economic lending to mitigate the negative consequences of COVID-19 pandemic, is a measure that sublimates an extremely important and necessary mechanism of effects for all persons based in the Republic of Serbia, including agricultural holdings, which are registered in the SBRA of the Republic of Serbia and classified as entrepreneurs, or micro, small and medium enterprises in accordance with the law governing accounting, and whose liquidity is a prerequisite for the functioning of the economy of the Republic of Serbia.

Banks can invest up to two billion euros for the realization of loans, whereby the amount of one billion euros, i.e. the amount of the initial maximum secured portfolio by banks is determined in accordance with the bank's market share according to the NBS report on 29 February 2020. Once the bank reaches 90% utilization of the maximum insured portfolio, the bank can apply to increase its limit from the remaining amount of funds from the guarantee scheme under the same conditions to increase the maximum insured portfolio an unlimited number of times, provided that each individual request cannot be less than EUR 5 million or more than EUR 25 million.

The agreement on the guarantee of the Republic of Serbia for lending to the economy in order to mitigate the negative consequences of the COVID-19 pandemic with the Republic of Serbia and the NBS has been signed by 25 banks and the Government has approved 22 requests to increase the maximum insured portfolio in the amount of EUR 502.5 million.

In accordance with the above, the projections of the fiscal gross outflows of the budget of the Republic of Serbia on the basis of the national Guarantee Scheme in question amount to EUR 24 million for 2021, EUR 112 million for 2022 and EUR 34 million for 2023. Also, an inflow projection was made on the basis of collection of problematic receivables on the basis of the Guarantee Scheme of the Republic of Serbia in the amount of EUR 14 million for 2022 and EUR 23 million for 2023.

In addition to these fiscal risks, there are other circumstances that, if realized, may lead to fiscal costs. There are no systematized data for certain risks, but having in mind that some of them were realized in the recent past, the magnitude of their impact on public finances can be seen. Only their identification helps to see the possible effects on the country's fiscal position in the coming period.

The operations of local self-government units may have fiscal implications for the general government budget. Special fiscal rules for local governments set the so-called "golden rule" i.e. the deficit is possible only for the realization of capital investments. There are also rules on the level of indebtedness of local self-government units, which, through consistent implementation, would maintain the stability of public finances at the local level. In practice, it has happened that unrealistic planning of both revenues and expenditures leads to the accumulation of overdue and unsettled obligations that jeopardize the functioning of certain cities and municipalities. In order to avoid the realization of fiscal risks on this basis, the Ministry of Finance will in the coming period significantly improve the public finances control system of local governments in order to comply with the rules from planning to budget implementation at the local level.

There are significant fiscal risks based on court decisions, domestic and international courts, penalties and damages by state authorities. The Republic of Serbia paid in the period 2009-2018 RSD 80.5 billion¹⁸ from the budget based on court decisions. In 2019, RSD 17.6 billion were paid from the budget of the Republic of Serbia on the basis of court decisions, while in the first half of 2020, RSD 17.4 billion were paid from the budget of the Republic of Serbia on that basis. The decision of the European Court of Human Rights obliged the Republic of Serbia to pay the public debt on the basis of unpaid foreign currency savings that citizens of the former republics of SFRY and citizens of the Republic of Serbia deposited with banks based in the Republic of Serbia and their branches in the former republics of SFRY. Also, potential obligations may arise from decisions of the Constitutional Court on the basis of submitted constitutional appeals and decisions of the European Court of Human

¹⁸ Expenditures on accounts are included: fines and penalties according to the decision of courts and judicial bodies and compensation for damages for injuries or damage caused by state bodies.

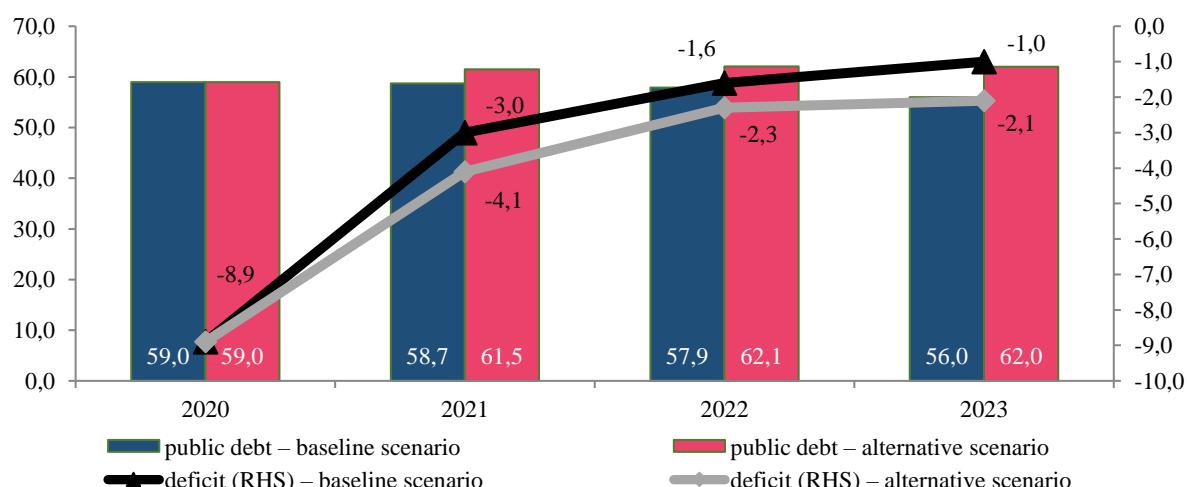
Rights on submitted complaints of employees of former socially-owned enterprises (unpaid salaries, contributions for compulsory social insurance, default interest, costs of proceedings, claims on commercial transaction).

The constant risk of natural disasters obliges investment in prevention programmes in order to reduce potential fiscal costs for repairing damages caused on that basis. In 2014, the Republic of Serbia faced the catastrophic consequences of the floods, whose total damage (with losses) was estimated at more than EUR 1.7 billion. Given the ever-present risks of natural disasters, reducing the fiscal risks that may arise on this basis implies investing in prevention programmes. In December 2014, the Government adopted the National Programme for Disaster Risk Management, which will be implemented in cooperation with the World Bank, the United Nations and the EU. Within the National Programme, in November 2018, another umbrella law was passed that deals with the issue of natural disasters and catastrophes, and that is the Law on Disaster Risk Reduction and Emergency Management. In 2019, the Republic of Serbia paid RSD 4.22 billion from the budget for damages for injuries or damages caused by natural disasters. In the first half of 2020, the Republic of Serbia was hit by a large number of disasters caused by floods. According to the Public Investment Management Office, these floods caused damage to 1,200 residential buildings in 27 municipalities in Serbia.

Alternative scenario of fiscal developments in the period 2020–2023

The following graph shows the movement of the share of deficit and public debt in GDP based on the alternative macroeconomic scenario, which implies growth rates of 3.2%, 3.0% and 3.0% in the next three-year period.

Graph 12. Baseline and alternative scenario of fiscal developments in the period 2020–2023



Slower growth would affect, through its components, the realization of fiscal aggregates, primarily on the revenue side, and most of all on income from labour and consumption taxes. Such GDP dynamics would lead to higher levels of deficit and public debt. An increase in the deficit would affect the growth of public debt levels, which would stabilize in 2023. The assumption in this scenario is to keep the measure of wages and pensions in line with GDP growth, i.e. in all three years the share of salaries and pensions remains at the same level of GDP, while the nominal amounts projected for capital investments are the same as in the baseline scenario.

Comparison with the previous programme

The medium-term fiscal framework has changed significantly compared to the previous document¹⁹ due to the negative effects of the pandemic on economic trends. The decline in revenues and the growth of expenditures and deficits are the main differences compared to the previous document. In

¹⁹ Economic Reform Programme for 2020 with projections for 2021 and 2022

2020, the decline in revenues was caused partly by the application of measures to stabilize the economy, and partly by unfavourable macroeconomic trends.

In the coming period, revenue performance is expected to improve, but still weaker than it would be under normal circumstances.

On the expenditure side, the implementation of measures caused an increase, primarily through significant investment in the health system, and then through subsidies and other fiscal stimuli in order to mitigate the effects of the crisis in the economy and the population.

In the coming period, expenditures will gradually decrease in terms of share in GDP. In the coming period, as long as the uncertainty related to the pandemic lasts, a somewhat more expansive fiscal policy will be pursued. The planned deficits enable the reduction of the share of public debt in GDP, and in the long run it is planned to return to the annual deficit of 0.5% of GDP.

Table 14. Comparison of fiscal indicators of the two programmes, in% of GDP

	2019	2020	2021	2022	2023
ERP 2020–2022²⁰					
Revenues	41.4	42.4	41.1	40.7	–
Expenditures	41.9	42.9	41.7	41.3	–
Fiscal result	-0.5	-0.5	-0.6	-0.6	–
ERP 2021–2023					
Revenues	42.1	40.3	40.4	40.5	39.7
Expenditures	42.3	49.2	43.4	42.1	40.7
Fiscal result	-0.2	-8.9	-3.0	-1.6	-1.0
Difference					
Revenues	0.7	-2.1	-0.7	-0.2	–
Expenditures	0.4	6.3	1.7	0.8	–
Fiscal result	0.3	-8.4	-2.4	-1.0	–

Source: Ministry of Finance

4.7. QUALITY OF PUBLIC FINANCES

At the time of writing this document, in conditions unprecedented in recent world history caused by the COVID-19 pandemic, the *Policy Coordination Instrument* (PCI) is coming to an end - an arrangement that the Republic of Serbia concluded with the IMF in July 2018, lasting for 30 months, which provided for the continuation of implementation of institutional and structural reforms, following the successful implementation of fiscal consolidation and the previous precautionary arrangement with the IMF.

The programme helped to preserve macroeconomic and fiscal stability, but in the current year, in accordance with the new circumstances, the programme was redefined and aimed at mitigating the negative consequences caused by the COVID-19 pandemic. The shock caused by the pandemic had a particularly negative effect on the economy of the Republic of Serbia, export demand, FDI, remittances and supply chains, especially during the second quarter of 2020, after which a significant economic recovery began. Thanks to the responsible fiscal policy in the previous period, in response to the crisis caused by the pandemic, a significant package of fiscal and monetary measures was applied, which supported the economy and citizens, preserved jobs, equipped the health system and provided assistance to the most vulnerable groups. All these measures, with a simultaneous shock on the revenue side, resulted in a significant increase in the fiscal deficit and public debt. Stabilization and return of these categories to a sustainable path are expected in the next year and in the medium term. Monetary policy has supported the economic recovery, with low and stable inflation and maintaining the relative stability of the exchange rate, while further strengthening the dinarization process. In the financial sector, where the share of NPLs decreased to 3.4% in September, which is the lowest amount since they were monitored, activities for their reduction will continue, with the continuation of reforms of financial institutions (state-owned banks, state development agencies, etc.), in accordance with the

20 The amounts were recalculated based on the revision of the GDP series data from 2019 to 2022.

Programme. Structural and institutional reforms in the next medium-term period will aim to improve the business environment, which contributes to a more successful EU accession process. These reforms will focus on restructuring state-owned enterprises, financial institutions and public administration, as well as further reducing the grey economy.

Improving public financial management is necessary not only as support for fiscal consolidation measures and structural reforms, but also as a process that raises the quality of public administration and provides an environment that is an attractive and desirable ground for investors. Reform activities within the various subsystems of public financial management (PFM) are covered by the revised Public Financial Management Reform Programme 2016–2020 (PFMR Programme). The Ministry of Finance has joined the draft of the Public Financial Management Reform Programme for the period 2021–2025.

In the coming period, reforms in the field of employment, personnel management and the salary system in the public sector are expected to continue. The goal of fiscal policy in the medium term is to keep expenditures for employees at a sustainable level, with an adequate structure of employees, in order to ensure higher quality of services provided. In the next medium-term period, the emphasis is on structural measures, which would, through optimizing the number of employees on the one hand, and establishing a new salary system in the state sector, on the other, contribute to increasing the efficiency and quality of public services.

In recent years, laws and bylaws have been adopted to pinpoint the coverage and the number of public sector employees. The maximum number of permanently employed persons at the institutional level, the scope and deadlines for reducing the number of employees until reaching the maximum determined level of employment were defined by The Law on the Manner of Determining the Maximum Number of Employees in the Public Sector and it was applied as *lex specialis* until 31 December 2019. The Government, by its act, i.e. decision, determined the maximum number of permanent employees in the public sector, which included the system of state bodies, public services, the autonomous province and local self-government. It was planned that a new system of pay grades for all employees in the public sector (including the army and police), i.e. a new Law on Salaries of Civil Servants and Public Employees and amendments to the Regulation on the Catalogue of Jobs in Public Services and Other Public Sector Organizations, be drafted this year, in order to be ready for implementation with the budget for 2021. Due to the known circumstances that influenced the formation of the new authorities, which would then participate in the negotiations on the new system of salaries and coefficients with the unions, the entire process was postponed for the next year. The new pay grade system should be implemented from 2022.

The existing employment system, managed by the Government Commission for giving consent for new employment and additional employment with users of public funds, had its shortcomings and led to problems in the timely and adequate management of personnel. Therefore, it is necessary to replace the existing solution with a new one, where personnel would be managed at the level of each public sector organization in the medium term and in accordance with budget constraints. In the transitional period, it is possible for institutions to hire new persons up to the level of 70% of those who leave the institution or retire, while the permission of the Commission is required if the number of new employees exceeds 70%. Also, limits will be set for the total number of employees in relation to the number at the end of 2020.

In order to achieve the accurate, timely, manageable and automated planning of public funds and expenditures for employees in the Republic of Serbia, the Ministry of Finance has established a Register for public funds beneficiaries for human resources management (RJEKJS) in order to plan expenditures for employees in the Republic of Serbia, which is operational since 2020. In addition, the Registry has collected data and maintains data on the organizational structure, systematization, personnel plan and organizational structure of employees and other personnel records relevant for the calculation of salaries for 120 budget beneficiaries, which has been operational since January 2021. The development of the Information System for the calculation of salaries (CISOZ) of employees in the public sector is underway, which should be completed in phases by 2023.

The area of public financial management to which serious attention has been paid and which is being improved is the management of public investments. Strengthening the public investment management framework intensifies new infrastructure projects and raises the quality of existing infrastructure. Capital projects, i.e. project loans have become an integral part of the budget. In April 2018, the Law on the Planning System of the Republic of Serbia was adopted, which established the national planning framework and defined the Development Plan and the Investment Plan. In order to improve the framework for public investment management, in accordance with the recommendations of technical assistance from the IMF and the World Bank, and based on the Regulation on content, the manner of preparation and evaluation, as well as monitoring the implementation and reporting on capital projects, a rulebook will be adopted by the end of the year which will contain a brief overview of feasibility studies for large and strategic infrastructure projects. The public investment management system includes an integrated database of investment projects, which is currently being developed, and a single list of priority projects (*Single Project Pipeline*) has been established, so that the system will start functioning in 2021 and become fully functional in 2022.

Public-Private Partnership (PPP). In accordance with the Law on Public-Private Partnerships and Concessions, PPP is a long-term cooperation between public and private partners in order to provide financing, construction, reconstruction, management or maintenance of infrastructure and other facilities of public importance and the provision of services of public importance. The law defines that for public-private partnership projects and concession projects, where the contracting authority or public body is the Republic of Serbia or a public body under the jurisdiction of the Republic of Serbia and whose value exceeds 50 million euros, it is necessary to obtain the opinion of the Ministry of Finance, thus improving the control of fiscal implications and risks of such projects due to project complexity, value and duration. The Ministry of Finance gives an opinion based on the compliance of the direct financial obligations of the public body contained in the draft public-private partnership project, i.e. the draft concession act, with the budget and fiscal projections, conditions and restrictions determined by special regulations.

In order to reduce various forms of budget support to public and state-owned enterprises, reforms of the largest public and state-owned enterprises are continuing. Reducing budget support to these companies means: a) limiting direct and indirect subsidies, b) strictly limiting the issuance of guarantees for new loans and c) strengthening accountability and transparency in the operations of these companies, including control and reduction of late payments, especially to PE EPS and PE “Srbijagas”. In the following period, a plan will be made to repay the accumulated arrears caused by the pandemic and new measures will be adopted in order to prevent their accumulation in the future.

The status of a company from the portfolio of the former Privatization Agency is resolved through bankruptcy or privatization proceedings. By September 2020, more than 300 companies had been declared bankrupt, while 67 had been privatized since the end of 2014. About 35,600 employees from 355 companies accepted the social programme. Intensive work is being done to find solutions for another 72 companies with almost 29,000 employees.

For companies that make up strategic companies from the portfolio of the former Privatization Agency, the solution is found either through privatization tenders or through bankruptcy. A privatization advisor was elected for the transport company “Lasta” JSC Belgrade last year, but the privatization procedure was postponed due to the crisis. With the support of the World Bank, an action plan was defined for PE PEU “Resavica”, which includes finding a solution for closing economically unsustainable mines and a rationalization plan, with the possibility of voluntary departure with funds for social programme and business support to avoid accumulating late payments, especially to PE EPS. Talks with potential investors are underway for HIP Petrohemija, after which a tender procedure will be announced. For HIP Azotara, after unsuccessful attempts to find a strategic partner, bankruptcy was declared, while for MSK Kikinda, a solution is sought in finding strategic partners or investors.

For a number of state-owned companies, strategic partners or other models of privatization are being looked for, i.e. the implementation of pre-pack reorganization plans (PRPs).

Action plan for the transformation of the Tax Administration for the period 2018-2023 adopted in December 2017, defines strategic guidelines and deadlines in which the activities necessary for the creation of a modern tax administration will be implemented, which will, with the use of modern electronic processes provide better and more comprehensive service to taxpayers and better control and collection of revenues, i.e. accelerate the fight against the grey economy, together with the reform and modernization of inspection supervision. In 2019, the organizational separation of basic activities from those that are considered secondary was carried out, with the basic activities now being performed in a smaller number of organizational units, i.e. their consolidation was performed. Analysis of business processes and necessary resources will enable the development of an adequate organizational structure and management, the improvement of project management and the design of an adequate structure of employees. The next phase of reforms is focused on information systems, and a tender to replace the existing system with a new one is expected next year. The implementation of measures aimed at reducing the average time for VAT refunds, i.e. respecting the prescribed deadlines, continues, with the application of the precautionary principle, in order to reduce the possibility of fraud to a minimum, and refunds to low-risk taxpayers to be paid as soon as possible. The Centre for Large Taxpayers (CLT) will expand its scope, i.e. the number of entities that pay their tax obligations through this system will be increased, and at the same time, the capacity of this very important organizational unit within the Tax Administration is being strengthened. With the adoption of the Law on Determining the Origin of Property and Special Tax and the formation of a special organizational unit of the Tax Administration, conditions were created for cross-analysis of property and income of persons, in order to investigate cases of unjust enrichment and determine special tax. A procedure has been initiated for the selection of an external consultant, who will review the existing business processes and lead the process of their reengineering and modernization. The Tax Administration has played a significant role in implementing some of the measures taken in response to the crisis caused by COVID-19: postponing the payment of taxes on salaries and contributions and their payment in 24 instalments, starting 2021, postponing the payment of corporate income tax for second quarter of 2020, three-month moratorium on forced collection and reduction of interest on tax debt.

4.8. FISCAL GOVERNANCE AND BUDGET FRAMEWORKS

Fiscal consolidation and structural measures implemented in the previous period enabled the stabilization of public finances and provided fiscal space for new policies. In order to ensure the stability and sustainability of public finances in the long run, a functional system of fiscal rules is needed. The current fiscal rules were introduced in 2010, but did not help stop the growth of the deficit and public debt. Due to the pandemic, the adoption of a new set of fiscal rules has been postponed this year. As of this year, the indexation of pensions has been reintroduced, where pensions are adjusted using the “Swiss formula”, while respecting the limit of 11% of GDP for total pension expenditures. Next year, a fiscal rule should be adopted, which would be in use from 2022, which defines the level of deficit and which ensures that the level of public debt is set on a downward trajectory. In defining the new set of fiscal rules, apart from the Ministry of Finance, the IMF and the Fiscal Council will take an active part.

The Budget Execution Information System - BEIS - is part of the public financial management system that includes processes and procedures carried out by electronic communication with the Treasury Department within the Ministry of Finance. The development of this system will enable the monitoring of all indirect users of the central level of government. The system includes direct users of public funds, judicial authorities, and since 2018, indirect users of the Ministry of Culture and Information and the Directorate for the Execution of Criminal Sanctions, which were not part of the previous system (FMIS). Since 2019, social protection institutions have also been included, so that only indirect users of the Ministry of Education, Science and Technological Development are still out of the system. The system is capable of enabling the integration of new users in the future. The financial plans of social security funds will continue to contain data on their indirect beneficiaries.

Improving the quality and transparency of national statistics is done through the promotion of comprehensive, timely and automatic data exchange between competent institutions. In April 2018, a list of institutions that make up the general government sector, as well as other sectors, was published, in accordance with the European System of Accounts (ESA) 2010 and GFSM 2014, based on which the SORS (in cooperation with the Ministry of Finance and the NBS) from 2021 will submit data to the Extended General Data Dissemination System (e-GDDS). These data will be in line with the GFSM 2014 methodology. The Sector for Macroeconomic and Fiscal Analysis and Projections of the Ministry of Finance, in cooperation with the IMF, was the first to initiate the process of converting public finance data from the national methodology into the GFSM 2014 methodology and consolidating them, covering all levels of the general government in order to enable a complete transition to the new methodology in terms of coverage, planning and reporting in the future.

5. STRUCTURAL REFORMS IN THE PERIOD 2021-2023

5.1. IDENTIFICATION OF KEY OBSTACLES TO COMPETITIVENESS AND INCLUSIVE GROWTH

The COVID-19 virus pandemic affected the decline in economic activity so that the real decline in GDP was 1.4% in the third quarter of 2020, driven by the decline of the construction sector (-18%) and the trade, transport and hospitality services sector (- 3%). On the other hand, the information and communication sectors (6%), as a very important part of the creative industries, finance and insurance (4.9%) and agriculture (4.5%) recorded the highest growth, continuing the trend from the previous period despite the pandemic. Also, after the dynamic growth from the previous period, there was a decline in exports of goods and services (-7% in the period January-October 2020) due to falling demand from our main foreign trade partners (Euro area countries and CEFTA). Net inflow based on FDI in the period January-October 2020 amounted to EUR 1.9 billion (down 34.5% mg).

Fiscal consolidation and structural measures implemented in the previous period enabled the stabilization of public finances and provided fiscal space for new policies. The implementation of structural reforms within individual areas will be intensified in the forthcoming period, in order to remove key obstacles/challenges, which have been identified based on all available analysis and data.

The scope and dynamics of reform activities in the field of energy is a factor of further economic growth and improvement of competitiveness. Therefore, reforms within the energy market will be aimed at improving infrastructure, in order to achieve reliability and facilitate trade in energy products in the national and cross-border markets. Also, the improvement of conditions for increasing energy efficiency continues through the implementation of the energy management system. As for the railway infrastructure, the reconstruction of existing and construction of new sections continues. The general goal of the realization of important infrastructure projects is the improvement of the energy and transport system in order to create more favorable conditions and easier connection of Serbia in trade and transport flows.

Agriculture is one of the key branches in the economic structure of our country, and the conditions for its development in Serbia are extremely favorable (geographical position, natural resources, climate). However, underdeveloped rural and regulatory infrastructure, as well as unfavorable structure and technical-technological backwardness of agricultural holdings, especially in the conditions of growing standards and regulations in the process of harmonization with the common agricultural policy of the EU, further hinder agricultural development. The share of industry in the creation of total GDP has been growing in recent years, to which contributed FDI in the manufacturing industry. However, limited knowledge transfer between academia and industry hinders potential technological development, resulting in a low level of product specialization and a weaker export structure. As industrial policy measures in the previous period were not sufficiently focused on the key comparative advantages and needs of the economy, a new industrial policy of Serbia is being implemented, which will be aimed at creating conditions for transforming the existing economy into a knowledge and innovation economy, which is one of the basic elements of the creative economy. It is also planned to gradually introduce the concept of circular economy through the definition of a strategic framework as a tool for achieving sustainable development, in accordance with the UN Agenda 2030.

By implementing regulatory reforms that reduce the complexity and costs of doing business and increase the predictability of the business environment, Serbia continues to make progress and improve its ranking against international competitiveness indicators. In this regard, it is expected that the process of simplification and guillotine procedures for business entities will continue, as well as the creation of a strategic digital platform for the geosector to support investment decision-making. The process of administration of taxes has been significantly improved through the introduction of new technologies and the development of electronic systems for submitting tax declarations and paying taxes (ePorezi portal), which contributes to the growth of tax revenues and the reduction of the gray economy.

Serbia has significant scientific and research potential, which should be further developed and used more adequately if the goal is to become a "knowledge-based economy". The reform of the organization and financing of science and research in Serbia defines the introduction of institutional and competitive project financing as the most important novelties, as well as the establishment of the Science Fund. In the following period, greater support will be provided to innovative start-up companies in the field of creative industries, as well as to the digital transformation of companies, while through the activities of the national platform Serbia Creates, adequate communication of the Serbian creative industry to the world will be enabled. In the field of digital economy, it is planned to increase the availability of e-government to citizens and the economy through the improvement of customer services, as well as further development of the national information and communication infrastructure.

For Serbia's full integration into the international economic system, membership in the World Trade Organization (WTO) is a necessity, for which the main obstacle in the past period was the inconsistency of domestic legislation regulating the trade of GMO products. It is necessary to further strengthen regional cooperation, identify and remove barriers to trade, especially technical and phytosanitary measures and facilitate customs procedures, and to establish a single digital service related to technical regulations, with the aim of improving product quality and raising economic competitiveness.

Investing in education is a necessary precondition for the development of human capital, because a well-educated and competent workforce is very important for the competitiveness of the economy. However, the mismatch of educational profiles and supply with the needs of the labor market is a long-term and systemic problem, which is solved by establishing cooperation between key institutions in the identification and planning of qualifications for the needs of the labor market. Also, the digitalization of the education system and the introduction of the Unified Information System of Education are being intensively continued, in order for teaching to take place unhindered and efficiently in the conditions of the COVID-19 virus pandemic, but also after its completion.

In recent years, the Serbian labor market has been in a phase of expansion with employment growth, increasing activation and declining unemployment. A new six-year strategic framework for employment policy (2021-2026) has been prepared, as well as a three-year national action plan, which are harmonized with EU principles and instruments and reflect the coherence of public policies of importance and impact on employment policy. However, the key challenge in the labor market in Serbia is to stop the departure of highly educated people abroad (so-called "brain drain") and attract talent from the country and abroad, which will be solved by creating conditions for monitoring, encouraging and supporting circular migration. The activities of the project "Returning Point", within the broader activities of the platform Serbia Creates, activities of mapping and establishing cooperation with our higher education population in the diaspora have begun, in order to improve the conditions of their return and starting business in Serbia.

In recent years, indicators of income and living conditions in Serbia have improved, which is correlated with the growth of living standards as a result of economic recovery and trends in macroeconomic indicators. However, poverty in Serbia is still widespread and affects different categories of the population. In the following period, in order to assess the social and material status of beneficiaries for the fair distribution of social protection funds, the Social Map Information System will be established for the collection and use of data from all available state administration sources. This system will connect social protection institutions, and primarily social work centers into a single network. The COVID-19 epidemic highlighted the need for a more efficient health care system, to which its digitalization will significantly contribute.

Based on the perceived barriers and challenges in the field of competitiveness, structural reforms have been defined, summarized in section 5.2 and in detail in section 5.3. As the ERP is a rolling program that establishes a system of monitoring and reporting on the implementation of structural reforms that require a longer period of time, the reforms presented in the ERP 2021-2023 are complemented by the reforms of the ERP 2020-2022, and four new reforms have been added: one to raise the

competitiveness of the industry, another to introduce a new fiscalization model and move to electronic invoicing, a third to improve spatial development management, and a fourth to improve the health system. In the field of agriculture in this cycle there are three reforms created through the process of redefining the reforms (two of them) from the previous cycle.

A total of three structural reforms from the previous cycle were not transferred in the ERP 2021-2023. The two reforms whose activities have been largely implemented and became regular activities of the institutions responsible for their implementation are *SR 3. Improving the capacity and quality of road traffic through the reform of the road sector in terms of establishing a contractual relationship between RS and state road managers and further application of a new way of contracting performance-based maintenance* and *SR 20. Improving national employment policy in line with good practice and EU standards*. For *SR 10. Establishment of a sustainable system of environmental protection financing*, it is estimated that, although it is very significant, the new developments are expected and will be included in the next cycle.

The selected structural reforms, which have undergone a broad public consultation process, have been defined in accordance with the three-year plan of total budget expenditures set out in the Budget Law and the priorities defined in the national documents.

5.2. STRUCTURAL REFORMS SUMMARY

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
AREA: ENERGY AND TRANSPORT MARKET REFORM				
1.	Energy market development coupled with energy infrastructure construction	Renewal of outdated electricity transmission infrastructure, increase of cross-border transmission capacities, as well as raising the security level of electricity supply to consumers in Serbia (Trans-Balkan Corridor electricity transmission system).	Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030. Berlin Process (Connectivity Agenda) Law on Energy Law on Spatial Plan of the Republic of Serbia from 2010 to 2020	PR 2020 p. 97. - fully separate and certify Srbijagas, Transportgas and Jugorosgaz and develop competitiveness in the gas market, provide third party access to the gas network; fully implement the remaining interconnection reform measures it has committed to under the Interconnection Agenda, including the submission of applications for urgent licensing of Elektrosever in the context of the establishment of a regional electricity market. EKOFIN 2019 P5 - Gradually harmonize electricity tariffs to reflect real costs, including the costs of necessary maintenance and investments to improve the energy network and meet environmental standards and climate goals. EKOFIN 2019 P5 - Provide third parties with access to gas infrastructure. ERP ASSESSMENT EC 2019 - One of the three main structural challenges of Serbia is the exploitation of the potential for energy savings and the full opening of the energy market.
2.	Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects	Harmonization of regulations with EU regulations in the field of EE through the implementation of energy management systems, eco-design and providing incentives to improve energy efficiency.	Program for the implementation of the Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 for the period from 2017 to 2023 Law on Fees for the Use of Public Goods	PR 2020 p. 97. - Make progress on the transition to green energy: strengthen human resources capacity and promote investment in energy efficiency, replace coal-fired power plants with gas and renewable energy power plants, measure and calculate energy

²¹ RC - Republic of Serbia Report for 2020 and Republic of Serbia Report for 2019

EKOFIN - Recommendations of the EU Council for Economic and Financial Affairs for the Western Balkans and Turkey

(P1 - recommendation 1) from 2018, 2019 and 2020

EC ERP ASSESSMENT - Serbia's Economic Reform Program - Commission Assessment

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
				<p>consumption based on consumption and switch to price calculation electricity that clearly reflects costs.</p> <p>PR 2019 p. 79. - To strengthen human resources capacities and encourage investment in energy efficiency, inter alia through the establishment of a sustainable financing system, and to initiate reforms to introduce electricity prices that clearly reflect costs, fully taking into account investment needs, obligations in terms of climate change and the implications of social security, as well as the reform of electricity price regulation.</p> <p>EKOFIN 2018 P4 - It is necessary to increase investments in energy efficiency.</p>
3.	Railways reform through harmonization of the regulatory framework and enhancement of rail transport safety	Improvement of the regulatory framework through the adoption and implementation of a new Methodology for calculating the price of access to railway infrastructure and harmonization of laws in the field of railways with the IV package of railway EU regulations. In addition to the renewal, reconstruction and modernization of the railways, the modernization of road-railway crossings is also planned.	<p>Railway Law Railway Safety Law Railway System Interoperability Law National Program of Public Railway Infrastructure for the period 2017-2021. Decree on the manner and modalities of calculating costs incurred as a direct result of train traffic</p>	<p>PR 2020 p. 94. - continue the process of implementing railway reform, in particular by regulating contractual relations between infrastructure managers and operators in an economical and transparent manner, further implement adopted legislation and strengthen institutional capacity.</p> <p>PR 2020 p. 94. - adopt realistic plans for the maintenance of road and railway infrastructure and their financial aspects and start implementing them; harmonize and simplify procedures at border crossings for rail and road traffic; improve the prioritization and preparation of transport infrastructure to achieve the best value for money.</p> <p>PR 2019 p. 77. - focus on the implementation of railway reform, including market opening, network statement, infrastructure management and market monitoring, as well as to strengthen the capacity of the railway regulatory body.</p>

AREA: AGRICULTURE, INDUSTRY AND SERVICES

4.	Improvement of the land consolidation process	The reform implies the establishment of a regulatory framework for the consolidation process, as well as the implementation of IT and technical conditions to support professional supervision in this area, with the aim of creating preconditions for the development of agricultural production and construction of public infrastructure.	<p>Law on Agricultural Land Law on State Survey and Cadaster</p>	
5.	Improvement of the financial support system for agriculture through digitalization and process automation	Establishment of the Integrated Control and Management System (ICMS) which will digitalize and automate the process to improve the implementation of the system of financial support to farmers and facilitate access to available subsidies, increase transparency and more effective agricultural policy making.	<p>Law on Agriculture and Rural Development</p>	<p>PR 2020 p. 91. - speed up the processing of applications for measures already entrusted under IPARD II in order to avoid the loss of EU funds and to continue entrusting tasks related to the execution of the budget for other measures under the program.</p> <p>PR 2020 p. 110. - Accelerate the implementation of IPA II pre-</p>

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
				accession funds in order to avoid the need for last minute contracting. PR 2019 p. 74. - To implement the measures entrusted under the IPARD II program and request the entrustment of tasks related to the execution of the budget for other measures under the program.
6.	Improvements of the agriculture competitiveness	Improvement of rural infrastructure by constructing: local roads, electricity networks, water supply, as well as investments in environmental protection plants, which should contribute to a higher level of development of rural areas and increase the number of production and processing capacities. Improving the legal framework in the field of agricultural products market, in accordance with EU regulations, with a focus on the introduction of standards in production and the formation of producer organizations. The development of a system of protection of geographical indications for agricultural and food products, in accordance with the European system, will contribute to the increase of agri-food products with added value. Establishment of a regulatory framework for the production of agricultural and food organic products, as well as other issues relevant to organic production.	Agriculture and Rural Development Strategy of the Republic of Serbia 2014–2024 Law on Incentives in Agriculture and Rural Development	PR 2020 p. 91. - speed up the processing of applications for measures already entrusted under IPARD II in order to avoid the loss of EU funds and to continue entrusting tasks related to the execution of the budget for other measures under the program; continue to implement the action plan in a timely manner to ensure alignment with the EU acquis in the field of agriculture and rural development. PR 2020 p. 110. - Accelerate the implementation of IPA II pre-accession funds in order to avoid the need for last minute contracting. PR 2019 p. 74. - To implement the measures entrusted under the IPARD II program and request the entrustment of tasks related to the execution of the budget for other measures under the program. PR 2019 p. 74. - To continue with the implementation of the action plan for harmonization with the acquis communautaire in the field of agriculture and rural development.
7.	Boosting industrial competitiveness	Creating a focused and better coordinated industry development policy through digitalization of business models of industrial production, increasing the volume of investments in industry and improving the technological structure of exports, in coordination with the Smart Specialization Strategy.	Strategy of industrial policy of the Republic of Serbia from 2021 to 2030	PR 2020 p. 107 - develop an action plan for the implementation of the new industrial strategy using the conclusions obtained from the implementation of smart specialization, as well as to start its implementation. EKOFIN 2019 P4 - Use the results of the implemented smart specialization activities in order to finalize the new industrial strategy.
8.	Introduction of circular economy concept	The goal of the reform is to start the development of the economy while preserving the environment and human health. It is planned to define a strategic framework for the circular economy by drafting a public policy document, encouraging the introduction of the concept of the circular economy in economic entities through the allocation of circular vouchers to encourage cooperation between business and academia, as well as encouraging the creation of circular economies for the local communities.	National Environmental Protection Program Voluntary report of the Republic of Serbia for the realization of the goals of the UN Agenda 2030 for sustainable development Stabilization and Association Agreement	
AREA: BUSINESS ENVIRONMENT AND THE FIGHT AGAINST GRAY ECONOMY				
9.	Improvement of the quality of public services through optimization and digitalization of administrative procedures - e-paper	Establishment of the Unified Public Register of Administrative Procedures and Other Business Conditions, simplification and abolition of redundant procedures (guillotine of regulations) and digitalization of the most frequent	Program for the simplification of administrative procedures and regulations "ePaper" for the period 2019-2021	PR 2020 p. 107. - make additional efforts to increase the predictability of the business environment. ERP ASSESSMENT EC 2019 - One of the three main structural challenges of Serbia is improving

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations²¹
		administrative procedures. In addition to administrative procedures for the economy, a list of administrative procedures for citizens is planned, as well as their optimization and digitalization.	E-government development program for the period 2020 to 2022	the transparency and predictability of the regulatory environment and facilitating competition.
10.	Tax Administration transformation	Transformation of the Tax Administration as a reform process with the aim of creating an organization characterized by modern digital business, orientation towards providing services to taxpayers, as well as providing services in accordance with the best international standards. In the next phase, reengineering of business processes, further development of the information systems platform, as well as the procurement of systems for the new ICT platform are planned.	Tax Administration Transformation Program 2015-2020 Action Plan of the Tax Administration Transformation Program 2018-2023	PR 2020 p. 100. - continue to implement the Tax Administration reform program in order to simplify the activities of the Tax Administration, while providing sufficient human and technological resources for this purpose, improving tax collection and combating the informal economy. PR 2020 p. 107. - make additional efforts to increase the predictability of the business environment.
11.	Introduction of a new fiscalization model and transition to electronic invoicing	Structural reform involves two measures. The first measure involves the introduction of a new model of fiscalization (e-fiscalization) through a centralized digital platform within the Tax Administration, as well as online transmission and verification of data sent from fiscal cash registers to the Tax Administration. The second measure involves the introduction of a centralized platform for the exchange of electronic invoices in the segment between legal entities, i.e. B2B, as well as in the segment of business and transactions of the private sector with the public sector, i.e. B2G.		PR 2020 p. 107. - make additional efforts to increase the predictability of the business environment.
12.	Improvement of geospatial sector through development of a strategic digital platform to support investment decision-making	Creating a strategic digital platform of the geosector enables the availability of combined data sets through web services, their efficient, fast and quality exchange, which enables citizens and businesses easier identification and comfortable access to desired data, crucial for quality investment decision making. It is planned to update the address register and establish its interoperability, develop the regulatory and strategic framework of the NSDI, improve the National Geospatial Platform, as well as harmonize, combine data for the development of prototypes of the mass assessment system.	Strategy of measures and activities for increasing the quality of services in the field of geospatial data and registration of rights to real estate in the official state records - the reform path of the Republic Geodetic Authority until 2020 NSDI Law	PR 2020 p. 107. - make additional efforts to increase the predictability of the business environment. EC ERP EVALUATION 2019 - The process has rightly been identified as a major potential challenge and should contribute to the real estate taxation system and increase property tax revenues locally. Greater involvement of the ministry and the judiciary in the process is needed, which is currently the sole responsibility of the Geodetic Authority.
13.	Improvement of spatial development management in the Republic of Serbia through establishment of e-space digital platform	The reform represents a digital transformation in the domain of planned spatial development management in order to improve the efficiency and effectiveness of development decision-making and better management of spatial development policy. Digitalization of data and procedures of urban and spatial planning and the formation of a digital platform e-Space are planned.		PR 2020 p. 107 - make additional efforts to increase the predictability of the business environment.

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
AREA: RESEARCH, DEVELOPMENT AND INNOVATION AND THE DIGITAL TRANSFORMATION				
14.	Support for scientific research activity through strengthening scientific research capacities	The reform of the research sector implies considering the capacity of scientific research institutes, with the aim of improving the quality of scientific research work, adequate use of financial resources and research equipment. Also, it is planned to continue supporting Science Fund Programs, which provide support to the best scientists, teams and their ideas.	Strategy of scientific and technological development of the Republic of Serbia for the period from 2016 to 2020 - research for innovations Law on the Science Fund	PR 2020 p. 112 - further increase national research funding; encourage more intensive cooperation between industry and academia, in line with the national research strategy.
15.	Improvement of institutional support for the development of smart specializations and innovations	Establishment of a new instrument of institutional support for innovative entrepreneurship and development of cooperation between the economy and the academic sector through the Business Acceleration Program financed by the Innovation Activity Fund. Also, support is provided for the establishment and activities of the Institute for Artificial Intelligence, with the aim of using artificial intelligence in the function of economic growth, employment and a better quality of life.	Strategy of scientific and technological development of the Republic of Serbia for the period from 2016 to 2020 - research for innovations Smart specialization strategy for the period from 2020 to 2027 Strategy for the development of artificial intelligence in RS for the period 2020-2025	PR 2020 p. 112 - start implementing the Smart Specialization Strategy. PR 2019 p. 8 - New financial instruments need to be developed in order to better respond to the needs of companies, especially the most innovative ones.
16.	Increasing the availability of e-government by improving infrastructure and introducing new technologies	Digital transformation of the public sector, through the strengthening of infrastructure, as a basis for the application of ICT and e-government in the process of providing services to the economy, citizens and the public sector. The reform includes the establishment of the State Center for Data Management and Storage in Kragujevac, the procurement of a state-of-the-art high-performance computer system and the digitalization and automation of urban areas through mass installation of sensors, their connection and communication.	Strategy for the development of artificial intelligence in the Republic of Serbia for the period 2020 - 2025 Electronic government development program in the Republic of Serbia for the period from 2020 to 2022	PR 2019 p. 7 - Digital economic growth in Serbia is stable; however, a more comprehensive and coherent approach to digitization and effective stakeholder coordination is recommended.
17.	Development and improvement of the national information and communication infrastructure	The reform includes the development of broadband access networks by providing state incentives to jointly build communication infrastructure, create detailed maps of the availability of broadband access services, improve conditions for the development of digital education and increase the use of e-government services.	Strategy for the development of electronic communications in the Republic of Serbia from 2010 to 2020 Information society development strategy in the Republic of Serbia until 2020 New generation network development strategy until 2023	PR 2019 p. 72. - Harmonizes its legislative framework in the field of electronic communications with the 2009 EU regulatory framework. (Recommendation can also be found in PR 2018. p. 68.) PR 2019 p. 72. - Take measures to ensure the implementation of competition measures and facilitate operators' access to telecommunications infrastructure (channels, antennas, optical infrastructure and fixed telephony infrastructure). (Recommendation can also be found in PR 2018. p. 68.)
AREA: REFORMS IN THE FIELD OF ECONOMIC INTEGRATION				
18.	Improving conditions and removing barriers to trade	The reform envisages the continuation of the WTO accession process, the implementation of the Multi-Annual Action Plan for the Creation of a Regional Economic Area (MAP REA), the implementation of activities under CEFTA Additional Protocols 5 and 6 and the opening of	Law on Ratification of Additional Protocol 5 to the Agreement Amending and Accession to the Central European Free Trade Agreement (CEFTA 2006) Law on Ratification of the Decision of the Joint Committee between the EFTA States and the Republic of Serbia No. 2/2018	PR 2020 p. 125. - complete WTO accession by adopting amendments to the Law on Genetically Modified Organisms and completing the remaining bilateral market access negotiations; further strengthen MTTF's administrative capacity to manage trade with the EU, accede to CEFTA and accede to the WTO; implement actions under the multi-

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
		negotiations on CEFTA Additional Protocol 7, as well as the activities of the National Coordination Body for Trade facilitation (NCBTF).	amending Annex IV of the Free Trade Agreement between the EFTA States and the Republic of Serbia on Trade Facilitation Decision of the Government of the Republic of Serbia on the establishment of the National Coordination Body for Trade Facilitation	annual action plan for the development of the REA, in particular to: ensure the full implementation of Additional Protocol 5 on trade facilitation to the CEFTA agreement; implements Additional Protocol 6 on trade in services to the CEFTA agreement; negotiate and conclude Additional Protocol 7 on Dispute Resolution to the CEFTA Agreement; and adopt regional standards for international investment agreements and continue to implement an individual investment reform action plan.
19.	Safe and quality product - industry development factor	The reform envisages financial support to economic entities in improving competitiveness, i.e. safety and quality of products and services, using the latest standards in production and business organization. Also, the construction of a unique digital service "Product-Info" is planned, with the aim of improving information and availability of digital services in connection with the application of technical regulations.	Strategy of industrial policy of the Republic of Serbia from 2021-2030	PR 2020 p. 92. - develop a comprehensive strategy for alignment with the acquis, implementation and enforcement of the acquis in the field of food safety, veterinary and phytosanitary policy. PR 2019 p. 60. - In the part of the non-harmonized area, as a horizontal measure, it is recommended to establish detailed procedures for the functioning of the Product Contact Point (PCP).
AREA: EDUCATION AND SKILLS				
20.	Qualifications oriented to the needs of the labor market	Continuation of the reform of secondary vocational education by improving the model of dual education through the establishment and implementation of a framework for monitoring and evaluation of dual educational profiles, which enables data-based decision making and ensures the quality of dual education, as well as infrastructure and training centers. As one of the answers to the new epidemiological situation, an online database will be created, which will contain teaching units that are implemented in educational institutions and topics for learning through work in companies. In terms of the implementation of the NOKS system, it is planned to pilot the procedure of recognition of prior learning, as well as to enter data into the NOKS Register.	Education development strategy in Serbia until 2020 Dual Education Law Law on the Dual Model of Studies in Higher Education Law on the National Qualifications Framework of the Republic of Serbia Adult Education Law	PR 2020 p. 113. - make the institutional structure for the NQF fully functional. PR 2019 p. 93. - Link the NQF to the European Qualifications Framework and make the institutional structure fully functional.
21.	Digitalization of the education system and introduction of a uniform information education system	The reform implies the introduction of the Unified Information Education System, as an IT basis for the modernization of management and decision-making, which will contribute to the modernization and digitalization of the education system. It is also planned to develop a repository of open educational resources (didactic materials), as a database of digital resources for schools.	Education development strategy in Serbia until 2020 Law on the Fundamentals of the Education System Rulebook on the Unified Information System of Education Rulebook on detailed conditions in the procedure of assigning a unique educational number	PR 2020 p. 113. - increase the participation of children in preschool education, especially children from vulnerable areas.
AREA: EMPLOYMENT AND LABOUR MARKET				
22.	Improvement of the administrative environment for encouraging, supporting	The reform includes the development of a unified system for collecting data on economic migration, strengthening the	Strategy on economic migration of the Republic of Serbia for the period 2021-2027	EC EVALUATION 2019 - Emigration of workers, primarily to the EU, poses long-term risks to the expansion of the labor market. In

SR No.	Title of Structural Reform	Description of Structural Reform	Reference Documents	Recommendations ²¹
	and tracking circular and economic migrations	mechanism for monitoring the Serbian diaspora and general economic migration, as well as improving and implementing procedures for the return of the diaspora. In order to encourage return, tax and other incentives related to new employment will be additionally promoted, through communication with the economy and returnees. One of the steps in building trust with the diaspora will be to establish dialogue and understanding through activities and research.	Exposition of the Prime Minister Strategy of industrial policy of the Republic of Serbia from 2021-2030 Smart specialization strategy for the period from 2020 to 2027 Strategy for the development of artificial intelligence in RS for the period 2020-2025	addition to the lack of job opportunities, higher wages abroad are a key factor in brain drain. Structural reforms need to pay more attention to their retention. Significant differences in labor market participation, education and the transition from school to work have not yet been addressed in a strategic way. The constant brain drain, including people with certain skills, risks exacerbating labor shortages in the future, given demographic trends.
AREA: SOCIAL PROTECTION AND INCLUSION, INCLUDING HEALTH CARE				
23.	Improvement of the adequacy, quality and targeting of social protection measures	The reform implies the establishment of a single Social Card Register, which will enable an overview of the social and material status of users. It is planned to connect social protection institutions, and primarily centers for social work, into a single network, as well as to collect and use data from all available sources of state administration. It is also envisaged to establish a regulatory framework by adopting appropriate laws and bylaws.	Employment and Social Policy Reform Program in the EU Accession Process (ESRP) Action plan for the implementation of the Government program EGovernment Development Program in the Republic of Serbia for the period 2020-2022 Law on Social Protection	EKOFIN 2020 P4 - Expand social protection coverage. ECOFIN 2020 P6 - Strengthen social transfers to ensure adequate income support for people at risk of poverty and social exclusion. PR 2020 p. 105. - provide adequate financial and institutional resources for employment and social policy in order to be more systematically targeted at young people, women and the long-term unemployed, and to improve the adequacy of social benefits for people below the poverty line; ensure consistent implementation of labor and social protection legislation throughout the country.
24.	Digitalization of the healthcare system	The reform implies the establishment of central electronic health services that will greatly increase the efficiency of the system, eliminate unnecessary patient involvement and contribute to the quality of diagnostics and treatment. The single electronic health card will establish a mechanism of digital authorized access to the patient's information and will enable him electronic access to his own health information. Also, the introduction of digital technologies for radiological imaging and central storage of radiological imaging is planned.		EKOFIN 2020 P6 - Ensure adequate and sustainable funding to strengthen the health care sector in order to improve access to quality public health care for all citizens.

5.3. ANALYSIS BY AREA AND STRUCTURAL REFORMS

5.3.1. Area ENERGY AND TRANSPORT MARKET REFORM

a) Analysis of main obstacles

Serbia's energy sector accounts for about 4% of the country's GDP. In order to increase the contribution of the energy sector to economic growth, it is necessary to improve energy efficiency, build modern capacities, develop the internal market and use renewable energy sources. It is necessary to intensify reform measures and activities, harmonize the legislative framework with the EU acquis and achieve a greater degree of regional cooperation.

Activities related to functional unbundling in the gas and electricity sectors continued²². The procedure of legal and functional unbundling of AD Elektromreža Srbije transmission system operator (EMS) has been completed. AD EMS has been certified as a transmission system operator by the Energy Agency of the Republic of Serbia, since 2017, in accordance with the provisions of the Law on Energy. Unbundling procedure of PE EPS and distribution system operator "EPS Distribucija" d.o.o. Belgrade is in progress and will be done in accordance with the Conclusion of the Government of 17 December 2020, the accepted Plan for the implementation of activities aimed at the reorganization of "EPS Distribucija" d.o.o., Belgrade. The implementation of this plan will ensure the **independence** of the distribution system operator in terms of legal form, organization and separation from other activities not related to electric energy distribution activities and full compliance with the Law on Public Enterprises and the Law on Energy. The reorganization process will be completed by 1 May 2021. Further restructuring of JP EPS (PE Electric Power Industry of Serbia) and implementation of activities envisaged by the Corporate Governance Action Plan of JP EPS continues.

The Action Plan for the implementation of the Government's policy for the period 2020-2022 foresees the digitalization of administrative procedures in the field of energy sector by the end of 2022. Digitalization will speed up procedures and make it easier for parties to exercise their rights in the field of energy.

Also, it is necessary to improve the legal regulations and digitalization of business processes within the Sector for Geology and Mining, digitalization of geological documentation and improvement of the operations of the Geological Survey of Serbia. In order to speed up the process of submitting applications and issue licences more efficiently, to monitor and control geological research and exploitation of mineral raw materials, groundwater and geothermal resources, as well as introduce e-government, the Law on Mining and Geological Research was amended. During 2020, 10 business processes were completely digitalized. Digitalization of geological documentation would contribute to the improvement of the work of the Geological Survey of Serbia and facilitate the distribution of geological data to potential users.

Activities on unbundling of JP Srbijagas have continued²³. By unbundling the activities of Srbijagas, the company Transportgas Srbija d.o.o. Novi Sad was formed, performing transport and management of the natural gas transmission system, and the company Distribucijagas Srbija d.o.o. in charge of distribution and distribution system management. It is necessary for the Energy Agency of the Republic of Serbia (AERS) to expand its own capacities and enhance regulatory activities. Due to failure to comply with certification conditions, AERS revoked the certificate of the transmission system operator from the company Jugorosgaz - Transport d.o.o. Niš. On 10 December 2020, the Government of the Republic of Serbia adopted a Conclusion related to the reorganization of JP Srbijagas with a plan for implementation of activities aimed at reorganization, which will be implemented in 2021.

The introduction of a modern supervisory and management system and the installation of state-of-the-art equipment is a prerequisite for enhancement of the energy distribution network.

²²2019 ECOFIN Council Recommendation

²³2019 ECOFIN Council Recommendation

Transmission System Development Plan for the period 2020-2029 and the Transmission System Investment Plan for the period 2020-2022 envisage provision of secure electricity supply, development of the electricity market at the national and regional level, increase of transmission capacities and development of corridors of regional and pan-European importance. Development Plan for the electricity distribution system and the plan for the implementation of advanced energy metering systems have not yet been adopted. The introduction of mandatory functionalities of advanced metering systems in the relevant regulations will help the introduction of compatible advanced metering systems in Serbia, which is especially important in the natural gas sector where 32 natural gas distribution system operators operate. The establishment of the SCADA system for remote monitoring and control of the gas transmission system has begun. Works on the installation of new substations and the introduction of mobile substations have been intensified, while the automation and modernization of medium voltage distribution networks continue.

The development of the gas market is limited due to the existence of a regular natural gas transportation system with only one entrance into the country from Hungary. It is necessary to ensure non-discriminatory third party access to the gas pipeline from the direction of Hungary in accordance with the Law on Energy. Bulgaria-Serbia gas interconnection project will enable diversification of gas supply routes and sources and connection with the Southern Gas Corridor. Works on the line part of the Balkan Stream project have been completed and the supply of the Republic of Serbia with this gas pipeline has started on 1 January 2021. AERS has approved the rules on the operation of the natural gas transmission system Gastrans d.o.o. Novi Sad governing relations between operators and users, which is to be connected to the Bulgarian and Hungarian national gas pipeline systems.

The development of the electricity sector and regional cooperation is restricted by outdated and inefficient production capacities (average age over 30 years). Investment in the construction of new, technologically advanced, production capacities, and those that use renewable energy sources, would contribute to the preservation of the environment, reduction of losses in electric power production and satisfy the growing demand for electricity and gas. The construction of a new coal-fired unit of TPP Kostolac B with installed capacity of 350 MW has continued and the plan is for the unit to be connected to the grid by the end of 2022. As part of the Trans-Balkan Corridor, the construction of a 400 kV transmission line on the Kragujevac-Kraljevo route has begun, and funds have been provided for the construction of a 400 kV transmission line on the Obrenovac-Bajina Bašta route. The construction of 500 MW wind farms and a new 200 MW gas-fired unit in Pančevo continued, and the construction of HPP Buk Bjela with a capacity of up to 200 MW is planned. In the following period, the development of projects from unused hydro potentials (Morava, Ibar and Drina) will continue, as well as the project of the reversible hydropower plant Bistrica. Units in HPP Zvornik and HPP Djerdap 1 have been upgraded (one of the 6 units remains to be upgraded) which will contribute to higher power generation capacity and lower maintenance costs. Stability and regular production of coal and electricity was achieved during the COVID-19 pandemic, as indicated by an increase in coal production in April 2020 of 6% y-o-y. During the pandemic, there were no delays in energy products supply and jobs in the energy sector were preserved.

According to the **Republic of Serbia 2021 Energy Balance** ("Official Gazette of the RS", No. 156/20), performance in 2019 was as follows:

- Net import dependence was 35.645% (34.8% in 2018).
- Total domestic primary energy production amounted to 10.205 million tonnes of oil equivalent (Mtoe). Coal was mostly used source 6.826 Mtoe (accounting for 6,609 Mtoe in 2018) for primary energy production.
- Total energy supply amounted to 15.265 Mtoe (15.370 Mtoe in 2018). Most of it being coal (7.506 Mtoe) and oil (3.722 Mtoe) (lower consumption of coal and oil compared to 2018).
- Final energy consumption (not including non-energy consumption) was 8.386 Mtoe (8.470 Mtoe in 2018). Gross electricity production amounted to 3.233 Mtoe or 37600 GWh (3.218 Mtoe or 37426 GWh in 2018). Most of it was generated by power plants 2.197 Mtoe or 25546 GWh

(higher production of electricity in thermal power plants compared to 2018 when it amounted to 2.147 Mtoe or 24975 GWh).

- Domestic electricity production meets the country's needs, except in winter when electricity has to be imported. Crude oil and natural gas largely originate from imports. Domestic crude oil production meets 26.8% of Serbia's needs (production 881,000 tonnes/production 881,000 tonnes + net imports 2,407,000 tonnes), whilst domestic natural gas production is sufficient to cover 16.2% of needs (production 439 million m³/production 439 million m³ + net imports 2,263 million m³) (in 2018, 25.1% of crude oil needs and 17% of natural gas needs were met from domestic production).

It is necessary to set the price of electricity²⁴ for households and small-scale consumers so as to reflect the costs of electricity production network charges and market prices, taking into account the standard of living and protection of energy vulnerable customers. Energy vulnerable customers are determined on the basis of: the amount of total monthly household income adjusted to the consumer price index in the previous six months, the number of household members and property status. Households and small-scale consumers are entitled to be supplied with electricity and gas at regulated prices. The price of electricity is on average 20-45% lower than the price in other SEE countries. Energy tariffs of the network activities reflect the required extent of investment and maintenance in the electricity sector. The unregulated market accounted for 49.2% of all electricity consumption and 84.1% of all gas consumption by end-users in 2019. The last increases in the price of electricity were implemented in 2019 and 2020.

In view of the very high energy intensity, it is necessary to implement the adopted energy efficiency measures and use renewable energy sources. Serbia's energy intensity is four times the OECD average, especially due to electric heating. *The Regulation on Criteria for Sustainability of Biofuels* ("Official Gazette of the RS", No. 89/19) was adopted as a precondition for their use in the transport sector. The adopted *Decree on the share of biofuels on the market* ("Official Gazette of the RS", No. 71/19) prescribes the mandatory share of biofuels in the total fuel energy placed on the market of the Republic of Serbia. The National Action Plan for the Use of Renewable Energy Sources from 2013 defines the realization of 24.3% share of renewable energy sources in the gross final consumption in 2018. As per the latest data, 20.32% was achieved in 2018 (20.6% in 2017).

In order to establish a sustainable energy efficiency financing system, the Law on Fees for Use of Public Resources introduced fees for energy efficiency. Improving energy efficiency requires increase of financial resources, establishment of better institutional framework and strengthening human capacity for energy efficiency at the Ministry of Mining and Energy, cooperation and coordination with stakeholders, as well as the introduction of the energy management system. Most of the projects financed from the Budget Fund for energy efficiency improvement is related to improving the thermal envelope of buildings and thermotechnical system.

Existing power plants emit large amounts of harmful gases, including greenhouse gases, which affects the environment and human health. Most of the electricity in the Republic of Serbia is produced in thermal power plants (about 2/3) that use lignite as fuel, which has an adverse effect on air quality. *National Plan for the Reduction of the Main Pollutant Emissions from Old Large Combustion Plants*, adopted in February 2020, prescribes maximum emissions of sulphur dioxide, nitrogen oxides and dust particles per year. Particle pollution has been reduced and a contribution has been made to the denitrification and desulphurisation of flue gases through investments in coal quality management systems, systems for the reduction of sulphur and nitrogen oxides and the installation of electrostatic precipitators. The construction of the flue gas desulphurisation system in TPP "Nikola Tesla A" in Obrenovac is underway, and should be completed in mid-2022, which will contribute to 10 times less emission of sulphur dioxide, and the flue gas desulphurisation project at TENT B has begun and should be completed in the first quarter of 2024. *The Law on Fees for Use of Public Resources*, has introduced environmental protection and improvement fees. Polluters are required to

²⁴2019 ECOFIN Council Recommendation

pay amounts in proportion to the type and quantity of pollution released. The amount of the fee is determined by the local self-government units for each calendar year. The revenues from such accrue to city and municipal budgets.

In the transport sector, there is a high level of alignment with the EU acquis. In the upcoming period, it is necessary to improve the work of inspection services, facilitate procedures at border crossings, improve road and railway infrastructure and enhance the level of road safety.

The construction and reconstruction of road sections is limited by the lack of funding. Within the infrastructure project Route 4 Belgrade-South Adriatic, the section Surčin-Preljina in the length of 120 km has been completed and opened to traffic (works on the section Preljina-Požega 30.9 km should be completed by the end of 2022). The construction of the highway Belgrade-Sarajevo (Sremska Rača-Kuzmin 18 km) and the Moravian Corridor (Pojate-Preljina 109.6 km) is in progress. Works continued on the construction of Sector B Bypass around Belgrade in sector B (31 km). The rehabilitation of 161 km of the highway out of the planned 200 km in 2020 has been completed. The reconstruction of 5,000 km of local roads is to commence.

Road tolls ought to be adjusted to ensure they correspond to the costs necessary for the maintenance of the road infrastructure. The transition to a new performance-based regular road maintenance system is under way. *Regulation on European Electronic Toll Collection* has been adopted for more efficient toll collection and processing of transactions at toll stations. There are 820 km of highways under toll collection and the number of users of electronic toll collection is increasing. Revenues from tolls decreased by 3.5% and the number of vehicles in road traffic by 5.4 million in the period January-July 2020 as compared to the same period last year. Due to the impact of the COVID-19 pandemic, the volume of passenger (decrease of 1.6%) and net tonne-kilometres (decrease of 0.5%) in road traffic was realized in Q1 2020 compared to Q1 2019. The volume of international transport also decreased: the total number of passenger vehicles entering Serbia decreased by 7.8%, and the number of passenger vehicles leaving Serbia decreased by 12.6% in Q1 2020 compared to the same period in 2019. Continuity and regularity of the transport of goods and passengers will largely depend on how open border crossings are.

The outdated railway network restricts passenger and freight railway traffic. Serbia's railway network has a total length of 3,386.1 km (of which 1,273 km is electrified). The volume recorded in 2019 was 286 million passenger kilometres and 2.8 billion net tonne kilometres (a reduction in transport of passengers and goods compared to 2018 as a consequence of a large volume of infrastructure works), while in 2020, according to estimated data, 160 million passenger km and 2.69 billion net tonne km were recorded (a decrease compared to 2019, caused by the Kovid-19 pandemic and a large volume of infrastructure works). On most sections that are under reconstruction, the maximum load capacity of the railway is 22.5 tons with a maximum train speed of 10-30 km/h. A total of 324.7 km of regional and local railways were reconstructed and built, while 227.3 km of main railways were reconstructed, modernized and built, and works are underway on another 116.2 km of regional and local, as well as 143.7 km of main railways. As part of the project for the construction of the Belgrade-Budapest high-speed railway, works are underway on the Belgrade-Novи Sad line (expected to be commissioned by the end of 2021).

Conditions are being created for traffic safety management through changes in regulations, in order to reduce traffic accidents. Although the total number of road accidents in 2019 decreased compared to 2018 (the number of fatalities decreased by 2% and the number of injured by 3%), the number of road deaths is still above the EU average. With an aim at increasing the level of traffic safety, it is necessary to expand the capacities of the Railway Directorate as a regulatory body responsible for railway traffic safety, improve the work of inspection services and increase the number of road controls, raise awareness through education and adjust legislation in the field of vehicle safety, road design and maintenance. Prepared amendments to the *Law on Road Traffic Safety* will enable the installation of new traffic markings (traffic lights and railroad crossing markings), signs and regulations to be observed by traffic participants. Automation of road crossings (installation of vibro strips, solar markers and reflector lighting) has improved railway traffic safety. The regional

connection of railway traffic through the European Railway Safety Culture Declaration, which Serbia signed at the end of 2019, will also contribute to the increase of safety standards and working conditions.

Establishment and strengthening of combined/intermodal transport capacity continues through stimulus measures, however, although funds have been allocated for these purposes in the 2020 budget, due to the need to provide additional funds to eliminate the negative impact of COVID-19, the funds have been assigned for other purposes. This type of transport contributes to relieving the city centre, reducing traffic congestion and road damage and increasing road safety. Construction of the Intermodal Terminal in Batajnica, Belgrade, has started in 2020.

A large number of procedures creates congestion at border crossings and burdens security controls. In the past period, the expansion of border crossings has begun and administrative processes have been accelerated by the introduction of a larger number of passport scanners and goods scanners. The implementation of the "Green Corridors" system at certain border crossings has begun. Implementation of the project "Trade and Transport Facilitation" will enable the introduction of entirely electronic operation and the improvement of security controls in the field of customs operations. This project also includes the introduction of the "Single National Window" system (enables synchronization of the work of all services at border crossings), as well as the creation of conditions for the introduction of intelligent transport systems (ITS) on Corridor 10. The National Plan for the Implementation of the European Rail Traffic Management System (ERTMS) is also being prepared, as a basis for the introduction of ITS in railway traffic. The River Information Systems (RIS) system on the Sava and the Danube is currently in operation. **In order to develop ITS in the RS, it is necessary to adopt a strategic framework, adjust legislation and provide capacity for implementation**, which will improve the operation of customs services, reduce and simplify border procedures, reduce time delays at border crossings and improve regional cooperation.

In the areas of maritime and inland waterway transport a high degree of alignment with the EU acquis has been achieved. The total volume of freight transport on inland waterways in the Republic of Serbia amounted to 14.2 million tons in 2019, which is an increase of 20% relative to 2018. The types of cargo most commonly transhipped are gravel, sand and stone aggregates. The Law on Hydrographic Activity has further improved the conditions of navigation on inland waterways. Amendments to the *Law on Navigation and Ports on Inland Waters* enabled a more precise determination of the profitability of port services, the operations of port operators and the position of the Port Management Agency. Amendments to the Strategy for the Development of Water Transport of the Republic of Serbia from 2015-2025 enhanced the safety and security of maritime ships and facilities and the protection of the environment from pollution from ships pursuant to the international regulations. The adopted *National Program for Safety Protection of Ships and Shipyards* created the basis for increasing safety in navigable traffic. The strengthening of regional cooperation, active participation in the EU Strategy for the Danube Region and the implementation of RIS has continued.

Existing infrastructure capacities in the field of inland water transport limit the speed of transhipment in Serbian ports and the level of competitiveness of Serbian goods in foreign markets, but they are continuously improving. The realization of the project for the development of river transport infrastructure totalling EUR 400 million has continued, involving: reconstruction of navigation locks within HPP "Djerdap 1" and "Djerdap 2", expansion of the capacity of the Port of Smederevo, regulation of the waterway and critical sector on the Sava River, the salvage of sunken World War II-era warships, introduction of hydro-meteorological station and modern water traffic management system. Complete technical documentation is being prepared for expanding the capacity of ports in Bogojevo, Prahovo and Sremska Mitrovica, as well as for the construction of a new port in Belgrade, for the works of which funds are provided from EIB loans for port infrastructure development in Serbia, loans for integrated development of the Drina and Sava Corridors and the RS budget. *Decree on determining the port area of the port for special purposes - marina in Kladovo* ("Official Gazette of the RS", No. 11/20) and the *Decree on determining the port area of the port for special purposes - marina in Golubac* ("Official Gazette of the RS", No. 104/20) were adopted, which

created conditions for further construction and adaptation of river infrastructure. The development of the Detailed Regulation Plan for Lepenski Vir is in progress, which should enable further realization of the Project for the construction of an international passenger port in Lepenski Vir, and works on the construction of an international passenger port in the settlement of Ram are underway, too.

In the field of aviation, alignment with the EU *acquis* continues. Progress has been made in implementing the European Common Aviation Area Agreement. Amendments to the *Air Transport Law* have further improved security at airports and security checks and controls. The Regulation on Airspace Management enables more efficient use of airspace. In addition to Belgrade's Nikola Tesla Airport and Constantine the Great Airport in Niš, the third international Morava Airport near Kraljevo has started operating (this airport is planned to become a cargo-logistics centre in Serbia). The volume of business activity has been reduced due to the suspension of international passenger traffic caused by the outbreak of COVID-19. The number of passengers at the Airport "Nikola Tesla" in Belgrade decreased by 66.4% in the period January-July 2020 compared to the same period 2019, while the total amount of transported goods decreased by 16.3%. The Airport "Constantine the Great" in Niš saw its passenger numbers drop by 43.7% and transported goods by 63.8% in the period January-July 2020 compared to the same period last year. Starting from May 2020, air traffic has been gradually improving.

There has been growth in the number of employees in the construction industry by 10%, mostly in the context of rail and road construction projects by 14% in Q2 2020 compared to Q2 2019. There are currently about 61,000 active construction sites, which is 16,000 more construction sites compared to 2019. Business continuity of construction companies working on the largest infrastructure projects in the field of road, railway and waterway transport and utility infrastructure projects has been achieved.

b) Reforms

STRUCTURAL REFORM 1: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION

1. Description of the structural reform

The construction of transmission lines and upgrades of transformer stations within the Trans-Balkan Corridor (Phase I) includes a set of projects for the renovation of outdated electricity transmission infrastructure, in order to raise the level of security of electricity supply to consumers in Serbia and facilitate trade in energy products on national and cross-border markets. The total length of 400 kV transmission lines planned for construction in the next ten-year period is about 250 km, and the total estimated value is about EUR 130 million. The reform is in line with the *Program for the Implementation of the Energy Development Strategy of the RS until 2025 with projections until 2030 for the period 2017-2023* and contributes to the realization of **SDG 7.b** By 2030 expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in line with their support programs.

The reform includes the construction of the following facilities - electricity transmission section:

Section 1: - Double interconnection transmission line 2x400 kV Pančevo - Rešica, between Serbia and Romania, was released under voltage in December 2017 (from TS Pančevo 2 to the border with Romania).

Section 2: Construction of 400 kV transmission line TS Kragujevac 2 - TS Kraljevo 3 (in progress), with raising the voltage level in TS Kraljevo 3 to 400 kV, which means construction of 400 kV plant in TS Kraljevo 3. Work on the construction of Section 2 began in June 2020 and is planned to be completed by the end of 2021.

Section 3: Raising the voltage level of the transmission network of Western Serbia to 400 kV voltage level between TS Obrenovac and TS Bajina Bašta, which means a new double 2x400 kV transmission line TS Obrenovac - TS Bajina Bašta, upgrade of TS 220/35kV Bajina Bašta in TS 400/220/35kV Bajina Bašta and equipping two 400 kV high-voltage transmission line fields in TS 400/220 kV

Obrenovac – development of design for construction permit for TS Bajina Bašta with an access road and the preparation of an Environmental Impact Assessment Study are in progress. Design for construction permit is being prepared for the transmission line.

Section 4: Double interconnection transmission lines 2x400 kV Bajina Bašta (Serbia) - Višegrad (BiH) - Pljevlja (Montenegro) with equipping a single conductor system - a project for a construction permit and an Environmental Impact Assessment Study are underway. Additional sensitivity analyses are being performed within the economic and financial analyses, which should show the required level of donation, in order for the economic effects on Serbian society to be positive, in case there is only one core of the submarine cable between Italy and Montenegro. Based on the preliminary design (completed in April 2020), an application was submitted for the issuance of location conditions.

2. COVID-19 – effects, measures and challenges

The pandemic had no impact on the implementation of reform activities. Construction work has been proceeding at the planned pace, and high protection measures have been applied on construction sites to prevent the spread of disease among workers. Stability and regular production of coal and electricity have been achieved during the pandemic.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Preparation of technical documentation for TL B. Bašta - Višegrad - Pljevlja												
2	Preparation of technical documentation for TL Obrenovac - B.Bašta												
3	Reconstruction and upgrading of TS Kraljevo 3 and reconstruction of TS Kragujevac 2, needed for the introduction of the new transmission line Kragujevac - Kraljevo*												
4	Construction of the Kragujevac - Kraljevo transmission line*												
5	Construction of the transmission line Obrenovac – B.Bašta**												

* Construction works on TS and TL are planned to be completed by the end of 2021. Operation permit should be obtained by the end of 2022.

** The start of construction of overhead power line is related to obtaining the adequate amount of the donation and signing the loan agreement

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
No. of kilometres of overhead power lines constructed (Section 2)	0 (2020)	60 (2021)	60 (2021)
Construction contract signed (Section 2)	0 (2020)	-	1 (2020)
Construction (Section 2)	10% (2020)	85% (2021)	100% (2022)
Commissioning (Section 2)	0 (2020)	0 (2021)	1 (2022)
Construction contract signed (Section 3)	0 (2020)	-	1 (2022)
Construction (Section 3)	0 (2020)	-	40% (2023)

5. Expected impact on competitiveness

This reform may reduce differences in the wholesale price of electricity between our region and Italy. Any such reduction is also greatly affected by the pace of construction of the undersea power cable linking Italy with Montenegro. The first phase of construction of this cable was completed, and the 600 MW cable was put into operation in November 2019.

6. Estimated costs of implementing structural reform and estimated sources of financing

Construction of the electricity transmission system Trans-Balkan Corridor, for the transmission line will be financed from EMS AD's own funds, donations and loans.

2021 - planned own funds of EMS AD EUR 179,010.96, credit funds EUR 12,307,841.35, donation EUR 4,854,736.30.

2022 - planned own funds of EMS AD EUR 105,841.76, credit funds EUR 1,581,866.87, donation EUR 1,511,324.79.

2023 - planned own funds of EMS AD EUR 18,906.72, credit funds EUR 15,620,000, donation EUR 7,210,000.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

New energy infrastructure may lead to the emergence of new transmission system users in the area under construction and to the expected increase in the number of employees. The impact of the development of the energy market on the gender aspect in the long run is reflected in the development of society as a whole, which implicitly opens greater opportunities for state assistance to socially vulnerable groups, on the other hand.

8. Expected impact on the environment

Minimal environmental impacts are expected, as preparations and construction follow the rules set out in the Environmental Impact Assessment Law and the relevant Rulebooks. The Trans-Balkan Corridor is part of the EU Investment Plan for the Western Balkans, providing financial support for the goals set by the European Green Deal.

9. Potential risks

Risk	Risk probability	Planned mitigating actions
Failure to secure project financing	High	Own-source financing to be supplemented by loan agreement
Securing credit funds	Low	Diversified applications with international financial institutions

STRUCTURAL REFORM 2: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH HARMONIZATION OF THE LEGISLATIVE FRAMEWORK AND ESTABLISHING A SUSTAINABLE MECHANISM FOR FINANCING ENERGY EFFICIENCY PROJECTS

1. Description of the structural reform

The reform will include the adoption of the new Law on Energy Efficiency in order to harmonize regulations in Serbia with EU regulations in the field of energy efficiency, enact bylaws, strengthen the capacity to implement energy efficiency policy, continue activities to finance energy efficiency and establish sustainable energy efficiency financing mechanism. The reform is being implemented in accordance with the *Program for the Implementation of the Energy Development Strategy of the Republic of Serbia until 2025 with projections until 2030 for the period from 2017 to 2023, Section 3.7. Area of Energy Efficiency in the Energy Consumption Sector* thus contributing to the achievement of **SDG 7.3** By 2030, double the global rate of improvement in energy efficiency.

In the previous period, the *draft of the new Law on Efficient Use of Energy* was prepared, the adoption of which is expected at the beginning of 2021, after which the drafting of bylaws will begin. The collection of energy efficiency fees based on the Law on Fees has been taking place continuously throughout the year, and the financing of energy efficiency projects is carried out through the activities of the Budget Fund for Energy Efficiency Improvement, loans from international financial institutions and bilateral donations. A sustainable way of financing energy efficiency has not been

established as planned. An analysis of possible options for establishing this mechanism within the IPA project was conducted, but no final decision was made on the choice of modalities.

In order to strengthen the capacity of the Ministry of Mining and Energy in the sector responsible for energy efficiency, 3 new positions have been systematized, and capacity building is being done through IPA.

2. COVID-19 – effects, measures and challenges

Due to the situation with the COVID-19 pandemic, works on around 10 projects financed by the Budget Fund were delayed so it was necessary to annex the relevant contracts in order to extend the deadline for project completion by of 2 to 4 months on average. Activities on IPA projects have slightly slowed down.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Amendments to the Law on Efficient Use of Energy												
2	Provision of sustainable funding for energy efficiency												
3	Adoption of bylaws in order to ensure complete alignment with EU energy efficiency regulations												
4	Collection of energy efficiency charge pursuant to Law on Charges												
5	Financing of energy efficiency projects												
6	Strengthening the capacity to implement energy efficiency policy												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
% of realized energy savings through the implementation of EE projects in relation to energy consumption in the year before the project implementation	0 (2020)	20% (2021)	20% (2022)
Sustainable financing of energy efficiency projects established	no	yes (2021)	yes (2022)

5. Expected impact on competitiveness

Alignment with eco-design rules will ensure only energy-efficient products are marketed in Serbia, on the basis of which energy savings of about 100 ktoe are expected by 2023. Sustainable funding should increase energy efficiency, both in the public sector (by about 40% per project) and amongst enterprises and citizens. Large-scale energy consumers and public-sector entities are expected to save about 1% of primary energy annually, which will increase competitiveness in the economy and reduce outlays by beneficiaries of public funds.

6. Estimated costs of implementing structural reform and estimated sources of their financing

Until the establishment of a sustainable financing mechanism, energy efficiency projects will be financed through the Program Activity: *Incentives for Promotion of Energy Efficiency* (since earmarked funds from fees do not flow directly into the Budget Fund), as well as through development loans and donor support. Capacity building will also be done through trainings within various projects. In addition, IPA projects will carry out activities to raise awareness of the importance of investing in energy efficiency.

It is expected to establish a sustainable way of financing energy efficiency projects at the beginning of 2021. In that sense, funds are planned for the employment of 2 new employees, procurement of IT

equipment (one-time), purchase/production of specialized software, office supplies as well as for operating costs and technical assistance (around EUR 388,000 including one-time costs and operating costs), out of which for around EUR 260,000 the source of funding remains to be determined. It is expected to complete the amendments of the Law on Efficient Use of Energy at the beginning of 2021 with IPA technical assistance, as well as other activities for which the funds are provided in 2021 from IPA 2014 (around EUR 0.777 million and contribution from the RS budget of around EUR 0.086 million). In 2021, activities are also planned for the establishment of a body for conformity assessment of products under Directives 2009/125 and 2010/30 from IPA 2016 (EUR 0.525 million without contribution from the budget). Energy efficiency projects will be financed from the RS budget through the Budget Fund for Improvement of Energy Efficiency (EUR 4.17 million) and local self-government funds (around EUR 1.79 million - 30% contribution). From 2019, the funds for financing energy efficiency in the budget are collected from fees. Revenue in 2021 is expected to be around EUR 9 million. Funds for financing energy efficiency in 2021 are provided from donations (investments of around EUR 5.15 million from the SECO donations, and technical assistance for implementation of investments: SECO – EUR 0.43 million, KfW district heating V – around EUR 0.8 million, KfW - BMA EUR 0.11 million and CEB EUR 0.255 million) and loans (KfW district heating V – EUR 1.5 million, KfW- BMA EUR 0.2 million and CEB around EUR 0.483 million).

In 2022 it is planned to hire two new employees within the sustainable mechanism for financing, while the operating costs will be covered from the budget of the Republic of Serbia (around EUR 52,836 for salaries and around EUR 0.1 million for other costs, including the purchase of cars). For financing energy efficiency projects EUR 9 million are expected from the budget (from fees), around EUR 1.93 million from contributions of local self-government units and around EUR 6.75 million from participation of citizens (not visible in the budget). In addition, funds from IPA 2021 in the amount of EUR 4.25 million are planned to support operation of sustainable way of financing (out of which EUR 0.75 million for technical assistance and EUR 3.5 million for investments). Bylaws related to the Law on Efficient Use of Energy are expected to be drafted in 2021, as well as the implementation of activities of raising awareness and establishing body for assessing compliance and increasing capacity of market inspection from IPA 2014 funds (around EUR 0.116 million and budget contribution of around EUR 0.013 million) and IPA 2016 funds (around EUR 0.413 million). Besides that, the implementation of investment activities is expected to be financed from loans (EUR 8.5 million - CEB, EUR 11 million KfW DHS phase V and EUR 5.2 million - KfW – BMA), along with supporting donations (EUR 5.27 million for all loans).

In 2023, the costs are increased for the employment and work of two new employees within the sustainable financing mechanism. Costs for financing energy efficiency projects from the budget of the Republic of Serbia and local self-government units, as well as participation of citizens, are planned to be at the same level as in the previous year. It is expected to provide support from IPA 2021 funds of additional EUR 5 million for investments and around EUR 0.75 million for technical assistance for the sustainable mechanism for financing. From the loans for realization of investments, it is planned to spend EUR 48 million (EUR 8 million from KfW DHS phase V, EUR 15 million - CEB, KfW BMA EUR 25 million) and donations for the realization of these loans (EUR 1.37 million).

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The implementation of the reform may have a significant impact on the increased demand for labour force due to the need to implement numerous energy efficiency projects, especially in connection with the implementation of building construction projects. The implementation of energy efficiency projects will cut the cost of energy, which will also aid in reducing poverty.

8. Expected impact on the environment

The reform will reduce energy consumption, which will have a favourable impact on the environment and reduce emissions of all flue gases, including greenhouse gases, that being in line with the objectives of the European Green Deal.

9. Potential risks

Risk	Risk probability	Planned mitigating actions
The law will not be adopted on time	Moderate	Draft law has been prepared
Delay in introducing sustainable funding arrangements	Moderate	Until sustainable funding has been ensured, projects will be financed from the budgetary Fund for Improvement of Energy Efficiency
Poor administrative capacity	Moderate	Technical assistance has been secured

STRUCTURAL REFORM 3: RAILWAYS REFORM THROUGH HARMONISATION OF THE REGULATORY FRAMEWORK AND ENHANCEMENT OF RAIL TRANSPORT SAFETY

1. Description of the structural reform

Serbia has been intensively implementing activities on railway sector reform since 2015. Given the complexity and lengthiness of these processes (in parallel with creating conditions for sustainable business, further market opening, improvement of services and investment in infrastructure), as of 2019 this reform has become more specific and focused on improving safety and regulatory framework. The main activities that were defined then, and which will remain in focus in the coming period, are: adoption and application of a new Methodology for Calculating Railway Infrastructure Access Charges in line with the Regulation on the method and modalities of calculating the costs incurred as a direct result of operating the train service (“Official Gazette of the RS”, No. 48/19) i.e. the Commission Implementing Regulation (EU) 2015/909, which aims at cost-based access prices and enabling a more predictable market, then, improving safety, especially with regard to level crossings (contribution to the achievement of **SDG 11.2**. By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improve road safety), with the view to reducing the number of accidents, as well as harmonising the law with the IV package of regulations, which will contribute to creating efficient and a sustainable railway system. In addition, all investments in railways directly aid the implementation of the European Green Deal, given the technical characteristics and environmental benefits of this mode of transport.

2. COVID-19 – effects, measures and challenges

The impact of the COVID-19 pandemic on economic activity is being actively monitored, in order to minimize the impact on the railway sector. In the first half of 2020, compared to the same period in 2019, there was a decrease in the volume of transported goods (national railway carrier) by about 11% (net tonne-kilometres) and about 14% (transported tons), while the number of passengers transported was by 45% lower. Given the uncertainty of the epidemiological situation, and even the uncertainty of economic trends, it is not possible to give a clear estimate of when the normalization of these indicators is expected. Also, the regularity of transport of goods and passengers will largely depend on whether the border crossings are open. The share of railways in the total volume of transported goods is the final indicator of the success of this structural reform (the share of rail transport in the total transport of goods amounted to 22.5% (tonne-km) in 2019).

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Harmonisation of railways legislation with EU Fourth Railway Package												
2	Enhancement of rail transport safety												
3	Application of new Methodology for Calculating Railway Infrastructure Access Charges												

4. Performance indicators

Indicator	Baseline (2015)	Intermediate target (2019)	Target (2023)
Volume of freight carried (tonnes)	11,882,000	11,499,000	13,070,200
Cumulative number of reconstructed level crossings (raising security levels or replacing devices with new ones)	2	19	220*
No. of rail accidents	253**	221	150
Kilometres of railways reconstructed (refurbished) (cumulatively since 2015))	36.3	552	1,092.3

*The number depends on the expected amendments to the Law on Road Traffic Safety (planned changes of technical solutions i.e. methods of securing level crossings).

**Data as of 2017, bearing in mind that before 2017, emergency situations were classified in a different way.

5. Expected impact on competitiveness

The ultimate goal of the reform of the railway sector is to increase competitiveness, not only within the sector, but also to raise competitiveness in relation to other modes of transport. Reform completed to date has created an open market at the national level (currently 2 state-owned and 10 private carriers are active). Work is still underway to increase the efficiency of restructured companies, but given the current level of market development, railway users already benefit in terms of carrier choice. In addition, investments in capital projects affect the growth of industrial production, employment of the domestic economy, reduction of unemployment and GDP growth.

6. Estimated costs of implementing structural reform and estimated sources of financing

The Methodology for Calculating Railway Infrastructure Access Charges is currently being finalized. In addition, the activities related to alignment with the 4th package and safety improvement begun. In connection with these two activities, and also with the implementation of the Methodology after its adoption, the additional costs of the reform relate to the estimated value of the work of additional employees engaged in the Ministry of Construction, Transport and Infrastructure and the Railways Directorate (based on temporary contracts, financed from the budget), in the total amount of EUR 145,618 for a period of 3 years (additional EUR 1,250 are estimated by the Railways Directorate for the needs of hiring consultants for the application of the Methodology during 2021). To increase railway safety, funds have been secured from a World Bank loan for the modernization of level crossings in the amount of EUR 10.9 million (realization started in 2020, expected works: 40% in 2021, 30% in 2022 and 30% in 2023), while the World Bank has approved in principle the proposal of the funds for the modernization of level crossings in the amount of around EUR 22.6 million (expected realization at 50% in 2022 and 50% in 2023). A request was also submitted for the reallocation of the remaining funds from the EBRD loan²⁵ (around EUR 10 million, expected realization at 33% per year in the period 2021-2023), while around EUR 480,000 under the existing projects relate to raising the level of safety at level crossings (2021).

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Increased economic activity leads to greater employment at both rail transport companies and the users of their services, which directly results in poverty reduction. Gender equality is especially taken into consideration when increased employment is concerned. On the other hand, the impact of COVID-19 on economic activities is actively monitored, with the aim of minimizing its impact on the railway sector.

8. Expected impact on the environment

Improvements to the railways have a beneficial effect on the environment, as rail transport is considered environmentally beneficial or even the "cleanest" mode of transport. This characteristic of the railway is based on its technical features, namely for the given energy consumption it is feasible

²⁵ The EBRD agrees in principle, and a formal adoption of the decision is expected in the following period.

to transport a larger amount of goods and passengers relative to other competitive modes of transport, but also because it uses electricity as fuel. For all these reasons, the increased share of railways in the market of transport services directly contributes to the achievement of the goals of the European Green Deal.

9. Potential risks

Risk	Probability	Planned mitigating actions
Loss of freight and passenger traffic due to large-scale infrastructure works and COVID-19* impact	High	More efficient implementation of projects by Infrastruktura Železnica Srbije, provision of alternative routes, and removal of all obstacles to eliminate delays, development of a new Methodology that is in the function of the impact of COVID-19 (EC recommendation to EU countries as a temporary measure to support the railway sector by choosing to reduce the price of access to public railway infrastructure, defer payment or abolish payment obligations, for all railway carriers using railway infrastructure, which could be achieved by amending/adoption of a new methodology).
Delayed enactment of regulations	Low	Daily communication with consultants drafting the Methodology and concerted effort by Working Parties tasked with developing legislation

*Impossible to assess the exact effect of a large-scale work independently of the impact of COVID-19 on the decline in the volume of rail transport

5.3.2. Area AGRICULTURE, INDUSTRY AND SERVICES

a) Analysis of main obstacles

Relatively high share of GVA of the agriculture, forestry and fisheries and food production sectors in the total GDP of Serbia (6.3% and 2.6% in 2018 and 6.0% and 2.3% in 2019) is partly the result of favourable natural conditions (geographical position, natural resources, climate) and resources for agricultural production (agricultural land used for farming accounts for some 40% of the national territory), but is also the consequence of low technological level of the rest of the economy. Agricultural potential is not fully exploited due to lack of technological development in all branches of agriculture and sparsely populated rural areas.

Agriculture²⁶ accounted for some 19.4% of all employment in Q3 2020²⁷ (230 thousand people in formal employment, but also 341 thousand undeclared workers). Due to the special characteristics and conditions of seasonal work in the sector of agriculture, forestry and fisheries, the new legal regulation enables a simplified way of employment of persons and payment of taxes and contributions for seasonal work in this sector.

The value of exported processed agricultural products (meaning products with added value) rose by 11.9% y-o-y in 2019 (EUR 862.9 million), whilst **the value of primary (non-processed) agricultural products exported** recorded growth of 14.1% y-o-y (EUR 2.31 billion). **The share of agri-food products** in total exports, which amounted to 18.5% in 2019, **increased by one percentage point** compared to the previous year, as a result of a significant increase in the value of exports of agri-food products (EUR 3.24 billion or 13.5%) in relation to the increase in the total value of exports (7.7%), during 2019 compared to 2018. Maize, frozen raspberries and cigarettes accounted mostly for high export results achieved.

On the other hand, **the share of imported agri-food products** in total imports, totalling 7.8% in 2019, **remained at the same level** as in the previous year, bearing in mind that the growth in the value of total imports is at the same level as the growth in the value of imports of agri-food products (EUR 1.87 billion or about 9%).

²⁶ Agricultural activities means activities from the sector of agriculture, forestry and fishing, as well as those from the sector of household activities of an employer related to jobs in agriculture.

²⁷ SORS, Labor Force Survey, Q3 2020.

Exports of agricultural and food products amount to EUR 2.3 billion the period January-August 2020, which represents an increase of 9% y-o-y. At the beginning of the COVID-19 pandemic, there were restrictions on the export of flour, sunflower oil and sunflower seeds, while the export of wheat, corn and soybeans went on without restrictions and delays. Favourable weather conditions and permission to sow even in times of restriction of movement, resulted in the spring sowing going according to plan and without major difficulties.

During the state of emergency, the markets were closed for health and safety reasons, which had a great impact on the marketing of fresh fruit and vegetables. In this regard, the Ministry of Agriculture, Forestry and Water Management has launched a **platform for the sale of agricultural products eMarket Serbia**²⁸, which began operations in April 2020. Websites and electronic sales networks have been founded in order to maintain continuity in the sale of agricultural products.

Although **diversification** is envisaged under Serbia's strategic framework for rural development, **infrastructure is yet to reach levels at which it is able to support a broader supply of agricultural products to the market**. The first public call for the submission of applications for approval of projects for IPARD incentives for diversification of farms and business development was published in 2020.

Findings of the World Bank's latest Enabling the Business of Agriculture 2019 report²⁹, which involves a standardized data set for 101 countries around the world, reveals the great potential of Serbian agriculture. The total value for Serbia is 81.35 (out of a possible 100), i.e. as per individual indicators: seed procurement – 57.01, fertiliser quality – 93.73 (Serbia has introduced an upper limit of the maximum allowed content of heavy metals in the fertilisers used), water management – 60.00, mechanization – 96.83, livestock breeding – 100, plant protection 90, food market – 73.24 and access to finance – 80.

The low economic power of the majority of agricultural operators together with insufficient technical and technological equipment poses the main challenge to the development of Serbia's agriculture (farms and other legal forms). The majority of farms are small or medium-sized engaging in extensive farming, without specialized production in a particular sector. Farms of up to 5 hectares in area account for 71.47% of the total number, while the average area of utilised agricultural land in Serbia comes to 6.16 ha³⁰. Such farms are too small to be competitive either in marketing products directly in the European markets or in selling raw materials for further processing. The inefficiency of the consolidation process regulated by the Law on Agricultural Land ("Official Gazette of the RS", No. 62/06, 65/08 - other law, 41/09, 112/15, 80/17, 95/18 - other law) is reflected in the average duration of the procedure from the adoption of the consolidation program by the assembly of local self-government to vesting the owner in property of consolidated areas, which takes about 3 years and 4 months³¹. The fragmentation of estates means a significant portion of arable land goes uncultivated, which discourages investment in agriculture, holds back productivity growth, and makes hiring more difficult. Inflows of FDIs into agriculture amounted to just 1.5% of Serbia's total FDIs in 2019 (4.4% in 2018), indicating that foreign investors find this sector minimally attractive. In Q1 2020, the inflow of FDIs in agriculture came to EUR 4.4 million (a drop of 67.4% y-o-y).

Reduction of the rural population and out-migration of young people is the result of the poor economic position of the rural population and unfavourable infrastructure. In the implementation of national rural development support measures, as well as the accredited IPARD measures that are currently implemented, young farmers have the advantage of scoring and ranking projects/beneficiaries. Regulation on the allocation of subsidies in agriculture and rural development to support young farmers resulted in disbursement of 200 million dinars.

²⁸<https://pijaca.minpolj.gov.rs/>

²⁹ WB Enabling the Business of Agriculture 2019, The data in this study are topical as of 30 June 2018, not reflecting changes after this date <https://openknowledge.worldbank.org/bitstream/handle/10986/31804/9781464813870.pdf?sequence=7&isAllowed=y>

³⁰SORS Survey on the structure of agricultural holdings, 2018. <https://publikacije.stat.gov.rs/G2019/Pdf/G20196002.pdf>

³¹Source: <https://naled.rs/htdocs/Files/01428/Komasacija-vodic-web.pdf>

The share of irrigated areas is low (at about 5.4% of the total area of agricultural land in use), but in the previous period, since 2017, works³² that create conditions for irrigation of about 47,954 ha of additional areas of agricultural land have been completed. In order to continue the implementation of the project "Development of irrigation systems - Phase I" in 2020, 10 contracts were concluded for the construction, rehabilitation and arrangement of water facilities in the area of Bačka, Banat and Srem, as well as construction, reconstruction and modernization of water facilities in Čačak, Pančevački rit and Topola. In 2021, financing of the construction work, rehabilitation and arrangement of water facilities through the implementation of 8 projects in the area of Bačka, Banat and Srem is planned to be continued, which will provide conditions for irrigation of additional 57,248 ha of agricultural land, as well as construction of hydromelioration system on the territory of the municipality of Paraćin. Also, through the implementation of the Serbian Climate Resilience & Irrigation Programme SCRIP - Phase I, building and rehabilitation of the critical irrigation infrastructure in eastern Serbia (Negotin municipality) and central Serbia (Svilajnac municipality) has been planned. In the municipality of Negotin, this project will provide water for irrigating fields of 870 ha that have not been irrigated so far, as well as water for 1,100 ha of land that is currently partially irrigated from the existing irrigation system from the old privatized pumping stations, while in the municipality of Svilajnac, a new irrigation system will cover approximately 1,040 ha of land. Procurement of irrigation systems for agricultural holdings is supported through national measures to promote rural development and through the IPARD programme.

Lack of effective mechanisms to combat drought and other unfavourable weather conditions results in sub-optimal yields. To reduce damage caused by natural disasters, the Government has been subsidising insurance premiums. The amounts earmarked for this purpose have been increasing over the years. The number of insured farms rose from 2,594 applications in 2006 to 22,413 in 2019 (21,467 for crop insurance and 946 for animal insurance), when over 600 million dinars was disbursed.

The budget of the Ministry of Agriculture, Forestry and Water Management (MAFWM) in 2020 amounts to 50.7 billion dinars³³, which is a decrease of 7.2% compared to the previous year. Also, in addition to the absolute reduction of budget funds of the MAFWM, the share in the total budget of the Republic of Serbia has dropped by 0.24 percentage points in 2020. About 70% of the total budget of the MAFWM in 2020 is allocated for incentives in agriculture and rural development, the distribution of which is defined by the *Decree on allocation of incentives in agriculture and rural development in 2020*³⁴.

Farmers must be registered with the Farm Register (FR) as commercial holdings in active status in order to be eligible to apply for funds from national subsidies or funds from the IPARD fund. Currently, 444,200³⁵ agricultural holdings (AH) are registered in the FR, of which 440,306 are registered as natural persons, while only 3,894 are registered as AH having the status of a legal entity. This ratio indicates how underdeveloped business environment is in the context of agricultural activities.

A total of nine open calls for IPARD support have been advertised. A total of 1,748 applications were submitted for the approval of projects. A total of 564 requests in the amount of EUR 77 million were approved on 16 December 2020. EUR 44 million of 564 approved requests were contracted, and a total of 204 requests worth EUR 12 million were paid by 16 December 2020. The general goal of the IPARD Program is to increase the efficiency, competitiveness and sustainability of agricultural production in the agri-food sector, e.g. by progressive harmonization with EU standards, improving the position of farmers in the food chain and providing support to young farmers. Farmers were given

³²Works on enhanced maintenance of canals - dual-purpose systems Rečej, Meda, Itebej, Jankov most I and II, on construction of pumping stations Kaloča, Jegrička and Pesir and works on subsystem Nova Crnja - Žitište and Tisa - Palić, Kikinda - CS Mokrinska II have been completed, Mali Iđoš, as well as works on the construction of the section of the canal Kula - Mali Iđoš, from km 10 + 310 to km 15 + 300 on the subsystem Mali Iđoš and the hydromelioration system in the area of Šabac.

³³The Law on the 2020 budget of the Republic of Serbia, ("Official Gazette of the RS", No. 84/2019, 60/2020)

³⁴("Official Gazette of the RS", No. 1/2020, 13/2020, 27/2020, 52/2020, 75/2020, 106/2020, 118/2020, 124/2020)

³⁵<https://www.trezor.gov.rs/files/services/rpg/statistika/Broj%20registrovanih%20poljoprivrednih%20gazdinstava.pdf>

assistance for purchasing new machinery and equipment, procurement of new tractors, construction and equipment of facilities, creating storage capacities, equipping processing facilities, processing and marketing of agricultural and fishery products, as well as support for investments in renewable energy sources. The first public call related to the diversification of agricultural holdings and business development (Measure 7) was announced in June 2020 and ended on 30 October 2020 with 311 requests received. There are many difficulties in the initial phase of IPARD implementation. The limited number of persons hired and trained in the Directorate for Agrarian Payments has led to slower processing of applications. The procedure of processing requests and spending funds has been further slowed down due to the submission of incomplete requests by beneficiaries.

Self-reliant work without a tendency to association, insufficient level of investment in agriculture and fragmented market chain limit the development of agricultural activity. It is necessary to support investments in sectors where Serbia has comparative advantages (fruit, vegetable, livestock production sectors), improve business management and provide adequate logistical support.

As in the case of EU member states, which will implement the provisions and postulates of The European Green Deal in their national legislation and multi-annual strategic plans, the future legal framework in the field of agriculture in the Republic of Serbia will include the goals and activities of this plan, in terms of establishing a fair, healthy and environmentally friendly supply chain of food products, and through reduced use of pesticides, fertilisers and antibiotics, as well as reduced risk of their use on the one hand, and improvement of environmental protection and biodiversity conservation, on the other. The process of development of IPARD III programme is under way which is being prepared in line with the European Green Deal. It is planned to simplify procedures and introduce advance payments in order to increase the absorption of funds. All investments in machinery and equipment that are the subject of support must meet the standards concerning the emission of harmful gases.

Industrial production recorded a growth of 0.3% in 2019 (with manufacturing growth of 0.2% y-o-y). The share of industry in the creation of total GVA was 24% in 2019. Foreign direct investment in manufacturing also contributed to industrial recovery (26.8% of total FDI in 2018, and 26.1% in 2019). Employment in manufacturing rose by 3.3% y-o-y (14,759 people) in 2019 especially in the production of food products (growth of 4.1% y-o-y). **Lack of imported raw materials, disruption of retail chains and reduced demand** contributed to the decline in business in the industrial sector during the **COVID-19 pandemic**. Industrial production is lower by 1.8% in the period January-June 2020 compared to the same period in 2019. By sectors, in the period January-June 2020 there was a growth in mining industry of 3.8% y-o-y, a decline in manufacturing of 1.5% y-o-y and a decline in supply of electricity, gas, steam and air conditioning of 5.6% y-o-y. A gradual recovery in the industrial sector has been recorded since June 2020, when industrial production grew by 2.6% y-o-y.

Exports of total industry recorded a growth of 7% y-o-y in 2019 (manufacturing industry 7.2% y-o-y accounting for 91.9% of total merchandise exports), while the imports of total industry in the same period grew by 10.1% y-o-y (manufacturing industry 10.9% y-o-y). However, in the period January-June 2020, there was a decline in industrial exports of 10.2% y-o-y and a decline in industrial imports of 7.3% y-o-y. The slowdown in export growth is a consequence of declining domestic and external demand.

A higher degree of digitization of production processes, as well as the application of innovations in the field of digital and disruptive³⁶ technologies in industry are necessary to improve competitiveness. According to the World Economic Forum 2019 Global Competitiveness Report Serbia is ranked 83rd of 141 countries for growth index of innovative companies in 2019. Here, it is necessary to use the results of the creative sector and innovative start-up companies, in order to

³⁶*Disruption* - interruption, disturbance. The process by which a product or service starts as a simple application at the bottom of the market and climbs upwards until it suppresses competition.

efficiently, by using Serbia's human capital and the innovation of young people, raise the value of this traditional sector.

Considering the importance of the SMEs and sole traders sector and their timely awareness of the support programs available, **the Entrepreneurship Portal**³⁷ has been reactivated providing up-to-date information on start-up and business development programs. This portal proved to be extremely useful during the implementation of the first package of measures to help the economy during the COVID-19 pandemic, and the active work is currently being done on further improving of the experience of users.

In order to improve the strategic approach to industrial policy, the Government of the Republic of Serbia has adopted the **Industrial Policy Strategy of the Republic of Serbia 2021-2030** based on the guidelines of the European Commission for defining the strategy of industrial policy at the end of 2017, as well as guidelines related to the negotiating Chapter 20 – "Enterprise and industrial policy". The new industrial policy will create conditions for transforming the existing economy into a knowledge and innovation economy through digitalisation of business models of industrial production, development of higher stages of technological production, growth of investment quality, improvement of technological structure of exports, as well as development of promising industries that meet the requirements of environmental protection, which fully supports the goals of sustainable development, as well as development in accordance with the European Green Deal.

Higher activity of **service sectors** had the largest contribution to GDP growth, which, collectively, increased by about 4% in the last three years. In the first quarter of 2020, year-on-year real GVA growth was recorded in the wholesale and retail trade and repair of motor vehicles, transport and storage and accommodation and food services of 1.9% and in the information and communication sector of 11.8%. Higher activity in the service sectors is also indicated by the continuation of employment growth by 30,000 in 2019 as compared to the previous year. In the first six months of 2020, the trade turnover increased by 4.2% y-o-y.

Despite the double growth of the surplus (net exports) of **services** in 2019 (EUR 1,049 million) compared to 2014 (EUR 465 million), the share of the services surplus in GDP is still at a relatively modest level of 2.3 % in 2019 (increase by 1 percentage point compared to 2014). Realized growth in exports of services is 15% y-o-y in 2019 and the structure of exports by type of services has not changed in the last three years. Four groups of services are dominant: tourism, transport, IT services (telecommunications, computer and information services) and business services, with an average share of about 85%. The share of exports of ICT services in total exports of services increased by 7.6 percentage points (from 12.8% in 2014 to 20.4% in 2019), which indicates the potential of this sector as one of the healthiest branches of the economy. In the period January-June 2020, exports of services recorded a decline of 6% y-o-y, whilst the largest decline was in the tourism sector of 17.9% y-o-y as a result of the pandemic.

E-commerce recorded significant growth during 2019 and 2020. In the conditions of restriction of movement during the state of emergency due to the COVID-19 pandemic, it gained special importance, so that online trade **increased by 45%** in the period from April to August 2020 compared to the period before the outbreak of the crisis. In particular, the purchase of food increased by 200%, clothing by 100%, and technical devices and computer equipment by 50%. At the same time, the number of consumer complaints about the manner of exercising their rights increased by about 30%. The growth of buying and selling over the Internet is expected in the coming period, according to research by the Serbian Chamber of Commerce, as well as study by foreign experts according to whom e-commerce in Serbia should have 3.3 million users by the end of the year and generate revenue of about EUR 370 million. Publishing a guide for e-commerce intended for citizens on the online platform "Smart and Safe" is also aimed at strengthening e-commerce in Serbia.

The use of contactless payment in Serbia is continuously on the rise. There is a noticeable increase in the number of purchases of goods and services with payment cards and electronic money, on domestic

³⁷<https://preduzetnistvo.gov.rs/>

and foreign Internet sites, so that in 2019 over 12 million transactions were performed, which is an increase of 65% compared to 2018 when almost 7.7 million transactions were made. This positive trend continued into six months of 2020 (with 8.8 million transactions, which is an increase of 58% compared to the same period in 2019).

The number of virtual points of sale has also increased, so that in 2019 there were 1,139 virtual points of sale (with 741 registered in 2018), whereas at the end of Q2 2020, as many as 1,405 ones. Also, the instant payments system started to operate in October 2018 and since its inception, it has recorded a steady and continuous growth in the number and value of payment transactions (about 3.5 times more transactions compared to the previous year and about 2.5 times the total value of transactions). Thanks to the infrastructure of this payment system, instant payments are also possible at virtual points of sale. The benefits of these payments are reflected in lower processing costs and the immediate transfer and availability of funds, as well as in the fact that the payer makes instant payments at virtual points of sale in a secure environment of his bank, without having to enter or leave any information about his payment instrument on the Internet.

In the tourism sector, the total number of foreign tourist arrivals recorded an annual growth of 8% y-o-y, and the total number of overnight stays 9.6% y-o-y in 2019. Foreign exchange inflow from tourism in Serbia amounted to EUR 1.44 billion, which is an increase of 9.1% y-o-y. The negative consequences of the COVID-19 pandemic are mostly evident in the tourism sector. In the period January-November 2020, the number of foreign tourist arrivals (424,479) decreased by 75.1% y-o-y and the number of foreign tourists overnight stays (1,187,915) decreased by 67.9% y-o-y. In the mentioned period of January-October 2020, the foreign exchange inflow from tourism amounted to EUR 855 million having decreased by 26.7% y-o-y. According to the first estimates of MTTT, the damage in the tourism sector for the first five months in 2020 will amount to EUR 300 million. In response to the crisis in the tourism sector, the Government of the Republic of Serbia adopted the Decree on offering a replacement journey for a tourist trip that was cancelled or not realized due to the COVID-19 pandemic ("Official Gazette of the RS", No. 63/20). This decree stipulates that citizens who paid for a tourist arrangement by March 15, 2020, have the opportunity to arrange a replacement trip with the agencies, which they can use until 31 December 2021. Encouragement of the development of domestic tourism is implemented through the allocation of vouchers for subsidized use of accommodation services in hospitality facilities, on the territory of the Republic of Serbia for a period of at least five nights, outside the residence of the voucher user. In 2020, a total of 560,000 dinars was allocated for domestic tourism, and the novelty is the increase in the coverage of these vouchers (students, employees whose salary is below 70,000 dinars, as well as war invalids and civilian war invalids with incomes not exceeding the amount of 70,000 dinars per month are eligible to apply for vouchers). In order to overcome the current crisis in the tourism sector, in addition to state support, it is necessary to adjust the offer of tourist products and services in accordance with the newly arisen situation. Capacities in tourism need to be further improved in order to achieve sustainability and meet environmental goals and reduce global warming in line with the European Green Deal, as well as to implement destination management systems to innovate domestic destinations marketing and management systems.

b) Reforms

STRUCTURAL REFORM 4: IMPROVEMENT OF THE LAND CONSOLIDATION PROCESS

1. Description of the structural reform

The consolidation process aims to enlarge holdings, improve conditions for the development of agricultural production and significantly facilitate the creation of conditions (e.g. provision of appropriate areas) for the construction of public infrastructure facilities (access roads, irrigation and drainage systems, windbreaks, etc.). More efficient implementation of land consolidation procedure (on scattered parcels and fragmented holdings of agricultural producers) will be enabled through the establishment of a legislative framework that includes the preparation and adoption of the *Law on Land Consolidation*, amendments to the *Law on Agricultural Land* and the *Law on State Survey and*

Cadastre. The reform also involves digitization of the expert supervision procedure, transparency and strengthening of the mechanism to control the spending of budget funds, making available to the public the plans created during the implementation of land consolidation on the GeoSerbia National Geoportal and establishing an information system to support expert supervision in the land consolidation process. The reform is connected to **SDG 2**. End hunger, achieve food safety and improved nutrition and promote sustainable agriculture, i.e. contributes to the achievement of **SDG 2.3**. By 2030, double the agricultural productivity and income of small food producers and **SDG 2.4**. By 2030, ensure sustainable food production systems and implement sustainable agricultural practices to increase productivity and production, as well as **SDG 2.a** Increase investment in rural infrastructure, agricultural research and advisory services, technology development (2.a.1 Index of government expenditures directed on agriculture).

2. COVID-19 – effects, measures and challenges

Land consolidation procedure was implemented with difficulties due to the outbreak of the COVID-19 pandemic. Most of the consequences were manifested in the procedure of determining the factual situation for which the Commission for Land Consolidation invites the owners and/or land users to acknowledge the determined factual situation, whereof the minutes are made, or to make objections when inspecting the determined factual situation. During the state of emergency, the movement was limited in terms of time and the state borders were closed for some time. Due to that, the owners and users of agricultural land faced difficulties in responding to the invitations of the Commissions for Land Consolidation. For example, the introduced state of emergency due to the COVID-19 was one of the reasons why in the territory of the City of Smederevo, in parts of the cadastral municipalities of Šalinarac, Kulič and Smederevo, the procedure of taking the possession of new plots for land consolidation participants was stalled since March 2020.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Preparation and adoption of the legal framework for the implementation of land consolidation (Law on Land Consolidation, amendments to the Law on Agricultural Land, amendments to the Law on State Survey and Cadastre)												
2	Drafting and enacting bylaws based on the adopted set of laws												
3	Conducting training sessions for 9 employees on land consolidation in the Agricultural Land Management (ALM) and procurement of office equipment												
4	Adoption of a bylaw defining the Methodology for performing professional supervision in consolidation procedures (RGA)												
5	Introduction of information system to support the implementation of expert supervision in the consolidation process - control module												
6	Connecting the information system to support the implementation of professional supervision in the consolidation process with the information system of the Real Estate Cadastre												
7	Procurement of servers, software and network infrastructure at ALM												
8	Software and network infrastructure development at the Ministry of Agriculture, Forestry and Water Management												
8	Training of 100 employees at other bodies involved in the land consolidation process												

9	Implementation of pilot land consolidation										
10	Presentation of overview plans (existing condition, consolidation assessment of the value of the old condition land, project of the new condition, distribution of the consolidation mass) for public inspection on the GeoSerbia National Geoportal for all sites and pilot projects started in 2021.										

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Reducing duration of the land consolidation procedure (in months)	50 ³⁸ (2020)	/	Less than 36 (end of 2025)

5. Expected impact on competitiveness

Growth of agricultural production and competitiveness and sustainable management of natural resources through consolidation of land holdings is a strategic commitment of the state. More efficient implementation of the consolidation process enables: formation of plots of regular shape suitable for access to mechanization, development of roads, drainage and irrigation systems and construction of other facilities that contribute to rural development and creating conditions for implementing agro technical measures on state agricultural land and its leasing. Land consolidation is expected to grow, which will result in an increase in agricultural production and GDP growth.

6. Estimated costs of implementing structural reform and estimated sources of financing

The estimated costs for the consolidation of agricultural land in accordance with the estimated needs total EUR 2.8 million. Funds related to professional and administrative support in the management of agricultural land in 2021 are foreseen for the costs of salaries, and the source of funding is the budget of RS for the salary of one employee in the amount of EUR 10,452.

In 2022, funds in the amount of EUR 902,260 are foreseen for the needs of hiring experts to draft bylaws, for the costs of salaries, training and office equipment for the needs of five newly hired employees, translation services, server procurement and network infrastructure development, and the source of funding is the budget of RS for the salary of one employee in the amount of EUR 10,452, while the source of funding for the salaries of the remaining four employees in the amount of EUR 41,808 and for translation services, server procurement and network infrastructure development in the amount of EUR 650,000 has yet to be determined, and the remaining funds in the amount of EUR 200,000 are provided from the UNDP component project "Improving the management of abandoned state land".

Funds related to professional and administrative support in the management of agricultural land in 2023 in the amount of EUR 1.95 million are envisaged for the costs of salaries, training and office equipment for the needs of five employees, software development and costs of implementing pilot land consolidation and the source of funding is the budget of RS in the amount of EUR 10,452 for the salary of one employee, while the source of funding for the salaries of the remaining four employees in the amount of EUR 41,808 remains to be determined. Funds for the development of software, training and office equipment in the amount of EUR 1.3 million are provided from IPA 2021, and for the costs of implementation of pilot consolidation in the amount of EUR 600,000 the source of funding is the budget of RS through the implementation of the Annual program for protection, arrangement and use of agricultural land which, in accordance with the Law on Agricultural Land, is adopted by the Government of the Republic of Serbia.

It is not possible at this time to precisely identify the sources of financing for certain types of costs of the Ministry of Agriculture, Forestry and Water Management in the next three years. They will be

³⁸According to the NALED survey from 2018, the average duration of land consolidation projects is 50 months, except in pilot projects which were realized in a shorter time, but their procedure for receiving land consolidation studies and renewal of the real estate cadastre was longer. The results of the research are available at: <https://naled.rs/htdocs/Files/01428/Komasacija-vodic-web.pdf>.

partly financed from the RS budget, and partly from: 1) the proposed IPA 2021 project aimed to reform the system of classification of agricultural land and identification of state-owned abandoned land in the entire territory of RS in the amount of EUR 1.3 million and 2) from the UNDP project component “Improvement of management of state-owned abandoned land” which is implemented in the Agricultural Land Administration (implementation in progress and it is planned to allocate funds in the amount of EUR 200,000 in 2022 for implementation of this structural reform.).

The estimated costs of the Republic Geodetic Authority for the implementation of information system to support the implementation of expert supervision in the consolidation process (control module and integration module together with system maintenance costs) in 2021 amount to about EUR 400,000. The funds for 2022 and 2023 will be provided in line with the limits. The estimated cost of drafting the regulatory framework within the scope of the Republic Geodetic Authority (laws and bylaws), as well as the cost of hiring employees to carry out professional supervision are among the regular operating costs of the Republic Geodetic Authority which are financed from the budget of the Republic of Serbia and do not entail additional costs.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Measures to improve rural infrastructure, infrastructural land equipping, increasing the productive capacity of land, increasing the availability of land resources through land consolidation directly affect employment and poverty reduction. Following the land consolidation procedure, a mechanism for the transfer of unused land to young people and women may be established.

8. Expected impact on the environment

By accelerating land consolidation process, conditions are created for the enlargement of cadastral parcels, prevention of disturbances of natural land functions, preservation of the quality of agricultural land. The construction of a drainage system along with land consolidation creates a favourable water-air regime of the soil, which leads to the prevention of the negative impact of excessive water retention in agricultural soil and soil fertility decline. Also, transparency of the land consolidation process and public access to environmental information in the land consolidation area will be ensured.

9. Potential risks

Risk	Probability	Planned mitigating actions
A large number of persons interested in resolving property-legal relations and the complexity of the procedures to resolve them	High	Conducting public hearings, round tables and other ways of informing stakeholders in the process of adoption of the regulatory framework
Uncertain inflow of funds from the budget of the Republic of Serbia for conducting land consolidation in the part related to: implementation of pilot land consolidation projects, purchase of software and other equipment required for rapid exchange of data, funds available and earmarked in the RS budget refer to one calendar year	High	Designated funds in the budget of the Republic of Serbia during the reform and secured sources of additional funds up to the estimated value of planned costs
Impossibility to employ missing staff	Moderate	Systematize and fill job places hiring individuals with different educational profiles
Failure to adopt a regulatory framework within the planned timeframes	Moderate	Provide for the adoption of a regulatory framework in the Government's Work Plan for the next calendar year

STRUCTURAL REFORM 5: IMPROVEMENT OF THE FINANCIAL SUPPORT SYSTEM FOR AGRICULTURE THROUGH DIGITIZATION AND PROCESS AUTOMATION

1. Description of the structural reform

As in the process of EU accession and harmonization of domestic agricultural policy with the Common Agricultural Policy (CAP) it is necessary to establish appropriate systems for CAP implementation, there was a need to redefine structural reform 6 of ERP 2020-2022 aimed at expanding the scope of the measure since the Farm Register is only one element/instrument of the necessary Integrated Administrative Control System (IACS).

This structural reform, which implies a gradual digitization and process automation, will help improve implementation of the system of financial support to farmers enabling them to have easier access to available incentives. At the same time, it will enhance transparency and more effective creation of agrarian policy.

This measure, through the establishment of the new Farm Register, Land Parcel Identification System (LPIS), application system for processing Single Aid Applications of the farmers in line with the EU and other IACS elements should lead to the establishment of a functional IACS and automation of the application procedure and payment of incentives. The establishment of a functional Directorate for Agrarian Payments in accordance with EU rules, which includes introduction of a functional IACS, pursuant to the experience of previous accessions, will be one of the closing benchmarks in the Negotiating Chapter 11. The reform is connected to **SDG 2**. End hunger, achieve food safety and improved nutrition and promote sustainable agriculture, i.e. contribute to the realization of **SDG 2.a** Increase investment in rural infrastructure, agricultural research and advisory services, technology development.

The establishment of a functional IACS is to be done in parallel with the process of establishing a single MAFWM data bus that will serve to consolidate information generated by MAFWM bodies through standardization of the reporting process which will contribute to improving the efficiency of information sharing between MAFWM and constituent bodies as well as among the bodies themselves, all with the aim of increasing overall efficiency and effectiveness in decision-making. The reform is also connected to **SDG 15**. Protect and restore terrestrial ecosystems and promote their sustainable use, manage forests sustainably, combat desertification, prevent and reverse land degradation and prevent biodiversity loss.

2. COVID-19 – effects, measures and challenges

The outbreak of the COVID-19 pandemic indicated the benefits of digitalization and business automation. The established ways of submitting applications, their receiving, processing and decision-making, due to the instructions for performing these activities online to the greatest possible, demonstrated the shortcomings of the current system of work and the potential benefits of planned changes. The digitalization of business, in any case, speeds up processes and reduces the space for human error, but, as experience in the circumstances of COVID-19 epidemic has shown, it is necessary to well design the automated receiving, processing and execution of applications in digital format, which will be the biggest challenge in the coming period.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Development of the Roadmap on the establishment of the Directorate for Agrarian Payments												
2	Development of MAFWM information strategy												
3	Development of Farm Register software												
4	Development of LPIS software												

5	Integration of LPIS, Register of Animals and Farm Register											
6	Application system processing Single Aid Applications of farmers in accordance with the EU introduced											
7	Development of parts of the IACS elements											
8	Development of the MAFWM data bus											

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Software of the MAFWM Data Busis Operational	Not operational (2020)	Software development and system introduction in progress (2022)	Software of the MAFWM Data Busis Operational (2023)
GVA of the agriculture	EUR 2.8 billion (2019)	EUR 2.9 billion (2021)	EUR 3 billion (2022)

5. Expected impact on competitiveness

Accelerating the payment of incentives contributes to improving the liquidity of the overall value chain of primary agricultural production - processing.

Obtaining funds within the timeframe for upcoming agricultural works reduces the need for short-term borrowing and opens space for possible borrowing related to investment activities.

Improving liquidity affects the possibility of investing in fixed assets, which together affects the competitiveness of agriculture and can indirectly lead to an increase in credit support for investment loans in agriculture and processing.

6. Estimated costs of implementing structural reform and estimated sources of financing

In the first half of 2021, the development of the Roadmap on establishment of the Directorate for Agrarian Payments will be completed, which is financed as one of the activities of the project currently being implemented (IPA 2015 enhancing capacities for alignment with the EU acquis in the area of agriculture, rural development, food safety, veterinary and phytosanitary policy). Financing IPA 2015 project (total amount of EUR 2.3 million) has been fully approved from EU funds and no additional funds are planned for this activity.

During 2021, a Digital Strategy will be developed, which is financed within the Competitive Agriculture Project from the World Bank loan.

During 2021, procurement of new software for the Farm Register from the budget of the Republic of Serbia - source 01 in the amount of up to EUR 169,704.37 will be carried out, and in the following years the Farm Register will be taken over by the Treasury Department of the Ministry of Finance.

Funds in the RS budget are planned for the development of LPIS software and payment is envisaged in stages in the total amount of up to EUR 560,024.44.

During 2022, the system integration of LPIS, the Register of Animals and the Farm Register will be carried out. The source of funding of this activity remains to be determined.

The establishment of the Application System for processing Single Aid Applications of farmers in line with the EU will be financed as part of IACS, through planned IPA funds, without national co-financing.

The establishment of the IACS was planned through the IPA 2018 programming cycle. The service contract/technical assistance has been planned in the amount of EUR 2,900,000. The procurement contract has been planned in the amount of EUR 890,000.

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

Increasing the efficiency in the payment of subsidies for agricultural production and enhancing the effectiveness in planning agricultural policy measures contributes to the acceleration of the movement of goods and services in agriculture, effectively contributing to increasing employment and reducing poverty. Facilitated access to measures supporting agricultural production contributes to a level playing field between all market players. The resulting effect will be reflected in the proper allocation and faster payment of incentives. A direct impact on the gender aspect cannot be expected because the reform is gender neutral.

8. Expected impact on the environment

Establishment of IACS creates conditions for application of Common Agricultural Policy rules and Cross Compliance with environmental requirements for payment of subsidies as well as incentive pays for environmental measures which will contribute to landscaping, investment in reducing greenhouse effects in agriculture, effectively contributing to the requirements of the European Green Deal.

9. Potential risks

Risk	Probability	Planned mitigating actions
Delay in fulfilling the conditions for contracting the project / announcing the tender within the set deadline / lack of planned funds	Low	Implementation of all measures that contribute to the fulfilment of preconditions
Insufficient capacities of the Directorate for Agrarian Payments - number of employees and their timely training	Low	Amendments to the systematization adopted - recruiting new employees in the DAP planned in the coming period

STRUCTURAL REFORM 6: IMPROVEMENTS OF THE AGRICULTURE COMPETITIVENESS

1. Description of the structural reform

The reform, which aims to improve the competitiveness of agriculture, comprises two components: Enhancement of rural infrastructure and Improvement to the legal framework in the field of regulation of agricultural products market, quality schemes for agricultural and food products and in the field of organic production.

Enhancement of rural infrastructure

In order to raise the level of competitiveness of agricultural producers and to improve the quality of life in rural areas, it is necessary to improve rural infrastructure through the construction of: local roads; power network; water supply; as well as investments in environmental protection facilities such as wastewater treatment plants or landfills (**SDG 12.5**). By 2030, significantly reduce waste production through prevention, reduction, recycling and reuse). The beneficiaries of this measure are local self-government units (municipalities and cities) which, along with quality projects for the improvement of rural infrastructure, create conditions for greater competitiveness of domestic agricultural producers and processors. This action is aligned with the Law on Subsidies in Agriculture and Rural Development and the Strategy of Agriculture and Rural Development of the Republic of Serbia, 2014-2024. The implementation of the measure at the national level will enable the preparation of the state administration and end users (Local Self-Government Units) for more efficient use of EU IPARD pre-accession funds intended for rural infrastructure development, which are fully compliant with the European Green Deal. The reform is connected to **SDG 11**. Provide open, safe, and sustainable cities and settlements, i.e. contributes to the realization of **SDG 11.3**. By 2030,

improve inclusive and sustainable urbanization and capacities for participatory, integrated and sustainable planning and management of human settlements.

Improvement to the legal framework in the field of regulation of agricultural products market, quality schemes for agricultural and food products and in the field of organic production

Improvement to the legal framework in the field of regulation of agricultural products market, quality schemes for agricultural and food products and in the field of organic production implies the adoption of the Law on Agricultural Market Regulation, the Law on Quality Schemes for Agricultural and Food Sector and the Law on Organic Production and accompanying bylaws. The reform is connected to **SDG 2**. End hunger, achieve food safety and improved nutrition and promote sustainable agriculture, i.e. contributes to the achievement of **SDG 2.3**. By 2030, double the agricultural productivity and income of small food producers and **SDG 2.4**. By 2030, provide sustainable food production systems and implement sustainable agricultural practices to increase productivity and production.

The Law on Regulation of the Market of Agricultural Products should regulate markets by sectors in a unique way, with an emphasis on the introduction of standards in production and enable the formation of producer organizations. The adoption of the Law on Quality Schemes for Agricultural and Food Sector will establish a system of protection of geographical indications and designations of Traditional speciality guaranteed which is equal to the European one, which will allow our producers to sell their products with protected geographical indications and protection at EU level. Also, a more efficient quality control system for products with protected geographical origin will be established, and the development of national quality schemes will be enabled. The new Law on Organic Production will prescribe special rules for the production of agricultural and food organic products, animal feed, methods of control and certification procedures in organic production, transport, storage, labelling, sale, import and export of organic products, as well as other issues relevant to organic production. The reform also contributes to the achievement of **SDG 2.b**. Correct and prevent trade restrictions and distortions in world agricultural markets.

2. COVID-19 – effects, measures and challenges

The COVID-19 pandemic and the imposition of a state of emergency have had adverse effects on farmers. Measures introduced in the Republic of Serbia were aimed at all citizens, including the population engaged in agriculture. Shortly thereafter, it was realized that it was essential to alleviate some restrictions and allow the farmers to apply the necessary agro-technical measures, primarily due to the seasonal nature of the work that cannot be compensated, especially when it comes to frost protection. In this regard, the Ministry of Agriculture, Forestry and Water Management issued a public announcement prescribing instructions for applying for a license to move during curfew, intended for fruit and vegetable producers.

The programme of economic measures to support agriculture was adopted in April 2020, through three decrees: Decree establishing a guarantee scheme as an economic support measure to mitigate the consequences of the COVID-19, as well as the Decree on financial aid to agricultural holdings and the Decree on financial support to agricultural holdings through easier access to usage of loans in adverse economic conditions caused by the COVID-19. Spring sowing coincided with a period of restrictive measures, related to population movements, so it was quite difficult. Despite the difficulties in fulfilling the obligations, the agricultural producers completed the sowing on time and on the expected land areas. This is one of the reasons that, in addition to favourable weather conditions, high yields were achieved in the main field crops.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Preparation of rulebooks for the implementation of measures to improve rural infrastructure												
2	Training of employees who will implement the measure of improvement of rural infrastructure												
3	Announcement of a public call for measures to improve rural infrastructure												
4	Adoption of The Law on Regulation of the Market of Agricultural Products												
5	Adoption of bylaws												
6	Adoption of The Law on Quality Schemes for Agricultural and Food Sector												
7	Adoption of bylaws												
8	Adoption of The Law on Organic Production												
9	Adoption of bylaws												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
GVA of agriculture (source SORS)	EUR 2.8 billion (2019)	EUR 2.9 billion (2021)	EUR 3.0 billion (2022)

5. Expected impact on competitiveness

Enhancement of rural infrastructure

In order to realize investments that aid to develop competitiveness in rural areas, it is necessary to provide appropriate infrastructure. Enhancement of water supply and sewerage network, local roads and energy network contributes to the quantitative and qualitative development of processing plants and enables the construction of new storage and processing capacities. Construction of wastewater treatment plants and landfills will contribute to meeting environmental standards.

Improvement to the legal framework in the field of agricultural market regulation, as well as improvement to the legal framework in the field of quality schemes for agricultural and food products and in the field of organic production

The growth of agricultural competitiveness largely depends on the formation of an efficient market chain, which involves a wide range of new products, services and participants. The market chain in the domestic market is currently very fragmented and insufficiently organized, both in the field of production and processing, with an obvious deficit of bodies and organizations to provide adequate logistical support and as such, hinders further growth of competitiveness of agriculture and food sector.

Developing quality schemes for agricultural and food products will enable domestic producers to protect their products with protected geographical indications at EU level. Also, a more efficient quality control system of these products will be introduced, and the development of national quality schemes will be enabled.

Organic production is a complex method of production that must comply with strict legal norms consistent with the protection of human health and life, nature and the environment, which affects the added value of organic products.

6. Estimated costs of implementing structural reform and estimated sources of financing

Enhancement of rural infrastructure

The plan is to implement the reform in 2022 and 2023. The amount of funds for the implementation of the reform will be determined after the adoption of the rulebook. In order to implement the reform in 2022 and 2023, it is planned to hire new employees and purchase equipment for their work, while the source of funding for these activities remains to be determined.

Improvement to the legal framework in the field of agricultural market regulation, as well as in the field of quality schemes for agricultural and food products and in the field of organic production

Adoption of the Law on Regulation of the Market of Agricultural Products, as well as its implementation requires certain costs related to training, familiarisation of producers with the changes that will follow, procurement of hardware and software, increase of administrative capacity. The costs for adoption and implementation of the law will be provided through an EU-funded project in the amount of EUR 1,800,000 for the period 2021 to 2023, and the other part will be financed after the adoption of the law from the sources that will be determined later.

Adoption of the Law on Quality Schemes for Agricultural and Food Products and the Law on Organic Production as well as their implementation requires certain costs related to increasing administrative capacity, conducting trainings and information campaigns. The estimated costs of implementing the structural reform are provided through the twinning IPA 2014 project, which is being implemented in the period from 2019 to 2021, which is in the final phase, and the remaining funds for 2021 amount to EUR 113,997. The other part of these costs will be financed after the adoption of the law from the sources that will be determined later.

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

Enhancement of rural infrastructure

The structural measure directly affects the increased volume of employment and the reduction of poverty of the local population. The development of rural infrastructure enables individuals and legal entities to develop their own businesses - production and processing capacities, i.e. their self-employment and employment of the local population.

Improvement to the legal framework in the field of agricultural market regulation, as well as in the field of quality schemes for agricultural and food products and in the field of organic production

The application of the Law on Regulation of the Market of Agricultural and Food Products enables a legally regulated appearance of all entities on the market and will directly encourage the emergence of new legal entities in the sector of production, processing and trade of agricultural products, including employment. As a result of the implementation of the law, the formation and recognition of producer organizations as legal entities will be encouraged. The introduction of international standards will directly affect the increase of competitiveness of producers, both in the domestic and foreign markets. Impact on the gender aspect is expected to be neutral.

The implementation of the Law on Quality Schemes for Agricultural and Food Products will contribute to better regulation of the system of protection of geographical indications of agricultural and food products and the establishment of official control of products with geographical indications on the market. This will further encourage new producers to enter the system of protection of geographical indications and to associate. Impact on the gender aspect is expected to be neutral.

In recent decades, demand for organic products has been growing steadily, especially in the markets of developed European countries, and supply currently does not follow the growth in demand. Due to the preserved agro system and favourable climatic conditions, Serbia is in a better position than other countries in Europe, where the ecosystem has been significantly more disrupted in previous decades by the development of industrial production. Rural areas with high unemployment rates, which have all the conditions for production of organic food, can benefit from organic production.

8. Expected impact on the environment

Enhancement of rural infrastructure

Implementation of the structural measure for the improvement of rural infrastructure contributes to the preservation of the environment, since the investments in this regard are intended to finance the construction of wastewater treatment plants and waste management.

Improvement to the legal framework in the field of agricultural market regulation, as well as improvement to the legal framework in the field of quality schemes for agricultural and food products and in the field of organic production

Organic production is based on the biological balance of the system soil - plant - animal - human. According to the definition of Codex Alimentarius, it is a "holistic" production system that promotes and strengthens the agro ecosystem, health, including biodiversity, biological cycles, as well as the soil. The greatest benefit of organic production is that it contributes to the sustainable use and conservation of natural resources.

9. Potential risks

Risk	Likelihood	Planned mitigating actions
The main risk is reflected in the potentially small number of beneficiaries who managed to prepare quality projects for the enhancement of rural infrastructure	Moderate	Continuous education and expert support to users to prepare adequate projects
Failure to adopt laws	Moderate	Agricultural policy created in a way to support the measures outlined in the Law on Incentives in Agriculture

STRUCTURAL REFORM 7: BOOSTING INDUSTRIAL COMPETITIVENESS

1. Description of the structural reform

This reform will help create a focused and better coordinated industry development policy, as well as improve the efficiency of instruments for its implementation. The reform includes the implementation of measures defined by the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, which was adopted on March 5, 2020. The vision of this strategy is an open, regionally and globally competitive, investment-active, educated, innovative and digitally transformed industry of the Republic of Serbia that strongly supports economic growth and raising the quality of life of its citizens. The general goal of industrial policy is to raise the competitiveness of the industry of the Republic of Serbia. This goal directly supports the realization of a previously defined vision. In particular, the competitive industry of the Republic of Serbia gives a significant contribution to high sustainable economic growth, measured by the growth rate of national GDP and better quality of life of the citizens of the Republic of Serbia, measured by GDP per capita. The reform is connected to **SDG 9**. Build a resilient infrastructure, promote inclusive and sustainable industrialization and encourage innovation, i.e. contributes to the realization of **SDG 9.2**. Promote inclusive and sustainable industrialization and significantly increase the share of industry in the employment rate and gross domestic product by 2030.

The action plan for the implementation of this strategy will support the findings of the Smart Specialization Strategy, and special emphasis will be put on digital transformation, investment quality and improvement of the technological structure of exports, with support for the transition from linear to circular economy.

2. COVID-19 – effects, measures and challenges

The biggest negative effects of the corona virus pandemic in economic activity were noticeable in April, while the recovery followed from May, and that trend continued in the period June-August,

encouraged by the measures taken by the Government. Due to timely measures, in most production and service activities the recovery was faster than expected.

In addition to the above measures of the Government, a way to promote the performance of the economy and provide conditions for faster growth in the newly arisen circumstances is certainly to intensify the implementation of measures and activities envisaged by the Action Plan for Implementation of the Industrial Policy Strategy 2021-2030, and especially activities related to the digital transformation of the economy, encouraging investments in medium and high technologies and improving the environment.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Promotion and education in the field of business digitalisation, with the implementation of the Programme Supporting the Digital Transformation of industry in the Republic of Serbia												
2	Encouraging investments in industrial production through further improvement and adjustment of conditions and criteria for attracting investments, implementing investment incentive programmes, promoting the Republic of Serbia as an investment location, investment in the infrastructure of industrial zones and balancing regional development												
3	Encouraging export-oriented industry sectors through the implementation of programmes to support internationalisation and entry into the supply chains of multinational companies												

In 2021, it is planned to start implementing the activities from the Action Plan for the implementation of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, which will be adopted in the beginning of 2021, for the following three years. This strategy defines 5 specific goals, on the realization of which the achievement of the set general goal is based:

- Improving the digitization of business models of industrial production;
- Development of industry based on innovation and development of higher stages of technological production;
- Increasing the total volume of investments in industry with the growth of investment quality;
- Improving the technological structure of exports;
- Transformation of the industry from a linear to a circular model.

4. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2021)	Target (2023)
Percentage of industrial entities using ERP ³⁹ software	30% (2019)	/	45%
Share of investments in GDP	20.1%	/	24%
Full coverage of imports by exports in the medium/high-technology sector of industry	84%	/	90%
GVA of the manufacturing sector in total GVA	17.5%	/	19.5%
GVA per employee in the manufacturing sector, thousands of EUR	15.7	/	19

³⁹ERP software is software for integrated business management in real time, so that through the integration of all aspects of business into one system it allows optimal business decisions.

5. Expected impact on competitiveness

Within the processing industry in Serbia, the sectors of lower technological complexity and lower productivity (labour and resource-intensive activities) are still dominant, with the situation being more unfavourable for SMEs compared to large enterprises. The Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 puts emphasis on industrial restructuring in the direction of approaching innovative and technologically intensive sectors, while moving away from labour-intensive sectors. The Republic of Serbia will strive to use industrial policy measures to base its competitiveness and attraction of investments less on cheap labour, and more to invest in improving human resources through better education and training in accordance with requirements of the economy and to encourage the creation of innovative products with greater added value, by using the advantages of digital technologies in business and by economic cooperation of domestic companies with European and international partners. Significant progress is expected in the areas of digitalization of the economy, innovation, quality of investments and improvement of the technological structure of exports.

6. Estimated costs of implementing structural reform and estimated sources of financing

For the implementation of measures from the *Action Plan for the implementation of the Industrial Policy Strategy of the Republic of Serbia from 2021-2030*, for the areas of digitalization, investment and improvement of the technological structure of exports, funds will be provided from the RS budget as follows:

Digitization: 2021 - EUR 1,341,666.66 (subsidies amount to EUR 858,333.33, and goods and services EUR 483,333.33);

2022 - EUR 1,512,500 (subsidies amount to EUR 1,291,666.67, and goods and services EUR 220,833.33);

2023 – EUR 1,595,833.33 (subsidies amount to EUR 1,375,000, and goods and services EUR 220,833.33).

Investments: Due to very poor equipment, in the next three years, amounts of EUR 12,250,000 per year are planned for infrastructural equipment of industrial zones. Also, regulatory measures which should enable a higher level of investment in activities with higher added value and more balanced regional development are also planned.

Improving the technological structure of exports: Funds in the amount of EUR 83,333.33 per year will be allocated in the next three years for services related to the identification and support to the companies with export potential in areas of higher added value, especially in areas identified in the Smart Specialization Strategy.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

A significant number of measures from the Strategy and Action Plan, especially in the field of digitalization, innovation and circular economy, are dedicated to improving human resources through harmonization of education with the needs of the economy, but also numerous promotions and training that should trigger economic activity in these areas. In addition to the positive effects on the increase in the number of employees, the growth of living standards is expected due to the emergence of new jobs in medium and high technologies, and when creating activities for the implementation of the Action Plan, the gender aspect will be taken into account.

8. Expected impact on the environment

One of the special goals of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, which should contribute to raising the competitiveness of industry, is the transformation of industry from linear model to the circular one. The activities to be defined by the Action Plan will be a combination of promotional and incentive ones and will seek to raise the level of results in this area, which are currently at a fairly low level.

9. Potential risks

Risk	Probability	Planned mitigating actions
External risks		
Movement in the international commodity and financial market (prices of agricultural products, oil prices, prices of base metals)	Moderate	Stable macroeconomic policy Strengthening financial infrastructure (developed system of commercial banks and insurance companies)
Crisis and disturbance caused by the COVID-19 virus	High	Incentives for the most affected economic entities
Internal risks		
Agricultural production (as a raw material basis of the food industry)	Moderate (depending on climatic conditions)	Incentives to improve agricultural production and investments in equipment and machinery
Efficiency of realisation of public projects	Low	Financing and incentives for companies participating in the implementation of public projects
Dynamics of implementation of initiated reforms	Low	Increase capacities for realization of initiated reforms (financial, personnel...)

STRUCTURAL REFORM 8: INTRODUCTION OF CIRCULAR ECONOMY CONCEPT

1. Description of the structural reform

The introduction of circular economy as a multidisciplinary system and a cross-cutting topic is aimed at promoting economic development whilst safeguarding the environment and human health through the efficient use of resources with innovative design, the return of all that can be reused and the maximum use of renewable energy sources. In order to define the strategic framework for the circular economy, the *Ex-ante analysis of the circular economy effects* was prepared as a background document to develop policy document. Also, a *Roadmap for the circular economy in Serbia* in 2020 was developed, providing recommendations for the transition from linear to circular economy in the area of waste management.

The reform framework is defined by the *Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030*, which is the basis for the development of a public policy document *Circular Economy Programme with a Three-year Action Plan*, with an aim at creating a focused and better coordinated policy in this area. *Circular Economy is one of the key tools for achieving the Sustainable Development Goals*. The reform is connected to **SDG 12**. Provide sustainable patterns of consumption and production, i.e. contributes to the realization of **SDG 12.1**. Implement the ten-year framework of the Sustainable Consumption and Production Programme and **SDG 12.2**. Achieve sustainable management and efficient use of natural resources by 2030.

2. COVID-19 – effects, measures and challenges

COVID-19 pandemic has negative effects on the environment. In order to protect people's health from the virus, protective equipment (masks, gloves, disinfectants, etc.) is used, which significantly affects the increase in the amount of waste. The proposed measure is carried over from the previous year because due to the extraordinary circumstances caused by the pandemic, the activities on the preparation of the strategic framework for the circular economy could not be implemented and therefore ought to be postponed to the following year.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Preparation and adoption of policy documents for circular economy												

2	Introduction of the circular economy concepts in economic entities through cooperation between business and academic sector - circular vouchers											
3	Introduction of the circular economy concepts in local self - governments - circular communities											

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Circular Economy Programme with an Action Plan developed and adopted	0 (2021)	/	100% (2021)
Number of companies that will apply the circular economy concepts through circular vouchers	0 (2021)	/	10 (2022)
Number of LGUs that will develop local Roadmaps for the circular economy and become part of the circular community	0 (2021)	/	5 (2023)

5. Expected impact on competitiveness

The implementation of this structural reform will increase economic growth in the short, medium and long term. The concept of circular economy provides for the savings in terms of resources and energy, enables and encourages business growth and leads to new investments. The circular economy contributes to the creation of a more prosperous and competitive society through incentives for the establishment of small and medium enterprises and the development of technologies that save resources and energy and do not pollute the environment. Businesses that transition from a linear to a circular economy gain in competitiveness since new production methods lead to savings due to raw material and energy efficiency and waste reduction.

6. Estimated costs of implementing structural reform and estimated sources of financing

Development of the Programme for Circular Economy with the Action Plan is planned for 2021 and will be financed from the RS budget. The Action Plan will also estimate the costs of implementing reform measures in 2022 and 2023, and financial resources will be provided from the RS budget, EU funds and from international donors as well.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Increasing employment through development of the circular economy will depend on the size of public investment required to introduce this concept. Job creation in the circular economy may promote the employment of vulnerable groups and women. The final outcome of this structural reform are enhanced quality of the environment and quality of life for all members of the public, both women and men.

8. Expected impact on the environment

The introduction of circular economy concepts will have a direct bearing on the achievement of strategic objectives and attainment of applicable environmental standards in the short, medium, and long term. Pursuant to the European Green Deal, the circular economy has an important role in the development of a competitive economy that helps save resources and reduce greenhouse gas emissions.

9. Potential risks

Risk	Probability	Planned mitigating actions
Failure of other relevant sectors to acknowledge circular economy concept and failure to include this concept in public policy documents governing areas relevant for circular economy	Moderate	A multisectoral working group for circular economy has been established that brings together all relevant ministries, institutions, and international organisations (UNDP, GIZ, and OSCE) and is tasked with assisting in development of strategic framework for circular economy

5.3.3. Area BUSINESS ENVIRONMENT AND THE FIGHT AGAINST GRAY ECONOMY

a) Analysis of main obstacles

According to the **Global Competitiveness Index**, Serbia ranked **72nd** on the list of 141 countries in 2019, down 7 places from the previous year. Although the achieved value of the global competitiveness index this year remained unchanged compared to the previous one, due to the progress made by some economies, the relative position of Serbia on the ranking list has deteriorated. The COVID-19 virus epidemic has further worsened competitiveness - the consequences are most severe in the SME sector (especially from the quarantine period), and the well-planned and targeted state aid measures proved to be the main recovery factor.

Serbia's rating has been improved by 4 positions on the World Bank's international list "**Doing Business 2020**" compared to the previous year, and it is now ranked **44th** out of 190 countries. Serbia, along with Croatia, is the only country in the region that has made progress on the list this year, and for the third year in a row it is in the top 50 countries in the world in terms of ease of doing business, with only N. Macedonia (17th) and Slovenia (37th) of the countries in the region, who are ranking better on the table. Serbia has the best ranking in Dealing with construction permits - 9th position in the world, i.e. an improvement of 2 places, which was mostly the result of introduction of the system of electronic issuance of construction permits (e-permits). During the previous year, the greatest progress was achieved in *Protecting minority shareholders' rights* - progress by 46 places (37th position), due to the introduction of external audit and detection of related-party transactions, as well as requirements for greater corporate transparency. Also, in the field of *Resolving insolvency* - progress by 8 places (41st position), the introduction of a procedure requiring creditors to appoint a representative in the event of bankruptcy (who disposes of information on the debtor's financial condition) which has further affected the progress, whereas *Getting electricity* or getting connected to the electrical grid - progress by 10 places (94th position) is facilitated by a more reliable power supply, due to improvements and better maintenance of the grid.

In order for the Republic of Serbia to progress in all 10 areas covered by the list, active work is being done on defining measures from the point of view of the economy. The Government of RS adopted a new *Programme for improving the position of the Republic of Serbia on the ranking list of the World Bank on the ease of doing business - Doing business* for the period 2020-2023 with the accompanying Action Plan on June 12, 2020. The action plan contains clearly defined obligations and tasks of the institutions responsible for the implementation of measures and activities.

According to the recently published Global Real Estate Ownership Security Index⁴⁰, compiled according to the new Prindex list for 2020, **Serbia** ranked **10th** in Europe and **14th in the world** in the field of **property security**. The results of the research show that as many as **97% of property owners in Serbia feel confident that they will not lose their real estate against their will**, and the security of property ownership is a cornerstone of economic and social development.

The business environment in Serbia remains burdened with costs and complicated administrative procedures for the economy, which adversely affects investment and the development and growth of the small and medium-sized enterprises (SME) sector. Therefore, in **December 2018, the Law on Fees for Use of Public Goods** was adopted ("Official Gazette of the RS", No. 95/18), which unifies in a single place all fees paid for the use of natural resources, goods of general interest and goods in general use (until then these fees were regulated by 19 separate laws). In July 2019, the Government also adopted the **Programme for Simplification of Administrative Procedures and Regulations "ePaper"** for the period 2019-2021 with the accompanying **Action Plan for the Implementation of the Programme** which provides for concrete measures and actions to streamline 890 procedures and the establishment of a unified public registry of administrative procedures. Simplification and elimination of unnecessary administrative procedures would lead to a

⁴⁰The research is the result of the work of Global Land Alliance and the Overseas Development Institute, with the support of the UK Government's Department for International Development and the Omidyar Network of Experts.

reduction in the share of total administrative expenses in the GDP to 3% by 2020⁴¹. **The administrative burden on the Serbian economy was reduced to 3.11% of GDP in 2018** (according to the calculation of Public Policy Secretariat - PPS), from 4.07% of GDP in 2010 (the target for 2020 is 3% of GDP).

Access to finance for Small and Medium-Sized Enterprises and Sole Traders - SMEs and sole traders has been improving year after year. The legal framework in the field of financial services has been improved by the adoption of the *Law on Open-End Investment Funds subject to Public Offering* and the *Law on Alternative Investment Funds* ("Official Gazette of the RS", No. 73/19), which provide alternative sources of financing⁴². Systematic monitoring of SMEs and sole traders lending has been established on a monthly basis since 2017, showing a constant improvement in the conditions of SMEs and sole traders financing (lower interest rates, longer loan maturity, higher loan volume). The loans of SMEs and sole traders in 2019 accounted for an average of 53% of dinar and 64% of foreign currency indexed loans to the economy, with the investment loans being the most common. The moratorium on repayment of loans, **as a support to the economy in order to reduce the negative effects caused by the COVID-19 pandemic**, was accepted by 93%⁴³ of economic entities.

The volume of the grey economy in Serbia decreased from 21.2% of GDP in 2012 to 15.4% in 2017, in terms of product turnover and payment of wages at the registered economic entities (according to the results presented in the NALED study). The **National Program for Countering Grey Economy in Serbia for the period 2019/2020** was adopted with the Action Plan in April 2019, which envisages further improvement of the work of inspection bodies, stricter penal policy and more efficient collection of tax revenues. Successful realisation was achieved for 50% of the activities of the action plan planned for 2019, while almost a third of the planned activities have not been implemented⁴⁴.

Efforts in the fight against informal economy, through efficient and organized actions of inspection bodies and the Tax Administration, yield results that are reflected in the **growth of total tax revenues in real terms by 7.4%** in all major categories: personal income tax (11.4%), VAT (8.1%), contributions (7%) and excise duties (3.7%) in 2019. The growth of total tax revenues in absolute amount was due to the increase in revenues from contributions for compulsory social insurance (all compulsory social insurance organizations collected a higher amount of contributions, especially the Pension and Disability Insurance Fund), as well as due to higher spending on account of rising wages.

A key factor in the process of increasing budget revenues and improving public financial management is the ongoing **reform of the Tax Administration**. An important part of the reform is **digital economy**, so that as of 1 January 2018, the taxpayers can file tax returns for all revenues administered by the Tax Administration and check the status of their tax cards through the **E-taxes portal**, and as of March 1, 2019, they can receive an electronic certificate of tax settlement as well. At the end of 2019, the **Regulation on closer conditions, criteria and elements for flat-rate taxation of taxpayers of self-employment income tax** ("Official Gazette of the RS", No. 94/19 and 96/19-correction) was adopted, becoming applicable as of 1 January 2020. Application software has been developed in order to simplify the manner and procedure of calculating the flat-rate income and passing decisions in electronic form through the portal of the Tax Administration. It still remains to develop a software for the unified collection of taxes and contributions for lump sum taxpayers in the same way that is already in operation for other taxpayers. In the flat-rate taxation system, the exchange of data between PDIF (Pension and Disability Insurance Fund), NHIF (National Health Insurance Fond) and CROSO (Central registry of compulsory social insurance) is fully automated.

The analysis of the **fiscalization system**, which has been in operation for 15 years, showed a certain degree of **non-compliance with the development of new technologies and solutions that are**

⁴¹Data on the share of administrative costs in GDP for 2020 will be known at the end of 2021.

⁴²Recommendation of the 4th ECOFIN Council in May 2019: "Adopt special laws on alternative investment vehicles"

⁴³Source: NBS

⁴⁴Report on the implementation of the National Programme for Countering Grey Economy in Serbia in 2019

applied in international practice. The most significant shortcomings observed are: fiscal equipment in operation does not follow the technology that has advanced in the meantime; complicated, time-consuming and very expensive process of certification of fiscal cash registers and printers; process of fiscalization and defiscalization of fiscal cash registers takes a long time and requires the physical presence of a tax inspector and an authorized servicer, with a lot of administration work; the credibility of the invoice can be checked only at the point of sale on the control bar; the data in the existing system is not secure enough until it is stored in the fiscal memory. Having in mind the aforementioned, the new legislative framework on fiscalization should eliminate the observed shortcomings of the current model and lead to more efficient control of all deliveries of goods and services provided, i.e. create conditions for the Tax Administration for more efficient monitoring and control of taxpayers at risk of tax evasion, as well as increasing the number of tax controls at the establishment of the tax authority. Besides that, the scope of fiscalization will be extended to all self-employed income taxpayers and corporate taxpayers who perform retail trade, and the costs will be reduced for taxpayers and manufacturers, i.e. suppliers of electronic fiscal devices for recording turnover referring to the administrative procedures and resources that need to be allocated for these purposes. The Law on Fiscalization was adopted in December 2020, and its implementation will begin on 1 January 2022.

When it comes to **transition to electronic invoicing**, the goal is to completely replace the paper form of invoice with the digital, and the challenge in this domain is the introduction of a centralized platform for the exchange of electronic invoices. The creation of conditions for this transition is the adoption of the legislative framework, which is expected by the end of February 2021.

In July 2019, a unique information system **eInspector** was launched, which integrated 43 inspection services, thereby additionally increasing the efficiency of supervision due to far better coordination of services, while in March 2020 a **contact centre** was established **for reporting market irregularities**. A three-year action plan for the employment of inspectors in the period 2019-2021 was drafted and adopted, anticipating the employment of 1,272 inspectors, but due to administrative difficulties and the COVID-19 pandemic, the implementation of planned activities proves to be difficult, so the employment of 100 new inspectors has been envisaged in 2020.

In order to increase the transparency and efficiency of the public procurement process in December 2019, the **Law on Public Procurement** ("Official Gazette of the RS", No. 91/19) was adopted, with effect from 1 July 2020. A new Public Procurement Portal has been established, as well as electronic tenders and centralized procurement plans for centralized public procurement bodies, while the plan is to add new functionalities such as e-Contracting and e-Concessions. The law also recognizes the "partnership for innovation" model, the goal of which is the development of innovative goods, services or works and their subsequent procurement.

Establishing an up-to-date Real Estate Cadastre in real time is a precondition for improving business efficiency and shortening the procedures required for registering property rights in the cadastre. The process of digitization of the cadastre in Serbia began at the end of 2017. National Spatial Data Infrastructure – NSDI is an integrated geospatial data system, which should enable users to comprehensively find and access spatial information from a variety of sources, ranging from the local, through the national to the global level. The enactment of the **Law on Procedure for Registration into Real Estate and Power Lines Cadastre** ("Official Gazette of the RS", No. 41/18) prescribes the obligations of public bodies and other entities to submit data from their competencies to the Real Estate Cadastre Service for updating. Submission of applications for registration in the cadastre takes place through the **e-Desk**, in digital form, which has reduced the number of procedures from 6 to 2 procedures. The Decree on the conditions for issuing property sheets and the water sheet from the Geodetic-Cadastral Information System was passed on June 26, 2020 by notaries and geodetic organisations. This decree regulates in more detail the conditions and manner of issuing sheets from the list of real estate and the list of waters from the database of the Geodetic Cadastral Information System of the Republic Geodetic Authority (RGA), by notaries and geodetic organizations.

Almost 2.7 million inhabitants of Serbia are registered at addresses for which the name of the street has not been determined, according to the data of the Ministry of the Interior, and local self-government units previously used internal registers for their own needs. With the establishment of the Coordination Body for the improvement of the address register at the end of 2018, a single address register is to be established in three phases: naming streets and facilities in cooperation with local self-governments (in progress), followed by field marking and finally updating the address register by LSGs.

Relying on the previously introduced system of unified procedure for electronic issuance of construction permits e-Permit, as well as available sets and services of geospatial and other data within the initiatives of e-Government and NSDI, **with the establishment of the digital platform for spatial and urban planning e-Space, the Ministry of Construction, Transport and Infrastructure** will provide further improvement of procedures for obtaining construction permit, as well as transparent land management and spatial development processes in general in Serbia. The e-Space digital platform will primarily include the formation of a digital database of spatial and urban plans, with the creation of a key set of data on existing and planned land use and regulation of land use in accordance with the INSPIRE Directive, as well as digitalization of spatial management procedures in accordance with the provisions of **the Law on Planning and Construction** ("Official Gazette of the RS", No. 72/09, 81/09 - corr., 64/10 - CC decision, 24/11, 121 / 12, 42/13 - decision CC, 50/13 - decision CC, 98/13 - decision CC, 132/14, 145/14, 83/18, 31/19, 37/19 - other law and 9/20) and related bylaws. One of the main results of digitalization of the domain of spatial and urban planning and the creation of a digital platform e-Space refers to the **creation of conditions for direct-online exchange of data of all holders of public authority** participating in the planning process, and hence reduction of time and cost required for the issuance of location conditions and for obtaining a construction permit. Other effects of the establishment of the digital platform e-Space are related to the expected increase in investment and the number of activities in the real estate market in the Republic of Serbia, as well as to further strengthening of the construction sector and national GDP growth in general.

The economy of Serbia is currently mostly linear, so it is necessary to improve the efficiency of resource use and introduce the concept of circular economy. The biggest weaknesses are insufficiently developed legislation, inconsistency of public policy documents, poor waste management, inefficient energy consumption and inadequate inspection capacities. Serbia annually produces 12 million tons of waste, of which over 80% is not treated in any way. Most waste is generated by mining and energy sector, but the share of municipal waste (about 2 million tons per year), which most often ends up in landfills, is also significant. Although current investments in environmental protection (0.3% of GDP) are four to five times smaller than in the countries of the European Union, there is a great interest of the economy in the transition to a circular model of doing business.

b) Reforms

STRUCTURAL REFORM 9: IMPROVEMENT OF THE QUALITY OF PUBLIC SERVICES THROUGH OPTIMIZATION AND DIGITALIZATION OF ADMINISTRATIVE PROCEDURES – e-PAPER

1. Description of the structural reform

Improving the quality of public service delivery is a multi-year reform process that takes place, among other things, through the simplification of administrative procedures (elimination of redundant by guillotine and simplification of other administrative procedures) for businesses and citizens, as well as the establishment of a Single Public Registry of Administrative Procedures and Other Business Conditions (hereinafter: the Register). The establishment of the Single Register of administrative procedures and other business conditions is the starting point for the establishment of the single electronic contact (PSEC), which is an obligation in accordance with the Services Directive 2006/123/EC, the transposition of which is provided for in Article 59 of the SAA.

Through e-Paper so far: a database of 2,618 administrative procedures for the economy has been created, which is the basis for the establishment of a public Register; 4 procedures were abolished, which resulted in annual savings for the economy of almost EUR 30 million; 130 were completely simplified (savings of an additional EUR 2 million) and optimization has started for another 367 administrative procedures; the e-Permit platform has been established and it is connected to all necessary services (e-Payment and data exchange bus between public administration bodies and organizations); 27 administrative procedures were digitized, while the digitization of another 73 procedures is expected to take place by the middle of 2021. Also, from next year, recording of other business conditions will begin, as well as the mapping and listing of administrative procedures for citizens.

The reform has been defined by the *Programme for the simplification of administrative procedures and regulations 'e-PAPER' for the period 2019-2021; e-Government Development Programme for the period 2020-2022; Public Administration Reform Strategy for the period 2021-2030*. The reform also contributes to the implementation of **SDG 16.10** Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements, and **SDG 16.5** Substantially reduce corruption and bribery in all its forms.

2. COVID-19 – effects, measures and challenges

The crisis caused by the COVID-19 pandemic affected, among other things, the functioning of public administration and strengthened the need for as many digital (contactless) services as possible. In order to limit the negative effect of the pandemic, but also of all other disturbances on the exercise of rights and obligations of citizens and the economy through public services, one of the focuses of this reform is the digitalization of as many administrative procedures as possible for the smooth functioning of the economy and life of the citizens even in extraordinary circumstances.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Listing of administrative procedures for citizens												
2	Listing of administrative requirements and other conditions for doing business												
3	Optimization of administrative procedures for the economy and citizens												
4	Digitization of administrative procedures for the economy and citizens												
5	Adoption of laws and bylaws for the establishment and maintenance of the Register												
6	Public availability of the Register												
7	Creating services (Life-Events and Business Episodes)												

4. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2020)	Target (2022)
The share of administrative burden for citizens and the economy in GDP	3.1%	3.0%	2.9%
Established Register of Administrative Procedures	No	A relational database of administrative procedures for the economy has been developed	Publicly available information on 2,400 administrative proceedings

5. Expected impact on competitiveness

Administrative costs for the economy are expected to be reduced by 15-20%, based on analysis and proposals for simplification and optimization, as well as the possible abolition of at least 50% of the most frequent and most expensive administrative procedures. A positive impact on competitiveness will be achieved by establishing a Register with all the necessary information for the economy in proceedings before the public administration, which creates a safer, more transparent and predictable business environment. All the necessary information for doing business available in one place, will save time and money and eliminate the opportunities for corruption, while increasing the attractiveness of Serbia as an investment destination.

6. Estimated costs of implementing structural reform and estimated sources of financing

The implementation of the reform will mostly be financed by donor funds of the European Union, through a four-year IPA project implemented by the World Bank. A total of EUR 3.11 million has been provided for these activities. Within this ERP cycle, funds in the amount of EUR 360,000 are planned for listing of administrative requirements, EUR 210,000 for optimization of procedures, EUR 2.12 million for digitalization of administrative procedures and improvement of the register of administrative procedures, and EUR 40,000 for creating public services on the principle of business episodes. No funds have been planned from the budget of the Republic of Serbia for these activities.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

An indirect effect on increasing employment is expected, as it will reduce costs for the economy in terms of administrative barriers and achieve savings that may affect the creation of new jobs. A direct impact on the gender aspect cannot be expected, as the reform is gender neutral.

8. Expected impact on the environment

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

9. Potential risks

Risk	Probability	Planned mitigating actions
Delay of the project intended to connect the Registry with a PSEC	Moderate	Availability of data from the Register through the eGovernment Portal

STRUCTURAL REFORM 10: TAX ADMINISTRATION TRANSFORMATION

1. Description of the structural reform

The framework for the beginning of the reform of Tax Administration (TARS) is defined by the *Transformation Programme for the period 2015-2020 and the Action Plan for the period 2018-2023*. The organisational separation of core and non-core activities of TARS was implemented in mid 2019. Intensifying reform efforts, focusing on significant structural changes and strengthening administrative capacity is performed in order to provide predictable public revenues of the central budget of the Republic of Serbia. The main goal of the reform is for TARS to become an organization characterized by modern digital operations, featuring administration oriented towards providing services to taxpayers, the services being provided in accordance with the best international standards, and also to ensure risk analysis that allows TARS to efficiently use its available resources for optimization of revenue collection. Improved risk management should enable the control function to work more efficiently, while redesigning control techniques in line with international practice, introducing e-control software as well as training inspectors in the field of international taxation, should contribute to the reduction of shadow economy. The reform contributes to the implementation of the **SDG 16.6**. Develop efficient, accountable and transparent institutions at all levels, as well as **SDG 8**. Promote continuous, inclusive and sustainable economic growth, full and productive employment and decent work for all.

A new Tax Administration Transformation Programme for the period 2021-2025 is currently being drafted.

2. COVID-19 – effects, measures and challenges

The Government of the RS adopted the Decree on Tax Measures during the State of Emergency in order to mitigate the economic consequences caused by the COVID-19 pandemic, which stipulated that TARS would not ex officio revoke decisions on deferment of payment of due tax and would not conduct the procedure of forced collection, whereby no interest would be calculated in the specified period.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Further development of the information systems platform												
2	Reengineering of business processes for the introduction of international good practices in the operational functions of the RS Tax Administration												
3	Implementation of the TAMP Procurement Plan (Tax Administration Modernization Project)												
4	Introduction of a new record management system through a comprehensive information management model												
5	Preparation for the second phase of business network consolidation												
6	Procurement of systems for the new ICT platform												

4. Performance indicators

Indicator	Baseline (2015)	Intermediate target (2019)	Target (2023)
Newly registered taxpayers in a calendar year (in %)*	112.93	106.77	104.08
Growth of newly discovered revenues by years (in %)**	131.30	93.12	108.26
Degree of realization of billing task (in %)***	103.90	101.00	101.00

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

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

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

5. Expected impact on competitiveness

The implementation of the Transformation Programme indirectly strengthens the competitiveness of domestic companies. Through automatic/electronic, simple and free tax procedures, administration of tax liabilities leaves more resources and time to the companies to dedicate them to improving the quality of products and services, which directly affects the increase of competitiveness. The reduction of the grey economy increases the competitiveness of economic entities that operate in compliance with tax regulations.

6. Estimated costs of implementing structural reform and estimated sources of financing

Most of the activities will be financed from the World Bank credit line, while only the activity "Further development of the information systems platform" in 2021 will be financed from the RS budget. The estimated costs are EUR 9.2 million for 2021, namely: EUR 1.4 million for reengineering

of business processes, EUR 3.9 million for further development of the information systems platform and EUR 3.9 million for the implementation of activities from the TAMP Procurement Plan. Projected costs of EUR 14.6 million in 2022 and EUR 11.4 million in 2023 refer to the implementation of the following activities: introduction of a modern record management system through a comprehensive information management model, preparation for the second phase of business network consolidation, procurement of a system for a new ICT platform and implementation of activities from the Procurement Plan.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Improving the efficiency of the Tax Administration will make the process of assessment and paying taxes simpler, more predictable, more consistent and more economical, which will improve the equality of market participants. Clear tax rules encourage citizens to start their own business and thus contribute to increased employment and overall social growth. Better tax collection increases the possibility of budgetary allocations for social welfare, education and health. The reform is gender neutral.

8. Expected impact on the environment

Environmental protection experts have been engaged through the project, whose task is to assist TARS: to successfully implement and monitor project activities that are subject to environmental risks and to manage their impacts; to prepare specific environmental management plans (including mitigation and monitoring plans for subprojects) in order to ensure effective environmental protection, health and safety at work.

9. Potential risks

Risk	Probability	Planned mitigating actions
Delays in new legislative frameworks based on ICT and the needs of TARS reform, or non-acceptance of amendments to the existing ones	Moderate	Stronger cooperation with the Ministry of Finance (Fiscal System Department) and the Office for IT and e-Government
Lack of coordination/communication between state institutions	Moderate	Work on improving coordination / communication between state institutions
Mistrust of taxpayers due to their fear of novelty	Moderate	Providing information and education to taxpayers
Insufficient IT resources and skills to implement the reform	High	Increasing the number of IT employees and more active cooperation with the Strategic Project Implementation Unit
Lack of human resources and knowledge necessary for the functioning of the reformed TA	High	Additional employment in 2021 and training of employees for functions that are decapacitated

STRUCTURAL REFORM 11: INTRODUCTION OF A NEW FISCALIZATION MODEL AND TRANSITION TO ELECTRONIC INVOICING

1. Description of the structural reform

Structural reform implies two measures - the introduction of a new model of fiscalization (e-fiscalization) and the transition to electronic invoicing.

The first measure involves the introduction of a new model of fiscalization through a centralized digital platform within the Tax Administration, as well as online transmission and verification of data sent from fiscal cash registers to the Tax Administration. The goal is to counter grey economy and increase VAT collection, as well as improve and automatize the tax control process. The new model also contains the so-called safety element (certified card) for each taxpayer, thus the degree of abuse is reduced to minimum or is entirely eliminated. The measure will be implemented through the adoption of a new legislative framework governing this area.

The second measure implies the introduction of a centralized platform for the exchange of electronic invoices both in the segment between legal entities in the business segment (business to business), i.e. B2B, and in the segment of business operations and transactions between the private and the public sector (business to government), i.e. B2G. The aim of the measure is to completely replace the paper form of the invoice with a digital one, which is transferred through a centralized platform from the issuer to the recipient of the invoice without the physical form. The measure will be implemented by adopting a legislative framework in line with the EU acquis governing this area.

The reform contributes to the implementation of **SDG 16.6**. Develop efficient, accountable and transparent institutions at all levels.

2. COVID-19 – effects, measures and challenges

Extraordinary circumstances resulting from the COVID-19 pandemic did not affect the planned dynamics of activities related to this structural reform. Working groups and expert teams quickly switched to electronic form of communication and all deadlines regarding the preparation of legal proposals and technical solutions were met.

Given the fact that both structural measures contribute to a high degree of digitalization of business processes, their implementation will greatly affect the future economic activities to take place without major delays in similar emergencies.

3. Activities planned by year

When it comes to both activities covered by this reform measure, the preparatory activities for the transition to new work systems are planned for 2021.

The reform related to e-fiscalization will enter into force on 1 January 2022, but taking into account the wider coverage of taxpayers, the implementation period in the table is set to two years, as a precaution, due to the intention to gradually introduce new groups of taxpayers into the system (the timeline is not yet specified).

When it comes to e-invoice reform, for the B2G segment (business to government), the date foreseen for transition to the new system is 1 July 2021, and for the B2B segment (business to business) the transition to the new system is foreseen in the following phases: 1) 1 July 2022, the obligation of all VAT payers to receive invoices in electronic form; and 2) 1 January 2023, the obligation of all VAT payers to receive and send invoices in electronic form. The reason why this segment of invoicing is the first to be activated in the new system is that the business segment already has the option of invoicing to the government segment.

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Adoption of bylaws in the field of fiscalization												
2	Launching a new centralized fiscalization platform												
3	Adoption of the legislative framework in the field of electronic invoicing												
4	Launching a centralized platform for electronic invoices												
5	The expansion of electronic invoices system to encompass the entire sector of the economy												
6	Educating and communicating with future users of the fiscalization platform and the electronic invoicing platform in order to prepare them for the transition to the new system												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Coverage of involved taxpayers with the new platform	0% 1.1.2022	/	100% 31.12.2022
Coverage of all B2G transactions	0% 1.1.2021	/	100% 1.7.2021
Coverage of all B2B transactions between legal entities that are subject to VAT	0% 1.7.2022	/	100% 1.1.2023

5. Expected impact on competitiveness

The new fiscalization model will have a significant impact on increasing the competitiveness of the economy, taking into account lower operating costs and increased efficiency, in terms of: elimination of the double ribbon on the fiscal printer and cancellation of the obligation to keep it, the possibility to use various devices in addition to the classic electronic device cash register (computer, mobile phone, etc.), automation and reduction of costs related to data transmission to the Tax Administration, raising the efficiency of business entities through the use of modern software, etc. The application of electronic invoicing will significantly affect the acceleration of liquidity flows in the economy, the harmonization with the *acquis communautaire* and the appropriate business environment.

The expected effects of this reform measure cannot be precisely quantified, but they will significantly contribute to the efficiency of operations of both the private sector and the state. It is expected to achieve greater financial discipline and significantly higher collection of tax revenues, creation of equal conditions in terms of competitiveness for the private sector, enabling the Tax Administration partnership access to taxpayers, better and improved tax control, discouraging companies to avoid tax calculation and payment, etc.

6. Estimated costs of implementing structural reform and estimated sources of financing

Introduction of the new model of e-fiscalization is envisaged to be financed with funds from the World Bank loan in the amount of EUR 8.6 million. The beneficiary of the loan is the Tax Administration and these costs relate to the purchase of the central IT platform, the necessary software and other adjustments, to a lesser extent to the consulting and training of employees in the Tax Administration. A detailed cost analysis of the introduction of the new fiscalization model is currently being prepared.

Subsidies in the amount of EUR 25 million, envisaged in the budget for 2021, refer to providing support to taxpayers in order to adjust their electronic devices and cash registers to the requirements of the new improved IT technical solution. The specific financial support to each taxpayer and the allocation rules will be defined with a bylaw during 2021.

In order to introduce electronic invoicing, funds needed to purchase and create a centralized platform have been provided and it was procured during 2019. These funds are provided from the budget of the Republic of Serbia.

Both platforms do not imply additional costs in terms of new employees, taking into account the goal of the reforms which is to shift the existing jobs to a higher level of digitalization and automatization, in line with world best practice.

During 2021 and 2022, a small portion of the costs is expected to be generated for the purpose of connection of other systems to a centralized platform, as well as additional costs for education, training and communication, whereas all three activities are aimed at the widest range of end users of both systems, in terms of making them fully prepared for transition to a new system of work. The necessary funds will be provided from the budget of the Republic of Serbia and donor funds.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Structural reform will have a significant impact on enhancement of the business environment, which in turn may result in the reduction of unemployment. Structural reform is gender neutral.

8. Expected impact on the environment

Taking into account the complete transition to a new, and largely electronic form of fiscalization, as well as to the electronic form of invoicing, this structural reform will greatly reduce the amount of paper and toner that are in circulation in business operations, which significantly affects environmental protection.

9. Potential risks

Risk	Likelihood	Planned mitigating actions
Insufficient training of users for the transition to the new system of fiscalization	Low	Adequate trainings and communication strategy towards the business
Insufficient training of users to switch to the new invoicing system	Low	Adequate trainings and communication strategy towards the business

STRUCTURAL REFORM 12: IMPROVEMENT OF GEOSPATIAL SECTOR THROUGH DEVELOPMENT OF A STRATEGIC DIGITAL PLATFORM TO SUPPORT INVESTMENT DECISION-MAKING

1. Description of the structural reform

Creating a strategic digital platform for the geospatial sector facilitates the availability of combined data sets via web services, their efficient, fast and quality exchange, which enables citizens and businesses easier identification and comfortable access to the desired data, crucial for quality investment decision making. The reform directly contributes to the digital transformation and implementation of **SDG 11.3**. By 2030, improve inclusive and sustainable urbanization and capacities for participatory, integrated and sustainable planning and management of human settlements in all countries, as well as **SDG 9.1**. Develop quality, reliable, sustainable and resilient infrastructure, including regional and cross-border infrastructure. The main reason for non-completion of updating the address register data in accordance with the plan is the delay in making decisions on naming streets by local self-government units.

2. COVID-19 – effects, measures and challenges

The outbreak of the COVID-19 pandemic and the introduction of a state of emergency made it difficult to communicate with local government representatives and notably slowed down activities aimed at updating the address register, thus greatly affecting all phases of the adoption of bylaws in the field of NSDI. The pandemic has affected the activities in the implementation of projects in which consultants have been engaged to work on the development of regulations and policy documents.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Adoption of bylaws in the field of NSDI												
2	Development and availability of geospatial data services												
3	Alignment, merging, and consolidation of data held by real estate cadastre and local tax administrations in "pilot" municipalities to develop prototype real estate mass valuation system												
4	Development of a prototype real estate mass valuation system and establishment of procedures at pilot local authorities												
5	Updating of Address Register on the territory of RS												

6	Establishment of data interoperability between Address Register and government bodies and organisations and local authorities										
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4. Performance indicators

Indicator	Baseline (2018)	Intermediate target (2020)	Target (2022)
Degree of alignment between data held by real estate cadastre and local tax administrations at pilot local authorities, %	/	/ (Q2 2020)	100% (Q2 2022)
No. of local authorities with updated Address Registers	19 (12%)	87 (54%) (Q2 2020)	161 (100%) (2021)
No. of NSDI services available	30	39 (Q3 2020)	45
No. of data sets available	205	285 (Q3 2020)	– (the 2022 target was reached in 2020)

5. Expected impact on competitiveness

By enhancing the efficiency of decision-making for investment purposes, making information more accessible, and providing advanced solutions for R&D institutions and businesses, the NSDI will exert an indirect influence on GDP growth. Development of a mass real estate valuation system will entail the identification of all real estate transactions, development of a mass valuation model, and registration of all real estate on the territory of Serbia, and therefore GDP growth is expected on the basis of increase in the collection of property taxes, and also indirectly through reducing the cost of capital and facilitating borrowing for investment.

6. Estimated costs of implementing structural reform and estimated sources of financing

The estimated costs of implementing the reform⁴⁵ refer to the period 2021-2022, given that the reform is planned to be completed in 2022, and amount to EUR 5,223,560. Most of the costs are financed from the World Bank loan, and partly from the budget of the Republic of Serbia and partly from donations.

Estimated costs for 2021 in the amount of EUR 2,823,560 relate to: additional employment of civil servants on updating the address register; engaging foreign consultants in the adoption of bylaws in the field of national geospatial data infrastructure; development and availability of new services for geospatial data; engaging consultants for collecting, entering and controlling data for mass real estate valuation, coordination of work and implementation of the system in pilot municipalities, as well as testing of the developed system of mass real estate valuation. Sources of funding for the estimated costs are: the RS budget, a World Bank loan and a European Union donation under the PLAC 3 project.

Estimated costs for 2022 of EUR 2.4 million relate to: continued development and availability of new geospatial data services; continued engagement of consultants in data entry and control for mass real estate appraisal, coordination of work and implementation of the system in pilot municipalities, as well as testing the developed system of mass real estate appraisal. The source of funding for estimated costs in 2022 is a World Bank loan.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Quality and accessible geodata within the NSDI contribute to the economic development of the country and the estimates are that they can affect GDP growth by 2%, and in some sectors increase productivity by up to 15%, thus reducing poverty and increasing employment. The development of a real estate mass valuation system, with evidencing all real estate on the territory of RS in the records,

⁴⁵ All estimated costs refer to 2020 as the base year.

will create conditions for taxation of all real estate entered in the register in a way that is more consistent with the economic power of taxpayers, taking into account a larger number of corrective elements that affect the value of real estate - for real estate covered by mass valuation. In this way, higher collection of public tax revenues can be expected, together with greater equality in tax liabilities related to property, which will indirectly enable more significant social benefits and affect the achievement of defined social goals. No impact is expected on gender.

8. Expected impact on the environment

National Spatial Data Infrastructure will facilitate access to environmental information by making these data publicly available, and will remove obstacles to the exchange of such information between public authorities. This data exchange will make it possible for the relevant bodies to respond more rapidly to natural disasters. Development of NSDI is subject to the National Environmental Approximation Strategy (adopted in September 2011).

9. Potential risks

Risk	Probability	Planned mitigating actions
Failure to fully staff NGP Unit	Moderate	Vacancy advertisements to be issued at later date; Staff to be hired on temporary contracts
Inadequate communication with local authorities and lack of data to implement pilot projects	Moderate	Cadastral property identification to be implemented by local tax administrations; Initiative to provide and update data
Prototype mass real estate valuation system threatened by complexity of service-based communication between multiple ICT systems; requirement to develop multiple ICT systems simultaneously; and insufficient capacity to fully develop methodology and systems	Moderate	Working Party to be established and progress to be constantly monitored; time limits to be set for related activities and appropriate training in various topics to be offered for staff
Failure by local authorities to assign new street names in due time and notify NGA to allow house numbers to be allocated or re-allocated	High	All project stakeholders to be required to regularly notify NGA of their current status and progress, and to submit specific reports as required by Government's Address Register Enhancement Co-ordinating Body. NGA to forward consolidated weekly report to Working Party tasked with monitoring progress on Address Register project for publication on MPALG web site
Difficult communication and realization of activities due to the COVID-19 pandemic	High	Acting in accordance with the recommendations of the Crisis Staff, organizing online meetings and presentations

STRUCTURAL REFORM 13: IMPROVEMENT TO SPATIAL DEVELOPMENT MANAGEMENT IN THE REPUBLIC OF SERBIA THROUGH ESTABLISHMENT OF E-SPACE DIGITAL PLATFORM

1. Description of the structural reform

The main goal of structural reform is the digital transformation in the field of planned spatial development management in the Republic of Serbia in order to improve the efficiency and effectiveness of development decision-making and better management of spatial development policy, through the digitization of data and urban and spatial planning procedures and the formation of a digital e-Space platform. The basic structural element of the digital platform e-Space will be the newly formed digital database of spatial and urban plans with digital planning procedures, which will be linked with other available digital databases and services within e-initiatives in the Republic of Serbia (NSDI, e-Government, e- Permission, etc.) ensure direct online communication and exchange of data and

information between government agencies, the business sector and citizens. The reform will contribute to improving the efficiency of planning and the quality of planning documents, creating conditions for overcoming the existing inefficiencies and non-transparency of public decision-making and the provision of services in the field of land management. Also, the reform will reduce the number of days and costs of obtaining location conditions and construction permits, which will create conditions for a better position of the Republic of Serbia on the Doing Business list of the World Bank.

The reform contributes to the implementation of **SDG 16.7** Ensure responsive, inclusive, participatory and representative decision-making at all levels, and **SDG 11.a** Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning.

2. COVID-19 – effects, measures and challenges

The newly arisen circumstances and prescribed measures to prevent the spread of the COVID-19 pandemic are expected to have a relatively limited impact on the implementation of the reform, in terms of possible minor delays in the implementation of planned activities due to predominant electronic communication and limited attendance at meetings and indoor spaces in general. Once implemented, the reform will support recovery from the negative socio-economic consequences of the pandemic, as well as overcoming possible other/future emergencies in general, by enabling the provision of developed services electronically - i.e. online - without actually visiting the competent authority of the state administration.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Analysis of the situation in the field of spatial planning and development management in the Republic of Serbia												
2	Determining the needs and requirements of future users of the digital e-Space platform												
3	Compiling digital database and catalogue of spatial and urban plans data												
4	Development of a distribution database for spatial and urban plans												
5	Digitization of spatial and urban plan data (pilot areas)												
6	Establishment of a digital e-Space platform (including an e-participation system)												
7	Training of civil servants and other professional users of the digital e-Space platform												
8	Development of regulations and establishment of the legal framework for the digital platform e-Space												
9	Digitization of spatial and urban plan data (for the entire territory of the Republic of Serbia)												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Digital database of spatial and urban plans established	0 (2020)	Spatial and urban plan data for pilot areas in the digital database (2022)	Data of most spatial and urban plans in the digital database (2023)
Number of days needed to issue location conditions	33 days (2020)	25 (2022)	/
Number of days needed to issue construction permit	11 days (2020)	/	6 (2023)

5. Expected impact on competitiveness

Establishment of the digital platform e-Space will enable faster issuance of construction permits through more efficient coordination of all holders of public authority in the field of planned spatial development management. Also, favourable conditions are expected to arise increasing the level of investment due to better accessibility of information on vacant locations and location conditions (allowed number and size of the building, planned land use, access to roads, equipping the location with communal infrastructure, etc.), which will provide for further strengthening of the construction sector with stable GDP growth in the future.

6. Estimated costs of implementing structural reform and estimated sources of financing

The total costs of implementing the reform are planned in the amount of EUR 2.95 million, and they will be financed from the budget of the Republic of Serbia and other available sources of financing. Thus, for the implementation of the first two planned reform activities in 2021 whose costs are estimated at EUR 80,000, funds will be provided through a donation. For the establishment of the initial digital platform e-Space, EUR 1.5 million are planned in 2022 and EUR 1.37 million in 2023. For these costs of implementing the reform (a total of EUR 2.87 million), apart from the budget of the Republic of Serbia, other potential sources of funding will be sought among the traditional strategic partners of the Government of the Republic of Serbia, such as the EU, the Government of the Kingdom of Sweden, the World Bank, the Government of the Swiss Confederation and others.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

By way of the expected increase in investment, primarily in the manufacturing, especially construction sector, food industry and services sector, conditions will be directly created for job creation and, hence, poverty reduction. Also, the reform will contribute to the creation of equal opportunities for access to and use of electronic information on planned development activities in a given area, as well as on the impact of such activities on real estate values, which will result in increased attractiveness of the business environment and greater security of investment, and from there to the general improvement of conditions of life and work in the Republic of Serbia. Greater social spending based on a more realistic assessment and more efficient collection of tax revenues will further contribute to poverty reduction, gender equality and social inclusion.

8. Expected impact on the environment

The implementation of structural reform will have a positive impact on the environment, in terms of its protection and improvement, and will also contribute to meeting the objectives of the European Green Deal in the Republic of Serbia, through: better definition and more efficient implementation of planning solutions related to the achievement of the goals of the process of sustainable urbanisation and development in general; reduction of social costs caused by irrational use of land and other resources, together with more precise assessment of the amount of the so-called environmental taxes and better collection of them; etc.

9. Potential risks

Risk	Probability	Planned mitigating actions
Uneven availability, format and quality of data of spatial and urban plans	High	Engaging additional resources on digitization and preparation of spatial and urban plan data
Change of user or regulatory requirements during project implementation	Low	Extended duration of planned project activities

5.3.4. Area RESEARCH, DEVELOPMENT AND INNOVATION AND THE DIGITAL TRANSFORMATION

a) Analysis of main obstacles

Although the amount of funds has been increasing in recent years, the investments in research and development are still insufficient for the integration of Serbia's research network into European and global networks. Total allocations for science in Serbia amounted to 0.89% of GDP in 2019 (by 0.03 percentage points more than in the previous year) and are twice lower than the average in the EU-28 (2.14% of GDP). 39.5% of total investments in science in 2019 came from the business (non-financial) sector, which is an increase of 0.4 percentage points compared to 2018 (39.1%), but is significantly below the average of EU-28 (66.6%).

The orientation of scientific research towards the economy is relatively low. Cooperation between companies and academic community in Serbia is still weak and not systematically supported, which is reflected in the ranking of Serbia in the *Global Competitiveness Report* (GCR) for 2019, in which, according to the quality of cooperation between university and economy, Serbia ranks 80th (out of 141 countries). With the aim of improving cooperation, primarily with the business sector, **the Smart Specialization Strategy in the RS for the period from 2020 to 2027** was adopted ("Official Gazette of the RS", No. 21/20). This strategy⁴⁶ is an important instrument for improving the innovation and research ecosystem in Serbia, as well as for developing a knowledge-based and innovation-based economy. The strategy identified priority directions for development, and the key measures are cross-sectoral cooperation, modernization of the education system, increasing the innovation capacities of domestic companies and cooperation between the scientific-research and business sectors. In addition, some of the measures are specific programmes for cooperation between economy and science in the fields of specialization, which are implemented through the Fund for Innovation and the Fund for Science.

The reform of the organization and financing of science and research in Serbia, which is a great progress, implies the **introduction of combined institutional-project financing** (eliminates uncertainty in work and enables long-term planning of activities of scientific research institutions), as well as the **establishment of the Science Fund**. The Science Fund provides support to scientific research activities by announcing public calls and performing the complete procedure and management of competitive project calls. The Fund's programmes support technological development, advanced and innovative ideas, staff development, laboratories and research, construction of scientific infrastructure, integration into international scientific trends, cooperation between science and economy and other topics of strategic and social importance.

Through various financial instruments, the Innovation Fund⁴⁷ supports the creation of innovations, strengthening the link between science and the economy, establishing new and strengthening the existing companies with innovative potential. The Fund has so far approved EUR 25.9 million for 192 innovative projects, EUR 3.2 million for 633 innovation vouchers and EUR 540 thousand for technology transfer support, as well as EUR 1.7 million to prove the concept. In total, slightly more than EUR 32 million have been approved.

Numerous opportunities have been opened for institutions in Serbia to participate in the Horizon 2020 programme and other EU programmes. Currently, 510 institutions from Serbia⁴⁸ are participating in the Horizon 2020 programme on a total of 355 projects that have been approved for financing, and the number of participations from the private sector is 173. The amount of EUR 1146.2 million has been approved for the implementation of these projects by the European Commission, and the private sector withdrew EUR 36.9 million of total funds. Serbia's average

⁴⁶ The strategy was prepared over three years, according to the methodology of best practices of EU member states, and with the support of the Joint Research Centre of the European Commission.

⁴⁷ With the support of the European Union and the World Bank.

⁴⁸<https://webgate.ec.europa.eu/dashboard/sense/app/a976d168-2023-41d8-acce-e77640154726/sheet/0c8af38b-b73c-4da2-ba41-73ea34ab7ac4/state/analysis>

success rate is 11.61%, which is close to the EU average (12.01%). The largest number of approved projects is in the areas: food, then energy, information technology, etc.

The implementation of the Strategy for the Development of Artificial Intelligence began with a programme for scientific projects in the field of artificial intelligence, as well as the implementation of software that uses artificial intelligence in public administration. Furthermore, **the Action Plan for the period 2020-2022** was adopted (June 2020), which includes projects to support the development of artificial intelligence with new programmes in the fields of education, economy, science and public administration.

The innovation ecosystem is being developed by further investment in innovation infrastructure and technological entrepreneurship in university centres and regions in Serbia. According to the assessment of Start-up Genome⁴⁹, the ecosystems Belgrade and Novi Sad received the highest marks in 2019: 10 for investments and 9 for the growth of the total number of start-up companies. There are currently between 200 and 400 start-ups in Belgrade and Novi Sad, which is in line with the average for this phase of development and is similar to the number of start-ups in cities in the region, such as Warsaw and Bucharest. In the report of this agency for 2020⁵⁰ **Serbia is positioned in the top five countries by the number of blockchain developers in the world.** The most promising areas of activity of Serbian start-ups are blockchain and development of video games (*gaming*), and in addition, domestic start-ups are largely involved in creating solutions for large companies, products that use artificial intelligence and work with a large amount of data (*Big Data*) as well as smart cities. **Four state-of-the-art science and technology parks** (Belgrade, Novi Sad, Niš and Čačak) have been built, in which science and economy are working together to develop innovations for the global market.

In an effort to keep pace with modern trends in global, digital and electronic business, in mid-December 2020, the Law on Digital Property was adopted. In that way, financing with the help of investment tokens, improvement and development of the capital market, use of digital technology and providing a framework for the fight against abuse in the digital property market, as well as against money laundering and terrorist financing, is enabled.

There is still a lack of human resources in research and development area, which limits the economic growth and innovation. Serbia had 3,308 employees in the field of research and development⁵¹ per million inhabitants in 2019, which is almost twice less than the EU-28 (6,300) average. Their share in total employment in Serbia is 0.79%, which is also significantly lower when compared to the EU-28 average of 1.46%⁵². 16,399 researchers are engaged in science (of which 68% or 11,145 are doctors of science), and only 9% are employed in the business sector. The unregulated reintegration of returnee researchers is one of the reasons for Serbia's low competitiveness in science.

The number of registered patents is low, with the number of granted patents for inventions of domestic inventors abroad based on international and/or European patent applications has been growing in the last 7 years⁵³ (from 23 in 2013 to 71 granted patents in 2019). Due to low patent activity, patents represent only indirect results of innovative activities and do not provide a clear picture of Serbia's innovation potential.

Science is one of the areas of society that has not only **played an important role in terms of rapid response to the COVID-19 pandemic**, but also its development in the coming period will be strongly influenced by emerging needs. The government, in cooperation with the Beijing Genomics Institute (BGI) launched a joint project **to build a high-capacity COVID-19 detection laboratory that has started operating in Belgrade** (up to 2,000 analyzes per day) **and Niš** (up to 1,000 analyzes per day).

The Innovation Fund approved RSD 53 million (about EUR 450 thousand) to finance **12 innovative**

⁴⁹ Serbia is the only country in the region to be included in the report of the world's most renowned research agency for start-up ecosystems, Start-up Genome from San Francisco.

⁵⁰<https://startupgenome.com/reports/gser2020>

⁵¹ Source: SORS, National Public Policy Secretariat calculation

⁵²Source: Eurostat, <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

⁵³Intellectual Property Office, Smart Specialization Strategy in the RS for the period 2020-2027

projects⁵⁴ aimed at combating the effects of the **COVID-19** pandemic. In a short period of time, 12 solutions were developed and are available for use, such as a new type of **protective mask with a replaceable HEPA filter for multiple and long-term use**, a **disinfection cabin** intended for use in public places and locations of interest, a **mobile counter for non-contact temperature measurement** and manual disinfection, **portable ozonizers** for fast and safe disinfection of facilities. Furthermore, in May 2020, **the Science Fund** published a public call for proposals for scientific research projects within **the Special Research Programme COVID-19**⁵⁵ with a total budget of EUR 2 million. The programme aims to fund projects that will contribute to an effective scientific response to the **COVID-19** pandemic and enable better preparedness and response of society.

The information and communication technologies (ICT) sector has been the most dynamic sector in Serbia in the last 10 years and one of the important stakeholders of the creative industry sector. Exports of ICT services⁵⁶ recorded a continuous growth of over 20% per year in the period from 2015-2019. In the first two months of 2020, exports of ICT services increased by 22% compared to the same period in 2019, but after that (March-May period) there was a slight decline in exports of ICT services, probably caused by reduced demand due to the global pandemic. Although employees in the ICT sector represent only 2.6% of total registered employment⁵⁷, the number of employees in this sector is growing significantly from year to year (7% in 2019 and 10% in 2018). Every year, an average of 200 new ICT companies is registered in Serbia; most newly established companies employ developers and are oriented towards strong and liquid international IT markets. **The challenge is to ensure connectivity between the ICT sector and traditional industries in order to accelerate modernization in traditional sectors.**

According to the **Network Readiness Index** 2019⁵⁸, as an indicator of the development of the digital economy, i.e. the **country's readiness to join the IT sector**, in 2019 Serbia ranked 52nd out of a total of 121 ranked countries. The position has improved significantly over the last few years, but Serbia still lags behind most countries in the region that are members of the European Union: Slovenia (27), Hungary (38), Croatia (44), Romania (47) and Bulgaria (49). According to the **Digital Economy and Society Index** (DESI), Serbia ranks 22nd on the list of European countries in 2019. The better position on the ranking list compared to previous years is due to the results achieved in the *Connectivity* category, which represents the infrastructure needed for the digital economy and society and offers information on types, accessibility and quality of internet access and the *Digital Public Services* category, which refers to digital technologies in the function of improving the interaction of legal and natural persons with public administration⁵⁹.

In 2018, the Government adopted the Strategy for the Development of New Generation Networks until 2023, which has the main goal of providing the necessary infrastructure for the development of the digital single market in Serbia, in accordance with the strategic framework of the European Union in this area. The Ministry of Trade, Tourism and Telecommunications has started activities on the preparation of the Draft Law on Electronic Communications, which includes transposing the provisions of the European Electronic Communications Code, which entered into force on December 20th, 2018, and EU member states are obliged to transpose the provisions of this directive by December 21st, 2020. This directive introduces significant changes, in line with market changes and trends in the field of electronic communications. It is planned to pass the law by the end of 2021.

Although the ICT sector is constantly growing, **the communication infrastructure in Serbia needs**

⁵⁴ Priority is given to those solutions that are estimated to be able to create the most relevant, fastest and strategically important response to specific problems. The development of medicaments and vaccines was not the subject of this public call.

⁵⁵ The programme supports applied scientific research, the creation of interdisciplinary and multidisciplinary teams within three groups of scientific fields: (bio) medical sciences, (bio) medical engineering and information technology, and economic, sociological, psychological research and management of complex systems.

⁵⁶ According to the NBS, the export of ICT services amounted to EUR 1,422 million in 2019, and a surplus in the exchange of ICT services of almost EUR 802 million. Exports of ICT services represent about 20% of total exports.

⁵⁷ Data for the second quarter of 2020, SORS

⁵⁸ Network Readiness Index 2019, <https://networkreadinessindex.org/nri-2019-countries/#complete-ranking>

⁵⁹ Source: RATEL Review of the telecommunications and postal services market in the Republic of Serbia in 2019 (supplement)

to be systematically improved, both in the regulatory framework and in the area of investment. Broadband ICT is a significant link in the development of rural and remote areas. Therefore, a project loan of the European Bank for Reconstruction and Development of EUR 18 million⁶⁰ was approved for the development of communication infrastructure in rural areas (“white or gray zones”). The project will enable the connection to the Internet of at least 600 schools or public institutions, local communities and other facilities of state and local self-government bodies, and, according to estimates, approximately 90,000 households (over 200,000 citizens) in defined territories.

The number of subscribers of fixed broadband Internet access in the second quarter of 2020 increased slightly and amounted to about 1.66 million⁶¹, which is 66.7% of the total number of households. The structure is dominated by xDSL and cable access subscribers; as many as 48.8% of subscribers use high-speed networks (greater than 30Mbit/s). **Access to computers and the Internet in companies is widespread**, given that all companies use computers and are connected to the Internet.

In terms of connecting educational institutions, significant progress has been made, because a total of 1,879 educational, scientific and cultural institutions were connected to the Academic Network of the Republic of Serbia (AMRES) by June 2018, of which 1,557 primary and secondary schools. Efforts are also being made to provide funds to improve the quality and speed of internet connections in already connected schools.

The development of the information society and e-Government in Serbia also depends on the improvement of the legal regulations that regulate this area. The adoption of the Law on Electronic Communications (which is in preparation) will complete the harmonization with the EU regulatory framework in the field of electronic communications.

Progress has been made in the further development of e-Government, which was clearly recognized in last year's SIGMA report. The focus of the Government of the Republic of Serbia is on further introduction and development of e-services, i.e. the positioning of the national portal e-Government as a central place for the provision of e-services. Through the Service Highway of the Authorities (SHA) the total number of service calls until 6 October 2020 amounted to more than 15 million. Data sets from eight institutions and their jurisdictions are available, a total of **28 data sets** (Ministry of Public Administration and Local Self Government – 5 data sets, Ministry of Justice – 3, Ministry of Interior-5, National Employment Service-3, Tax administration-4, Republic Geodetic Authority-4, The Pension and Disability Insurance Fund-2, Central Register of Compulsory Social Insurance -2), and 332 institutions exchange data through the SHA.

In order to improve the user experience, the Portal's functions and content were **redesigned** in February 2020, the “life events” section was introduced and it was adapted for access via mobile phones and tablets. Users are also provided with the possibility of insight into their personal data stored in the registers and electronic records of public administration. The **e-Identification** schemes of the basic and intermediate level of reliability of the Office for Information Technology and Electronic Administration are entered in the Register of Electronic Identification Service Providers and electronic identification schemes. A national portal for authentication of e-Government users (e-ID) and two-factor (multifactor) identification of users of e-Government services have been established. It is especially important that at the time of the COVID-19 pandemic, the e-Health Portal was the first connected public administration information system for which the functionality of a single application (SSO) was enabled via the e-ID portal. All other information systems and public administration portals are being connected. **E-Payment** is enabled to all users through the e-Government Portal, as follows: any payment card, integrated e-banking and electronic money (iPay see). E-Payment is enabled at POS terminals at the counters of local self-government, cadastre and MoI and a solution is being drafted that would enable instant payment at the counters of public administration bodies and the eGovernment Portal. Regarding the development of digital skills,

⁶⁰ For the implementation of the project “Construction of broadband ICT in rural areas of the Republic of Serbia - Phase 1”.

⁶¹ Source: RATEL, Review of the electronic communications market for the second quarter of 2020.

trainings related to the development and improvement of digital skills are conducted, as well as various trainings related to the use of IS and e-Government services, the Retraining programme for IT for employees, etc.

The importance of the process of **digitalization of health care services** came to the fore especially due to the COVID-19 pandemic (more in the field of *Social Protection and Inclusion, Including Health Care*, page. 172).

b) Reforms

STRUCTURAL REFORM 14: SUPPORT FOR SCIENTIFIC RESEARCH ACTIVITY THROUGH STRENGTHENING SCIENTIFIC RESEARCH CAPACITIES

1. Description of the structural reform

The reform of the scientific research system, on the one hand, should ensure the **stability of funding of scientific research organizations**, and on the other hand support excellence in science as the basis of an innovative society and ensure long-term quality of scientific research through strengthening scientific research institutions. The reform of the scientific research sector will enable the positioning of the institute as a reliable partner both within the Serbian society and within the European research area, providing a key contribution to the development of the knowledge-based economy. The focus of the reform is on improving the **capacity of scientific research institutes**, whose founder is mainly the Republic of Serbia (69 out of 73 accredited institutes). The process of institute's self-evaluation is finalised, and after that the process of external evaluation of selected institutes will be piloted, in order to carry out their transformation in the final phase. This includes: improving the quality of scientific research work of institutes and strengthening the capacity with adequate use of financial resources and research equipment. The reform contributes to the realization of **SDG 9.5**. Improve scientific research, improve the technological capabilities of industrial sectors, which means that by 2030 innovation will be encouraged and significantly increase the number of employees in the field of research and development, as well as increase public and private spending on research and development.

The implementation of the Law on the Science Fund **continues to support** the most prominent scientists, teams and their ideas **through the Science Fund Programmes**. So far (since March 2019), it has announced calls for 5 different programmes, the implementation of which is determined to be around EUR 38.2 million.

Current *Strategy of Scientific and Technological Development “Research for Innovation” for the period 2016-2020* provided a good framework for reforms in science and research. A new strategic document for the period 2021-2027 is being prepared, which will enable further reform process and more dynamic development of this area.

2. COVID-19 - effects, measures and challenges

The Science Fund has announced a special research programme COVID-19, which gave an **effective scientific response to the current pandemic** and showed the readiness of the scientific community to respond to new social challenges. Through this call, the Science Fund will finance 14 projects, 11 of which are in the field of biomedical sciences, 2 in the field of economic, sociological, psychological research and management of complex systems and 1 project in the field of biomedical engineering and information technologies, with a total budget of almost EUR 2 million.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Institutional funding programme												
2	Implementation of the pilot transformation of the institute												
3	Implementation of the PROMIS Programme by R&D organizations												

4	Implementation of the Artificial Intelligence Programme											
5	Implementation of the Programme of Cooperation of Serbian Science with the diaspora											
6	Programme Ideas - implementation of evaluation and project selection activities											
7	Implementation of the Programme Ideas by the R&D organizations											
8	Implementation of the COVID-19 Programme											
9	Preparation of new Science Fund Programmes - People											

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of funded projects in the Science Fund	/	180* (2020)	500* (2023)
Number of published papers in the Web of Science network (<i>All documents</i>)	7221 (2016)	8600 (2020)	8750 (2023)
Number of researchers per million inhabitants	2350 (2016)	2322 (2018)	2400 (2023)
Number of transformed institutes	0 (2020)**	/	5 (2023)

* total number of all projects of the Programme Fund - rough projection

** in 2020, the process of self-evaluation of scientific research institutes began. Expected impact on competitiveness

5. Expected impact on competitiveness

The reform will improve the existing potentials and capacities of the scientific research sector, following the example of developed world economies. Greater and better application of the results of scientific research will enable sustainable economic growth. Today, in the conditions of numerous global challenges, efficient innovative response to social challenges and changes is a precondition for future economic progress, preservation of health and security of society.

Systematic regulation of cooperation between science and economy through the programmes of the Science Fund will stimulate economic activity and increase market competition. The application of research results will affect the establishment of knowledge-based companies and increase employment through job creation.

6. Estimated costs of implementing structural reform and estimated sources of financing

Reform activities in the period 2021-2023 will be mainly financed from the RS budget in the projected amount of about EUR 362 million. In 2021, through the Serbia Accelerating Innovation and Entrepreneurship Project - SAIGE Project, EUR 34 million were provided, and through IPA 2019 in the amount of EUR 31.5 million. Continuous provision of support will continue, and the amounts will be determined by the financial plan for 2021 and projections for the following years.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The positive effect refers to the increase in employment through the contribution to the creation of long-term sustainable and adequately paid highly qualified jobs. Through funding through its instruments, the Innovation Fund has been supporting the creation of new jobs for many years.

8. Expected impact on the environment

The Science Fund only supports projects that do not have a negative impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Insufficient interest and lack of recognition of the importance for the implementation of the reform of scientific research institutes	High	Motivating and timely providing support to interested institutes

Untimely implementation of other reforms in the higher education, science and innovation sectors	Moderate	Full establishment of institutional funding as a basis for science development and the ability of R&D organizations to absorb funds from institutional (through the Ministry of Education, Science and Technological Development) and project funding (through the Science Fund) together
Lack of conditions and technologies for commercialization of scientific research solutions	Moderate	Continuous provision of support (financial and non-financial) for various mechanisms that stimulate the connection and cooperation between R&D organizations and the business sector

STRUCTURAL REFORM 15: IMPROVEMENT OF INSTITUTIONAL SUPPORT FOR THE DEVELOPMENT OF SMART SPECIALIZATIONS AND INNOVATIONS

1. Description of the structural reform

The aim of the reform is to improve institutional support to innovative companies through various mechanisms and encourage their development activities to find innovative solutions and products, employment, digitalization and improvement of infrastructure for creating a business ecosystem.

The Innovation Fund establishes long-term institutional support of the state for innovative entrepreneurship and the establishment of cooperation between the economy and the academic sector. Through the **Business Acceleration Programme**, a new instrument will be established which will additionally support the development and improvement of the competitiveness of innovative companies in the early phase of development, but also in the growth phase, as well as their training for attracting investments.

The coordination of the Serbia Creates platform, which operates within the e-Government Office, has contributed to the creation of a network of science and technology parks. The successes of the Science - Technology Park Belgrade have contributed to the establishment of new STPs in Nis, Novi Sad (under construction) and Čačak, providing a basis for further investments in infrastructure in order to create a suitable environment for innovation, taking into account the importance of development of the Serbian regions in terms of their specific needs and potentials. So far there are 107 company members within three STPs with 1,207 employees.

Smart specialization strategy in the RS for the period 2020-2027 (adopted in February 2020), will be implemented through targeted support for research, development and innovation activities. Resources will be directed to areas that have the greatest competitive and innovative potential. Support will be provided to the domestic economy to use its potentials more efficiently and to better position itself on global markets and in international value chains. In line with the recommendation of the European Commission, the findings of this strategy was used to develop the Industry Policy document, which is also adopted. Cooperation between the two line ministries continues through the development of action plans for both strategies. *Action plan for the implementation of the Strategy for the development of artificial intelligence in RS for the period 2020-2025* (adopted in June 2020) envisages the use of artificial intelligence in the function of science and innovation development, as well as the **establishment of the Institute for Artificial Intelligence**, a central institution for connecting and strengthening cooperation with world experts in this field.

The reform contributes to the realization of **SDG 9.5**. Improve scientific research, improve the technological capabilities of industrial sectors, which means that by 2030 innovation will be encouraged and significantly increase the number of employees in the field of research and development, as well as increase public and private spending on research and development, as well as SDG 9.b Support the development of domestic technology, research and innovation, including the provision of a favourable policy environment for, inter alia, industrial diversification and the added value of goods.

2. COVID-19 – effects, measures and challenges

The established innovation system provided a quick response to numerous challenges in society resulting from the COVID-19 pandemic. The Innovation Fund financed 12 different innovative projects of companies within the announced Public Call for Suppression of the Effects of the pandemic. The projects have been successfully implemented, and products and services have been donated to institutions of public importance throughout Serbia. Innovative solutions supported through the Fund's public call will remain applicable and useful even after the pandemic.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	IPA 2014 - Development of new products and services through the commercialization of research in small and medium enterprises												
2	IPA 2018 - Increased innovation capacity and technological readiness of small and medium enterprises												
3	Innovation Acceleration and Entrepreneurship Growth Project - Component 2 - Establishment of the Business Acceleration Programme, including IPA 2019 Funds												
4	Establishment of the Institute for Artificial Intelligence and instruments for providing support to the economic sector												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of project partnerships between business and academic sector	22 (2016)	36 (2020)	70 (2023)
Number of newly established innovative companies	156 (2016)	368 (2020)	460 (2023)
Number of filed patents	58 (2016)	84 (2020)	120 (2023)
Number of employees in newly established companies	341 (2016)	428 (2018)	600 (2023)

*last available results are for 2018 (BRA)

5. Expected impact on competitiveness

Through institutional and financial support of innovative companies and enabling cooperation with domestic institutes and world experts, the existing innovation potentials will be expanded, which is a precondition for strengthening the competitiveness of the Serbian economy and achieving high rates of economic growth.

6. Estimated costs of implementing structural reform and estimated sources of financing

Structural reform in the period 2021-2023 will be financed from several sources: RS budget funds in the projected amount of about EUR 36 million to support the work of the Innovation Fund, three direct grant agreements from IPA 2014, IPA 2018 and IPA 2019, whereby financing from the IPA funds is planned in the total amount of about EUR 41,2 million with co-financing from the RS budget in the amount of EUR 15 million. In 2021 through the Serbia Accelerating Innovation and Entrepreneurship Project- SAIGE World Bank Project, an additional EUR 7 million have been provided for the Business Acceleration Programme. Continuous provision of support will continue, and the amounts will be determined according to the financial plan for 2021 and projections for the following years.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Encouraging the growth of innovative entrepreneurship, the development of innovative solutions and their commercialization create the opportunity for new investments and on that basis employment growth. Improving the competitiveness of the Serbian economy on the basis of innovation and achieving high rates of economic growth will also reflect on increasing living standards, greater equality and poverty reduction. Through its programmes, the Innovation Fund supports job creation and monitors the growth of employment in innovative companies that have used the Fund's funds. Innovation also affects educational profiles, which are key factors in the labour market.

8. Expected impact on the environment

The Innovation Fund does not support projects that have a negative impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Insufficient interest of companies to use the services of science and technology parks	Moderate	Adequate services tailored to the needs of companies at all stages of development
Lack of potential technologies for commercialization in scientific research organizations	Low	Continuous provision of necessary support (financial and non-financial) for various mechanisms that stimulate the connection and cooperation between R&D organizations and the business sector
Lack of interest of the economy and science in conducting joint activities	Low	Intensive promotion of support instruments

STRUCTURAL REFORM 16: INCREASING THE AVAILABILITY OF E-GOVERNMENT BY IMPROVING INFRASTRUCTURE AND INTRODUCING NEW TECHNOLOGIES

1. Description of the structural reform

The digitalization programme of the Government of Serbia is implemented mainly through the project **Serbia at your fingertips - Digital Transformation for Development**, which includes support for the implementation of large infrastructure projects. The reform is being implemented in accordance with the strategic documents: *RS e-Government Development Programme for the period 2020-2022 with the Action Plan for its implementation*, the *Public Administration Reform Strategy in the Republic of Serbia*, the *Strategy for the Development of Artificial Intelligence in RS 2020–2025 and the 2020-2022 Action Plan*. The **construction of the State Centre for Data Management and Storage is underway - Data Centre (DC) in Kragujevac** (activity transferred from the previous ERP), which will house the key information and communication infrastructure of the Republic of Serbia. DC will provide services for storage of equipment in space (telehousing) and virtualization or application of “cloud” services, it will provide a high level of information security, a greater degree of protection of personal and privacy data, storage of huge amounts of data owned by government agencies and organizations, public companies and holders of public authorities, which will be physically located on the territory of RS, their “back up” and “disaster recovery”, with a more efficient and smarter way of energy consumption. DC will directly contribute to the digital transformation of the public sector, the development of future services and the application of new technologies such as artificial intelligence (AI) and the “Internet of Things” (IoT), but also reduce the costs of public administration and local governments that continuously increase services. The next activity is **procurement of high performance computing system** as one of the most important parts of the future **National Platform for Artificial Intelligence**, the establishment of which is defined by *strategic documents*. The goal of the **Smart City project**, which is the third activity, is to improve the quality of life of the entire population in those cities by rationalizing the functioning of large cities and more economical resource management. Areas of application would be public administration,

health, traffic, road infrastructure and mobility in urban areas, ecology, digital skills for senior citizens, etc.

The reform contributes to the achievement of **SDG 9.b** Support the development of domestic technology, research and innovation, including the provision of a favourable environment in terms of policies for, inter alia, industrial diversification and added value of goods, as well as **SDG 11.3**. By 2030, improve inclusive and sustainable urbanization and capacities for participatory, integrated and sustainable planning and management of human settlements.

2. COVID-19 – effects, measures and challenges

The results of the activities carried out in the field of establishing the necessary infrastructure and digitalization of public services, as one of the priorities of the RS Government, became especially visible during the state of emergency caused by the pandemic. The newly established systems and implemented improvements have enabled us to respond quickly to the crisis and in a short time develop a large number of necessary software solutions, platforms and services aimed at epidemiological surveillance, infection control, information and support to citizens and the economy, continuation of regular activities in the field of education, trade, and other areas. Through the e-Government portal, it is possible to provide a large number of services that in previous years involved the personal presence of users, but also improved the availability of records and electronic data exchange within public administration. Some activities on the introduction of electronic services were accelerated and completed earlier than planned (enrolment of children in kindergarten, primary and secondary school, vehicle registration, tourist registration), but it was made possible to use new services that were planned for some future period (electronic delivery of decisions on property tax), as well as services that arose as a need in emergencies conditions (scheduling PCR testing and notification on test results, self-assessment test, etc.).

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Establishment of DC in Kragujevac												
2	Procurement of high performance computer system – Supercomputers												
3	Digitization and automation of urban areas through mass placement of sensors and their connection, with each other and with the Data Centre												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of state administration bodies and local self-government units that use the Data Centre for data management and storage and the number of companies that use the Data Centre on a commercial basis	0 (2019)	10 (2020)	60 (2023)
Number of software solutions of state administration bodies and local self-government units that have been migrated to Data Centres	0 (2019)	/	50 (2023)
Launch of the Supercomputer into production	0% (2020)	/	100% (2021)
Number of cities in which the Smart City project was implemented	0 (2020)	/	3 (2023)

5. Expected impact on competitiveness

The users of the services of the new DC, in addition to state administration bodies and local self-government units, will also be the private sector under commercial conditions. Memoranda of understanding are already signed with several leading global ICT companies and one domestic bank,

as they are interested in using DC capacities and services to securely store their data to the highest technical standards in the region. It is envisaged that the future state platform for AI will be available to the academic community, science and technology parks and the business sector (MSE) in order to support the development of innovative solutions based on AI. Gathering a large amounts of data and more economical resource management through the Smart City project, leads to the design and development of new services, most of which would be of a commercial nature, which will contribute to starting new businesses and increase economic activity.

6. Estimated costs of implementing structural reform and estimated sources of financing

The beginning of the construction of facility B is planned for the end of 2020, and funds are also provided from the RS budget for 2020, while funds for the continuation of construction are planned within the approved limit on the capital project Construction of Data Centre in Kragujevac in the total amount of EUR 42,041,690 (EUR 10,958,341 from the budget for 2021, EUR 18,583,341 for 2022 and EUR 12,500,008 for 2023). For the procurement of Supercomputers, the total planned costs amount to EUR 1 million from the RS budget for 2021. For the implementation of the *Smart City* project, the planned costs from the RS budget are EUR 12.583.333 (EUR 83.333 for 2021, EUR 6.250.000 for 2022 and EUR 6.250.000 for 2023).

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

For the functioning of DC, as one of the most important IT centres in Serbia and the region, it will be necessary to employ 30 highly qualified staff in the field of IT, mechanical engineering and energy, with additional need for IT staff to work on the development, implementation and maintenance of cloud systems. The realization of this project will lead to an increase in the volume of work via the Internet, as well as to raising the level of knowledge, competencies and skills in the field of ICT in the country, with an increase in the number of jobs in almost all sectors. The development of AI will lead to an increase in the quality of life of all citizens through the development of innovative solutions in the areas of public administration, health and medicine, transport, road infrastructure and mobility in urban areas. The realization of the Smart City project through a public invitation to cities (and municipalities) in Serbia to actively participate in this project, together with their universities and schools, as well as the private sector, will affect additional employment and generate new services.

8. Expected impact on the environment

There will be no negative impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Postponement of planned activities due to the COVID-19 pandemic	High	Updating the operational plan to perform the necessary steps.
Difficulties in procuring the necessary equipment	Moderate	Compliance with contractual provisions and procurement procedures. Depending on the current situation regarding the COVID-19 pandemic, the start of re-production with foreign manufacturers and the unhindered distribution of equipment from the country where the equipment is produced to the place of delivery.
Long-term installation works and dependence on readiness for other process steps	Low	Adherence to deadlines
Unused infrastructure to the expected extent	Low	Infrastructure development in accordance with the needs of stakeholders obtained through a continuous consultation process (collection of feedback from users and improvement based on proposals).

STRUCTURAL REFORM 17: DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL INFORMATION AND COMMUNICATION INFRASTRUCTURE

1. Description of the structural reform

The scope of using e-Government services largely depends on the existence of adequate and efficiently used information and communication infrastructure. On the other hand, support to the digitalization of formal education, as well as Internet access itself, represent a necessary infrastructure for the development of the digital economy and society. The most important goals of the implementation of the reform measure are: development of broadband access networks by providing state incentives for joint construction of IC infrastructure; development of detailed maps of the availability of broadband access services in Serbia and improvement of conditions for the development of digital education and increasing the use of e-Government services.

Structural reform is implemented through activities:

- Connecting educational and cultural institutions to AMRES;
- Project "Connected schools"
- Project of construction of optical broadband network in rural areas of Serbia (phase 1 and 2).

As the regular activities of AMRES, as an academic network, relate to the functioning and improvement of the network in higher education institutions, the reform supports the connection of primary and secondary education institutions and cultural and scientific institutions in order to reduce differences in the availability of modern services.

The "Connected Schools" project is aimed at building and improving local wireless communication infrastructure (WLAN) in all schools in Serbia. With this project, in phase 2, the connection of 900 school buildings was completed, while in phase 3, it is planned to connect another 930 school objects by the end of 2022 and to improve the network in the existing schools.

Within phase 1 of the Project of construction of optical broadband network in rural areas of Serbia, the construction of infrastructure is planned to connect 600 settlements aiming at about 90,000 households, while phase 2 would include additional 900 settlements with about 135,000 households.

The reform contributes to the achievement of **SDG 9.c** Significantly increase access to information and communication technologies and make efforts to ensure universal and affordable Internet access, as well as **SDG 4.4**. By 2030, significantly increase the number of young people and adults who have relevant skills, including technical and vocational, for employment, decent jobs and entrepreneurship.

2. COVID-19 - effects, measures and challenges

The crisis caused by the COVID-19 pandemic affected the implementation of preparatory activities for the construction of optical broadband network in rural areas of Serbia, and they were not fully implemented in accordance with the planned dynamics, so part of the planned activities was transferred to 2021. Furthermore, the crisis has pointed to the need for a reliable communication infrastructure in order to enable business activities and contribute to the quality of life in the new circumstances.

Providing stable sources of funds for further implementation of this reform measure will reduce the negative effect of the pandemic by building a communication network in rural areas of the Republic of Serbia and by connecting a significant number of public facilities to enable uninterrupted education, greater availability of digital services and to influence the creation of favourable conditions for the general development of the economy and society in extraordinary circumstances.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Connecting educational and cultural institutions to AMRES												

2	Activities on the improvement of IC infrastructure in primary and secondary schools in RS - "Connected schools"											
3	Preparation for construction of optical broadband network in rural areas of Serbia - phase 1											
4	Construction of optical broadband network in rural areas of Serbia - phase 1											
5	Preparation for construction of optical broadband network in rural areas of Serbia - phase 2											
6	Construction of optical broadband network in rural areas of Serbia - phase 2											

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of rural settlements in white areas to which a subsidized optical network has been built	0 (2020)	300 (2021)	900 (2023)
Number of school buildings in which a wireless local computer network has been built	377 (2019)	1,500(2021)	1,830(2023)

5. Expected impact on competitiveness

The positive effect of the reform is reflected in the development of rural areas, connecting economic regions, development of industrial zones, as well as increasing the use of new technologies and innovations in business and education. Broadband access to the Internet and information and communication technologies affects faster, safer and more efficient business, which increases the productivity of companies and reduces business costs.

Availability map of mobile broadband have been developed for all mobile technologies and are regularly updated by the Ministry of Trade, Tourism and Telecommunications. Also, maps of the availability of fixed broadband Internet access at the settlement level have been developed and the data are publicly available. The analysis of availability maps has identified areas where capital incentives are needed to enable further development, given that electronic communications operators have no economic interest in developing broadband infrastructure independently (white areas).

Development of detailed maps of broadband access availability in Serbia directly affects the transparency of data on the existing communication infrastructure as well as the improvement of joint use of infrastructure by operators.

6. Estimated costs of implementing structural reform and estimated sources of financing

In 2021, EUR 1,925 million will be provided from the RS budget for the needs of connecting educational and cultural institutions to the AMRES network. For the improvement of IC infrastructure in primary and secondary schools in Serbia, within the project "Connected schools" - phase 2, EUR 22.4 million have been provided from the project loan. Preparation for the construction of optical broadband network in rural areas - phase 1 will be financed with EUR 1,7 million from grants and EUR 1,2 million from project loan, and the construction itself which is worth EUR 6 million will be financed from the project loan.

In 2022, it is necessary to provide EUR 1,925 million from the RS budget for connecting educational and cultural institutions to AMRES (improvement of quality and speed). For the implementation of the project "Connected Schools" - phase 3, EUR 5.6 million will be allocated from the project loan. For the implementation of activities on the construction of optical broadband network in rural areas - phase 1, the amount of EUR 10.8 million will be provided from the project loan. The funds necessary for the preparation of the construction of optical broadband network in rural areas - phase 2 amount to EUR 2,7 million and have not yet been provided.

In 2023, it is necessary to provide funds from the RS budget in the amount of EUR 1,925 million for connecting educational and cultural institutions to the AMRES network (improvement of quality and speed).

Necessary funds, in the amount of EUR 54 million for financing the construction of optical broadband network in rural areas - phase 2 have not yet been provided.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The construction of broadband communication networks enables employment, but also work over the Internet and an increase in the number of jobs in practically all sectors, including the ICT sector. Raising the level of knowledge, competencies and skills in the field of ICT contributes to employment opportunities in the field of IT, but also in other areas where there is the introduction or increase in the use of new technologies in business. Providing next-generation broadband access would reduce regional disparities between rural and urban and suburban settlements and enable the balanced development of all regions of Serbia, which would support the depopulation of rural areas. The implementation of the reform will affect the connection of public facilities, especially educational institutions, with modern IT infrastructure and the improvement of e-Government services.

8. Expected impact on the environment

The construction of the planned communication infrastructure does not pose a danger to human health and has no impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Untimely finding of stable sources of financing, in order to meet the defined deadlines	High	Timely planning and application to international financial institutions
Insufficient interest of operators in building common infrastructure	High	Increasing budget funds for building common infrastructure
Timely obtaining the necessary building permits	High	Hiring a consultant for coordination with other state bodies and local self-government units

5.3.5. Area REFORMS IN THE FIELD OF ECONOMIC INTEGRATION

a) Analysis of main obstacles

Serbia is not fully integrated into the international economic system, as it is not yet a member of the World Trade Organization (WTO). Within the multilateral component of accession (systemic issues), currently the only open issue is the ban on foreign trade in genetically modified organisms (GMO) products and the adoption of the Law on Amendments to the Law on GMO, which is the biggest obstacle to completing the WTO accession process.

At the regional level, Serbia actively participates in the development and implementation of the Multi-Annual Action Plan for the Development of the Regional Economic Area (MAP REA). Regional cooperation has given concrete results in the field of implementation of the signed Roaming Agreement, individual action plans for the implementation of the Regional Investment Reform Agenda have been adopted, and negotiations on mutual recognition of qualifications have continued. The Common Regional Market Action Plan under the Berlin Process is adopted on 10 November 2020 at the Western Balkans Summit in Sofia. By the end of 2024, a number of activities are planned in the areas of: a) promoting the four freedoms (through mutual recognition agreements, removing obstacles and reducing costs and time of movement of goods, services, capital and people), b) improving the attractiveness of the region for investment (through regional investment promotion campaign, developing regional guidance and procedures for screening mechanisms), c) integrating the Western Balkans into the pan-European digital area (harmonization with the principles and

practice of the EU Digital Single Market, cooperation in the field of access to data protection, mutual recognition of electronic signatures) and d) upgrading the industrial base and innovation infrastructure (supporting youth entrepreneurship, start-ups and early start-ups by introducing mechanisms for the transfer of knowledge from the diaspora, by encouraging green and women's entrepreneurship).

In order to further improve and deepen trade and economic cooperation, at the beginning of 2020, Serbia ratified the Free Trade Agreement with the Eurasian Economic Union (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan).

On the Doing business 2019 list, Serbia ranked 23rd on the ranking list of 190 countries according to the indicator related to foreign trade, which is also the most important ranking within the composite indicator Business Conditions. The most important activity for a good ranking in this area is the efficient implementation of the NCTS (new computerized transit system) transit procedure by the Customs Administration.

The growth of Serbia's foreign trade is accompanied by an increase in the foreign trade deficit. Exports of EUR 17.5 billion in 2019, recorded a growth of 7.7% y-o-y, while imports grew at a rate of 8.9% (EUR 23.9 billion)⁶². The foreign trade deficit (EUR 6.3 billion) increased by 12.5% y-o-y, and exports covered 73.4% of imports in 2019 (74.3% in 2018). The wide dispersion of exports is ensured by the diversification of FDI in a large number of sectors that produce tradable goods. In the first eight months of 2020, the COVID-19 virus pandemic had an adverse effect on trade flows. Serbia's exports amounted to over EUR 10.6 billion (which is a decrease of 7.6% compared to the same period last year), and imports amounted to almost EUR 14.5 billion (decrease of 6.5%). The foreign trade deficit (EUR 3.8 billion) is lower by 3.2% compared to the same period last year, while the coverage of imports by exports remained at 73.4%.

The most important foreign trade partners of Serbia are the countries with which Serbia has signed free trade agreements. By applying these agreements, a high degree of liberalization of Serbia's foreign trade was achieved, so that in 2019 about 82.2% of the total trade of Serbia with the world was done with partners with whom free trade agreements were signed, and almost 90% of Serbia's exports are placed in these markets. In the first 8 months of 2020, these participations are very similar, 81% of the total trade of Serbia was trade with partners with whom free trade agreements were signed, i.e. 89% of the total export of Serbia was placed in the mentioned countries.

61.8% of the total exchange of Serbia in 2019 took place with EU member states. Exports to the EU increased by EUR 776.8 million in 2019 (growth of 7.1% compared to 2018), with a decline in the trade deficit of 4% y-o-y. In the first eight months of 2020, the share of the EU in the total trade of Serbia is 60.6%, and total trade with the EU (EUR 15.2 billion) due to the consequences of the pandemic is lower by 8% compared to the same period last year, with declining exports of 9.4% and imports of 6.8%. The trade deficit with the EU trade (EUR 1.6 billion) in the observed period was 6.5% higher than in the same period last year, and the coverage of imports by exports was 81%.

The challenge for the movement of trade and trade integration of Serbia into the EU is certainly the protective measures (import quotas) that the EU introduced in January 2019 on certain groups of steel and iron products, for a period of three years. Due to the mentioned measures, the export of iron and steel from Serbia to the EU during 2019 recorded a decrease of 9.8% compared to 2018. The drop in international demand for these products, due to the COVID-19 pandemic, reduced Serbian exports in 2020 as well - exports of iron and steel of EUR 401 million in the first eight months of 2020 are lower by 29.5% than in the same period last year. Exports of these products from Serbia to the EU in the observed period amounted to EUR 320 million with a decrease of 25.8%. Despite the fact that from 1 July 2020 for one category of products there was an increase in the quota for steel imports in the EU by 3%, no increase in exports is expected, since at the same time a specific quota was introduced for the second category, which is twice less than last year's exports of this particular product. Since the introduction of EU quotas, there has been an increase in the import of construction

⁶² Source: Foreign Trade, SORS

steel to Serbia, which may be a consequence of the redirection of trade flows that were previously directed towards the EU.

Harmonization of national regulations with technical regulations of the European Union and their efficient application through a developed quality infrastructure system are a prerequisite for product safety on the domestic market and Serbia's inclusion in international and European integration flows and ensuring free movement of goods and services.

With the adoption of the Law on Food Safety, the Law on Plant Health and the Law on Plant Protection Products in 2019, the **harmonization of phytosanitary and sanitary regulations** with the regulations of the European Union has been achieved.

The second most important foreign trade partner are the CEFTA parties, with which there was a trade surplus of EUR 2 billion in 2019, mainly as a result of exports of agricultural products (cereals and products thereof and various beverages), oil and petroleum products, iron and steel and metal products.

The taxes that the temporary institutions of self-government in Priština introduced on products from Central Serbia in November 2018, were abolished on 31 March 2020. However, at the same time, reciprocal trade measures were introduced, which was a restriction on the placement of goods from Central Serbia. Finally, this measure was abolished on 6 June 2020, and since then there have been no formal conditions at the administrative crossings for the crossing of goods. After the abolition of taxes, from 1 April to the end of August 2020, goods worth EUR 112.5 million were placed on the territory of AP Kosovo and Metohija (less than EUR 1 million per day). There has still been no recovery and return to the level of exports that existed before the introduction of the 100% tax, given that exports to this area amounted to about EUR 2 million per day before the introduction of the tax. Overall, the damage from the introduction of taxes to the abolition of reciprocity measures averaged EUR 1 million per day.

The current account deficit was increased by 52.2% during 2019, mainly due to the growth of the trade deficit, while there was an increase in the surplus on service accounts of 5.4%, primarily ICT services (in the amount of EUR 801.7 million, which represents growth of 30.4% y-o-y). In the period January-June 2020, **the current account deficit decreased by 11%** (due to the growth of the trade deficit by 4.5% y-o-y, while the surplus on service accounts increased by 31.2% y-o-y). In 2020, key factors such as decrease in domestic demand, lower oil prices and export resilience due to its structure and diversification and investment in export industries are expected to contribute to reducing the current account deficit.

The analysis of foreign trade performance **in the conditions of the COVID-19 virus pandemic** shows that there was no interruption of the supply chain from the main foreign trade partners (who mostly import raw materials and semi-finished products from Serbia). In the period from January to August 2020, the total export of goods amounted to EUR 10.6 billion (-7.6% y-o-y, exports to the EU -9.4% y-o-y), total imports of goods of EUR 14.5 billion (-6.5% y-o-y, imports from the EU -6.8% y-o-y), lower foreign trade deficit by 3.2% and lower coverage of exports by imports (73.4% compared to 74.3% in the same period last year). Exports are expected to be slightly lower in 2020 as a result of the global recession, returning to the previous growth trajectory as early as 2021. The biggest contributor to the decline in exports of goods and services may be reduced manufacturing exports due to decrease on external demand and disturbances in global value chains in 2020. Exports of services are more resistant to the effects of the crisis due to a smaller share of tourism services and high growth of sectors that are less affected (ICT, business services). The decline in imports may be greater, and its recovery slower due to the combined effect of lower domestic demand and energy prices in 2020. The largest decline in imports is expected for energy and other industrial inputs (due to decreasing prices and reduced overall economic activity), as well as imports of services.

In the conditions of the outbreak of the COVID-19 pandemic, e-commerce gained special importance (more in the field of *Agriculture, Industry, Services*, page 104).

b) Reforms

STRUCTURAL REFORM 18: IMPROVING CONDITIONS AND REMOVING BARRIERS TO TRADE

1. Description of the structural reform

The goal of the reform is to intensify, improve, diversify and further grow Serbia's foreign trade at both regional and global levels. Activities are also aimed at strengthening the competitiveness of Serbian companies in order to prepare for EU membership and easier inclusion in the market competition in the single European market. The reform particularly enhances regional cooperation and indirectly makes progress in meeting the UN **SDG: 8** - Decent Work and Economic Growth, **9** - Industry, Innovation and Infrastructure, and **17** – Partnerships for the Goals.

Serbia continues its activities aimed at achieving WTO membership, and especially at resolving the issue of the existing ban on foreign trade of GMO products in the Republic of Serbia and the end of open bilateral negotiations with certain WTO members.

In order to further trade integration in the region envisaged by the Multi-Annual Action Plan for the Creation of a Regional Economic Area (MAP REA), activities will be undertaken to implement obligations from the CEFTA Additional Protocol 5, CEFTA Additional Protocol 6 and continue negotiations on CEFTA Additional Protocol 7. COVID-19 pandemic conditioned that certain activities, especially those related to negotiations, be redefined in time and adjusted to the new circumstances.

Within the National Coordination Body for Trade Facilitation (NCBTF), with the participation of the private sector, the implementation of the Action Plan for 2020-2021 and the development of the Action Plan for the period 2022-2023 will begin in order to identify and remove barriers to trade, especially technical and phytosanitary measures, as well as facilitating customs procedures.

2. COVID-19 - effects, measures and challenges

The COVID-19 pandemic had a huge impact on the course of foreign trade, due to the introduction of a large number of different trade protection measures, at the regional and global level. In that sense, the basic goal of this structural reform is endangered and exposed to risk as long as the pandemic lasts, because the situation is uncertain regarding the introduction of trade measures and restrictions by other partners. The pandemic has an impact on the decline in production both globally and nationally, which in turn leads to a reduction in exports and imports. Changes in the structure of demand affected foreign trade flows, and there was a decline in demand for durable consumer goods, raw materials and semi-finished products for the production of these goods, and an increase in demand for basic foodstuffs, medicaments and medical equipment. The impact of the pandemic can also affect the form and course of trade negotiations (bilaterally, regionally and multilaterally).

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	WTO accession negotiations - bilateral negotiations, adoption of regulations harmonized with WTO rules and principles												
2.	MAP REA - CEFTA - Implementation of Additional Protocol 5 on Trade Facilitation												
3.	MAP REA - CEFTA: Implementation of Additional Protocol 6 on Trade in Services Liberalization												
4.	MAP REA - CEFTA: Negotiations and adoption of Additional Protocol 7 on Dispute Settlement												

5.	Implementation of activities defined by the Action Plans for 2020 and 2021 within the National Committee for Trade Facilitation (NCBTF)											
6.	Adoption of the new NCBTF Action Plan for 2022-2023 and implementation of the planned activities											

4. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2021)	Target (2023)
The growth rate of the volume of foreign trade of Serbia - the world	8.4%	6%	7%

5. Expected impact on competitiveness

WTO membership, trade improvement through the implementation of CEFTA additional protocols, as well as NCBTF trade facilitation activities will have a significant impact on removing trade barriers, and thus increasing the competitiveness of Serbian companies in the regional market, as well as the growth and further development of Serbia's economy. The positive impact on competitiveness is reflected, among other things, in reducing the costs of foreign trade in goods, shortening the time frame for performing procedures at border crossings, as well as mutual recognition of documents and continued harmonization with the EU regulations in the field of free movement of goods.

6. Estimated costs of implementing structural reform and estimated sources of financing

The implementation of the activities will affect the budget by increasing number of civil servants engaged in the implementation of these tasks. In that regard, the recruitment of two new civil servants was planned for 2020 and it has been achieved. In terms of the regional character of the activities resulting from the aforementioned CEFTA Additional Protocols and MAP, support from international sources is expected. With regard to project activities related to the implementation of this reform, it is not anticipated that costs will increase in the coming years compared to 2019, which is taken as the base year.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The described activities will have a positive impact on employment growth and the realization of the principle of gender equality. The reform is expected to have a positive impact on poverty reduction, while it is neutral in terms of access to health care.

8. Expected impact on the environment

Structural reform is neutral in terms of environmental impact.

9. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
COVID-19 pandemic - introduction of extraordinary trade measures by the most important foreign trading partners, change in the structure of demand, recession in the countries with the most important foreign trading partners	High (while the pandemic lasts)	Coordination with the most important trading partners in order to amortize the negative effects of potential trade restrictions.
Trade barriers and measures with economic and trade impact introduced by CEFTA parties	Low	Coordination and communication with CEFTA partners, dialogue on creating conditions for removing trade barriers.
WTO accession implies multilateral negotiations, so the end of the process depends on other participants (WTO members)	High	Closing bilateral negotiations with WTO members. In that regard, passing the Law on GMOs will facilitate bilateral negotiations with some WTO members.
Introduction of EU safeguards (on certain steel products)	High	Activities to exclude Serbia from the list of countries to which EU protection measures are applied.

STRUCTURAL REFORM 19: SAFE AND QUALITY PRODUCT - INDUSTRY DEVELOPMENT FACTOR

1. Description of the structural reform

The aim of the reform is to support economic entities to improve the competitiveness, safety and quality of products and services, using the latest standards in production and business organization. The reform includes two components. The first is a response to the needs of the economy and includes an instrument of financial support to businesses, primarily small and medium enterprises, to increase the use of standards in production and business organization, product certification, management systems and improving the availability of all other services in the field of QI. The structural reform has a foothold in *the Industrial Policy Strategy of the Republic of Serbia 2021-2030*.

The second component, "Product-Info" refers to the construction of a single digital service to improve the information and availability of digital services in connection with the application of technical regulations. It implies networking and improvement of databases of QI institutions and ministries responsible for the adoption of technical regulations, in order to ensure the accuracy and timeliness of data on technical requirements, standards, conformity assessment activities, accreditation and metrology. The development of digital services related to the application of technical regulations will contribute to the reduction of costs of production, import, export and placing of goods on the market. The implementation of this measure improves the efficiency of the process of harmonization of technical regulations within the Negotiating Chapter 1 - Freedom of movement of goods (NC 1) and standards with the EU, rules of international organizations (CEFTA, WTO Agreement on Technical Barriers to Trade, etc.). The reform fulfils the recommendation of the European Commission for the improvement of the *Product Contact Point (PCP) (Progress report EC, 2019)* and in accordance with the European Regulation 2019/515, as well as Regulation 2018/1724. In 2020, the necessary analyses of the situation and identification of needs have begun.

The reform especially improves the use of the latest standards in production and business organization and thus indirectly makes progress in fulfilling **SDG 12**. Responsible consumption and production, i.e. **SDG 12.8**. By 2030, ensure that people everywhere have relevant information and awareness of sustainable development and lifestyle in harmony with nature. The reform also partially affects the fulfilment of **SDG 9.2**. Promote inclusive and sustainable industrialization and by 2030 significantly increase the share of industry in the employment rate and gross domestic product, in line with national circumstances.

2. COVID-19 - effects, measures and challenges

An analysis of the impact of the COVID-19 crisis on the QI sector and the provision of services to designated and authorized conformity assessment bodies - CABs (testing and certification services) and other services of QI institutions was conducted (ISS-Institute for Standardization of Serbia, ABS-Accreditation Body of Serbia and DMPM- Directorate for Measures and Precious Metals).

The results of the analysis show that the crisis caused a decrease in the volume of business activity in 90% of authorized conformity assessment bodies respondents, as well as a decrease in income in the range of 4% to 30%. The reasons for that are: drop in the demand of economic entities for services in the field of QI up to 30%, due to changes in business priorities, cancellation of public procurement, unfeasibility of field work, unfeasibility of foreign trade activities, etc. The analysis pointed to the need to support the economy in meeting the mandatory technical requirements for products and the application of voluntary standards, as factors of safe and quality industrial products.

Expectations regarding the consequences caused by the crisis and challenges are: impossibility of realization of contracted business with foreign countries due to uncertain situation and risk of delay in realization, transport or customs procedures; insufficiently efficient remote monitoring and verification activities by the competent institutions; changes in priorities and action plans; expected significant decline in business activity; expected reduction of income and profit of 20-30% compared to the planned, etc.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1.	<i>Business support programme to improve the quality of products and services</i>												
1.1	Development of support programmes for business entities												
1.2	Implementation of business support programmes												
2.	<i>"Product info" - Establishment of a single digital service related to technical regulations</i>												
2.1	Analysis of the state of existing IT capacities and software solutions and the need for their improvement in QI institutions (MP, ISS, ABS and DMPM)												
2.2	Improvement of databases and digital service in the Ministry of Economy (Sector for Quality and Product Safety) in connection with technical requirements for products and the portal "TBT-Enquire point" (Product Contact Point)												
2.3	Improvement of databases and digital service in QI institutions (ISS, ABS and DMPM)												
2.4	Networking of digital services and promotion to stakeholders and the general public												

4. Performance indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of beneficiaries (business entities) of the support programme	0 (2021)	30 (2022)	150 (2023)
Unified digital service "Product info" established	0 (2020)	1 (2021 and 2022)	1 (2023)
Number of users of the digital service "Product info"	0 (2020)	500 (2021-2022)	1,500 (2023)

5. Expected impact on competitiveness

Due to the increase in the level of product quality and safety, the reform will contribute to increasing the level of product competitiveness in foreign markets and thus will positively affect the growth of the absolute amount of exports and the share of industrial exports (within NC 1) in total exports of the Republic of Serbia. Incentives for increasing for use of standards and improving product quality as well as providing a comprehensive functional digital service "Product Info", will directly affect the reduction of technical barriers to trade and increase exports of industrial products covered by NC 1.

6. Estimated costs of implementing structural reform and estimated sources of financing

Structural reform consists of two components. The first component is new and the base year is 2020, while the second component is a continuation of activities from the previous programming period. Total value of the structural reform for the period 2021-2023 is EUR 1,500,000. The value of the first component is EUR 1,000,000 and the value of the second component is EUR 500,000 (of which EUR

320,000 come from the central level budget and partner institutions⁶³ own funds and about EUR 180,000 from other grants).

Costs related to the implementation of this reform include (a) *subsidies to economic entities* (b) *analysis of the state of existing IT and available software solutions* in the institutions covered by the reform (financing 100% from the RS budget, 2020 and 2021); (c) *procurement of missing IT equipment and software* (financing about 50% from the RS budget, other funds from the EU or other donors) and (d) *training of staff* for networking and continuous updating of portal content as well as *costs of promotional activities* (financing 50% from the RS budget and 50% from IPA funds and other donors).

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The reform has no negative impact on employment, poverty reduction, equality and is gender neutral.

8. Expected impact on the environment

Structural reform has a positive impact on the environment, because its results contribute to the improvement of technical regulations and the application of standards that include environmental requirements. Structural reform contributes to achieving the goals of the European Green Deal.

9. Potential risks

Risk	Probability	Planned mitigating action
A large number of economic entities are interested in the Financial Support Programme	Moderate	Provision of financial resources from donor sources; Tightening the conditions for granting support, planning support programmes as a continuous activity in the coming years.
Lack of financial resources for the needs of creating the portal “Product info”	Moderate	Intensive communication with donors to provide support; Increasing the budget allocation of partner institutions involved in the implementation of the reform.
Lack of cooperation between QI institutions and other stakeholders	Low	Intensive inter-institutional and inter-ministerial consultations and cooperation; Establishment of a temporary working body for the implementation of the reform; Identifying the specific competencies and responsibilities of the partner institutions involved in the implementation of the reform.

5.3.6. Area EDUCATION AND SKILLS

a) Analysis of main obstacles

There is a continuous increase in the coverage of children in preschool education programmes in Serbia. The number of children aged 6 months to 6.5 years at this level of education was 224,563 (57,38%) in the school year 2019/2020, which is an increase of about 25,000 or 7,76% compared to 199,790 children who participated in the early childhood education system in years 2015/2016 (49,62%). However, the **coverage of children** with preschool upbringing and education is still **low** (only half of the children are included), and the reasons are **insufficient spatial capacities and unequal geographical distribution**. The coverage of children in preschool education programmes is different depending on the age. The largest coverage of children is in the year before starting school. **The obligatory preparatory preschool programme**, for children aged 5.5 years before starting school, was attended by slightly less than 64 thousand children, which is a **coverage of 97.4%**.

The population of students in primary education is continuously decreasing due to the negative demographic trend of the population of Serbia. There were 517,826 students in primary education

⁶³ The partner institutions are the Directorate for Measures and Precious Metals (DMDM), the Institute for Standardization of Serbia (ISS) and the Accreditation Body of Serbia (ATS) and it is planned to participate from their budgets for 2022 and 2023 with maximum EUR 20,000 per year, so a total of up to EUR 120,000.

in the 2019/2020 school year, which represents a decrease in the student population by about 27,000 or 5% compared to 2016. Despite the fact that primary education is compulsory, **the coverage of children is still not complete**⁶⁴.

The results of PISA⁶⁵ testing of students in Serbia are below the OECD average, but the best in the region of the Western Balkans. 8,300 students from Serbia participated in the testing in 2018, and the achieved results on the reading test amount to 439 points (OECD average 493), mathematics 448 points (489) and science 440 (487). In the conditions of attending classes “at a distance” during the four months of the Corona virus epidemic, the overall score on the PISA test in Serbia is expected to fall by 9 points (from 439 to 430), while in the case of complete absence of such teaching, the drop would be 16 points⁶⁶. Recommendations for mitigating the effects of the crisis include continuation of “distance learning”, strengthening support for teachers and parents to motivate students, harmonizing knowledge assessment systems to simplify transitions between grades and educational cycles, and regularly reviewing and improving existing measures.

The number of students attending high schools is stable. The number of enrolled high school students was 249,855 students in the 2019/2020 school year, almost the same number as in 2016. **73.3% of students attended secondary vocational education,** and the largest coverage of students is in the field of economics, law and administration (12.3%), electrical engineering (11.6%), health and social protection (9.5%), mechanical and metal processing (9%) and trade, catering and tourism (7.9%). General secondary education (gymnasium) was attended by 26.7% students. In gymnasiums and electrical engineering schools the number of students increases slightly, and decreases in schools in the field of economics, law and administration.

The mismatch of educational profiles and offers with the needs of the labour market⁶⁷ is a long-term and systemic problem in Serbia. The process of development of secondary vocational education as a whole continues. Profiles that are not based on the qualification standard are excluded from the plan for enrolling students in secondary schools and are replaced by those that have qualification standards and modernized curricula. So far, 100 educational profiles with the standard of qualifications have been created in which are enrolled about 70% of all students enrolled in secondary vocational schools. This percentage is increasing every year in line with the increase in the number of educational profiles based on the qualification standard. A significant systemic step in the development of secondary education is the introduction of the **state matura**. It includes **general, professional and artistic matura and final exam**. It is implemented with the support of the European Union. In the financial plan of the Sector for Secondary Education and Adult Education, a new program activity has been introduced, which refers to the support in the implementation of the state matura. Funds are provided for the purchase of software for registration and placement of high school graduates and for the support for organizing a state matura. Acquisition, improvement and development of competencies in accordance with the needs of the labour market are provided also by **dual education**, a model of secondary vocational education in which theoretical classes and exercises take place at school while learning takes place through work in companies. The full implementation of the Law on Dual Education began in the 2019/2020 school year in 72 schools and about 400 companies with 2,533 students enrolled in that year, while about 7,000 students have participated in this programme since the introduction of dual education, studying for one of the 38 educational profiles until the 2019/20 school year. 2,447 students opted for this education model in the school year 2020/2021, and the offer has been expanded to 47 dual educational profiles. Of the total number of active educational profiles in secondary vocational education in the school year 2020/21, about 22% of them are dual educational profiles. All educational profiles in the dual model of education

⁶⁴ The primary education enrollment rate was 97% in 2018.

⁶⁵ Testing in reading, mathematics and science, as well as in financial literacy and global competencies.

⁶⁶ Estimated impact of COVID-19 on education and responses of individual countries (Regular Economic Report for the Western Balkans), World Bank, 2020.

⁶⁷ Over 50% of young people in the labour market with secondary education have worked in jobs that do not correspond to their area of formal education. Source: Analysis of supply and demand in the labour market of young people with secondary education in the period 2011-2015. Lazar Živković.

have a developed qualification standard and modernized curricula. Observed at the level of secondary vocational schools, 33% of them implement at least one dual educational profile. Of the total number of students in the first grade of secondary vocational school in the school year 2020/21, 5.3% is in the system of dual education.

As the system of secondary vocational education should be flexible enough to follow the intensive changes that are happening in the labour market, it is necessary to **establish a system for monitoring continuous changes in the labour market**.

Given the existing skills mismatch in the labour market, there is a **need for significant investment in adult education**. The participation rate in education and training of the population aged 25-64 in Serbia was **4.3% in 2019⁶⁸**, which is significantly lower (about 2.6 times) than the average rate in the EU (EU-28 11.3%). Quality assurance in non-formal education and granting approval to acquire the status of a publicly recognized organizer of adult education are the responsibility of the Qualifications Agency and ministries. By the end of 2019, a total of **59 institutions for 212 training programmes intended for adults** for acquiring competencies and qualifications needed by the labour market have received the status of a **publicly recognized organizer of activities (PROA) for adult education⁶⁹**. Of the total number of institutions that have acquired the status of PROA, 15 schools for 44 programmes, 8 adult education institutions (people's, workers', open universities) for 70 programmes and 36 other organizations (centres, companies, business associations, institutes...) acquired the status for 98 programmes.

The development of qualification standards based on the needs of the labour market and society as a whole is ensured by the work of the Qualifications Agency and 12 sectoral councils (bodies based on social partnership). With the adoption of the **Report on the Linking of the National Qualifications Framework in Serbia (NQFS) with the European Qualifications Framework** in February 2020, further progress was made in this area. An additional report on **NQFS self-assessment in the field of higher education** in relation to the Qualifications Framework in the European Higher Education Area was adopted, which is in line with the EC recommendation⁷⁰.

At the level of higher education, there is a negative trend in the number of students in the last few years, with the number of students increasing in academic studies, while decreasing in vocational studies. The number of young people included in the higher education system was 241,968 in the 2019/2020 school year, which is a decrease of about 20,000 students or 7.7% compared to 2016.

The quality of higher education institutions in Serbia is evidenced by the fact that the University of Belgrade, maintained its position on the prestigious **Shanghai list** between 401st and 500th place out of the 1,000 ranked universities in the world in 2020. In 12 areas, placement was achieved in the first 500 places, with the highest placement achieved in the areas: food science and technology (76-100th place), dental science (101-200), physics, instrumental science and technology, veterinary sciences and public health (200-300).

In order to **modernize teaching** at all levels of education in previous years, subjects that **promote digital literacy** were introduced, as well as subjects that **develop entrepreneurship** as one of the key competencies.

Equipping schools with ICT equipment and providing the Internet to schools throughout Serbia are necessary preconditions for the digitalization of education. The advantages that digital technologies provide have been used to improve the teaching process through the introduction of digital teaching content or various services and greater use of ICT in schools. **The electronic diary** (e-Diary), one of the **digital services**, is available in **1,326 schools**. It continues with activities on providing **digital educational content- digital textbooks** that are provided for all students who receive education according to reformed curricula (in the school year 2020/21, they are first, second, third, fifth, sixth and seventh grade), as well as on the **development of a unique information system of education**,

⁶⁸ Source: Eurostat, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=trng_lfse_01&lang=en

⁶⁹ Source: Qualifications Agency http://azk.gov.rs/?page_id=75150

⁷⁰ <https://europa.eu/europass/en/reports-referencing-national-qualifications-frameworks-eqf>

in order to provide a quality and efficient education system with rationalization of financing and reduction of administrative burden on employees.

Public expenditure on education amounts to 3.54% of GDP in the 2020 budget, which makes the level of these expenditures stable in the last decade, but they are below the average of public allocations at the EU level (which is around 4.6% of GDP). In the total budget expenditures, expenditures for education participate with 15.5%⁷¹.

The pandemic caused by corona virus primarily affected closing of school and the transition to distance learning. The Ministry of Education, Science and Technological Development responded to the challenges of the epidemiological situation and the state of emergency by **providing students of all school ages with online classes** on RTS2 and RTS3 channels, as well as through the "My School" application. This enabled the school year 2019/2020 to be completed without losing classes. In the period from 14 March to 29 May 2020, when the broadcast through the media public service was completed, close to 1,400 hours were prepared and shown for the implementation of distance learning for primary education and upbringing. A total of 850 hours were recorded for high schools and secondary vocational schools. **Online classes are also organized in 8 languages of national minorities.** In addition to online classes, an online test of self-assessment of knowledge was organized for 8th grade students "Self-assessment of knowledge 2020", which was a preparation for taking the primary-school-leaving examination.

In the new school year, from September 2020, classes in primary schools take place so that first-cycle students (grades 1-4) attend classes daily in classes divided into groups, if the class has over 15, exceptionally 18 students. In the second cycle (grades 5-8), education according to the combined model is implemented if the class has over 15, exceptionally 18 students, so that alternately, every other day, one group attends direct classes at school, and the other online classes.

Higher education institutions in Serbia in the new academic year 2020/2021 harmonized the teaching process with the epidemiological situation in the country and most switched to a "combined" model of teaching. One part of the classes is held in the premises of the higher education institution, while the other part of the classes is held online. Theoretical knowledge can be transferred relatively efficiently through online teaching, while it is necessary for practical teaching (such as laboratory exercises) to be performed in the premises of higher education institutions.

The entire education system will have to find a **balance** between two priorities: **continuing the educational process** and preserving students' knowledge on the one hand, and **protecting the entire student population from the COVID-19 pandemic** on the other. Teaching available through the public service channel is more equal (from the aspect of TV availability), but its effectiveness is reduced because the teaching itself is not interactive. On the other hand, teaching via Internet is interactive, but there is a lower degree of equality because a smaller number of children, especially from marginalized groups, have access to Internet. In addition to the availability of computers and Internet, a solid internet connection speed is required for video transmissions.

The problem of teacher training in ICT technologies is present. Serbia is in a good position in terms of digital competencies of professors because there is a special curriculum for the development of digital skills of professors, and their digital competence is also checked. Nevertheless, 56% of teachers in secondary vocational schools state that they need a high or medium level of additional professional training in the field of ICT⁷².

⁷¹ Source: <https://www.mfin.gov.rs/wp-content/uploads/2019/09/Vodic-kroz-gradjanski-budzet.pdf>

⁷²Source: ETF (2017). Digital Skills and Online Learning in Serbia. Digital Factsheet October 2017.

b) Reforms

STRUCTURAL REFORM 20: QUALIFICATIONS ORIENTED TO THE NEEDS OF THE LABOUR MARKET

1. Description of the structural reform

The development of dual education and the implementation of the system of the National Qualifications Framework in Serbia (NQFS) create a system in which the qualification is an expression of actually acquired competencies, which responds to the needs of the economy and labour market, modern technical and technological changes which aims to increase the employability of young people.

In the coming period, we will continue to pilot the process of recognition of prior learning (RPL) and the implementation of the RPL, by establishing standards and procedures for self-evaluation and external quality control of publicly recognized organizers of activities (PROA), promotional activities of the National Model of Dual Education in accordance with the adopted Communication Strategy which offers the reference framework and directions for improving communication in the process of further development of dual education in Serbia will also be continued, as well as the development of new qualification standards in secondary vocational education and the modernization of existing educational profiles that are not currently based on qualification standards. Furthermore, activities on the establishment of regional training centres within secondary vocational schools will be implemented as a form of support for both formal dual and non-formal education, through training, vocational training, additional training and retraining of staff in accordance with the needs of the labour market, since they were not implemented in the previous period due to the situation caused by COVID-19. Certain regional training centers will be established within the existing capacities of secondary vocational schools with the modernization of equipment, while for others the necessary infrastructure will be built. To ensure the quality of work with adults, regional training centers will be included in the PROA system.

In addition to the activities that started earlier, new activities will be implemented in the coming period. One of them refers to the establishment and implementation of a framework for monitoring and evaluation of the National Model of Dual Education and dual educational profiles, which will enable data-based decision-making and ensure the quality of dual education. Special attention will be paid to the development of market-relevant dual programmes in order to encourage the revitalization of domestic companies as well as attract foreign investment (companies). In order to ensure the transparency of the qualification system in the coming period, activities will be undertaken on the establishment of the NQFS Register for all levels of NQFS.

The reform contributes to the achievement of **SDG 4**. Ensure inclusive and equitable quality education and promote the possibility of lifelong learning for all. The development of dual education will have an impact on the goal of **SDG 4.3**. By 2030, ensure equal access to affordable and quality vocational education at all levels, including university, for all women and men and at **SDG 4.4**. By 2030, significantly increase the number of young people and adults who have the appropriate skills, including technical and vocational, for employment, decent jobs and entrepreneurship.

2. COVID-19 - effects, measures and challenges

The field of education is one of the areas significantly affected by the COVID-19 virus pandemic, due to which the activities envisaged by the structural reforms in this area had to be changed and adjusted. As one of the answers to the new epidemiological situation, an online database will be created that will contain teaching units that are implemented in educational institutions and topics for learning through work in companies.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Creating and updating an online database of dual educational programmes												
2	Creating and revising market-relevant dual programmes to revitalize domestic companies and attract foreign investment												
3	Development of studies necessary for the development of dual educational profiles.												
4	Promotion of the dual model of education (round tables, conferences, etc.)												
5	Establishment, infrastructural arrangement and equipping of regional training centres												
6	Training, vocational training, retraining and additional training												
7	Development of new qualification standards in secondary vocational education												
8	Establishment of a framework for monitoring and evaluation of the National Model of Dual Education and Dual Education Profiles												
9	Collection of data that serve to improve the quality of dual education												
10	Piloting and implementation of the PPU procedure												
11	Implementation of the procedure of self-evaluation and external quality control of PROA												
12	Data entry in the NQFS Register (qualifications, qualification standards and PROA)												

4. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2021)	Target (2023)
Participation of students enrolled in the first year in the dual education system in relation to the total number of students enrolled in the first year in secondary vocational education (%)	5.3%	7.2%	8.8%
Number of established regional training centres	0	3	12
Number of candidates involved in the PPU procedure	0	10	50
Number of trained, professionally trained and retrained and additionally trained persons in regional training centres	0	500	>1000

5. Expected impact on competitiveness

The development of dual education at the level of secondary and higher education will contribute to the improvement of human capital, which will further ensure easier and faster integration of high school and university students into the world of work, as well as improving the competitiveness of economic entities. The establishment of regional training centres will also contribute to the greater relevance of the education system. Monitoring and, based on the obtained data, improving the quality of dual education will affect the quality of professional competencies that young people acquire in the formal education system, as well as their competitiveness on the labour market.

The establishment of the NQFS system will contribute to the development of a modern, relevant and flexible education system adapted to the requirements of socio-economic development, providing support for the application of the concept of lifelong learning and enabling easier mobility of the workforce. By connecting with the European Qualifications Framework, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily in EU countries.

6. Estimated costs of implementing structural reform and estimated sources of financing

No additional funds are needed to create an online database of dual educational programmes and to implement promotional activities of the dual education model.

According to the project, funds for the construction and reconstruction of regional training centre "Aviation Academy" in Belgrade for 2021 amount to EUR 1,305,621 out of which EUR 1,175,000 have been provided in the RS Budget. Funds for the construction and reconstruction of other regional training centers in 2021 will be provided through a loan from the European Investment Bank in the amount of EUR 2,200,000. In 2022, the funds will be provided through a loan from the European Investment Bank in the amount of EUR 12,175,000 and for 2023, EUR 2,500,000, also through a loan from the European Investment Bank.

According to the project, the funds needed to equip the regional training center "Aviation Academy" in Belgrade amount to EUR 2,575,761. For the period 2022-2023, part of the funds needed to equip other regional training centers will be provided through a loan from the European Investment Bank in the amount of EUR 1,950,000 for 2022 and EUR 360,000 for 2023. Part of the equipment will be provided from donations.

For the preparation of studies for the needs of the development of dual educational profiles, planned funds from the budget of the Republic of Serbia amount to EUR 123,600.00 for 2021.

Funds for piloting the recognition of prior learning procedure were provided from IPA 2014, the implementation of which began in February 2019, where the Ministry of Education, Science and Technological Development is a user of expert services. The total value of IPA 2014 "Development of an integrated system of National Qualifications in RS" is EUR 500,000 for 2021.

Implementation of the procedure of self-evaluation and external quality control of PROA and improvement of the NQFS Register will be financed from the funds of the Agency for Qualifications. For the functioning of the Agency for Qualifications in the period from 2021 to 2023, funds in the amount of EUR 1,190,525 per year are projected from the RS Budget. Within the funds of the Agency for Qualifications, funds for the work of Sectoral Councils have been integrated, which will participate in the implementation of most of the activities described in the document.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Creating market-relevant dual programmes as well as programmes for revitalization of domestic companies and attracting foreign investment and attending them, will improve the level of competence and employability of pupils and students and their faster integration into the world of employment, i.e. it will contribute to reducing unemployment, faster youth employment in the labour market and activities of the unemployed over 15 years of age. During the data collection process by applying the framework for monitoring and evaluation of the National Model of Dual Education, data for boys and girls will be segregated in order to see the impact of current dual education policies on gender and make recommendations for improving this aspect if necessary. The framework will also assess the fairness and impact of students' socio-economic status (SES) on their experience and success, and propose changes in educational policies and practices in line with the findings.

Implementation of reforms in the qualifications system will ensure the participation of social partners in the development of qualifications that are in line with market needs, and thus confidence in the (market) relevance and flexibility of the education system as a whole.

8. Expected impact on the environment

Structural reform is neutral in terms of environmental impact.

9. Potential risks

Risk	Probability	Planned mitigating actions
Difficult realization of learning through work with employers due to the current epidemiological situation caused by COVID-19	Moderate	Creating a document that will contain benefits for businesses that accept students for realization of learning through work
Lack of information of potential candidates and social partners about the RPL procedure	Moderate	Organizing meetings and info sessions to inform potential candidates and social partners in the RPL process

STRUCTURAL REFORM 21: DIGITALIZATION OF THE EDUCATION SYSTEM AND INTRODUCTION OF A UNIFORM EDUCATION INFORMATION SYSTEM

1. Description of the structural reform

The main goal of this reform is to modernize the education system through the introduction of modern digital technologies, which should provide a higher level of learning outcomes and raise the quality of digital competencies of young people enabling them to compete in the labour market through digital transformation. The advantages that digital technologies can provide will be used to improve the teaching process through the introduction of digital teaching content, as well as the establishment of a Unified Education Management Information System (EMIS) which is the basis for modernizing management, making decisions based on information to ensure quality and efficient education system with rationalization of financing and reduction of administrative burden of all employees in the system of education and upbringing. The Unified Education Management Information System includes integration with the Central Register of Compulsory Social Insurance, which enables the monitoring of graduates in the labour market. Analyses based on data obtained from this system will contribute to the creation of mandatory policies based on the needs of the labour market.

The reform was carried over from the previous year. All activities planned in the previous year were implemented according to plan. Within this reform, a new measure has been defined which envisages the development of a repository of open educational resources, as a database of digital resources for schools. Teachers will be able to search and obtain didactic materials in accordance with the curriculum for primary and secondary education, which can be easily used in the classroom or modified and adapted to different contexts and needs (including distance learning). In addition, this activity will support the creation of an inventory of existing content that will be deployed on a national distance learning platform. The development of such materials will support a combined approach to learning, as these materials will be resources for learning both in the classroom and at home.

The reform contributes to the achievement of **SDG 4**. Ensure inclusive and equitable quality education and promote the possibility of lifelong learning for all.

2. COVID-19 - effects, measures and challenges

The COVID-19 pandemic had a great impact on the education system of the Republic of Serbia due to the introduction of a large number of measures and the closure of schools in a certain time interval. The new situation has changed the way of realization of educational work and increased the implementation of information and communication technologies in the teaching process. The pandemic has contributed to the establishment of both school and national e-learning management platforms (LMS). In that sense, the basic goal of this structural reform remains unchanged and becomes even more important, because it is necessary to provide computer infrastructure for distance learning. In order to limit the negative effect of the pandemic, but also all other disturbances on the implementation of the teaching process, one of the focuses of this reform is the development of a repository of open educational resources, as a database of digital resources for schools.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Development of the Unified Education Management Information System and preparation of the first reports												
2	Increasing the scope of study programmes and profiles in computer science and programming in the field of higher and secondary education in accordance with the needs of the market												
3	Equipping classrooms and cabinets with computer equipment												
4	Analysis of the effects of using the Education Management Information System												
5	Improving the quality assurance system for the application of digital textbooks												
6	Development of open educational resources repository aggregators												

4. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2021)	Target (2023)
Number of accredited study programmes and teaching and learning programmes in the field of ICT and programming	692	735	737
Number of generated reports from the EMIS system Source of verification: Registers (EMIS)	6	10	20
Developed national framework of comprehensive policies for the effective use of digital technologies in educational institutions with clearly defined standards	1	3	3
Number of digital classrooms Source of verification: Report Ministry of Education, Science and Technological Development	10,000	31,500	31,500
Number of new computers in computer cabinets Source of verification: Report Ministry of Education, Science and Technological Development	0	27,000	40,000
Open educational resources available within the repository of open educational resources. Source of verification: Repository of open educational resources.	0	3	5

5. Expected impact on competitiveness

The implementation of digitalization of education at the level of secondary and higher education will contribute to the improvement of digital competencies of all participants in the process, which will ensure easier and faster integration of high school students and teaching staff, as well as improving the competitiveness of businesses operating in Serbia. The establishment of the Education Management Information System will contribute to the greater relevance of the education system, which will, using modern information technologies, enable raising the quality, efficiency, effectiveness and economy of education, as well as precise monitoring of progress, greater transparency in work, possibility of rational resource planning and future investments.

6. Estimated costs of implementing structural reform and estimated sources of financing

Financial resources for the development and implementation of EMIS are provided within the budget of the Office for Information Technology and e-Government. Funds in the Budget of the Republic of Serbia in the amount of EUR 10,000 are planned for the development of the aggregator of the repository of open educational resources in 2021. Funds from credit arrangements in the amount of EUR 35,000,000 as well as from the budget of the Republic of Serbia for 2021, 2022 and 2023 in the amount of EUR 15,000,000 (EUR 5,000,000 per year).

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Acquiring modern knowledge in a quality and efficient way that will accelerate the acquisition of knowledge and raise the level of understanding of acquired knowledge, mastering the necessary ICT knowledge and skills, while constantly monitoring and maintaining the quality of education through the use of EMIS will make high school graduates and students better prepared for labour market, find their way to employment faster and better paid jobs.

8. Expected impact on the environment

Structural reform is neutral in terms of environmental impact.

9. Potential risks

Risk	Probability	Planned mitigating actions
Unclearly defined roles and responsibilities of the participants involved in the implementation of the process.	Moderate	Full involvement in the process by all participants. Defined and monitored intercommunication in the process, constant risk reviews, escalations.
Inadequate coordination with other parties that provide services that directly affect or are necessary for the process.	Moderate	Full involvement in the process by all participants. Defined and monitored intercommunication in the process, constant risk reviews, escalations.
Unmotivated participants in the process to achieve these goals.	Moderate	Creating different models of financial benefits. Creating efficient procedures for the realization of the process.

5.3.7. Area EMPLOYMENT AND LABOUR MARKET

a) Analysis of the main obstacles

The impact of the COVID-19 pandemic on the Serbian labour market is insignificant in the third quarter of 2020, taking into account the available data from the LFS. The employment rate (15+), which is 49.9% in the third quarter of 2020⁷³ (EU-27: 52.9%, Q3 2020, Eurostat) records an increase compared to the same quarter last year (0.2 percentage points) while the number of employed people is 2.94 million (a decrease of 2,1 thousand employed people compared to the same quarter last year, but also an increase of 92 compared to the last quarter). There has been a decline in informal employment of 43 thousand or 7.8% y-o-y, but although total informal employment is declining, it is still at a high level, especially in agriculture, as informally employed in this area of the economy make up 67% of the total number of informally employed. The informal employment rate decreased by 1.4 percentage points y-o-y compared to the previous quarter and amounts to 17.3%.

On seasonal jobs in agriculture, 444 employers hired a total of 42,490 seasonal workers since 7 January 2019⁷⁴ until 30 September 2020. As part of the reform of labour legislation, the implementation of the Law on Agency Employment began on 1 March 2020, since when 66 licenses for temporary employment agencies have been issued. According to Central Register of Compulsory Social Security data, 38 temporary employment agencies hired a total of 9,737 agency workers as of 30 September 2020.

The increase in the number of employees was also contributed to by specific incentive measures, introduced in 2020, for starting and developing business for companies and entrepreneurs. The measure of exemption of business start-ups from paying taxes and contributions based on the earnings of founders employed in the company, i.e. based on the personal earnings of entrepreneurs and entrepreneur farmers, was used by 1,296 businesses (112 companies and 1,184 entrepreneurs) from January 2019 until the end of November 2020.

⁷³ Source: LFS, SORS

⁷⁴ The beginning of the application of the Law on Simplified Employment in Seasonal Jobs in certain activities.

The unemployment rate (15+) continues to decline, reaching 9% in the third quarter of 2020 (EU-27: 7.5% for the population 15-74, Q3 2020, Eurostat), which is a decrease of 0.5 percentage points compared to the same quarter last year. The number of unemployed persons is about 292 thousand, which is a decrease of about 16 thousand or 5.3% y-o-y. **The challenges of structural unemployment remain present**, although the **long-term unemployment rate**, which stood at 4.8% in the third quarter of 2020, dropped by 0.4 percentage points y-o-y. **Looking for a job for more than a year is a consequence of the mismatch between supply and demand in the labour market** and can lead to permanent exclusion from the labour market.

Young people continue to face difficulties in entering the labour market. In addition to not being employed, a significant number of young people are also outside the education and training process - in Serbia, the NEET⁷⁵ youth rate (15-24) is 15.7% in the third quarter of 2020, which is a decrease of 0.8 percentage points compared to the same quarter last year. **The unemployment rate of the youth (15-24)**, which amounted to 26.5% in the third quarter of 2020, slightly increased by 0.5 percentage points y-o-y. During the pandemic, young people became inactive, so that there was an increase in the inactivity rate of 1 percentage points y-o-y. There is a decreasing volume of the population aged 15-24 due to **the negative demographic trend**, as well as **emigration**, because the largest number of potential migrants is among the younger population under the age of 40.

Due to emigration, the economy and the entire society are facing the negative effects of the departure, which indicates the **need to attract a highly qualified Serbian diaspora** by creating a stimulating environment for employment and business, but also **attracting foreign experts for deficit occupations** and developing new technology. The Government of Serbia, in order to regulate the area of economic migration, has adopted the **Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027** ("Official Gazette of the RS", No. 21/20). The strategy covers a range of topics related to the phenomenon of economic migration, their management, the correlation of migration and development, as well as the role of the diaspora as a driver of (local) development.

Gender inequalities in the labour market are pronounced, especially when it comes to economic activity. The difference in employment rates between men and women is high and amounts to 14.8 percentage points in favour of men in the second quarter of 2020 (57.5% and 42.7% respectively). The difference in unemployment rates is insignificant and amounts to 0.6 percentage points in favour of men (8.8% and 9.4% respectively). Young women in the labour market have a higher unemployment rate compared to young men, and this difference is 3.7 percentage points (25.1% and 28.8% respectively).

The positive trend of decreasing survey unemployment is accompanied by the declining trend of registered unemployment. **The number of unemployed persons on the NES records** in November 2020 (about 493 thousand) decreased by about 8,000 persons or 1.6% y-o-y. The share of unemployed women is 55.5% (about 274 thousand). One of the main **problems** is **high long-term unemployment**, given that as many as **66% of unemployed persons** in the NES records **have been looking for a job for more than a year** (about 325 thousand). Another problem is the large number of unemployed in the NES records who have the **status of hard-to-employ persons** and have difficulties in finding employment. Particularly at risk are those who face multiple vulnerability/hard employability factors at the same time.

Allocations for active employment policy are insufficient, bearing in mind that active policy measures represent support for hard-to-employ unemployed people in the job search process. For the implementation of the planned programmes and measures of active employment policy in 2021, RSD 5.2 billion has been provided, which is an **increase of 40%** compared to 2020 (of which 2 billion dinars for the Youth Employment Promotion Program "My First Salary"). Only a certain number of unemployed from the register are included in the measures (27.6% in 2019).

In addition to employment and unemployment, wages are also an indicator of labour market competitiveness. **Average nominal net wages** in October 2020 amounted to about RSD 60 thousand

⁷⁵NEET - Youth not in employment, education or training

(EUR 511)⁷⁶, which is a real growth of 7.3% y-o-y. Strong wage growth is, among other reasons, a consequence of wage growth in parts of the public sector from 1 November 2019 by an average of 9.7%. **Wages in the public sector remained unchanged** until the end of the 2020, while a significant proportion of private sector employees have received only minimal wages since the beginning of the COVID-19 pandemic. The minimum price of labour in 2020 has increased by 11.1%, so that the minimum wage is about RSD 30 thousand (about EUR 250).

The COVID-19 pandemic and the declaration of a state of emergency in Serbia on 15 March 2020, affected the reduction of economic activity, which is expected to lead to a change in the number of employees. **The effect of the pandemic on the labour market began to manifest itself gradually, first in the informal market** (which is characterized by high flexibility), where a large number of people stopped working after the introduction of the state of emergency. **Employment on the formal labour market (registered employment)**⁷⁷ in the third quarter of 2020 recorded an increase of 44 thousand, which is an increase of 2% y-o-y. There was no decline in employment on the formal market in Serbia- direct benefits for employees in the private sector from the national budget, influenced employers to postpone dismissals, i.e. prevented the closure of jobs. Employees in private companies in the sectors of hospitality, tourism, trade, construction, the self-employed, as well as those who work with fixed-term contracts, are on the hardest hit by the reduction of economic activity and possible job loss.

The Government of Serbia has adopted a **set of measures in order to preserve the liquidity of economic entities and maintain economic activity and employment**⁷⁸.

The first set of measures enables the **postponement of the payment of due tax obligations**, for which RSD 189 billion (EUR 1.6 billion) or 3.4% of GDP have been allocated.

The second set of measures refers to **direct benefits** to companies, payment of assistance in the amount of the **minimum net salary (May-July)** for entrepreneurs, micro, small and medium enterprises, i.e. **subsidies of 50% of the minimum net salary** to large companies whose employees are sent on forced leave, due to reduced business volume or complete suspension of work. This set of measures covers about **235 thousand business entities with about 1.05 million employees**.

Additional direct support for the economy implies the payment of another two months (August-September) of 60% of direct benefits from the budget of the Republic of Serbia that were paid to them in July 2020 (about RSD 18 thousand or EUR 155), while taxes and contributions on earnings will be postponed for one month. Also, the set includes support for the hotel sector (EUR 350 per bed, EUR 150 per room). The total value of this set of measures is RSD 135.3 billion (EUR 1.1 billion) or 2.4% of GDP.

The implementation of the Youth Employment Promotion Programme “**My First Salary**” has also begun. The goal of the Programme is to provide assistance to young people to get ready for independent work after graduating from high school and college, and therefore integrate faster into the labour market and find a job. It is envisaged that **10,000 young people, up to the age of 30, without work experience, will be able to work independently on specific jobs**. For those who finished high school a monthly cash benefit of RSD 20,000 was provided, and for those who graduated from college the cash benefit of RSD 24,000 was provided for a period of nine months. Funds for the Programme, in the amount of RSD 2 billion, will be allocated from the budget.

⁷⁶The median net salary for July 2020 amounted to slightly less than RSD 46 thousand (EUR 389), which means that 50% of employees earned up to the stated amount.

⁷⁷ Source: Survey on Registered Employment, SORS

⁷⁸A total of EUR 5.7 billion was set aside to support the economy in order to reduce the negative effects caused by the COVID-19 pandemic (12.2% of GDP). In addition to tax policy measures and direct support to economic entities, measures to preserve liquidity in the private sector and other measures (moratorium on the payment of dividends and direct assistance to all adult citizens) are also included.

b) Reforms

STRUCTURAL REFORM 1: IMPROVEMENT OF THE ADMINISTRATIVE ENVIRONMENT FOR ENCOURAGING, SUPPORTING AND TRACKING CIRCULAR AND ECONOMIC MIGRATIONS

1. Description of the structural reform

Creating an economic and social environment to slow down the departure of the working population, strengthen ties with the diaspora, encourage return and circular migration, as well as attract foreigners of different educational profiles is a general goal set in the adopted Strategy on Economic Migration of the Republic of Serbia for 2021-2027 (the beginning of 2020). There is a need to develop a unified system for collecting data on economic migration, strengthening the mechanism for monitoring the Serbian diaspora and general economic migration, as well as improving and implementing procedures for the return of the diaspora. In order to encourage return, tax and other incentives related to new employment will be additionally promoted, through communication with both the economy and returnees. One of the steps in building trust with the diaspora will be to establish dialogue and understanding through activities and research. The reform is in line with the *Programme of the Government of the Republic of Serbia* (the Prime Minister's Keynote Address), as well as other recently adopted strategies: *Industrial Policy Strategy 2021-2030*, *Smart Specialization Strategy 2020-2027*, *Artificial Intelligence Development Strategy 2020-2025*. The reform contributes to the achievement of the **SDG 10.7** Facilitate orderly, safe, regular and responsible migration and mobility of people, including the implementation of planned and well-managed migration policies.

2. COVID-19 - effects, measures and challenges

Changes in the world labour market and in the traditional work environment due to the COVID-19 pandemic have led to the return of a large number of Serbian citizens to the country. This further emphasizes the need to monitor circular and economic migrations.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Implementation of the Action Plan for the period 2021-2023 for the implementation of the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027.												
2	Strengthening the capacity of institutions responsible for monitoring migration movements and creating new groups, bodies, etc.												
3	Strengthening the capacity of the organization for establishing cooperation with the diaspora based on examples of good practice from countries with similar initiatives												
4	Improving the administrative framework and promoting tax incentives and improved procedures for employment and return to the country												
5	Establishing cooperation and dialogue with the diaspora through the organization of annual conferences Talent Gathering and promotion of successful stories of returnees												
6	Implementation of the programme and preparation of content for returnees, foreign nationals, seniors and professionals at the end of their business careers												

4. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2023)
Number of returnees (beneficiaries of the organization's programme)	0	300	500
Number of beneficiaries of tax relief	0	600	1,000
Number of inquiries to returnee guides	0	3,000	6,000

5. Expected impact on competitiveness

The Republic of Serbia is still in a shortage of staff, so the implementation of the reform will work on attracting individuals who can, in addition to knowledge and experience, bring closer and open many markets through their contacts. The focus is on deficit occupations in Serbia, such as high technologies, highly specialized industries and other deficit occupations. This will make the economy more competitive through the availability of new technologies, as well as the most modern ways of managing complex business. It is expected that the structural reform will have the greatest impact on the ICT sector (whose current share is around 5% of GDP), and the contribution may be an increase in the share in GDP of 0.1-0.5%.

6. Estimated costs of implementing structural reform and estimated sources of financing

In order to implement the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027 in the plan for 2021 is the adoption of the Action Plan for the period 2021-2023. Law on the Budget of the RS for 2021 does not foresee funds for the implementation of the Action Plan, considering that it has not been adopted by the Government of the Republic of Serbia. The adoption of the Action Plan is planned for February 2021. The strengthening of the institutional capacities of the institutions will be carried through with the support of the German Organization for International Cooperation (GIZ), whose support for the entire period will be specified after the adoption of the AP. The organization dealing with circular migration and the return of the highly educated diaspora was established as a public-private partnership.

Activities 3-6 will be implemented in cooperation with the competent institutions for education and science, international organizations and other private donors. The budget proposal for 2021 envisages an increase in the budget funds for the Return Point program to RSD 19,500,000 or EUR 162,500 while other funds will be defined later. Improving the administrative framework and eliminating obstacles to return will require additional human capacity, while other activities will require an increase in funding for goods and services.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Structural reform refers to increasing employment in Serbia and consequently reducing poverty. Providing the necessary staff gives opportunities for attracting foreign companies, especially those investors who locate their research and development capacities in Serbia, which will result in higher employment of the local population and competitiveness of the economy. It is estimated that the reform will not have an impact on equality and gender.

8. Expected impact on the environment

Structural reform is not expected to have an impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Incomplete diaspora mapping	Low	Providing continuous support to diaspora clubs and organizations in building internal capacities.
Inadequate needs assessment of the economy	Low	Close cooperation with the Serbian Chamber of Commerce, the National Employment Service and continuous consultations with business representatives

Failure to adopt the Action Plan for the period 2021-2023 within the planned deadlines for the implementation of the Strategy on Economic Migration of the Republic of Serbia for the period 2021-2027	Low	Strengthening institutional capacities independently of the Action Plan, based on the Implementation Agreement related to the programmes “Migration for Development II” and “Migration & Diaspora” Close cooperation with the Serbian Chamber of Commerce, the National Employment Service and continuous consultations with business representatives
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5.3.8. Area SOCIAL PROTECTION AND INCLUSION, INCLUDING HEALTH CARE

a) Analysis of main obstacles

Serbia is in a relatively good overall social position according to the *Human Development Index* (HDI⁷⁹). The achieved value of HDI is 0.799, and HDI rang 65⁸⁰. By individual components of the index, the results are as follows: *Life expectancy* - 75.8 years, *Expected years of education* - 14.8 and *Medial years of education*- 11.2, while GNI per capita is 15,218 PPP \$ 2011 (per purchasing power parity, the real value of the dollar from 2011).

Nevertheless, **poverty in Serbia is widespread**, as evidenced by the **at-risk-of-poverty rate⁸¹** of **23.2% in 2019⁸²** (these persons are not necessarily poor, but only have a higher risk of being so), which is above the levels of the European Union (EU-28: 17.1%, SILC, 2018). **The poverty risk threshold** was RSD 19,381 (EUR 164) on average per month for a one-member household, while for a four-member household with two adults and two children up to 14 years of age this threshold was RSD 40,700 (EUR 345). **Inequality of income distribution is high**, because the quintile ratio indicator (C80/C20) was **6.5** in 2019. This means that the richest 20% of the population had 6.5 times higher income than the 20% of the poorest⁸³. **The Gini coefficient** in Serbia was **33.3** (2019), which is above this coefficient in the EU-28 (30.8)⁸⁴.

The risk of poverty varies depending on age groups and employment status. Persons younger than 18 (28.9%) as well as persons aged 18 to 24 (25.6%) are most exposed to the risk of poverty. Depending on the employment status, among persons aged 18 and over, the most exposed to the risk are the unemployed (47.5%).**The risk of child poverty mostly depends on the employment status of the parents.**

Expenditures intended for social protection and security in Serbia, measured as a percentage of GDP, show that the allocations are below the EU⁸⁵ average (EU-28: 27.8%, 2017), but still Serbia allocates more funds than some EU member states from the region⁸⁶. **Expenditures for social protection and security** in Serbia amounted to **19.4% of GDP in 2018⁸⁷**. However, expenditures expressed through purchasing power standards are only **2,488 PPS per capita** (Purchasing Power Standards), which is 3.4 times less than in the EU-28 (8,382, 2017).

The share of public expenditures on social assistance and budget transfers in the GDP of Serbia has been gradually decreasing in recent years, so that it amounts to **14.5% of GDP in 2019⁸⁸** (a decrease of 2 percentage points compared to 2015), and the consequence is real reduction of pensions

⁷⁹The HDI is made by UNDP to meet the need for a social indicator that does not only monitor economic parameters, but emphasizes other social aspects that are crucial for the quality of life of an individual. It has three components: 1) Long and healthy life (measured by life expectancy at birth); 2) Knowledge (measured by expected and medial years of education); 3) Decent standard of living (measured by gross national income per capita - GNI percapita). The index scale ranges from 0 (worst score) to 1 (best score).

⁸⁰Data are for 2018. Source: <http://hdr.undp.org/en/content/human-development-index-hdi>

⁸¹Percentage of persons whose equivalent income is less than the relative poverty line.

⁸²Source: TheSurveyonIncomeandLivingConditions (SILC), SORS

⁸³Source: The Survey on Income and Living Conditions 2019 (SILC)

⁸⁴Source: <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=1>

⁸⁵Source: Eurostat, according to the methodology of the European system of integrated statistical data on social protection/ESSPROS

⁸⁶Romania 14.4%; Bulgaria 16.9%; Hungary 17.7% (2018)

⁸⁷Source: Eurostathttps://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=spr_exp_sum&lang=en

⁸⁸Source: Ministry of Finance <https://www.mfin.gov.rs/dokumenti/makroekonomski-i-fiskalni-podaci/>

and unemployment benefits. The structure of expenditures is **dominated by expenditures for pension** whose participation amounts to **10.3% of GDP**. In the area of the pension system, the Swiss formula for indexation of pensions was re-adopted at the end of 2019 (pensions are indexed with a combination of inflation and wage growth to protect their real purchasing power to enable the standard of retirees to follow economic growth and the standard of employees). **Expenditures for social assistance** amount to **3.1% of GDP**, which is in line with the current level of development, but not enough to focus more systematically on those beneficiaries who need assistance the most. Therefore, **providing adequate financial and institutional resources for social policy** is a priority for the coming period.

Improving the adequacy of social benefits for the population below the poverty line and redistributing resources between existing programmes is a challenge. In order to solve these problems, the **introduction of an integrated system of social cards** as a documented way of measuring the socio-economic power of social protection beneficiaries is underway. A large number of different institutions (Tax Administration, MoI, Real Estate Cadastre, NES, etc.) are being connected, and networking of their databases will significantly **simplify procedures for users and improve service availability**. Progress has been made in the development of a social card for the optimal distribution of social assistance: **the development of a software solution is underway** (a technical specification for the second phase of application development has been prepared), and a **Draft Law on the Social Card** has been prepared.

The response to the COVID-19 pandemic in Serbia was the **introduction of a restrictive package of measures**, such as: abolition of public transport to reduce human mobility, relatively high restrictions on movement, closure of educational institutions, abolition of public services in direct contact with citizens, etc. In a **difficult situation were the elderly living alone, especially those in need of someone else's care and assistance, as most social protection services were either suspended or services were provided with significant restrictions**. Humanitarian and other activities at the local level were organized by crisis centers.

Special attention for the **purpose of prevention and protection of users** was focused on the care of **the most vulnerable segment of society**, among which users are placed in gerontological centres and centres for the elderly, children and youth without parental care, adults and the elderly with intellectual and mental disabilities, physical and sensory disabilities, as well as children and young people with developmental disabilities. **Necessary protective and health equipment was procured** and delivered to all social protection institutions (masks, gloves, coats, hats, socks, non-contact thermometers, disinfectants, etc.). The government has approved the **employment** of about 700 people, in order to **further strengthen social protection institutions through the employment of medical and non-medical staff**.

To all **citizens**, whose right to financial social assistance, child allowance, someone else's care and assistance, as well as maternity benefits, should have been terminated during the state of emergency, **the payment of assistance was extended until the end of the state of emergency**. Pensioners were paid a one-time assistance with the March pension, **pensions were paid without a day of delay** despite the pandemic, and in full (not in two parts as was the practice).

The level of gender equality in Serbia is still unsatisfactory. Women make up 51% of the general population, but there are still fewer of them among decision-makers: women hold 38.8% of seats, and 43% are represented in the Government. A woman has been the Prime Minister since 2017.

Serbia is the first country outside the European Union **to introduce a Gender Equality Index⁸⁹**. The Gender Equality Index for Serbia is **55.8 points⁹⁰**, which represents an improvement in gender equality, i.e. an increase in the index by 3.4 points in the period from 2014 to 2016. Nevertheless,

⁸⁹ The Gender Equality Index is a measuring instrument of the European Union that measures gender equality on a scale from 1 (complete inequality) to 100 (complete equality) through six domains: knowledge, work, money, health, time and power, as well as two sub-domains: violence and cross-inequalities.

⁹⁰ It was calculated for 2016 and the results were published in 2018.

Serbia still records a lower value of the index compared to the EU-28 average, which is 66.2 points⁹¹. On the joint list with the EU member states, Serbia ranks **22nd**⁹². One of the main axes of inequality noted by the Index relates to gender segregation, which is established during education and continues later in the labour market. Inequalities are also visible in the domain of money, because women have lower incomes than men, and certain groups of women are exposed to higher risks of poverty. Inequalities in the domain of time show how much women spend their time and work in taking care of the household and family, i.e. doing unpaid housework.

According to the **Global Health Security Index**⁹³, Serbia is ranked **41st** out of 195 countries for which health care opportunities were assessed, and the result was 52.3 in 2019. In all categories of the index, Serbia achieves above average results in relation to the world average⁹⁴. As an indicator in which Serbia occupies a weak position is the ***Health Capacity in clinics, hospitals and local centres*** within the category **Health System** (19.4, while the world average is 24.4)⁹⁵. After the outbreak of the COVID-19 pandemic, this indicator became especially relevant.

Even before the outbreak of the COVID-19 pandemic, the health system in Serbia faced serious challenges in terms of **funding, hospital equipment and the quality of services provided**.

Health care of the population⁹⁶ in Serbia is directly **implemented through the network of health care institutions**, which number was **350**⁹⁷ in Serbia in **2018**, while the health care system **employed 101.4 thousand workers**. **The number of doctors per 100,000 inhabitants in Serbia was 286**.

Health care at the primary level is provided by state-owned health centres (158), which are established for the territory of one or more municipalities, i.e. cities. Inpatient (hospital) health care was provided by 128 health institutions, in which 8,248 doctors worked (of which 79.5% were specialists). The bed stock in inpatient institutions was 41,988 beds, i.e. **614 beds per 100,000 inhabitants** in 2018. The number of patients in inpatient health care institutions was slightly less than 1.4 million, and the total number of hospital days was 10 million. **The average duration of treatment per patient is 7.4 days, and the average occupancy of hospital beds is 65.8%**.

Total health expenditures in Serbia amounted to **8.55% of GDP in 2018**⁹⁸, while allocations **per capita** amount to **USD 600**. The dominant financier of health care is the **state**, which allocates **60% of total funds**, while the share of the **private sector** is **40%**.

There are delays in the reconstruction and equipping of clinical centres that are important for improving the quality of tertiary health care. Reconstruction of CC Niš has been completed (at the end of 2017), while the construction and reconstruction of CC Serbia in Belgrade and CC Vojvodina in Novi Sad are in progress.

Low investments in health care are reflected in the **insufficient equipment of health care institutions with diagnostic medical devices**⁹⁹, so Serbia has 27 magnetic resonances (0.39 per 100,000 inhabitants), 81 CT scanners (1.12 per 100,000 inhabitants), 22 gamma cameras (0.29 per 100,000 inhabitants), 24 angiography units (0.34 per 100,000 inhabitants; data for 2016), 30 radiotherapy units (0.43 per 100,000 inhabitants), 128 mammograms (1.8 per 100,000 inhabitants) and 2 PET scanners.

⁹¹ Refers to 2015.

⁹² According to the second Gender Equality Index, Serbia is better positioned than seven EU countries: Cyprus, the Czech Republic, Croatia, Romania, Slovakia, Hungary and Greece.

⁹³ GHSI is an assessment of global health care opportunities in 195 countries. It was created through a project of the Nuclear Threat Initiative and the Johns Hopkins Centre for Health Safety. The index ranges from 0 (worst score) to 100 (best score). It consists of 6 categories: 1) Prevention; 2) Detection and reporting; 3) Quick response; 4) Health system; 5) Compliance with international standards; 6) Environmental risk.

⁹⁴ Prevention 48.8 (average 34.8); Detection and reporting 46.2 (average 41.9); Quick response 55.1 (average 38.4); Health system 56.6 (average 26.4); Compliance with international standards 49.7 (average 48.5); Environmental risk 59.2 (average 55.0).

⁹⁵ Source: <https://www.ghsinindex.org/wp-content/uploads/2019/08/Serbia.pdf>

⁹⁶ Source: Health Statistics Yearbook of the Republic of Serbia 2018, Institute of Public Health of Serbia "Dr Milan Jovanović Batut"

⁹⁷ 25 public health institutes, 4 clinical centres, 4 clinical hospital centres, 34 special hospitals, 41 general hospitals, 7 clinics, 158 health centres, 22 bureaus, 16 institutes, 35 pharmacies and 4 military health institutions

⁹⁸ Source: Institute of Public Health of Serbia "Dr Milan Jovanović Batut", National Health Accounts

⁹⁹ Source: Eurostat, Medicaltechnology<https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

The **challenge** facing the health care system in Serbia is **staff shortages and labour shortages**. The Medical Chamber of Serbia annually issues over 700 certificates of good practice¹⁰⁰ that enable doctors to work abroad.

Insufficient investments and equipment of health care institutions and lack of medical staff have a negative impact on waiting lists. The unique waiting list for 26 health services is updated on a daily basis and published on the NHIF¹⁰¹ website, and the total **number of people** on this list was about **51 thousand** in mid-October 2020.

In the first few weeks after the outbreak of the COVID-19 pandemic, it became necessary to increase the **volume of case detection, contact monitoring and reporting**. The challenge was the **procurement of necessary equipment** (respirators and protective equipment, disinfectants, etc.), and the daily **activities of health workers became far more complex and risky**.

As the **number of people infected** with the virus grew, **more and more hospitals** in Serbia entered the COVID system, that is, they became **COVID centres**. In certain periods of time, **large venues were transformed**¹⁰² into **temporary COVID hospitals** intended for patients with a milder clinical picture. As a solution to the problem of lack of hospital capacity, Serbia has started the **construction of two new COVID hospitals** in Belgrade and Kruševac.

Access to health care has become far more complex for many patients, especially cancer patients, pregnant women and members of various vulnerable groups, as hospitals were forced to **suspend or limit non-emergency interventions**, and the COVID-19 virus has become an **obstacle to accessing essential services of preventive protection**, so delaying these services is expected to pose an additional risk.

The **process of digitalization** in general, and above all in public administration, **improves the quality of life of the citizens** of Serbia, which is of special importance due to the COVID-19 pandemic.

In order to **perform epidemiological surveillance** related to the corona virus pandemic in Serbia, the Government has formed a unique and centralized software solution - **Information System COVID-19**¹⁰³ which contains data on the cured, deceased, tested, persons under self-isolation and in accommodation which are submitted to the Ministry of Health on a daily basis until 14h, for the purpose of supervision for self-isolation measures and enhanced health supervision also to the Ministry of Interior and the Serbian Army. Data on the number of citizens in self-isolation, infected with the virus, tested, hospitalized and deceased on the territory of Serbia are open and available on the **Open Data Portal**.

A **national platform for volunteer registration** has been established through which all citizens who do not belong to the risk group and want to help the oldest citizens and other risk groups can apply. Also, the **National Platform Donate Plasma**¹⁰⁴ was established, and the **Digital Solidarity Portal** was created for everyone who is in their homes due to the corona virus pandemic.

The **self-assessment test on COVID-19** in the form of a questionnaire of self-assessment of symptoms has been available since the beginning of April 2020 on the **e-Health Portal**. Based on the answers, guidelines on further action are obtained and direct electronic communication with Respiratory clinics from the surveillance system is achieved.

A **new service (notification application)** has been developed and is available on the e-Government Portal since the end of July 2020, which enables citizens to receive **e-mail and SMS notifications** whether their **PCR test result on COVID-19** is available.

¹⁰⁰ Half of the certificates are issued for some work on weekends that doctors perform in Bosnia and Herzegovina and Montenegro.

¹⁰¹<http://rfzo.rs/index.php/osiguranalica/listecekanja/lc-dnevni-presek>

¹⁰² Such as Hall 2 of the Belgrade Fair and Stark Arena in Belgrade.

¹⁰³The COVID-19 information system is run by the Institute of Public Health "Dr Milan Jovanović Batut" with the support of the Office of Information Technology and Electronic Administration and the National Health Insurance Fund.

¹⁰⁴ Cooperation between the Office of Information Technology and Electronic Administration and the Blood Transfusion Institute.

b) Reforms

STRUCTURAL REFORM 23: IMPROVEMENT OF THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES

1. Description of the structural reform

Fair distribution of funds intended for social protection will be ensured through the establishment of a single Social Card Register which will enable an overview of the social and material status of beneficiaries, and a necessary precondition for that is collecting and using data that determine that status from all available state administration sources. In addition, the application of the information system to support business processes in the implementation of social protection, “*System for protection and automatization of social protection instruments*”, will connect social protection institutions, and above all centres for social work in a single network. The basis for the development of the Social Card Register is contained in the *Action Plan for the implementation of the Government Programme*, which defines the introduction of social cards as a priority. Also, the development of these systems is envisaged in the *Action Plan for the implementation of the e-Government Development Programme in the Republic of Serbia for the period 2020-2022* (measure 1.6), but also as a goal in the *Employment Policy and Social Policy Reform Programme* (ESRP) (goal 1 and goal 6 “Social inclusion”). The reform contributes to the achievement of the UN Sustainable Development Goals, **SDG 1.3** (“Implement appropriate national social protection systems and measures for all, including the most vulnerable, and achieve a sufficient coverage of the poor and vulnerable by 2030”), as well as digital transformation in Serbia.

So far, the first phase of the development of the *Social Card Register* has been completed, which includes internal connection of the data subsystem at the level of the Ministry, and a *Draft Law on the Social Card* has been drafted.

The proposed structural reform will enable regular analysis of poverty trends on the basis of available data, in order to identify new forms of poverty and adequate social protection measures.

In 2020, the Ministry started the procurement of the *System for protection and automatization of social protection instruments*, which includes a software solution, with all modules and submodules, and hardware, but the declared COVID-19 pandemic led to delays in the implementation processes.

2. COVID-19 - effects, measures and challenges

Structural reform is also important for eliminating the consequences of COVID-19, given that these systems will seek to support social screening for post-crisis management, especially for socially vulnerable groups, integration with NES unemployment data (systematic review and finding of the most vulnerable unemployed persons), as well as georeferencing of vulnerable groups and individuals by territory with the level of data aggregation provided by the address register.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Connecting social work centres into a single network using software, i.e. an information system to support business processes in the implementation of social protection (“ <i>System for protection and automatization of social protection instruments</i> ”).												
2	Information connection with data sources important for the socio-economic status of the individual and the family (“ <i>Social Card Register</i> ”).												
3	Adoption of respective laws and bylaws - Law on Social Card - Rulebook on technical conditions for establishing and maintaining a social card												

4	Appropriate instructions prepared and necessary trainings organized for the users of the System for protection and automation of social protection instruments and the Social Card Register.											

4. Performance indicators

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Number of public administration bodies (external data sources) with which the information connection of the Social Card Register was performed	5	8	8
Percentage of Centres for Social Work and other users who use the System for protection and automatization of social protection instruments	70	100	100
Percentage of enacted laws and bylaws	60	100	100
Percentage of developed respective instructions and implemented trainings for users of the Social Card Register and the System for protection and automatization of social protection instruments.	40	100	100

5. Expected impact on competitiveness

Not relevant for the field of “Social protection and inclusion, including health care”.

6. Estimated costs of implementing structural reform and estimated sources of financing

For the implementation of activities related to *the Social Card Register*, funds are planned in the budget of the Republic of Serbia for 2021 in the amount of RSD 130,000,000 or EUR 1,083,333 for the preparation of the 2nd phase of the software solution, and for 2022 no funds are planned because further connection with external users of the SC Register is expected on the basis of the built software solution. In 2023 no funds are planned because the final implementation is expected to be completed in 2022.

For *the System for protection and automatization of social protection instruments*, planned funds for 2021 amount to RSD 269,428,000 or EUR 2,245,233. No funds are planned for 2022 because the continuation of the implementation of the System is planned. The activity of preparing respective instructions and training planned in 2022 and the first quarter of 2023 will be part of the regular activities of the Ministry and financing employees' salaries.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The establishment of the Social Card Registry and the System for Protection and Automatization of Social Protection Instruments will affect the fairer distribution of social assistance and reduce abuse and faster response in case of changes in data that affect socio-economic status, but also poverty prevention and elimination of social exclusion. It will also contribute to facilitating the exercise of users' rights through e-Government, as it will enable them to exercise their rights more easily electronically through a single access point.

8. Expected impact on the environment

Structural reform is environmentally neutral.

9. Potential risks

Risk	Probability	Planned mitigating actions
Untimely adoption of the Law on Social Card	Moderate	A draft law was drafted, which passed public discussion, harmonization and was adopted by the committees of the Government. It is necessary to refine the text and re-adopt the procedure in the convocation of the new Government and forward it to the National Assembly for adoption.
Failure to connect information systems of respective institutions and non-opening of their databases	Moderate	The adoption of the Law on the Social Card is a condition for connecting, i.e. drafting the Social Card Register.

STRUCTURAL REFORM 24: DIGITALIZATION OF THE HEALTHCARE SYSTEM

1. Description of the structural reform

Digitization of the health system contributes to the efficiency of the health system, higher quality of diagnostics and treatment and enables authorized access to information crucial for making clinical decisions. The single electronic health card will establish a mechanism of digital authorized access to patient information, which will enable patients the electronic access to their own health information and active participation in the process of diagnosis and treatment. The establishment of central electronic health services will greatly increase the efficiency of the system, eliminate unnecessary patient involvement and contribute to the quality of diagnostics and treatment. Also, the introduction of digital technologies for radiological imaging and central storage of radiological imaging has opened the door for projects that will improve the quality of diagnostics and the efficiency of the entire system. The reform contributes to the realization of **SDG 3**. Good health, as well as digital transformation in Serbia.

2. COVID-19 - effects, measures and challenges

The necessity of the mentioned measures was also confirmed during the COVID-19 pandemic, when a real-time self-assessment service for COVID-19 patients was established, through which Serbian citizens can, with data from the health card, access the portal, log in and report possible symptoms of COVID-19. The service is connected to the local information system of the local community and according to the data entered by the citizens, through the system, the service informs them which nearest clinic to call if they have symptoms. Also, a service for registration of foreign persons is provided, due to supervision, according to the Law on Protection of the Population from Infectious Diseases.

3. Activities planned by year

No.	Activities planned	2021				2022				2023			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1	Connecting health care institutions to the central system of electronic health records												
2	Establishment of central electronic health services – e-Sick leave												
3	Expansion of the national radiology imaging platform												
4	Application of solutions based on artificial intelligence in radiology												

4. Performance indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Number of institutions that use electronic health records	0	40	225
Number of health care institutions in the e-Radiology system	60	150	225
Number of radiologists accessing recordings from any location in Serbia	0	180	250

5. Expected impact on competitiveness

Not relevant for the field of “Social protection and inclusion, including health care”.

6. Estimated costs of implementing structural reform and estimated sources of financing

Funds for all these activities have been provided within the budget of the Ministry of Health for 2021. The implementation of the Electronic Health Card started in 2020 with no funds needed in 2021. The amount of EUR 1,500,000 has been allocated for the activity of introducing e-Sick leave; for the expansion of the national radiology platform EUR 2 million; for the application of solutions based on artificial intelligence in the field of radiology, EUR 1 million were allocated.

7. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The implementation of the planned activities will improve access to health care primarily through the use of electronic health records. Patients will be more informed about their health data, as well as about the services that the health system enables and provides.

8. Expected impact on the environment

Structural reform will not have an impact on the environment.

9. Potential risks

Risk	Probability	Planned mitigating actions
Potential inconsistency of numerous actors in the process of realization of complex projects.	Low	Creating effective mechanisms of strategic and tactical coordination in project implementation.

6. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the period 2021-2023 amount to EUR 2.39 billion compared to the base year before the start of each individual reform. By year, the additional costs of implementing structural reforms amount to EUR 583.50 million in 2021, a total of EUR 650.49 million in 2022 and EUR 1.15 billion in 2023.

The structure of the costs of reform measures in the next three years is dominated by goods and services with 59.87% in total costs, followed by capital expenditures with 33.97% in total costs, subsidies and transfers with a share of 4.25% and salaries with participation of 1.91%.

Regarding the sources of funding in the period 2021-2023, the key source of additional funding of structural reforms are project loan funds with a share of 60.14%, followed by IPA funds representing 20.15% of all available sources, as well as the central level budget with a share of 14.3%. Local budgets and other domestic sources of funding have a negligible share in the total additional financing of structural reforms in the next three years (their individual share is below 1.5% of total funds). The share of sources that have yet to be determined for financing structural reforms is 3.96% and they refer to the financing of structural reforms in the period 2022-2023.

Financial resources for the implementation of structural reforms in 2021 are planned in accordance with the Budget Law for 2021 ("Official Gazette of the RS", No. 149 of 11 December 2020), budget funds and loans, inflows from donations or from other sources.

Financial resources from the budget of the Republic of Serbia for the implementation of structural reforms in 2022 and 2023 must be planned in accordance with the allocated limits for their holders during the budget procedure. Due to the maintenance of fiscal stability, the provision of additional financial resources for the implementation of structural reforms in 2022 and 2023 is limited and must be in line with the budget constraints.

The implementation of structural reforms will depend on the provision of financial resources in the annual budget laws.

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

7. INSTITUTIONAL MATTERS AND STAKEHOLDER PARTICIPATION

Activities on the development of the Economic Reform Program (ERP) for the period 2021-2023 began in mid-2020, immediately after the adoption of the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, at the online ECOFIN Council meeting on 19 May 2020, and obtaining new guidelines from the European Commission for ERP 2021-2023. The new guidelines of the European Commission point to a number of areas that need additional attention when formulating structural measures, such as planning for a sustainable recovery in a pandemic, green and digital transformation as a factor of competitiveness; social protection, especially health care, contribution to the realization of regional cooperation and fulfillment of economic criteria for EU membership, as well as connection with IPA III. Due to general pandemic prevention measures, meetings and trainings in the seventh cycle of ERP preparation were held via electronic platforms.

The Republic of Serbia has a developed structure of inter-ministerial ERP coordination. By the conclusion of the Government of the Republic of Serbia from 28 August 2018, the Minister of Finance, Siniša Mali, was appointed the national coordinator and head of the Working Group for the development and monitoring of the implementation of the ERP. By the decision of the Minister of Finance, a Working Group for the development and monitoring of the implementation of the Economic Reform Program was formed on July 18, 2019. Annex 2 contains a list of institutions that participated in the development of the ERP 2021-2023.

In accordance with the already established practice, the first part of the document, which refers to the macro-fiscal framework, was prepared by the Ministry of Finance and the National Bank of Serbia and mostly relies on the Fiscal Strategy for 2021 with projections for 2022 and 2023. The work on the preparation of the contents of other chapters of this document related to structural reforms was coordinated by the Ministry of Finance and the Republic Secretariat for Public Policies.

The seventh cycle of ERP development for the period 2021-2023 began on 13 July 2020, when an introductory meeting and an online course on "Integration of structural reforms in the budget" were held, which presented the European Commission Guidelines for the development of ERP 2021-2023, a form for the preparation of descriptions of structural reforms and a methodology for assessment of costs of implementing structural reforms. The results achieved in the previous period, the recommendations of the ECOFIN Council and further activities were also discussed. This event was attended by ERP coordinators from line ministries and other relevant institutions of the Republic of Serbia, as well as representatives of the European Commission and the EU Delegation, and was organized with the support of the regional IPA project "Strengthening the capacity of line ministries to assess the fiscal impact of structural reforms - FISR" which is implemented by the Center of Excellence in Finance (CEF, Slovenia) and the project of Serbian-German development cooperation "Support to Public Administration Reform" implemented by the German Organization for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit - GIZ).

During the meetings held on 24 and 25 September 2020, the content and scope of the draft structural reform measures within the ERP Coordinator Working Group were discussed. A preliminary list of structural reforms for the period 2021-2023 was formed on the basis of proposals from relevant institutions, on the occasion of which a number of meetings were held with the relevant departments and the Working Group of ERP Coordinators. The activities that followed were related to updating diagnostics in all reform areas and collecting information on the implementation of priority structural reforms for the period 2020-2022.

A regional meeting of ERP coordinators with representatives of the European Commission was held online on 15 and 16 September 2020 with the support of CEF from Ljubljana, at which previous experiences and new guidelines for drafting ERP were presented.

As until now, in the seventh cycle of ERP development, special attention was devoted to consultations with stakeholders, which were conducted in two cycles of online consultations for ERP 2021-2023.

A meeting "Breakfast with journalists on the Economic Reform Program" was organized in Belgrade on 17 September 2020 by the Center for European Policies (CEP), NALED, the European Western Balkans portal and the National Convention on the EU, with participation of representatives of the Ministry of Finance and the Republic Secretariat for Public Policies (<https://cep.org.rs/dorucak-sa-novinarima-na-temu-erp-a-opasnost-zanemarivanja-ekonomskih-tema-u-procesu-pristupanja/>).

The process of comprehensive consultations began in the period from 5 to 18 October 2020, when the preliminary list of selected structural reforms was made available to the general public on the websites of the Ministry of Finance, the Republic Secretariat for Public Policies and the Government of Serbia (<https://www.srbija.gov.rs/vest/490045/preliminarna-lista-strukturnih-reformi-za-erp-stavljen-a-uvid-javnosti.php>). The session of the Intersectoral Working Group of the National Convention on the EU for the Economic Reform Program was held on 14 October 2020, at which the preliminary list of structural reforms for ERP 2021-2023 was discussed, after which comments were submitted to the Ministry of Finance (NCEU comments and responses can be found in Annex 1).

In November 2020, work began on estimating the costs of structural reforms, in accordance with the new methodology for estimating the costs and sources of funding for individual structural reforms, and an online workshop was held for representatives of the ERP Working Group on 30 November and 1 December 2020, which was organized with the support of the regional IPA project "Strengthening the capacity of line ministries to assess the fiscal impact of structural reforms" implemented by CEF. Work on this segment of the document was finalized in December, after the 2021 Budget Law was adopted in December 2020.

Meetings with representatives of the European Commission and the EU Delegation and RS institutions responsible for individual areas of ERP, where the participants in the process of drafting this document discussed the fulfillment of ECOFIN Council recommendations, as well as the basic challenges from the ERP assessment of EC, were held online on 27 November 2020.

In the second cycle of consultations, the first draft of the entire ERP 2021-2023 document was made available to the public on 13 December 2020, on the websites of the Ministry of Finance, the Republic Secretariat for Public Policies and the Government of the Republic of Serbia (<https://www.mfin.gov.rs/propisi/nacrt-programa-ekonomskih-reformi-erp-2021-2023/>). In this way, all stakeholders had the opportunity to contribute with their comments to the improvement of the document.

Final consultations with interested parties were held on 12 January 2021 at a meeting with representatives of the National Convention on the European Union, the United Nations Development Program (UNDP), the United Nations Children's Fund (UNICEF), etc., to discuss the draft ERP 2021-2023 (comments of the representatives of the civil society and the answers of the respective institutions are in Annex 1). Representatives of the Government of the Republic of Serbia, during the discussion at the meeting held on 12 January 2020, gave answers to the representatives of civil society to the comments made. The National Convention on the European Union brings together over 700 civil society organizations and is a permanent body within which there is a thematically structured debate on the accession of the Republic of Serbia to the European Union, divided by negotiation chapters and special topics, between NGOs, experts, business, trade unions and professionals associations on the one hand and government representatives on the other and has a very important role in this process. Within its structures, the National Convention has established a mechanism for monitoring and evaluation of ERP, through a special horizontal Working Group for ERP and its members actively participate in this process.

The consolidated comments of stakeholders in the ERP development process on this year's document and answers are attached in Annex 1. Given that ERP is a rolling document, a large number of stakeholders' comments from the previous cycle are included in ERP 2021-2023.

After the completion of consultations with interested parties and completion of the internal procedure, the document adopted by the Government of the Republic of Serbia will be submitted to the European Commission within the set deadline, i.e. by the end of January 2021. The ERP will then be further discussed with representatives of EU institutions and member states in the European Semester Light process for the Western Balkans and Turkey, and in mid-2021, the next (eighth) cycle of ERP development is expected to begin.

8. ANNEXES

Country:	Republic of Serbia
Year of submission (deadline)	2021
Pre-year prices prices (no = 0, yes = 1)	0
BOP-Data: National Currency = 0, EUR = 1	1

Table 1: Macroeconomic framework

1a: Demand side, const. prices (Bn. NCU/EUR)	ESA Code	2018	2019	2020	2021	2022	2023
GDP at market prices	B1*g	4,757.4	4,959.5	4,907.8	5,201.3	5,409.3	5,626.8
Private consumption expenditure	P3	3,333.9	3,452.5	3,386.2	3,570.7	3,672.2	3,776.8
Government consumption expenditure	P3	756.5	771.8	816.3	819.9	840.7	855.5
Gross fixed capital formation	P51	964.3	1,129.7	1,075.5	1,218.6	1,305.3	1,406.5
Domestic Demand		5,054.8	5,354.0	5,278.0	5,609.2	5,818.2	6,038.8
6. Changes in inventories and net acquisition of valuables	P52+P53	130.2	154.8	154.3	156.8	158.9	156.9
Exports of goods and services	P6	2,540.5	2,735.3	2,546.6	2,792.1	3,046.1	3,328.2
Imports of goods and services	P7	2,968.0	3,284.6	3,071.1	3,356.7	3,613.8	3,897.2
Net exports		-427.6	-549.3	-524.5	-564.7	-567.7	-569.0
1a: Demand side, curr. prices (Bn. NCU)							
GDP at market prices	B1*g	5,072.9	5,417.7	5,517.3	5,997.7	6,408.1	6,871.3
Private consumption expenditure	P3	3522.2	3696.7	3678.3	3958.2	4161.6	4407.9
Government consumption expenditure	P3	839.0	901.8	1013.4	1054.9	1119.5	1162.0
Gross fixed capital formation	P51	1016.7	1217.9	1168.5	1365.5	1512.3	1690.0
Domestic Demand		5,377.9	5,816.4	5,860.2	6,378.6	6,793.4	7,259.9
6. Changes in inventories and net acquisition of valuables	P52+P53	132.6	142.2	135.7	164.8	177.8	188.7
Exports of goods and services	P6	2558.5	2765.7	2585.1	2895.1	3238.0	3637.5
Imports of goods and services	P7	2996.1	3306.6	3063.7	3440.7	3801.2	4214.7
Net exports		-437.6	-540.8	-478.6	-545.6	-563.2	-577.2
1a: Exchange rate							
Exchange rate National Currency Unit/EUR (Annual average)	NCU/EUR	118.3	117.9	117.6			
Exchange rate National Currency Unit/EUR (End year)	NCU/EUR	118.2	117.6	117.6			
Table 1b: Price developments							
1. GDP deflator	Index	106.6	109.2	112.4	115.3	118.5	122.1
2. Private consumption deflator	Index	105.6	107.1	108.6	110.9	113.3	116.7
3. HICP	Index	107.1	109.3				

4. National CPI	Index	106.9	108.8	110.6	112.7	115.3	118.2
5. Public consumption deflator	Index	110.9	116.8	124.1	128.7	133.2	135.8
6. Investment deflator	Index	105.4	107.8	108.6	112.1	115.9	120.2
7. Export price deflator (goods & services)	Index	100.7	101.1	101.5	103.7	106.3	109.3
8. Import price deflator (goods & services)	Index	100.9	100.7	99.8	102.5	105.2	108.1

Table 1c: Labour markets developments

1. Population (thousands)	1000 pers.	6982.6	6945.2	6917.5	6889.8	6862.2	6834.8
3. Working-age population (persons) [1]	1000 pers.	4565.0	4504.1	4565.5	4547.3	4535.9	4524.6
Total labour force	1000 pers.	3096.4	3068.2	3058.9	3092.1	3093.5	3099.4
5. Employment, persons [2]	1000 pers.	2685.4	2733.5	2747.2	2780.1	2807.9	2836.0
6. Employment, hours worked [3]	1000 pers.						
8. Public sector employment (persons)	1000 pers.						
13. Compensation of employees	Bn. NCU						

Table 1d: Sectoral balances

		2018	2019	2020	2021	2022	2023
1. Net lending/borrowing vis-à-vis the rest of the world	bn EUR	-2.1	-3.3	-2.3	-2.8	-2.7	-2.8
<i>of which:</i>							
- Balance of goods and services	bn EUR	-4.1	-4.6	-4.0	-4.4	-4.3	-4.2
- Balance of primary incomes and transfers	bn EUR	2.0	1.5	1.7	1.6	1.6	1.5
- Capital account	bn EUR	0.0	-0.1	0.0	0.0	0.0	0.0

Table 1e: Gross value added

		2018	2019	2020	2021	2022	2023
1. Agriculture	const. prices	317,514.6	312,396.5	327,579.0	314,475.8	316,236.9	316,236.9
2. Industry (excluding construction)	const. prices	1,005,172.1	1,009,240.2	1,009,240.2	1,066,766.9	1,119,465.1	1,174,990.6
3. Construction	const. prices	203,674.9	272,329.8	255,990.0	293,364.5	311,553.1	336,290.4
4. Services	const. prices	2,414,965.0	2,517,290.6	2,479,027.8	2,650,080.7	2,757,382.5	2,870,435.1
1. Agriculture	curr. prices	321,765.1	322,559.9				
2. Industry (excluding construction)	curr. prices	1,067,256.1	1,076,329.4				
3. Construction	curr. prices	226,215.6	309,202.7				
4. Services	curr. prices	2,587,689.4	2,772,807.9				

Table 1f: External sector developments

		2018	2019	2020	2021	2022	2023
2. Export of goods	bn EUR	15.1	16.4	15.6	17.6	19.3	21.3
3. Import of goods	bn EUR	20.2	22.0	20.7	23.3	25.2	27.3
4. Trade balance	bn EUR	-5.1	-5.6	-5.1	-5.7	-5.9	-6.1
5. Export of services	bn EUR	6.1	6.9	5.9	6.6	7.4	8.1
6. Import of services	bn EUR	5.1	5.9	4.8	5.3	5.8	6.3
7. Service balance	bn EUR	1.0	1.0	1.1	1.3	1.6	1.8
8. Net interest payments from abroad	bn EUR	-0.7	-0.6	-0.8	-0.8	-0.7	-0.8
9. Other net factor income from abroad	bn EUR	-1.5	-1.8	-0.8	-1.6	-1.8	-1.9
10. Current transfers	bn EUR	4.2	3.9	3.3	3.9	4.2	4.3
11. Of which from EU	bn EUR	2.8	2.9	3.0	3.0	2.9	3.1

12. Current account balance	bn EUR	-2.1	-3.2	-2.3	-2.8	-2.7	-2.6
13. Capital and financial account	bn EUR	1.8	3.2	2.3	2.8	2.7	4.7
14. Of which: Net Foreign direct investment	bn EUR	3.2	3.6	2.3	2.8	2.7	2.7
14.a Of which: Net-FDI (Equity)	bn EUR	2.7	2.9	1.8	2.0	2.0	2.0
15. Of which: Portefolio investment	bn EUR	-0.9	0.2	1.2	0.0	-0.2	0.0
15.a Of which: Net-Portefolio investment (Equity)	bn EUR	0.1	0.0	0.0	0.0	0.0	0.0
16. Foreign reserves	bn EUR	10.1	13.5	13.8	14.3	14.6	15.0
17. Total External debt	bn EUR	17.3	17.8	18.8	17.5	16.9	16.6
18. Of which: foreign currency denominated external debt	bn EUR	15.4	15.8	16.7	15.3	14.6	14.1
19. Of which: public external debt	bn EUR	6.0	6.4	7.9	5.3	4.6	4.4
20. Of which: interest payments	bn EUR	0.8	0.7	0.7	0.6	0.5	0.5
21. Of which: repayments due	bn EUR	4.1	5.4	4.5	4.1	4.0	4.0
22. Net foreign saving	bn EUR						
23. Domestic private saving	bn EUR						
24. Domestic private investment	bn EUR						
25. Domestic public saving	bn EUR						
26. Domestic public investment	bn EUR						

[1] Age group of 15-64 years

[2] Occupied population, domestic concept national accounts definition

[3] National accounts definition

Table 1g: Sustainability indicators	Dimension	2015	2016	2017	2018	2019	2020
1. Current Account Balance	Bn EUR	-1.2	-1.1	-2.1	-2.1	-3.2	-2.3
2. Net International Investment Position	Bn EUR	-33.9	-34.7	-35.6	-37.6	-40.5	-42.0
3. Export market shares	% of total export market	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
4. Real Effective Exchange Rate	Index	116.3	114.8	118.7	123.0	122.8	124.6
5. Nominal Unit Labour Costs	Index	171.1	173.8	181.8	190.7	206.3	229.7
6. Private sector credit flow	bn NCU	59.5	110.1	83.6	188.8	178.0	212.7
7. Private sector debt	bn NCU	1,701.2	1,811.4	1,895.0	2,083.8	2,261.8	2,474.5
8. General Government Debt	bn NCU	3,072.3	3,110.8	2,790.5	2,757.3	2,864.0	3,255.2
p.m. GDP at current market prices	bn NCU	4,315.0	4,528.2	4,760.7	5,072.9	5,417.7	5,517.3
p.m. Exchange rate (Annual average)	NCU/EUR	120.7	123.1	121.3	118.3	117.9	117.6

Table 1a: Macroeconomic prospects

Republic of Serbia

Percentages unless otherwise indicated	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	42.084	4.2	-1.0	6.0	4.0	4.0
2. Current GDP at market prices	B1*g	45.971	6.8	1.8	8.7	6.8	7.2
Components of real GDP							
3. Private consumption expenditure	P3	29.296	3.6	-1.9	5.4	2.8	2.9
4. Government consumption expenditure	P3	6.549	2.0	5.8	0.4	2.5	1.8
5. Gross fixed capital formation	P51	9.586	17.2	-4.8	13.3	7.1	7.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	1.314	3.1	3.1	3.0	2.9	2.8
7. Exports of goods and services	P6	23.210	7.7	-6.9	9.6	9.1	9.3
8. Imports of goods and services	P7	27.871	10.7	-6.5	9.3	7.7	7.8
Contribution to real GDP growth							
9. Final domestic demand		45.4	6.3	-1.5	6.7	4.0	4.1
10. Change in inventories and net acquisition of valuables	P52+P53	1.3	0.5	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-4.7	-2.6	0.5	-0.8	-0.1	0.0

Table 1b: Price developments

Republic of Serbia

Percentage changes, annual averages	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. GDP deflator		2.4	2.9	2.6	2.7	3.1
2. Private consumption deflator		1.3	1.5	2.0	2.2	3.0
3. HICP		2.1	:	:	:	:
4. National CPI change		1.9	1.6	1.9	2.3	2.5
5. Public consumption deflator		5.4	6.3	3.6	3.5	2.0
6. Investment deflator		2.3	0.8	3.1	3.4	3.7
7. Export price deflator (goods & services)		0.4	0.4	2.1	2.5	2.8
8. Import price deflator (goods & services)		-0.3	-0.9	2.8	2.6	2.8

Table 1c: Labour markets developments**Republic of Serbia**

	ESA Code	Year	Year	Year	Year	Year	Year	
		2019	2019	2020	2021	2022	2023	
		Level	Level/Rate of change					
1. Population (thousands)			6,945.2	6,917.5	6,889.8	6,862.2	6,834.8	
2. Population (growth rate in %)			-0.5	-0.4	-0.4	-0.4	-0.4	
3. Working-age population (persons) [1]			4,504	4,566	4,547	4,536	4,525	
4. Participation rate			68.1	67.0	68.0	68.2	68.5	
5. Employment, persons [2]			2,734	2,747	2,780	2,808	2,836	
6. Employment, hours worked [3]			:	:	:	:	:	
7. Employment (growth rate in %)			1.8	0.5	1.2	1.0	1.0	
8. Public sector employment (persons)			:	:	:	:	:	
9. Public sector employment (growth in %)			:	:	:	:	:	
10. Unemployment rate [4]			10.9	10.2	10.1	9.2	8.5	
11. Labour productivity, persons [5]		1,814.4	2.4	-1.5	4.7	3.0	3.0	
12. Labour productivity, hours worked [6]			:	:	:	:	:	
13. Compensation of employees	D1	:	:	:	:	:	:	

[1] Age group of 15-64 years

[2] Occupied population, domestic concept national accounts definition

[3] National accounts definition

[4] Harmonised definition, Eurostat; levels

[5] Real GDP per person employed

[6] Real GDP per hour worked

Table 1d: Sectoral balances

Republic of Serbia

Percentages of GDP	ESA code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-7.1	-5.0	-5.5	-5.1	-4.8
<i>of which:</i>						
<i>- Balance of goods and services</i>		-10.0	-8.5	-8.6	-8.0	-7.4
<i>- Balance of primary incomes and transfers</i>		3.2	3.5	3.1	2.9	2.6
<i>- Capital account</i>		-0.2	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-5.1	-3.5	-4.3	-3.9	-3.9
3. Net lending/borrowing of general government		-1.8	-1.5	-1.3	-1.2	-1.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

Republic of Serbia

	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	5,417.7	5,517.3	5,997.7	6,408.1	6,871.3
Investment ratio (% of GDP)		22.5	21.2	22.8	23.6	24.6
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-1.6	4.9	-4.0	0.6	0.0
2. Industry (excluding construction)		0.4	0.0	5.7	4.9	5.0
3. Construction		33.7	-6.0	14.6	6.2	7.9
4. Services		4.2	-1.5	6.9	4.0	4.1

Table 1f: External sector developments**Republic of Serbia**

Billion Euro unless otherwise indicated		Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current account balance (% of GDP)	% of GDP	-6.9	-5.0	-5.5	-5.1	-4.6
2. Export of goods	bn EUR	16.4	15.6	17.6	19.3	21.3
3. Import of goods	bn EUR	22.0	20.7	23.3	25.2	27.3
4. Trade balance	bn EUR	-5.6	-5.1	-5.7	-5.9	-6.1
5. Export of services	bn EUR	6.9	5.9	6.6	7.4	8.1
6. Import of services	bn EUR	5.9	4.8	5.3	5.8	6.3
7. Service balance	bn EUR	1.0	1.1	1.3	1.6	1.8
8. Net interest payments from abroad	bn EUR	-0.6	-0.8	-0.8	-0.7	-0.8
9. Other net factor income from abroad	bn EUR	-1.8	-0.8	-1.6	-1.8	-1.9
10. Current transfers	bn EUR	3.9	3.3	3.9	4.2	4.3
11. Of which from EU	bn EUR	2.9	3.0	3.0	2.9	3.1
12. Current account balance	bn EUR	-3.2	-2.3	-2.8	-2.7	-2.6
13. Capital and financial account	bn EUR	3.2	2.3	2.8	2.7	4.7
14. Foreign direct investment	bn EUR	3.6	2.3	2.8	2.7	2.7
15. Foreign reserves	bn EUR	13.5	13.8	14.3	14.6	15.0
16. Foreign debt	bn EUR	17.8	18.8	17.5	16.9	16.6
17. Of which: public	bn EUR	6.4	7.9	5.3	4.6	4.4
18. O/w: foreign currency denominated	bn EUR	15.8	16.7	15.3	14.6	14.1
19. O/w: repayments due	bn EUR	5.4	4.5	4.1	4.0	4.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	117.9	117.6	:	:	:
p.m. Exchange rate vis-à-vis EUR (annual average)	%, year-on-year	-0.4	-0.2	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	117.6	117.6	:	:	:
p.m. Exchange rate vis-à-vis EUR (end-year)	%, year-on-year	-0.5	0.0	:	:	:
22. Net foreign saving	% of GDP	:	:	:	:	:
23. Domestic private saving	% of GDP	:	:	:	:	:
24. Domestic private investment	% of GDP	:	:	:	:	:
25. Domestic public saving	% of GDP	:	:	:	:	:
26. Domestic public investment	% of GDP	:	:	:	:	:

Table 1g: Sustainability indicators**Republic of Serbia**

	Dimension	Year	Year	Year	Year	Year
		2016	2017	2018	2019	2020
1. Current Account Balance	% of GDP	-2.9	-5.2	-4.8	-6.9	-5.0
2. Net International Investment Position [1]	% of GDP	-94.3	-90.7	-87.6	-88.0	-89.5
3. Export market shares	%, yoy	12.2	3.1	4.8	5.2	5.0
4. Real Effective Exchange Rate [2]	%, yoy	-1.3	3.3	3.6	-0.2	1.5
5. Nominal Unit Labour Costs [3]	%, yoy	1.6	4.6	4.9	8.1	12.3
6. Private sector credit flow	% of GDP	2.4	1.8	3.7	3.3	3.9
7. Private sector debt	% of GDP	40.0	39.8	41.1	41.7	44.8
8. General Government Debt	% of GDP	68.7	58.6	54.4	52.9	59.0

[1] Q2 2020.

[2] On the basis of CPI, euro and dollar weights 80:20, Jan-Oct 2020/Jan-Oct 2019. Q1-Q3 2019/Q1-Q3 2018.

[3] Q1-Q3 2020/Q1-Q3 2019; Q3 NBS estimate.

Table 2: General government budgetary prospects

	bn NCU	2018	2019	2020	2021	2022	2023
Net lending (B9) by sub-sectors							
1. General government	S13	32.2	-11.1	-492.3	-179.3	-105.5	-71.4
2. Central government	S1311	26.7	-0.8	-487.2	-181.9	-106.5	-72.9
3. State government	S1312						
4. Local government	S1313	0.7	-5.4	1.1	2.6	1.0	1.5
5. Social security funds	S1314	4.8	-5.0	-6.3	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,105.3	2,278.6	2,223.5	2,423.9	2,593.3	2,728.1
7. Total expenditure[1]	TE	2,073.0	2,289.7	2,715.8	2,603.3	2,698.8	2,799.5
8. Net borrowing/lending	EDP.B9	32.2	-11.1	-492.3	-179.3	-105.5	-71.4
9. Interest expenditure	EDP.D41 incl. FISIM	108.6	108.9	110.5	113.6	111.9	111.2
10. Primary balance[2]		140.9	97.8	-381.8	-65.7	6.4	39.8
11. One-off and other temporary measures [3]							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,202.6	1,317.8	1,302.2	1,386.6	1,477.0	1,560.1
12a. Taxes on production and imports	D2	870.4	943.5	930.2	1,002.6	1,061.3	1,118.4
12b. Current taxes on income and wealth	D5	331.2	373.2	370.6	382.3	413.4	439.0
12c. Capital taxes	D91	0.9	1.2	1.4	1.8	2.2	2.7
13. Social contributions	D61	619.7	675.9	673.1	784.5	848.8	882.7
14. Property income	D4	73.1	68.8	77.6	75.8	78.5	81.3
15. Other (15 = 16-(12+13+14)) [4]		209.9	216.1	170.6	177.1	189.0	204.0
16 = 6. Total revenue	TR	2,105.3	2,278.6	2,223.5	2,423.9	2,593.3	2,728.1
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,822.2	1,993.7	1,975.4	2,171.1	2,325.8	2,442.8
Selected components of expenditures							
17. Collective consumption	P32	812.2	895.6	1,029.5	1,061.0	1,104.4	1,144.3
18. Total social transfers	D62 + D63	746.0	782.9	814.1	847.8	897.8	938.0
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	746.0	782.9	814.1	847.8	897.8	938.0
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.6	108.9	110.5	113.6	111.9	111.2

20. Subsidies	D3	109.7	121.2	258.3	130.7	117.9	116.4
21. Gross fixed capital formation	P51	199.3	266.3	286.7	330.6	360.0	388.3
22. Other (22 = 23-(17+18+19+20+21) [6]		97.3	114.8	216.7	119.6	106.9	101.3
23. Total expenditures [7]	TE	2,073.0	2,289.7	2,715.8	2,603.3	2,698.8	2,799.5
p.m. compensation of employees	D1	468.8	516.3	575.9	602.5	630.1	659.0

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP.B.9, item 8) plus (EDP.D.41, item 9).

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

[7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Republic of Serbia

Table 2a: General government budgetary prospects

	ESA code	Year	Year	Year	Year	Year	Year	
		2019	2019	2020	2021	2022	2023	
Level (bn NCU) % of GDP								
Net lending (B9) by sub-sectors								
1. General government	S13	-11.1135	-0.2	-8.9	-3.0	-1.6	-1.0	
2. Central government	S1311	-0.7573	0.0	-8.8	-3.0	-1.7	-1.1	
3. State government	S1312	:	:	:	:	:	:	
4. Local government	S1313	-5.3716	-0.1	0.0	0.0	0.0	0.0	
5. Social security funds	S1314	-4.9846	-0.1	-0.1	0.0	0.0	0.0	
General government (S13)								
6. Total revenue	TR	2,278.5584	42.1	40.3	40.4	40.5	39.7	
7. Total expenditure[1]	TE	2,289.6719	42.3	49.2	43.4	42.1	40.7	
8. Net borrowing/lending	EDP.B9	-11.1135	-0.2	-8.9	-3.0	-1.6	-1.0	
9. Interest expenditure	EDP.D41 incl. FISIM	108.9364	2.0	2.0	1.9	1.7	1.6	
10. Primary balance[2]		97.8229	1.8	-6.9	-1.1	0.1	0.6	
11. One-off and other temporary measures [3]		:	:	:	:	:	:	

Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,317.8018	24.3	23.6	23.1	23.0	22.7
12a. Taxes on production and imports	D2	943.4522	17.4	16.9	16.7	16.6	16.3
12b. Current taxes on income and wealth	D5	373.1899	6.9	6.7	6.4	6.5	6.4
12c. Capital taxes	D91	1.1597	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	675.8755	12.5	12.2	13.1	13.2	12.8
14. Property income	D4	68.7590	1.3	1.4	1.3	1.2	1.2
15. Other (15 = 16-(12+13+14)) [4]		216.1221	4.0	3.1	3.0	2.9	3.0
16 = 6. Total revenue	TR	2,278.5584	42.1	40.3	40.4	40.5	39.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,993.6772	36.8	35.8	36.2	36.3	35.6
Selected components of expenditures							
16. Collective consumption	P32	895.5523	16.5	18.7	17.7	17.2	16.7
17. Total social transfers	D62 + D63	782.9370	14.5	14.8	14.1	14.0	13.7
17a. Social transfers in kind	P31 = D63	0.0000	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	782.9370	14.5	14.8	14.1	14.0	13.7
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.9364	2.0	2.0	1.9	1.7	1.6
19. Subsidies	D3	121.1761	2.2	4.7	2.2	1.8	1.7
20. Gross fixed capital formation	P51	266.2542	4.9	5.2	5.5	5.6	5.7
21. Other (21 = 22-(16+17+18+19+20) [6]		114.8159	2.1	3.9	2.0	1.7	1.5
22. Total expenditures	TE [1]	2,289.6719	42.3	49.2	43.4	42.1	40.7
p.m. compensation of employees	D1	516.2982	9.5	10.4	10.0	9.8	9.6

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2b: General government budgetary prospects

Republic of Serbia

	ESA code	Year	Year	Year	Year	Year	
		2019	2020	2021	2022	2023	
bn NCU							
Net lending (B9) by sub-sectors							
1. General government	S13	-11.11	-492.32	-179.35	-105.55	-71.40	
2. Central government	S1311	-0.76	-487.18	-181.90	-106.55	-72.93	
3. State government	S1312	:	:	:	:	:	
4. Local government	S1313	-5.37	1.13	2.60	1.00	1.53	
5. Social security funds	S1314	-4.98	-6.27	0.00	0.00	0.00	
General government (S13)							
6. Total revenue	TR	2,278.56	2,223.50	2,423.94	2,593.29	2,728.12	
7. Total expenditure[1]	TE	2,289.67	2,715.82	2,603.29	2,698.84	2,799.52	
8. Net borrowing/lending	EDP.B9	-11.11	-492.32	-179.35	-105.55	-71.40	
9. Interest expenditure	EDP.D41 incl. FISIM	108.94	110.50	113.60	111.90	111.20	
10. Primary balance[2]		97.82	-381.82	-65.75	6.35	39.80	
11. One-off and other temporary measures [3]		:	:	:	:	:	
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,317.80	1,302.24	1,386.62	1,476.97	1,560.08	
12a. Taxes on production and imports	D2	943.45	930.22	1,002.56	1,061.33	1,118.37	
12b. Current taxes on income and wealth	D5	373.19	370.59	382.28	413.44	438.98	
12c. Capital taxes	D91	1.16	1.44	1.78	2.20	2.73	
13. Social contributions	D61	675.88	673.13	784.50	848.85	882.70	
14. Property income	D4	68.76	77.55	75.76	78.49	81.31	
15. Other (15 = 16-(12+13+14)) [4]		216.12	170.58	177.06	188.99	204.03	
16 = 6. Total revenue	TR	2,278.56	2,223.50	2,423.94	2,593.29	2,728.12	
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1,993.68	1,975.37	2,171.12	2,325.82	2,442.78	

Selected components of expenditures						
16. Collective consumption	P32	895.55	1,029.54	1,060.95	1,104.38	1,144.28
17. Total social transfers	D62 + D63	782.94	814.14	847.81	897.80	938.05
17a. Social transfers in kind	P31 = D63	0.00	0.00	0.00	0.00	0.00
17b. Social transfers other than in kind	D62	782.94	814.14	847.81	897.80	938.05
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.94	110.50	113.60	111.90	111.20
19. Subsidies	D3	121.18	258.30	130.72	117.86	116.42
20. Gross fixed capital formation	P51	266.25	286.65	330.64	360.00	388.30
21. Other (21 = 22-(16+17+18+19+20) [6]		114.82	216.69	119.57	106.89	101.28
22. Total expenditures	TE [1]	2,289.67	2,715.82	2,603.29	2,698.84	2,799.52
p.m. compensation of employees	D1	516.30	575.92	602.49	630.11	658.99

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41) + D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3: General government expenditure by function (bn NCU)

	COFOG Code	2018	2019	2020	2021	2022	2023
1. General public services	1	301.755	329.998	424.358	363.074	379.105	391.664
2. Defence	2	85.294	100.130	103.586	102.183	108.938	109.941
3. Public order and safety	3	129.240	145.021	150.814	157.284	166.611	171.783
4. Economic affairs	4	265.275	321.040	507.727	402.147	384.486	384.793
5. Environmental protection	5	14.477	17.217	16.390	18.199	19.224	20.614
6. Housing and community amenities	6	73.764	81.931	79.158	83.870	89.713	96.198
7. Health	7	276.032	287.147	392.152	383.112	397.302	419.149
8. Recreation, culture and religion	8	47.688	50.169	48.466	50.903	57.673	61.842
9. Education	9	162.627	176.712	181.841	193.029	211.467	226.753
10. Social protection	10	716.890	780.306	811.331	849.488	884.318	916.788
Other relevant variables							
11. Total expenditure (item 7 = 23 in Table 2)	TE	2,073.0	2,289.672	2,715.823	2,603.290	2,698.837	2,799.524

Table 3: General government expenditure by function

Republic of Serbia

% of GDP	COFOG Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. General public services	1	6.1	7.7	6.1	5.9	5.7
2. Defence	2	1.8	1.9	1.7	1.7	1.6
3. Public order and safety	3	2.7	2.7	2.6	2.6	2.5
4. Economic affairs	4	5.9	9.2	6.7	6.0	5.6
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	1.5	1.4	1.4	1.4	1.4
7. Health	7	5.3	7.1	6.4	6.2	6.1
8. Recreation, culture and religion	8	0.9	0.9	0.8	0.9	0.9
9. Education	9	3.3	3.3	3.2	3.3	3.3
10. Social protection	10	14.4	14.7	14.2	13.8	13.3
11. Total expenditure (item 7 = 23 in Table 2)	TE	42.3	49.2	43.4	42.1	40.7

Table 4: General government debt developments

			2018	2019	2020	2021	2022	2023
1. Gross debt [1]	bn NCU		2,757.3	2,864.0	3,255.2	3,520.6	3,710.3	3,847.9
Contributions to change in gross debt								
5. Stock-flow adjustment	bn NCU		-1.0	95.5	-101.1	86.1	84.1	66.2
<i>of which:</i>								
- Differences between cash and accruals [4]	bn NCU							
- Net accumulation of financial assets [5]	bn NCU							
<i>of which:</i>								
- Privatisation proceeds	bn NCU							
- Valuation effects and other [6]	bn NCU							
Other relevant variables								
6. Liquid financial assets [8]	bn NCU							

[1] As defined in Regulation 3605/93 (not an ESA concept).

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 4: General government debt developments

Republic of Serbia

% of GDP	ESA code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Gross debt [1]		52.9	59.0	58.7	57.9	56.0
2. Change in gross debt ratio			6.1	-0.3	-0.8	-1.9
Contributions to change in gross debt						
3. Primary balance [2]		-1.81	6.9	1.1	-0.1	-0.6
4. Interest expenditure [3]	EDP D.41	2.01	2.0	1.9	1.7	1.6
5. Stock-flow adjustment		-0.2	-2.8	-3.3	-2.4	-2.9
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		4.0	3.9	3.5	3.2	3.0
Other relevant variables						
6. Liquid financial assets [8]		:	:	:	:	:
7. Net financial debt ($7 = 1 - 6$)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

		2019	2020	2021	2022	2023

4. One-off and other temporary measures [1]	% of GDP	0.0	-7.0	0.6	0.6	0.0
5. Potential GDP growth	%, yoy	3.1	3.2	3.6	3.8	4.0
Contributions:						
- labour		1.1	1.0	0.8	0.7	0.6
- capital		1.6	1.3	1.5	1.6	1.7
- total factor productivity		0.4	1.0	1.3	1.5	1.6
6. Output gap	% of GDP	2.10	-2.10	0.20	0.40	0.40
7. Cyclical budgetary component	% of GDP	0.80	-0.80	0.10	0.10	0.20

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

Table 5: Cyclical developments

Republic of Serbia

% of GDP	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Real GDP growth (%, yoy)	B1g	4.2	-1.0	6.0	4.0	4.0
2. Net lending of general government	EDP.B.9	-0.2	-8.9	-3.0	-1.6	-1.0
3. Interest expenditure	EDP.D.41	2.0	2.0	1.9	1.7	1.6
4. One-off and other temporary measures [1]		0.0	-7.0	0.6	0.6	0.0
5. Potential GDP growth (%, yoy)		3.1	3.2	3.6	3.8	4.0
Contributions:						
- labour		1.1	1.0	0.8	0.7	0.6
- capital		1.6	1.3	1.5	1.6	1.7
- total factor productivity		0.4	1.0	1.3	1.5	1.6
6. Output gap		2.1	-2.1	0.2	0.4	0.4
7. Cyclical budgetary component		0.8	-0.8	0.1	0.1	0.2
8. Cyclically-adjusted balance (2-7)		-1.0	-8.1	-3.1	-1.7	-1.2
9. Cyclically-adjusted primary balance (8+3)		1.0	-6.1	-1.2	0.0	0.4
10. Structural balance (8-4)		-1.0	-1.1	-3.7	-2.3	-1.2

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

Table 6: Divergence from previous programme

		2019	2020	2021	2022	2023
1. GDP growth	%, yoy, previous programme	3.5	4.0	4.0	4.0	
2. General government net lending	% of GDP, previous programme	-0.5	-0.5	-0.5	-0.5	
3. General government gross debt	% of GDP, previous programme	52.9	51.4	50.1	48.3	

Table 6: Divergence from previous programme**Republic of Serbia**

	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. GDP growth (%), yoy)					
Previous programme	3.5	4.0	4.0	4.0	:
Latest update	4.2	-1.0	6.0	4.0	4.0
Difference (percentage points)	0.7	-5.0	2.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-0.5	-0.5	-0.5	-0.5	:
Latest update	-0.2	-8.9	-3.0	-1.6	-1.0
Difference	0.3	-8.4	-2.5	-1.1	:
3. General government gross debt (% of GDP)					
Previous programme	52.9	51.4	50.1	48.3	:
Latest update	52.9	59.0	58.7	57.9	56.0
Difference	0.0	7.6	8.6	9.6	:

Table 7: Long-term sustainability of public finances (% GDP)

	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
<i>of which:</i> property income							
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7a: Contingent liabilities	2020	2021
Public Guarantees	bn NCU	175.1
<i>Of which:</i> linked to the financial sector	bn NCU	Optional

Table 7: Long-term sustainability of public finances**Republic of Serbia**

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which:</i> property income	:	:	:	:	:	:	:
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Table 7a: General government guarantees**Republic of Serbia**

% of GDP	Year 2020	Year 2021
Public guarantees	3.5	3.1
Of which: linked to the financial sector	:	:

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

	Dimension	2019	2020	2021	2022	2023
Short-term interest rate [1]	Annual average					
Long-term interest rate	Annual average					
USD/EUR exchange rate	Annual average					
Nominal effective exchange rate	Annual average					
Exchange rate vis-à-vis the EUR	Annual average					
Global GDP growth, excluding EU	Annual average					
EU GDP growth	Annual average					
Growth of relevant foreign markets	Annual average					
World import volumes, excluding EU	Annual average					
Oil prices (Brent, USD/barrel)	Annual average					

[1] If necessary, purely technical assumption.

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

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Republic of Serbia
Short-term interest rate	Annual average	:	:	:	:	:	
Long-term interest rate	Annual average	:	:	:	:	:	
USD/EUR exchange rate	Annual average	:	:	:	:	:	
Nominal effective exchange rate	Annual average	:	:	:	:	:	
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:	
Global GDP growth, excluding EU	Annual average	:	:	:	:	:	
EU GDP growth	Annual average	:	:	:	:	:	
Growth of relevant foreign markets	Annual average	:	:	:	:	:	
World import volumes, excluding EU	Annual average	:	:	:	:	:	
Oil prices (Brent, USD/barrel)	Annual average	:	:	:	:	:	

[1] If necessary, purely technical assumption.

Table 9: Selected employment and social indicators

	Data source	2015	2016	2017	2018	2019
1. Labour market participation rate (%) total (20-64 years old)	LFS	68.0	70.0	71.2	72.5	72.9
- male	LFS	76.6	78.0	78.8	80.2	80.1
- female	LFS	59.4	62.0	63.6	64.8	65.6
2. Employment rate (%) total (20-64 years old)	LFS	55.9	59.1	61.4	63.1	65.1
- male	LFS	63.6	66.3	68.5	70.5	72.1
- female	LFS	48.2	51.9	54.4	55.8	58.2
3. Unemployment rate (%) total (15+)	LFS	17.7	15.3	13.5	12.7	10.4
- male	LFS	16.8	14.6	12.8	11.9	9.8
- female	LFS	18.8	16.1	14.3	13.7	11.1
4. Long-term unemployment rate (%) total	LFS	11.3	9.9	8.2	7.5	6.0
- male	LFS	10.6	9.5	7.9	7.2	5.8
- female	LFS	12.2	10.5	8.5	8.0	6.4
5. Youth unemployment (15-24 years old) rate (%) total	LFS	43.2	34.9	31.9	29.7	27.5
- male	LFS	40.1	32.2	29.2	28.3	26.1
- female	LFS	48.2	39.5	36.3	32.0	29.9
6. Young people (15-24 years old) not in employment, education or training (NEET), in %	LFS	19.9	17.7	17.2	16.5	15.3
7. Early school leavers, in % (Eurostat definition)	LFS	7.4	7.0	6.2	6.8	5.8
8. PISA Rating						
9. PIAAC rating						
10. Participation rate in early childhood education and care	SORS- Statistics of education	48.5	50.7	52.5	54.5	57.5
11. GINI coefficient	EU-SILC	40.0	39.8	37.8	35.6	33.3
12. Inequality of income distribution S80/S20 (Income quintile ratio)	EU-SILC	10.7	11.0	9.4	8.6	6.5
13. Social protection expenditure in % of GDP						
14. Health expenditure in % of GDP						
15. At-risk-of-poverty before social transfers, % of the population	EU-SILC	52.2	52.1	51.3	48.7	46.6
16. Poverty rate (Please indicate which data are available for your country)	EU-SILC	26.7	25.9	25.7	24.3	23.2
17. Poverty gap (Please indicate which data are available for your country)	EU-SILC	37.5	39.4	38.8	37.4	32.1
Other indicators used in the EU Social Scoreboard						
18. Real adjusted GDHI - per capita in PPS (Index 2008=100)						
19. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	33.4	32.9	31.6	29.6	28.3
20. Self-reported unmet need for medical care (<i>indicator refers to persons age 16 and over who needed examination or treatment but did not receive it</i>)	EU-SILC	14.6	10.5	11.9	11.8	10.2
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)						

Table 10: The effects of structural reforms on the budget

Table 10a: Costing of structural reform measures for the period 2021-2023 in EUR					
1. Energy market development coupled with energy infrastructure construction					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	179,010.96	0	17,162,577.65	17,341,588.61
2022	0	105,841.76	0	3,093,191.66	3,199,033.42
2023	0	18,906.72	0	22,830,000.00	22,848,906.72
2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	31,932.00	2,536,367.83	4,168,666.67	9,433,086.43	16,170,052.93
2022	52,836.00	6,789,543.18	9,000,000.00	30,128,571.43	45,970,950.61
2023	73,740.00	2,270,460.00	9,000,000.00	54,928,571.43	66,272,771.43
3. Railways reform through harmonisation of the regulatory framework and enhancement of rail transport safety					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	48,937.00	0	8,173,333.00	8,222,270.00
2022	0	48,340.50	0	17,903,333.00	17,951,673.50
2023	0	48,340.50	0	17,903,333.00	17,951,673.50
4. Improvement of the land consolidation process					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	10,452.00	400,000.00	0	0	410,452.00
2022	52,260.00	750,000.00	0	600,000.00	1,402,260.00
2023	52,260.00	200,000.00	0	1,850,000.00	2,102,260.00
5. Improvement of the financial support system for agriculture through digitization and process automation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	14,580,000.00	228,420,000.00	0	104,880,000.00	347,880,000.00
2022	14,580,000.00	349,920,000.00	0	77,760,000.00	442,260,000.00
2023	14,580,000.00	697,920,000.00	0	184,560,000.00	897,060,000.00
6. Improvements of the agriculture competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	713,997.10	0	0	713,997.10
2022	18,672.00	1,002,395.00	4,500,000.00	0	5,521,067.00
2023	18,672.00	202,395.00	4,500,000.00	0	4,721,067.00
7. Boosting industrial competitiveness					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	566,667.00	858,333.00	12,250,000.00	13,675,000.00
2022	0	304,167.00	1,291,667.00	12,250,000.00	13,845,834.00
2023	0	304,167.00	1,375,000.00	12,250,000.00	13,929,167.00
8. Introduction of circular economy concept					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	14,000,000.00	0	0	14,000,000.00
2022	0	0	0	0	0
2023	0	0	0	0	0
9. Improvement of the quality of public service through optimization and digitalization of administrative procedures – e-Paper					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	710,000.00	0	0	710,000.00
2022	0	1,435,000.00	0	0	1,435,000.00
2023	0	585,000.00	0	0	585,000.00

10. Tax Administration transformation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	1,782,600.00	0	7,444,142.00	9,226,742.00
2022	0	8,877,975.00	0	5,765,481.00	14,643,456.00
2023	0	5,637,077.00	0	5,774,806.00	11,411,883.00
11. Introduction of a new fiscalization model and transition to electronic invoicing					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	3,200,000.00	25,000,000.00	5,400,000.00	33,600,000.00
2022	0	0	0	0	0
2023	0	0	0	0	0
12. Improvement of geospatial sector through development of a strategic digital platform to support investment decision-making					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	313,560.00	2,510,000.00	0	0	2,823,560.00
2022	0	2,400,000.00	0	0	2,400,000.00
2023	0	0	0	0	0
13. Improvement to spatial development management in the Republic of Serbia through establishment of e-Space digital platform					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	80,000.00	0	0	80,000.00
2022	0	1,500,000.00	0	0	1,500,000.00
2023	0	1,370,000.00	0	0	1,370,000.00
14. Support for scientific research activity through strengthening scientific research capacities					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	5,301,308.33	8,333,333.33	0	13,634,641.66
2022	0	13,581,208.33	8,333,333.33	0	21,914,541.66
2023	0	14,596,250.00	8,333,333.33	0	22,929,583.33
15. Improvement of institutional support for the development of smart specializations and innovations					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	3,368,550.00	0	3,368,550.00
2022	0	0	6,591,050.00	0	6,591,050.00
2023	0	0	5,941,050.00	0	5,941,050.00
16. Increasing the availability of e-Government by improving infrastructure and introducing new technologies					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	0	12,041,675.00	12,041,675.00
2022	0	0	0	24,833,341.00	24,833,341.00
2023	0	0	0	18,750,008.00	18,750,008.00
17. Development and improvement of the national information and communication infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	1,925,000.00	0	31,300,000.00	33,225,000.00
2022	0	1,925,000.00	0	19,100,000.00	21,025,000.00
2023	0	1,925,000.00	0	54,000,000.00	55,925,000.00
18. Improving conditions and removing barriers to trade					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	17,670.00	2,100.00	0	0	19,770.00
2022	17,670.00	2,100.00	0	0	19,770.00
2023	17,670.00	2,100.00	0	0	19,770.00

19. Safe and quality product - industry development factor					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	140,000.00	0	0	140,000.00
2022	0	180,000.00	500,000.00	0	680,000.00
2023	0	180,000.00	500,000.00	0	680,000.00
20. Qualifications oriented to the needs of the labor market					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	1,814,125.00	0	5,950,761.00	7,764,886.00
2022	0	1,190,525.00	0	14,125,000.00	15,315,525.00
2023	0	1,190,525.00	0	2,860,000.00	4,050,525.00
21. Digitalization of the education system and introduction of a uniform information education system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	373,333.00	40,010,000.00	0	0	40,383,333.00
2022	373,333.00	5,000,000.00	0	0	5,373,333.00
2023	373,333.00	5,000,000.00	0	0	5,373,333.00
22. Improvement of the administrative environment for encouraging, supporting and tracking circular and economic migrations					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	71,480.00	173,500.00	0	0	244,980.00
2022	42,960.00	69,000.00	0	0	111,960.00
2023	42,960.00	56,000.00	0	0	98,960.00
23. Improvement of the adequacy, quality and targeting of social protection measures					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	0	3,328,567.00	3,328,567.00
2022	0	0	0	0	0
2023	0	0	0	0	0
24. Digitalization of the healthcare system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2021	0	0	0	4,500,000.00	4,500,000.00
2022	0	0	0	4,500,000.00	4,500,000.00
2023	0	0	0	4,500,000.00	4,500,000.00
TOTAL	45,694,793.00	1,431,100,930.21	101,594,316.66	812,129,778.60	2,390,519,818.47

Table 10b: Financing of structural reform measures for the period 2021-2023 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
2021	0	0	0	0	4,854,736.30	12,307,841.35	0	17,341,588.61*
2022	0	0	0	0	1,511,324.79	1,581,866.87	0	3,199,033.42*
2023	0	0	0	0	7,210,000.00	15,620,000.00	0	22,848,906.72*

* Total funds differ from the sum of given sources of financing for the value of own funds of EMS AD, which cannot be classified in any given category. EMS AD's own funds, as given in Table 10a, amount to EUR 179,010.96, EUR 105,841.76 and EUR 18,906.72, respectively, for the years 2021-2023.

2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	4,296,463.33	1,786,571.43	0	1,302,069.50	6,024,948.67	2,500,000.00	260,000.00	16,170,052.93
2022	9,293,549.93	1,928,571.43	0	4,778,829.25	5,270,000.00	24,700,000.00	0	45,970,950.61
2023	9,224,200.00	1,928,571.43	0	5,750,000.00	1,370,000.00	48,000,000.00	0	66,272,771.43

3. Railways reform through harmonisation of the regulatory framework and enhancement of rail transport safety

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	48,937.00	0	0	0	0	8,173,333.00	0	8,222,270.00
2022	48,340.50	0	0	0	0	6,603,333.00	11,300,000.00	17,951,673.50
2023	48,340.50	0	0	0	0	6,603,333.00	11,300,000.00	17,951,673.50

4. Improvement of the land consolidation process

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	410,452.00	0	0	0	0	0	0	410,452.00
2022	510,452.00	0	0	0	200,000.00	0	691,808.00	1,402,260.00
2023	760,452.00	0	0	1,300,000.00	0	0	41,808.00	2,102,260.00

5. Improvement of the financial support system for agriculture through digitization and process automation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	66,000,000.00	0	0	0	0	281,880,000.00	0	347,880,000.00
2022	0	0	0	0	0	442,260,000.00	0	442,260,000.00
2023	0	0	0	454,800,000.00	0	442,260,000.00	0	897,060,000.00
6. Improvements of the agriculture competitiveness								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	713,997.10	0	0	0	713,997.10
2022	0	0	0	1,000,000.00	0	0	4,521,067.00	5,521,067.00
2023	0	0	0	200,000.00	0	0	4,521,067.00	4,721,067.00
7. Boosting industrial competitiveness								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	13,675,000.00	0	0	0	0	0	0	13,675,000.00
2022	13,845,834.00	0	0	0	0	0	0	13,845,834.00
2023	13,929,167.00	0	0	0	0	0	0	13,929,167.00
8. Introduction of circular economy concept								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	14,000,000.00	0	0	0	0	0	0	14,000,000.00
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
9. Improvement of the quality of public service through optimization and digitalization of administrative procedures – e-Paper								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	710,000.00	0	0	0	710,000.00
2022	0	0	0	1,435,000.00	0	0	0	1,435,000.00
2023	0	0	0	585,000.00	0	0	0	585,000.00

10. Tax Administration transformation								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	3,893,400.00	0	0	0	0	5,333,342.00	0	9,226,742.00
2022	0	0	0	0	0	14,643,456.00	0	14,643,456.00
2023	0	0	0	0	0	11,411,883.00	0	11,411,883.00
11. Introduction of a new fiscalization model and transition to electronic invoicing								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	25,000,000.00	0	0	0	0	8,600,000.00	0	33,600,000.00
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
12. Improvement of geospatial sector through development of a strategic digital platform to support investment decision-making								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	313,560.00	0	0	30,000.00	0	2,480,000.00	0	2,823,560.00
2022	0	0	0	0	0	2,400,000.00	0	2,400,000.00
2023	0	0	0	0	0	0	0	0
13. Improvement of spatial development management in the Republic of Serbia through establishment of e-Space digital platform								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	0	0	0	0	80,000.00	0	0	80,000.00
2022	0	0	0	0	0	0	1,500,000.00	1,500,000.00
2023	0	0	0	0	0	0	1,370,000.00	1,370,000.00
14. Support for scientific research activity through strengthening scientific research capacities								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	13,634,641.66	0	0	0	0	0	0	13,634,641.66
2022	21,914,541.66	0	0	0	0	0	0	21,914,541.66
2023	22,929,583.33	0	0	0	0	0	0	22,929,583.33

15. Improvement of institutional support for the development of smart specializations and innovations								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	2,466,133.33	0	0	902,416.67	0	0	0	3,368,550.00
2022	2,466,133.33	0	0	4,124,916.67	0	0	0	6,591,050.00
2023	2,466,133.33	0	0	3,474,916.67	0	0	0	5,941,050.00
16. Increasing the availability of e-Government by improving infrastructure and introducing new technologies								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	12,041,675.00	0	0	0	0	0	0	12,041,675.00
2022	24,833,341.00	0	0	0	0	0	0	24,833,341.00
2023	18,750,008.00	0	0	0	0	0	0	18,750,008.00
17. Development and improvement of the national information and communication infrastructure								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	1,925,000.00	0	0	0	1,700,000.00	29,600,000.00	0	33,225,000.00
2022	1,925,000.00	0	0	0	0	16,400,000.00	2,700,000.00	21,025,000.00
2023	1,925,000.00	0	0	0	0	0	54,000,000.00	55,925,000.00
18. Improving conditions and removing barriers to trade								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	19,770.00	0	0	0	0	0	0	19,770.00
2022	19,770.00	0	0	0	0	0	0	19,770.00
2023	19,770.00	0	0	0	0	0	0	19,770.00
19. Safe and quality product - industry development factor								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	80,000.00	0	0	0	60,000.00	0	0	140,000.00
2022	560,000.00	0	60,000.00	30,000.00	30,000.00	0	0	680,000.00
2023	560,000.00	0	60,000.00	30,000.00	30,000.00	0	0	680,000.00

20. Qualifications oriented to the needs of the labour market								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	2,489,125.00	0	0	500,000.00	0	2,200,000.00	2,575,761.00	7,764,886.00
2022	1,190,525.00	0	0	0	0	14,125,000.00	0	15,315,525.00
2023	1,190,525.00	0	0	0	0	2,860,000.00	0	4,050,525.00

*Part of the equipment for the training centers will be provided from donations; in the column To be determined, the funds needed to equip the Aviation Academy training center have been entered and it will be provided from additional funds from the RS budget.

21. Digitalization of the education system and introduction of a uniform information education system								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	5,383,333.00	0	0	0	0	35,000,000.00	0	40,383,333.00
2022	5,373,333.00	0	0	0	0	0	0	5,373,333.00
2023	5,373,333.00	0	0	0	0	0	0	5,373,333.00

22. Improvement of the administrative environment for encouraging, supporting and tracking circular and economic migrations								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	162,500.00	0	0	0	82,480.00	0	0	244,980.00
2022	0	0	0	0	111,960.00	0	0	111,960.00
2023	0	0	0	0	98,960.00	0	0	98,960.00

23. 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
2021	3,328,567.00	0	0	0	0	0	0	3,328,567.00
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0

24. Digitalization of the healthcare system								
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2021	4,500,000.00	0	0	0	0	0	0	4,500,000.00
2022	4,500,000.00	0	0	0	0	0	0	4,500,000.00
2023	4,500,000.00	0	0	0	0	0	0	4,500,000.00
TOTAL	341,825,889.90	5,643,714.29	120,000.00	481,667,145.86	28,634,409.76	1,437,543,388.23	94,781,511.00	2,390,519,818.47

Table 11: Report on the implementation of structural reforms from ERP 2020-2022

SHORT DESCRIPTION OF ACTIVITIES SET FOR 2020 <i>(activities from the Gantt chart)</i>	HAVE THE ACTIVITIES SET FOR 2020 BEEN IMPLEMENTED?	IF THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, PROVIDE A SHORT OVERVIEW <i>(steps taken, dynamics of implemented activities, difficulties and delays in implementation)</i>	IF THE ACTIVITY IS NOT BEING IMPLEMENTED, PROVIDE AN EXPLANATION	OTHER ACTIVITIES <i>(unplanned but realised activities undertaken within the SR)</i>
SR 1. Energy market development coupled with energy infrastructure construction				
1. Construction of the backbone gas pipeline Nis - Dimitrovgrad	Tender procedure	in preparation	The EIB's Board of Directors has approved funds for the co-financing of this project. Preparations for negotiations with the EIB are underway. The preparation of tender documentation is in the final stage.	
	Construction	not being implemented		
2. Construction of the Trans-Balkan Electricity Corridor	Trans-Balkan Electricity Corridor			
	Reconstruction and upgrading of TS Kraljevo 3 and reconstruction of TS Kragujevac 2, which is critical for the launching of the new transmission line Kragujevac - Kraljevo	progress in implementation	The stage of preparation and provision of required permits is complete. The selection process for the contractor has been completed in accordance with the KfW bank procedure. The reconstruction and extension contract for TS Kragujevac 2 and TS Kraljevo 3 has been agreed with the contractor and approved by the KfW bank. The contract was signed in September 2020.	
	Construction of the transmission line Kragujevac - Kraljevo	progress in implementation	The stage of preparation and provision of required permits is complete. The selection process for the contractor has been completed in accordance with the KfW bank procedure. The construction contract for the TL is signed and works on the construction of the transmission line have begun. Works are to be finalised end 2021, and by the end of 2022 the usage permit will also have been obtained.	
	Preparation of technical documentation for TL Obrenovac - Bajina Basta	progress in implementation	Through approved donation funds (WBIF14 programme) the entire technical documentation for the facility construction (Projects for construction permits and Projects for contracting) is being developed. Terms of Reference for the development of technical documentation are complete and approved. The drafting of lacking technical documentation began in May 2019 and is envisaged to last by May 2021. A certain delay has been	

			caused by the outbreak of COVID-19 pandemic which hampered field inspection. Negotiations are also underway between the KfW bank and the Republic of Serbia on the loan for the construction of this transmission line. So far the realisation of all the envisaged activities has been at around 64%.			
6.	Preparation of technical documentation for TL Bajina Basta - Visegrad - Pljevlja	progress in implementation	Through approved donation funds (WBIF1 programme) the entire technical documentation for the facility construction (Projects for construction permits and Projects for contracting) is being developed. Terms of Reference for the development of technical documentation are complete and approved. The work on the project began in September 2019 and is envisaged to last by September 2021. There has been minor slowdown on the project as the consultants team was unable to travel to Montenegro due to the outbreak of the virus COVID-19 pandemic. So far the realisation of all the envisaged activities has been at around 55%.			
		57%				

SR 2. Improvement of conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects

1.	Setting up of a sustained means of energy efficiency financing	not being implemented		Although the analysis of possible options has been done within the IPA project, the final decision on the model for establishing the mechanism has not yet been taken. The decision has not been taken due to the COVID-19 situation.	
2.	Collection of the energy efficiency fee under the Law on Fees	fully implemented			
3.	Financing of energy efficiency projects	implementation continued on the basis of initial results	The Public Call of the Budgetary Fund has been realised but the COVID-19 situation has slowed up the project realisation.		

4.	Strengthening capacities for the pursuit of energy efficiency policy through capacity building in MME, LSUs, and market inspections, and by setting up several bodies for the evaluation of product conformity (in accord with directives 2009/125 and 2010/30), as well as the implementation of activities aimed at raising the energy efficiency awareness	progress in implementation	Project activities are largely going according to plan but due to the COVID-19 situation there is a minor delay with some activities, such as those concerning the product market research.		
		60%			

SR 3. Improving the road transport capacity and quality through reform of the road sector regarding the establishment of a contractual relation between the RS and operators of national roads and further application of a new method of performance-based maintenance contracting

1.	Continued transition to a new method of contracting with companies involved in the maintenance of the rest of the national road network (PBMC – 12,000km) (PCRS)	in preparation	PBMC contracts are complete except for the budget segment. The budget of a PBMC contract stems from the SLA contract.		
2.	Signing of the first three-year SLA contract between PCRS and MCTI (PCRS, MCTI)	in preparation	The form of the SLA contract for 2020 is done. In parallel with the SLA 2020 the consultant has delivered a draft three-year SLA, which is currently in the development stage. As it is end 2020 and having in mind that the COVID-19 pandemic has slowed up the planned activity, the SLA 2020 may be redefined to SLA 2021, while the three-year contract may be redefined to SLA 2022-2025.		
		20%			

SR 4. Railways reform through enhancement of rail transport safety and improvement of regulatory framework

1.	Devising of a new methodology for calculating the price for access to railway infrastructure	progress in implementation	Given that the EU Delegation approved the extension of the 'Comprehensive Railways Reform' project only in August 2019, the start of work on the new methodology was naturally postponed. However, on 13 April 2020 consultants presented to the MCTI the 'Preliminary version of the Methodology and the		
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			model for the calculation of access prices', after which the MCTI, IRS, and consultants exchanged their comments. On 14 July 2020 the Draft Methodology and models for the price calculation were also presented. The document contains an overview of average unit direct costs, a methodological review, and values of all the coefficients used. As it also contains the testing of a new access price on a number of most frequent routes for the purpose of comparing new prices with current ones and ascertaining the impact on the entire system, it was essential the simulation for a certain period of time for all the routes were done. In order for the regulation in matter to be adopted with the participation of all interested parties and upon establishing the impact on the railway transport, a High-Level Task Force was set up. One should bear in mind that due to the COVID-19 situation activities linked to the drafting of the Methodology slowed up.	
2.	Application of the new methodology for calculation of the access price for railway infrastructure	not being implemented		Application of the Methodology is conditioned with its adoption.
3.	Harmonisation of railway-related laws with the IV set of railway EU regulations	implementation continued on the basis of initial results	Working groups have been set up to develop Draft Law on Amendments to the Law on Interoperability of the Railway System and Draft Law on the Safety of the Railway Transport. The working groups have developed initial working versions of draft laws that are now being brought into accord within working groups.	
4.	Increased safety in railway transport	implementation started	Funds totaling EUR 10.9 million for boosting safety in railway transport have been ensured through the Project of Trade and Transport Facilitation in the Western Balkans which is funded from a World Bank loan for the modernisation of level crossings (its realisation began in 2020 while actual works are expected to kick off in 2021). In addition, a request was submitted to reallocate remaining funds of the existing EBRD loan to the amount of about EUR 10 million (EBRD's formal approval is awaited). In the course of 2019 'Serbian Railways Infrastructure' JSC invested around 170 million dinars (EUR 1.4 million), and in 2020 around 100 million dinars (EUR 830,000) in the modernisation and maintenance of level crossings. In addition,	

			the World Bank has generally approved the proposal of funds for the modernisation of level crossings to the amount of around EUR 22.6 million (the realisation is set for 2022 and 2023).		
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45%

SR 5. Improved competitiveness in agriculture through rural infrastructure development, land cultivation, and regulation of the market and quality of agricultural products

1.	Preparing handbook for the implementation of the measure of rural infrastructure improvement	implementation started	Due to the COVID-19 pandemic and its repercussions in the country, the projected activities have not been fully realised. There has been progress in the implementation of one of the components of the structural reform 'Improved competitiveness in agriculture through rural infrastructure development, land cultivation and regulation of the market and quality of agricultural products'. Handbook on incentives for investments in physical property of agricultural farms for field electrification has been adopted. This measure is a component of rural infrastructure and its implementation has commenced. The Handbook was published in the "Official Gazette of the RS", No. 25 of 12 March 2020. Requests for support for this type of investment are being processed.	Employee trainings for the implementation of the measure have not been organised due to the COVID-19 pandemic. Experts in charge of preparing the Handbook for Rural Infrastructure have not been recruited for the same reason.	Handbook on incentives for investments in physical property of agricultural farms for field electrification has been prepared. The Handbook is a special component of rural infrastructure.
2.	Training of employees who will be implementing the measure	in preparation			
3.	Adoption of the Law on Consolidation of Land Property and Law on Amendments to the Law on Agricultural Land	in preparation	Working groups for adoption of legal regulations has begun their work in accordance with their tasks, meetings were held, and proposals for the outline of these regulations were partially considered. COVID-19 pandemic affected the postponement of deadlines.		Unplanned yet realised activities are two adopted handbooks, namely: Handbook on Content, Process of Development, and Adoption of the Land Property Consolidation Programme ('Official Gazette of the RS', No. 62/20) and Handbook on the Content of Technical Documentation for Geodetic and Technical Works (projects) in Land Property Consolidation ('Official Gazette of the RS',

				No. 62/20). The handbooks closely regulate the matter of land regulation through consolidation of land property. Given that consolidation of land property is a complex procedure while the objective is to adopt planned laws, initial steps were the adoption of handbooks under the present Law on Agricultural Land so that prior to the adoption of planned laws the process of land property consolidation could be advanced as much as possible, the practice included advanced solutions from adopted by-laws, and the solutions were incorporated into the new legal regulations.
27%				

SR 6. Improved keeping of the registry of agricultural farms and approval of national incentives in agriculture through development of the eAgriculture portal

1.	Amendments to the Law on Agriculture and Rural Development and adoption of necessary handbooks which regulate digital procedures for making entries into the RAF and the approval of national incentives	in preparation		
2.	Finalisation of the IT specification for the development of the eAgriculture software, contractor selection, and	in preparation	Elements of the eAgriculture portal will be implemented through the Competitive Agriculture Project which is in the set-up stage.	

	designing of the software that includes the testing stage as well					
3.	The set-up of service centres/recruitment of experts to assist local agricultural producers	not being implemented		Activities under 1 and 2 need to be realised first.		
4.	Training of officers in charge of request processing/civil servants in the Ministry of Agriculture, Forestry and Water Management, Directorate for Agrarian Payments, and service centres/professionals recruited to assist agricultural producers.	not being implemented		Activities under 1 and 2 need to be realised first.		
		10%				

SR 7. Simplification and guillotine of procedures essential for the operating of business entities – "ePAPER"

1.	Optimisation of administrative procedures	progress in implementation	So far 130 procedures have been fully optimised and 4 procedures eliminated, which has yielded saving for the business sector of almost EUR 32 million on an annual level. For 36 procedures the process of simplification has started, i.e. recommendations have been partially implemented.		
2.	Digitalisation of administrative procedures	progress in implementation	The platform for eLicences has been created and linked with all the required services, such as ePayment services and the data bus for the exchange of data among public administration bodies and organisations. It also serves as the basis for digitalisation of administrative procedures. So far through the eGovernment portal 27 administrative procedures have been digitalised and made publicly available.		
3.	Adoption and implementation of action plans for the simplification of administrative procedures	fully implemented	At the initiative of the PPS, the Office for Cooperation with Civil Society has published a call for participation in Public debate on the Proposal of the Action plan for Implementation of the Programme for the Simplification of Administrative Procedures and Regulations 'ePAPER' for 2020-2021. The public debate was organised during the period 21 February - 12		

			March 2020. On 26 June 2020 the Government of the Republic of Serbia adopted the Action Plan for ePAPER for 2020 -2021.		
4.	Adoption of the law to regulate establishment of the Single registry of administrative procedures	progress in implementation	Public debate on the Draft Law on the Single Public Registry of Administrative Procedures is finished and the text that will be forwarded to the Government is being finalised. After adoption by the Government, the Law proposal will be forwarded to the parliamentary procedure. Depending on the agenda and the timetable of Parliament's sessions, the adoption is expected to take place mid-2021.		
		85%			

SR 8. Tax Administration Transformation

1.	Re-engineering of business processes to introduce international good practice into operating functions of the Tax Administration of the RS	implementation continued on the basis of initial results	Terms of Reference for the Re-engineering of business processes in tax-related affairs, including the training of trainers for the introduction of new functions in operating units of the Tax Administration of the Republic of Serbia has been written and sent to the World bank for approval. Terms of Reference has been approved by the World Bank. Call for bids was published on 31 August 2020. The assessment of letters of interest for the selection of the consultant for the reengineering of business processes has been completed and a shortlist of bidders has been approved. Deadline for the submission of bids is 23 December 2020, after which evaluation and selection of the best bidder is to take place.		
2.	Further development of the platform for information systems	fully implemented	The following activities have been carried out: improvement of the IIS of the Tax Administration, extension of electronic services on the eTaxes Portal, replacement and improvement of the server, storage, and network infrastructure. These activities have been implemented according to the planned dynamics. All activities planned for 2020 were fully implemented by 31 December 2020.		
3.	Set of activities stated in the Procurement Plan TAMP (Project of Modernisation of the Tax Administration)	progress in implementation	Implementation of activities from the TAMP Procurement Plan has been in accordance with the Procurement Plan. For several activities, notably technical specification for the e-fiscalisation system integrator, bidding documentation has been written and submitted to the World Bank for comments. The procurement procedure launch is expected in the beginning of January 2021. The new Fiscalisation Law has been prepared, it has passed the		

			public debate and has been adopted in the Parliament of the Republic of Serbia in December 2020. Enforcement of the new Fiscalisation Law will begin on 1 January 2022. Implementation of other activites is going according to plan.		
		80%			

SR 9. Improvement of geospatial sector through development of a strategic digital platform to support investment decision-making

1.	Adoption of by-laws in the area of NIGD	progress in implementation	In 2020 Regulation on the Monitoring and Reporting of NIGD Activity was adopted ("Official Gazette of the RS", No. 91 of 26 June 2020). Two by-laws (regulations) were adopted in total. The drafting of remaining three regulations is in progress (drafts are on average 60% complete). The development of the Proposed regulation on interoperability has been approved by the EU Delegation as a donation within the PLAC 3 project. The formulation of a draft Strategy for NIGD is in progress (the draft is 95% complete). It was necessary to align the draft Strategy with documents adopted by the United Nations and the World Bank on the global level, as well as by the European Commission on the regional level, since they all regulate the field of geospatial data on the national level. In this way coordination and coherence of the management of geospatial information in Serbia in the following period is ensured, and so is the compliance with defined norms and the global practice code, capacity development, and the betterment of interoperability of geospatial data and services. The alignment is done within the project 'Improvement of Land Administration in Serbia' with the support of the World Bank, and it also includes the socio-economic analysis of NIGD in Serbia. The process of formulation of the Strategy proposal has been postponed together with the socio-economic analysis due to the outbreak of COVID-19 pandemic and the state of emergency declared in March 2020, which has altogether slowed up the process of selection of the consultants who would be doing the review of the Strategy draft.		
2.	Development and availability of the geospatial data service	progress in implementation	The 'GeoSerbia' national portal has been improved by new sets of geospatial data and development of new services (in total 285 data sets and 39 services are available). Apart from data of the RGA, there are also data of other bodies and institutions (in total		

			<p>30 institutions provide data through the NIGD). At the moment 138 institutions use the digital platform of the national geoportal.</p> <p>At its session held on 26 December 2020 the Government of the Republic of Serbia incorporated the NIGD into the General programme of trainings of civil servants for 2020.</p>		
3.	Adjustment, combination, and linking of data from real estate cadastres and data from local tax offices in 'pilot' municipalities to develop a prototype of the system for mass evaluation of real estate value	implementation continued on the basis of initial results	<p>The realisation of activity is in progress in five pilot municipalities, and simultaneously in comparative municipalities (in total over 30 municipalities are involved in the project).</p> <p>A whole set of preparatory actions needed to implement the activity has been carried out: information on available databases in the territories of pilot municipalities has been collected; the cooperation agreement with the municipality Vracar has been signed, thus incorporating all five pilot municipalities into the system of mass evaluation of the real estate value; demographic and social-economic data for pilot municipalities have been collected; registries and local databases from which data will be extracted for the Registry of data for mass evaluation have been defined; requests for functionalities of the system of the registry of data for mass evaluation have been formulated; external and internal data sources have been defined, as well as basic and supplementary tables in the data model; data on the year of construction of facilities in three pilot municipalities have been collected (Zrenjanin, Pirot and Cacak); the project design for the registry of data for mass evaluation has started.</p> <p>In order to develop the prototype of the system for mass evaluation of the real estate, the analysis of the structure of data in real estate cadastres and local tax offices has been realised 25%.</p> <p>In cooperation with an international expert, the 1st version of the model for the market of apartments in the territories of pilot municipalities and comparative municipalities is underway (around 60% is realised). Functionalities for the entry and the control of data into the Registry of Real Estate Prices (RREP) have been advanced and daily updating of entries into the Registry in the entire territory of the RS is ensured.</p> <p>There are still challenges in communication with all relevant participants in the development of the system for mass</p>		

			evaluation of the real estate value due to its complexity and a large number of participants, as well as in the provision of essential and updated data from various sources.			
4.	Updating of data in the Address Registry for the territory of the RS	progress in implementation	As the project 'Improvement of the Address Registry in the Republic of Serbia' continues, its aim being to assign a street and a number to every existing building, i.e. to fully update the official database of the Address Registry, for 93 local self-government units (58%) the address registry is updated (in total 334,897 newly assigned and updated house numbers). It was not possible to update data in address registries for all 161 LSUs by the end 2020, as has been planned through ERP 2020-2022. The main reason for this is a late decision on the naming of streets by LSUs on the basis of elaboration of street systems that has been prepared by the Republic Geodetic Authority. In addition, the outbreak of the COVID-19 pandemic has aggravated communication with representatives of LSUs and markedly slowed up updating activities for the address registry.			
5.	Establishment of interoperability of data in the Address Registry with data kept by state bodies, organisations, and local self-government units	progress in implementation	The central base of the address registry and web services now enable the use of updated data from the address registry. So far three registries (the registry of home addresses, the registry of sales contracts, and the registry of resident communities) have been linked and they use data from the central address registry. In addition, two state bodies (Ministry of the Interior and Ministry of Justice), BRA, and 169 local self-government units use data from the central address registry.			
		76%				

SR 10. Establishment of a sustainable system for environment funding

1.	Specification and formulation of measures and activities for the establishment of a sustainable funding system for environment programmes and projects	implementation started	Activities set for 2020 have kicked off with the preparation of the project proposal entitled 'Support for establishment of a sustainable system of environment funding through an improved functionality of the Green Fund'. However, as the majority of available funds have been reallocated for the fight against the spread of the contagious disease COVID-19, planned activities have been postponed. The work of the Task Force in charge of installing mechanisms for smooth implementation of programmes/projects in the field of environment and energy		
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		efficiency, set up by Decision of the Minister of Finance on 30 October 2018, continued.		
	40%			

SR 11. Introduction of circular economy concept through definition of the strategic framework

1.	Development of a public policy document about circular economy	implementation started	In the course of 2019 the EU-funded PLAC III project prepared the ex-ante impact assessment for the circular economy, in accordance with the Law on the Planning System of the Republic of Serbia. In early 2020 public consultations for the document were carried out. The document is a preparatory document in the process of defining a public policy document, which is the Programme for circular economy with an Action plan for three years. According to the Public Procurement Plan of the Ministry of Environment for 2020, public procurement for the formulation of the public policy document 'Programme for circular economy with a three-year action plan' was planned for the first quarter of 2020 but due to a specific situation caused by the COVID-19 virus pandemic, the public procurement has not been carried out. The activity was delayed until 2021 and in the budget proposal for 2021 there are designated funds for the development of this document. The Programme is important as it sets the direction of the Republic of Serbia in the field of circular economy, and defines specific measures and activities that need to be undertaken so as to implement the concept of circular economy.		
	40%				

SR 12. Support for a sustainable funding of science and research activity

	MESTD - institutional funding				
1.	Programme for institutional funding - partial implementation	fully implemented			
2.	Programme for Excellent Projects of Young Researchers PROMIS - the start of implementation by	fully implemented			

	science and research organisations (SRO)			
3.	Programme of Artificial Intelligence Development - Signing of the contract	fully implemented	The activity is in the final stage of Contract signing with 12 projects that have received grants on completion of the evaluation stage for project proposals.	
4.	Programme of Artificial Intelligence Development - implementation	progress in implementation	Contracts have been signed for 12 projects that have received grants upon completion of the evaluation stage for project proposals. Their implementation is in progress.	
5.	Programme of cooperation of the Serbian scientific community with the diaspora - implementation	implementation started	The activity is in the stage of Contract signing with 92 projects that have received grants upon completion of the evaluation stage for project proposals.	
6.	PC for the Programme IDEAS - publication of the call	fully implemented	The call for Programme IDEAS was published on 11 March 2020. The deadline for the submission of project proposals was two times prolonged due to the pandemic of COVID-19. Thus the deadline for the submission of project proposals was postponed until October 2020. At the moment project proposals are being evaluated.	
		87%		

SR 13. Support for innovative start-ups and digital transformation of companies

	IPA 2014			
1.	Project implementation by beneficiaries that have received funding, monitoring to be done by the Innovation Fund	progress in implementation	Project implementation is going according to agreed dynamics and contracts signed with grant beneficiaries.	
	Competitiveness & Jobs'			
2.	a) Project implementation 1 PC (Early Development Programme and Innovation Cofunding Programme) by beneficiaries and monitoring by the Innovation Fund	fully implemented		
3.	b) Project implementation 2 PC (Early Development Programme and Innovation	progress in implementation	Project implementation is going according to agreed dynamics and contracts signed with grant beneficiaries.	

	Cofunding Programme) by beneficiaries and monitoring by the Innovation Fund				
4.	c) Project implementation 3 PC (Programme of cooperation between the scientific and the business community) by beneficiaries and monitoring by the Innovation Fund	progress in implementation	Project implementation is going according to agreed dynamics and contracts signed with grant beneficiaries.		
5.	d) Project evaluation and implementation 4 PC (Early Development Programme and Programme of Cooperation between the Scientific and Business Community) by beneficiaries and monitoring by the Innovation Fund	progress in implementation	Evaluation was completed in the first half of 2020 with a minor delay due to the coronavirus pandemic. Project implementation has started.		
6.	e) Publication and evaluation of received projects, implementation of 5 PC (Early Development Programme and Innovation Cofunding Programme), consultations, workshops, and open door days	fully implemented	The MB is expected to give its approval in keeping with the Fund's procedures. This is to be finished by the end of December 2020.		
7.	f) Realisation of activities: 1. implementation of the Technology Transfer Programme, 2. realisation of the Programme of Innovation Vouchers, 3. realisation of the Proof of Concept Programme + potential development of new service lines	progress in implementation	Technology Transfer Programme is going according to plan. The second call for the Proof of Concept Programme has been carried out and applications are currently being assessed. Contracts are expected to be signed with beneficiaries in the second half of 2020. Public calls for the allocation of innovation vouchers are going according to defined dynamics. The next public call is expected to take place in the second half of September.		
	EU Support for the development of business incubators'				

8.	Realisation of activities of the second project component - Improvement of business incubator services	progress in implementation	Dynamics of implementation is in accordance with defined plans. Handbooks for the provision of services of hi-tech business incubators and self-employment business incubators are prepared. Intensive capacity building programmes in hi-tech business incubators and self-employment business incubators have been carried out.		
9.	Realisation of activities in the third project component - Improvement of capacities of relevant stakeholders to establish and manage business incubators	progress in implementation	The PPP model for setting up and managing business incubators is being developed. Participation in the International STP Conference was organised (IASP), as well as the exchange of experience and know-how through participation in virtual study visits to business incubator eco-systems in Lithuania, Estonia, and Poland.		
	IPA 2018				
10.	a) Publication, evaluation and implementation of 1 PC (Early Development Programme and Innovation Cofunding Programme), consultations, workshops, and open door days	in preparation	Innovation Fund has submitted a preliminary Application to the CFCU. The signing of the direct grant contract is expected in Q1 2021.		
11.	Implementation of the Digital Transformation Support Programme SMEE *	progress in implementation	The Programme is implemented continuously as long as there are funds.		
	78%				

SR 14. Increased availability of electronic government for citizens and businesses through the improvement of user services

1.	Setting up of the National centre for data management and storage in Kragujevac - Data Centre Kragujevac	fully implemented	The functional unit will be completed by mid-December when Data Centre (Facility 1) will be formally opened. Before the formal opening takes place, the Data Centre will be opened for a several-day trial period.		
2.	Development of the 'Central Information System in hotel and hospitality industry and tourism' (CIS)	fully implemented			
3.	Improved functionalities of ePayment+ on the eGovernment Portal	progress in implementation	The technical solution is ready. The project is now being implemented on an organisational level within state bodies that		

			provide services. The functionality is set to become operational in mid or end January 2021.		
	93%				

SR 15. Improvement of the electronic government service and education through development of the national information-communication infrastructure

1.	Connecting educational and cultural institutions to AMRES	fully implemented			
2.	Activities aimed at the improvement of information and communication infrastructure in all primary and secondary schools in the RS - 'Connecting Schools'	fully implemented			
3.	Preparations for the installation of optical broadband network in rural areas of Serbia	fully implemented	<p>In March 2020, the Government adopted the Regulation on defining the Programme for the usage of Budget funds for funding activities and measures of improvement and development in electronic communications and information society in 2020, whose implementation also involves the project for joint development of broadband communication infrastructure in 'white zones' in the Republic of Serbia.</p> <p>In order to enable the project realisation, in September and November 2020 the MTTT published Public calls for participation of operators in joint development of the broadband communication infrastructure in rural areas of the Republic of Serbia, which define requirements that operators need to meet, application procedures, required documentation, and the application deadline, and they also specify criteria for evaluation and selection of operators' applications. The first public call was published for 60 settlements and contracts for 34 settlements were signed in November 2020, while the second Public Call was published for 200 settlements.</p> <p>The investment grant contract with the Western Balkan Investment Framework has been signed and it will refer to the preparation of entire project documentation needed to implement the Project to the value of EUR 1.7 million, along with a loan contract with the European Bank for Reconstruction and Development in order to ensure funding for the stage of</p>		

			development of the optical broadband network in rural areas of Serbia.			
		100%				

SR 16. Improving conditions and removing barriers to trade

1.	Negotiations for accession to WTO - bilateral negotiations, adoption of regulations aligned with WTO rules and principles	implementation continued on the basis of initial results	Contacts established and consultations launched with some WTO members with whom bilateral negotiations are still open		
2.	MAP REA - CEFTA – Implementation of Additional Protocol 5 on trade facilitation: development of the programme of mutual recognition of documents to be submitted in the import and export of goods, as well as other initiatives for trade facilitation within CEFTA	progress in implementation	On 18 December 2019 Decision on the validation process for mutual recognition of national programmes of certified business entities in CEFTA Parties with respect to security and safety (AEO) was adopted, and on 25 February 2020 Decision on Facilitation of Fruits and Vegetables Trade in CEFTA was adopted.		
3.	MAP REA - CEFTA: Adoption and implementation of the Law on Ratification of Additional Protocol 6 on Service Trade	progress in implementation	CEFTA Additional Protocol 6 on Service Trade was adopted on 18 December 2019 in Tirana. National Parliament adopted the Law on Confirmation of Additional Protocol 6 on 24 February 2020, Plan of dialogue on regulatory issues of eTrade in CEFTA was adopted, it was agreed to launch intraregional regional cooperation in the pilot sector of tourism		
4.	MAP REA - CEFTA : Negotiations and adoption of Additional protocol on dispute settlement	implementation continued on the basis of initial results	In the course of 2020 negotiations on Additional Protocol 7 continued		
5.	Adoption of the new Action Plan of the National Coordination Body for Trade Facilitation for 2020-2021 and implementation of defined activities	progress in implementation	Action plans for 2020-2021 adopted at the session of the NCBTF on 27 December 2019. Activities of four task forces of the NCBTF will be continuously implemented, in accordance with the AP.		

72%

SR 17. 'Product info' – establishment of the single digital service relating to technical regulations				
1.	Identification of stakeholders' needs, structure and content of the 'Product info' portal coupled with the development of methodology for tracking progress in this area	implementation continued on the basis of initial results	The realisation of planned activities is late due to changes induced by the COVID-19 crisis, but has started anyway. The support for development of the questionnaire for the assessment of stakeholders' needs was agreed with the IPA 2017 project. In addition, in order to determine the impact of the COVID-19 crisis on the sector of quality infrastructure (QI) and provision of conformity assessment services, the assessment of the crisis impact on the operations of QI institutions was done (Accreditation Body of Serbia, Institute for Standardisation of Serbia, and Directorate for Measures and Precious Metals), as well as of appointed and accredited bodies for the conformity assessment (CAB) (business entities that provide conformity assessment services). Some of the results obtained through the analysis are used to identify stakeholders' needs.	
2.	The analysis of IT capacities in place and software solutions, as well as the assessment of needs for their improvement in QI institutions (ME - Ministry of Economy, ISS - Institute for Standardisation of Serbia, ABS - Accreditation Body of Serbia, and Directorate for Measures and Precious Metals)	implementation continued on the basis of initial results	Terms of Reference have been prepared to implement public procurement of the service of needs assessment and the analysis of IT capacities in place, and development of project documentation for the procurement of hardware, software, digitalisation of services.	
3.	Upgrading of databases and the digital service (Sector for Product Quality and Safety) linked with technical requirements for products and of the portal 'TBT Enquiry point' (Point of contact for products)	not being implemented		The activity depends on the completion of previous two activities.

40%

SR 18. Qualifications oriented to the needs of the labor market					
1.	Adoption of by-laws regulating the dual model of high education studies, in accordance with the Law on Dual Model of High Education Studies	implementation started	Proposal of the by-law 'Standards for accreditation of study programmes according to the dual model' has been drafted and is currently in the adoption procedure.		
2.	Promotion of the dual schooling model (round tables, workshops etc.)	fully implemented			
3.	Introduction of 4.0 industry into the dual education system	implementation started	Dual educational programmes are created and they include industry 4.0 as well: IT electro-technician, air mechatronics technician, and security technician for ICT systems in air transport		With the view to creating conditions for introduction of 4.0 industry, Memorandum of Cooperation in the field of dual education was signed with the German air company MTU, for which it was necessary to procure additional basic equipment for the Aviation Academy as it is one of the planned regional training centres, and in 2020 funds were reallocated for this purpose.
4.	Accreditation of companies and study programmes/modules to realise the dual model of high education studies	implementation started	Accreditation of companies involved in the dual model of schooling is a continuous process and it is entrusted to the Serbian Chamber of Commerce. On adoption of the proposed Standard for accreditation of study programmes based on a dual model, the process of accreditation of study programmes/modules for the realisation of dual study models in high education will commence.		
5.	Setting up, infrastructural organisation, and equipment of training centres	in preparation	Project documentation for the equipment and reconstruction of two regional training centres has been prepared.	Funds had been allocated but due to the state of emergency they were reallocated to other priorities in order to curb the pandemic and avert the crisis.	

6.	Linking NQFS with the European Qualifications Framework	fully implemented			
7.	Piloting of the process of recognition of prior learning	implementation started	Handbook on standards and ways of implementing the process of recognition of prior learning (RPL) is ready to be published in the Official Gazette. Preparatory activities have started to enable the status of PROA of schools for the RPL activity, i.e. for the implementation of the RPL procedure		
54%					

SR 19. Digitalization of the education system and introduction of an uniform information education system

1.	Increased usage of ICT in teaching, learning, and grading, so that students could master skills needed to respond to challenges in a fast-paced environment	progress in implementation	Activities slowed up as the state of emergency was introduced. As soon as the situation improved, activities resumed.	Procurement of computer equipment for digital classrooms in 2020 was not carried out as budget funds were reallocated due to the COVID-19 pandemic.	
2.	Procurement of digital textbooks for all primary school pupils who attend school on a reformed plan and programme	implementation started	The project was paused as the state of emergency was introduced and funds reallocated. As soon as conditions had been met, the project resumed in line according to plan.	Provision of licences for digital textbooks was not realised according to plan as the budget was reduced. The provision of annual licences for digital textbooks for all 2nd grades was realised, as well as for the 3rd, 6th and 7th grades in 707 selected schools, whereas for all 1st grades, for 3rd, 6th and 77th grade in 219 schools, as well as for 5th grade in 924 schools a half-year licence for digital textbooks was provided.	
3.	Development of the Single Information System in	fully implemented			

	education and drafting of initial reports				
		73%			

SR 20. Advancement of the national employment policy in line with good practice and EU standards

1.	Preparation of an analytical basis in order to create a new strategic framework in the area of employment	fully implemented	<ul style="list-style-type: none"> - Ex-post analysis of the National Employment Strategy for 2011-2020 has been prepared; - Draft ex-ante analysis for the new Strategy containing main pillars and projections has been prepared; - Draft analysis of the programme of professional practice has been prepared; - The Functional analysis of the NES and OU in charge of employment in the Work and Employment Sector has been prepared; - The Feasibility assessment for introduction of Guarantees for youth has been prepared. 		
2.	Development of the new National Employment Strategy for 2021-2026 with the employment action plan for 2021-2023	progress in implementation	<ul style="list-style-type: none"> - Decision on establishment of the Task Force for drafting the Proposal of the Strategy and the AP; - The first meeting of the Task force for drafting the Strategy proposal and AP - 30 June 2020; - The start of the process of consultations was announced after the first meeting of the TF, and that on the internet webpage of the MLEWVSA on 2 July 2020 . - Expert for writing the initial concept of the Strategy and the Action Plan in accordance with the Law on the Planning System was recruited (to support employees of the MLEWVSA). - The second meeting of the Task Force was organised and findings of the ex-post analysis presented. - The public debate was set for December 2020/January 2021 and it would last 20 working days. - Forwarding the Strategy proposal and AP for opinion and adoption, january 2021 		
		90%			

SR 21. Creating conditions for monitoring, stimulation of, and support for circular migrations

1.	Administrative organisation and mapping of the diaspora, coupled with study visits to	fully implemented	The point of return was established in collaboration with the United Nations Development Programme through their mechanism that provides support for relevant initiatives for the period of 12-18 months. In this way the public-private		
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	countries with similar initiatives		partnership model that enables participation in the Management Board of representatives of the Government of the Republic of Serbia, Science and Technology Park Belgrade, and organisations from the diaspora that initiated the idea to launch the Point of Return programme. On the other hand, taking into account travel limitations imposed by the COVID-19 pandemic, all planned study visits were postponed but they would be organised as soon as conditions for safe travelling are met on the global level.		
2.	Presentation and promotion of tax incentives, simplification of employment procedures and return to the country	implementation started	Given the epidemiological situation in the Republic of Serbia and the entire world, the team of the Point of Return was primarily occupied with activities supporting the Government of the Republic of Serbia in the fight against the COVID-19 virus, especially in communication with a large number of people who returned to the country during the pandemic. Promotional activities that relate to tax and other incentives have been limited and implemented to the extent that it was possible so that available resources could be directed to priority areas at that moment. All activities that could have been carried out without physical gatherings, such as online seminars and presentations, have been held.		Due to the outbreak of the COVID-19 virus pandemic and in a situation of closed Serbian borders, human and other resources of the newly formed body - the Point of Return have been reallocated to support bodies of the Republic of Serbia in organising the return of citizens of the Republic of Serbia back to Serbia. The Point of Return has invested its efforts primarily into organising the return of pupils and students. In cooperation with the Ministry of Foreign Affairs and other responsible bodies, humanitarian flights for over 6,000 citizens of Serbia were organised during the period from end March to early May 2020. At the same time in collaboration with the United Nations Development Programme (UNDP) an appeal was issued for doctors and other medical staff from the diaspora to aid the health

				care system of Serbia. Over 300 doctors responded to the call of the Point of Return, the majority of which were recruited for the fight against the COVID-19 virus.	
3.	Open dialogue with the diaspora through organisation of the conference Talent MeetUp 3.0 and 4.0	fully implemented	The online conference Talent MeetUp was held on 16 December 2020. The conference was followed live by approximately 500 people and thousands more afterwards. Because of the epidemiological situation and limitations to gatherings pursuant to decisions of the Government of the Republic of Serbia, the conference was held online. This way, a much larger audience than planned for the initial conference was involved.		
4.	Promotion of successful stories of returnees, foreigners in Serbia and circular migrants	implementation continued on the basis of initial results	The Point of Return has launched podcasts as the first model through which it would promote successful stories of returnees. During 2020, 14 podcasts were prepared and released, along with a number of different videos, in order to launch campaigns to promote the Serbian language in the diaspora, promote the return of successful artists, and other content relevant to the diaspora.		
		75%			

SR 22. Improvement of the adequacy, quality and targeting of social protection measures

1.	Linking social welfare centres into the single network through a software - Information system for the support to business processes in the realisation of social protection (Social welfare IS)	in preparation	Ministry of Labour, Employment, War Veteran and Social Affairs in 2020 started the procurement of the System for Protection and Automatisation of Social Welfare Instruments, which incorporates the software with all modules and submodules, and the hardware. The contract of procurement of the system regulates in detail liabilities and deadlines within which the supplier is obliged to meet its liabilities in order to establish the System for Protection and Automatisation of Social Welfare Instruments. A three-day workshop was held (07-09 August 2020) and it was attended by representatives of the software producer and representatives of the Ministry as the software commissioner. Initial work results of the realisation of the terms of reference were presented in the workshop, i.e. the design of the module and submodules (the registry office, the registry, and the reception of beneficiaries, the file, data sets, handling of the case and supervision, expenditures, local	
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			services, family accommodation, dormitory accommodation, custody, adoption, court procedures, supervision).		
2.	Informational linking with sources of data vital for the socio-economic status of individuals and the family (Social Map Registry)	implementation started	So far the first development stage of the Social Map Registry has been completed and it involves internal connection of data subsystems at the Ministry level, and the Draft Law on Social Map has been developed.		
3.	Adoption of pertinent by-laws	not being implemented		The activity is not being realised as the Law on Social Map has still not been adopted.	
4.	Guidelines have been prepared and trainings organised for users of the Social Map and SOZIS (Social Welfare Information System)	not being implemented		The activity is not being realised as the Law on Social Map has still not been adopted.	
15%					

Annex 1: Contribution of the civil society representatives for ERP 2021-2023

Comments of the NCEU Inter-sectorial Working Group on the Preliminary List of Structural Reforms of the Economic Reform Programme and responses of the representatives of the Working Group for Development and Monitoring of the Economic Reform Programme 2021-2023

The inter-sectorial working group of the National Convention on the European Union (IS WG NCEU) for ERP considered the proposal of the list of structural reforms for the Economic Reform Programme for the period 2021 - 2023 and prepared comments and suggestions on this proposal. The following is a summary of comments and suggestions from the meeting of the IS WG NCEU held on 14 October 2020, as well as contributions collected from members of the WG who did not attend the meeting:

General comments of the NCEU Inter-sectorial Working Group

First of all, the coordinator of the Working Group expressed regret that this year we failed to review, evaluate and, if necessary, improve the criteria and indicators on the basis of which structural reform proposals are selected from the initial set and declared a priority, and which are mostly unknown to the civil society.

Regarding the proposed list of preliminary structural reforms, there is still no reform of support for the restoration of medium-term fiscal sustainability, *inter alia* through the reform of the public sector wage system. Also, it is necessary to include the establishment of credible and binding fiscal rules, given that the existing ones have not been respected for some time.

Then, it is desirable to increase capital investment with a direct positive impact on economic growth, partly through, e.g. road infrastructure, but first through other concrete projects in the real sector. It is also necessary to increase the transparency of the fiscal cost of the current operations of public companies. It is necessary to additionally support the development of the market of financial derivatives and general elements of insurance against financial risks as part of maintaining the liquidity of the economy and the population, which will suffer certain challenges when COVID-19 turns into economic consequences. The general impression is that more structural reforms were expected, which will be directly focused on the economic policy related to the elimination of the consequences caused by COVID-19 on the economy, but also on the labour market and the health system.

It should also be taken into account that the preliminary list of structural reforms currently contains 24 reforms in relation to the maximum allowed number of 20 reforms, and that the “economic” areas contain proposals for 4-5 reforms, while the areas of employment, education and social and health care have only 1-2. This is particularly problematic given that: the implementation of the Employment and Social Policy Reform Programme (ESRP) expires this year; that in the Commission assessment of the Economic Reform Programme of Serbia ([EC ERP 2020-2022](#)) the following is stated: “the proposed measures in the areas of employment and social protection are either vague or do not remedy the fundamental challenges, lacking the clearly defined objectives”; that the assessment EC ERP 2020-2022 contains a special chapter dedicated to the implementation of the European Pillar of Social Rights, which states that Serbia lags behind the EU average in most of the principles covered by this pillar. In this regard, in the continuation of the text, and in the relevant areas, we propose the introduction of new structural reforms.

It is recommended that the Ministry of Labour, Employment, Veteran and Social Policy, as well as other line ministries, use the [OECD ERP Prioritisation Tool](#) in formulating structural reforms.

Furthermore, we believe that digitalization is at the center of a large part of structural reforms, but without a focus on improving business processes, because digitalization does not mean much unless there is a reform of processes that are in fact the main problem.

In addition, there is a lack of structural reform from the previous cycle “Improvement to management of register of agricultural estates and approval of national agricultural subsidies through development of e-Agrar web portal”, while the WG considers it necessary to return it to this programme. With the introduction of the e-Agrar system, farmers will significantly save time and costs when enrolling in RAH and applying for subsidies. On the other hand, thanks to the automation of the process, it is expected that the institutions will speed up the processing of requests and enable faster approval of incentives and faster payment, and the resources of the administration will be better used for counselling, assistance to farmers and better control in the field.

There is a noticeable trend of decreasing the number of structural reforms dealing with environmental protection. The omission of the structural reform that deals with the financing of the Green Fund is a bad example because the situation in this area is not at a satisfactory level and significant funds are needed to bring the state of environmental protection to a level similar to EU members. In addition, the number of reforms related to energy, transport and infrastructure, which can have a negative impact on the environment, remains the same or increases, while there is a lack of reforms that should have a positive impact on environmental recovery.

The previous ERP does not contain any adequately conducted analysis of the “expected impact on social goals, such as employment, poverty reduction, equality and gender”. The new ERP guidelines have added “access to health care” to these areas, which should also be taken into account when drafting a new ERP, as well as involving the Ministry of Health in drafting contributions of line ministries on the expected impact of structural reforms.

Finally, in accordance with the recommendations of the IS WG NCEU on the previous cycle of ERP from December 2019, in this cycle the indicators should be more adequately defined. First of all, they should be *outcome* and *output* indicators, in order to monitor the effect of structural reforms, and not activity-level indicators.

Response of the representatives of the Working Group for Development and Monitoring of the ERP:

The selection of priority structural reforms and reform measures in the ERP document, as explained when making the list of SR available to the public, is based on available strategic documents - previous ERP cycles, strategic documents of the Government of the Republic of Serbia, obligations in the European integration process and international commitments, all in order to define reform measures that contribute to improving the competitiveness of the economy, economic growth and employment. It is not possible to cover all current reform processes, but the emphasis is primarily on priority measures and reforms for which financial resources are provided.

Bearing in mind that in this year's cycle of preparation of the Economic Reform Programme, the preliminary list of structural reforms contains a larger number of reforms than allowed, the decision was made to propose only one reform in the field of environmental protection, which refers to the circular economy. The Ministry of Environmental Protection certainly continues to work continuously on improving the system of financing environmental protection. In order to provide a national strategic framework for the necessary investments in environmental protection and to ensure compliance with all relevant EU directives, the Ministry of Environmental Protection has developed a Multi-Annual Investment and Financial Plan (Plan), which was adopted as an integral part of the negotiating position for Chapter 27, in January

2020. The multi-annual investment and financial plan includes an overview of the investments required for compliance, an assessment of project costs and an assessment of potential sources of funding. Also, the Plan refers to the availability of funds, defines priorities for investment projects and develops a financing strategy with investment needs, sources of financing and the schedule of individual projects. In addition, it should be borne in mind that some of the proposed reforms related to energy, transport and infrastructure, such as e.g. reform in the field of energy efficiency, have a great positive impact on the environment through the reduction of greenhouse gas emissions, as well as the reduction of emissions into the air, which will significantly contribute to meeting the objectives of the European Green Deal.

Regarding the comment on the need to increase the transparency of the fiscal cost of current operations of public enterprises, we emphasize that public enterprises are established and operate in accordance with the Law on Public Enterprises. This law prescribes the obligation of transparency in the work of these companies, i.e. it prescribes the elements of business that public companies are obliged to publish on their websites.

Regarding the comment related to the lack of structural reform from the previous cycle "Improvement to management of register of agricultural estates and approval of national agricultural subsidies through development of e-Agrar web portal" we point out that, in accordance with AP for Chapter 11 IACS - integrated system for management and control (a tool used in all EU member states and along with the establishment of a functional and accredited Paying Agency represents one of the conditions, (in accordance with EU regulations), for closing the Chapter 11) will be established. IACS will enable farmers simpler and faster registration in RAH, faster processing of applications, faster payment of subsidies, control of incentives. If a decision is made to establish e-Agrar, the activities and deadlines for the establishment of IACS must be taken into account.

Regarding the comment that suggests process reforms, we note that the structural reform Improving the quality of public services through optimization and digitalization of administrative procedures - "e-PAPER", in addition to the activities of digitalization of administrative procedures also entails prior optimization of procedures, i.e. simplification of processes by eliminating redundant documentation, ex officio collection of data needed to make decisions at the applicant's request, the possibility of electronic payment of fees/charges directly from the e-Government portal, even the reduction of these fees if legitimate, etc.

SR 5: Improvement of the land consolidation process

Comment of the NCEU Inter-sectorial Working Group:

As far as agriculture is concerned, the general impression is that some of the structural reforms dealing with agriculture could have been consolidated, so this structural reform could also be found as part of some of the other structural reforms dealing with the topic of agriculture. Also, the remark of the WG members is that the description of this structural reform is given in general and that it is not clear from the description what the ultimate goal of the reform is. In addition, land consolidation, to the detriment of small producers and the potential sale of agricultural land to foreigners, should certainly not be an integral part of such a programme.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

We are of the opinion that the text which refers to the goals of land consolidation, primarily to: property consolidation, provision of appropriate areas for the construction of public infrastructure (rural roads, irrigation and drainage systems, windbreaks, etc.) and more efficient implementation of the consolidation procedure itself, which will be preceded by the adoption of a new law and amendments to existing laws, clearly indicates the goal of the reform.

Regarding the comment related to land consolidation to the possible detriment of small producers and potential sale of agricultural land to foreigners, which, as stated in the comments, should certainly not be an integral part of such a programme, we point out that land consolidation as a procedure “does not differentiate” between persons who own smaller areas of agricultural land and persons who have larger areas. One of the goals in the consolidation procedure can be the consolidation of distributed estates, so that after consolidation the entire property of individual producers, i.e. the area of property of individual producers determined by valuation is in smaller places, which facilitates agricultural production for farmers or to provide construction and consolidation use of public infrastructure facilities for which there is a need (rural roads, irrigation systems, etc.).

We note that the document on which the comment was given does not state the potential sale of agricultural land to foreigners.

SR7: Improving the financial support system for agriculture through digitalization and process automation

Comment of the NCEU Inter-sectorial Working Group:

Digitalization and automation of the process is a good step, but training should also be provided that will enable farmers to become acquainted with the possibilities and to use online tools more easily. On the other hand, a transition period should be created where both ways of performing administrative procedures can be used - both over the counter and online.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

We agree with the comment, support is provided.

In accordance with the AP for Chapter 11 (which is being updated), the establishment of a Paying Agency is envisaged, which will have regional/local offices that will, among other things, provide support to users.

Also, through ongoing projects, as well as those that are planned, training of employees who will be in charge of educating users is planned.

SR 8: Boosting industrial competitiveness

Comment of the NCEU Inter-sectorial Working Group:

The explanation of the structural reform that deals with boosting industrial competitiveness needs to be redefined because the current explanation is not adequate given that it calls for a Smart Specialization Strategy and that in the meantime the Industrial Development Strategy has been adopted. Also, an Action Plan for this Strategy is currently being prepared, so it is necessary to harmonize the description of the structural reform with the current state of affairs.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

Item 1 - Description of structural reform, states: “The reform includes the implementation of measures defined by the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, which was adopted on 5 March 2020.” The reform does not refer to the Smart Specialization Strategy, but it is noted that the Action Plan for the implementation of the Industrial Policy Strategy will support the findings of the Smart Specialization Strategy, which is one of the conditions for closing Chapter 20.

Also, in item 3 - Planned activities by years, it is stated: “In 2021, it is planned to start implementing activities from the Action Plan for the implementation of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030, which will be adopted in early 2021, for

the period of the next three years“, which is information regarding the current situation in the process of creating and adopting the action plan.

SR 9: Improving the quality of public services through optimization and digitalization of administrative procedures - “e-PAPER”

Comment of the NCEU Inter-sectorial Working Group:

Although the establishment of the Single Electronic Contact Point (SECP) does not essentially belong to the structural reform that deals with the establishment of a single public register of administrative procedures, the complete exclusion of this topic from structural reforms gives a bad signal to all businessmen who hope to simplify administrative procedures. Therefore, the opportunity should be used for the establishment and functioning of the SECP to take a more significant place in the proposed list of structural reforms, as a separate structural reform or a relevant part of the structural reform concerning the e-Paper platform. In case, due to administrative reasons, a new structural reform cannot be introduced in the ERP, the proposal is to keep the SECP issue in the current structural reform but to be sufficiently separated and formed as a separate platform with all functionalities provided by SECP services of EU countries.

Response of the representatives of the Working Group for Development and Monitoring of the ERP:

The Register of Administrative Procedures contains all the necessary information on the procedures that economic entities initiate before public administration bodies, in order to fulfil some of the legally prescribed obligations or exercise their legal rights. The registry is the starting point for the establishment of the Single Electronic Contact Point (SECP), which is under the jurisdiction of the Ministry of Trade, Tourism and Telecommunications.

The establishment of the Registry follows the process of simplifying procedures through the elimination of unnecessary documentation and redundant steps or digitalization, as well as merging interdependent procedures, which significantly reduces costs in time and money, both for users and public administration. At the same time, legal certainty, predictability and uniformity of actions of the entire public administration are achieved.

Also, the establishment of the Register is accompanied by the establishment of the Portal of the Register of Administrative Procedures, which will be a single contact point for all procedures, and at a later stage all business requirements in the Republic of Serbia. In this way the Portal will provide all the necessary information about doing business in the Republic of Serbia and thus encompass everything the SECP involves, and even more as it will not relate only to services.

SR 10: Tax Administration transformation

Comment of the NCEU Inter-sectorial Working Group:

The transformation of the Tax Administration is a structural measure that has been in the ERP document since the first edition. In this regard, it may be more correct to view it as a structural measure rather than as a reform because it was supposed to become an operational activity in the meantime. We continue to support the continuation of this structural measure because there are areas that still need to be regulated, such as tax policy and excise duties on spirits. Viewed in a broader context, from a macroeconomic point of view, the transformation and consolidation of the activities of the Tax Administration was one of the key tasks during the fiscal consolidation programme, in the period 2015-2017. Continuation of activities in the direction of further modernization of the Tax Administration was envisaged by the new

arrangement with the IMF - Policy Coordination Instrument (July 2018 - December 2020) and contained in all EC Annual Reports. By improving the efficiency and effectiveness of basic business processes, raising the quality of services and reducing costs for the economy and citizens, the process of determining and paying taxes for taxpayers should be simpler and cheaper. In addition, greater transparency of tax policy, along with simplified business start-up procedures, is a strong incentive to open new businesses, especially small and medium-sized ones. Clear, predictable and transparent tax rules further encourage self-employment and influence the decisions of economic entities to move from the gray to the legal business zone. Despite the fact that significant progress has been made in the past five years in transforming the Tax Administration into a modern, efficient and transparent service to the economy and citizens, certain problems have been identified that hinder the successful implementation of the reform. Due to all the above, the proposal is to:

Adopt a methodology for determining indicators and ways of measuring them. Although the adoption of a single methodology was announced in the ERP for the period 2018-2020, concluding with the development and adoption of the ERP for the period 2020-2022, this was not realized. Therefore, the priority is to adopt a methodology as soon as possible, already in this cycle of ERP development (for the period 2021-2023), which will clearly define the indicators whose measurement will determine the degree of implementation of activities. The way the indicators have been defined so far needs to be improved so that they are clear, easy to follow and unambiguous.

Prepare ex-post reports on actual costs, i.e. expenditures, for each activity, according to sources of financing (domestic vs. foreign). We do not rule out the possibility that such reports already exist and are of an internal nature. They should certainly be made publicly available, by integrating into the part of the ERP related to the transformation of the Tax Administration, with an explanation of the reasons for deviations from the planned amounts.

Additionally strengthen and improve the capacities of the Tax Administration, not only from the aspect of easier and simpler application of tax regulations, but also in terms of clear and unambiguous interpretation of tax regulations. In addition to a clear methodology for determining indicators and ways of measuring them, transparency and simplicity of the entire tax system for all taxpayers would contribute to an identical interpretation of the same tax regulations by the tax authorities. One of the problems of unhindered functioning and performance of business activities, in addition to high taxes (especially on labour), businessmen see in the uneven tax treatment, i.e. different interpretations of regulations and actions of tax inspectors for the same tax issue. This problem could be solved by issuing guidelines for controversial issues or by developing a single electronic procedure for all tax inspectors (such as calculators for calculating taxes and contributions of flat-rate entrepreneurs).

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

The Sector for the Transformation of the Tax Administration thanks the Inter-sectorial Working Group of the National Convention of the European Union, which considered the proposal of the list of structural reforms and submitted its comments. The Transformation Sector will take into account the submitted suggestions in the further implementation of the transformation.

SR 12: Introduction of circular economy concept

Comment of the NCEU Inter-sectorial Working Group:

Given that there is no Circular Economy Strategy, a mistake was made in the description of this structural reform when it comes to defining the strategic framework. What exists is the Circular Economy Map, and work will continue on the development of the Circular Economy Programme. We support the inclusion of this structural reform in the ERP, it is only necessary to better define the effects to be achieved, as well as indicators of the effects.

Response of the representatives of the Working Group for the Development and Monitoring of the Economic Reform Programme 2021-2023:

Structural reform Introduction of the concept of circular economy implies the preparation of a strategic framework for circular economy in 2021 through the development of a public policy document Circular Economy Programme with an action plan for three years, in accordance with the Law on Planning System of RS ("Official Gazette of the RS", No. 30/18) and the Regulation on the methodology of public policy management, analysis of the effects of public policies and regulations and the content of individual public policy documents ("Official Gazette of the RS", No. 8/19). As a preparatory document for the development of this strategic document in 2020, the Ex-ante analysis of the effects for the circular economy was completed which showed that a special public policy document is needed for the field of circular economy. The programme will define measures and activities that will help implement the concept of circular economy in Serbia. The Roadmap for the Circular Economy is a document that provides guidelines for the process of transition from a linear to a circular economy but is not binding. The programme for circular economy with an action plan for three years will be a binding document, and monitoring the implementation of the planned activities is a mandatory part of the process, which can provide measurable results. The effects that will be achieved will be defined in more detail through the public policy document itself.

SR 15: Increasing the availability of e-Government by improving infrastructure and introducing new technologies

Comment of the NCEU Inter-sectorial Working Group:

Relative progress has been noted in describing this structural reform compared to last year, when there were some repetitions of goals and activities with the e-Government Development Programme in the Republic of Serbia as well as the new Public Administration Reform Strategy. However, in this structural reform, a greater focus needs to be placed on improving the business environment through greater use of digital services. Proposals for improving this structural reform compared to the last ERP cycle are as follows:

Extending this reform to include other activities related to the improvement of customer services and the development of e-Government, such as e-Office and e-Archive, strengthening information security, etc;

Improve the monitoring indicators of this reform by defining them as user-oriented indicators, e.g. the number of services on the e-Government Portal for businessmen and citizens to whom electronic payment is enabled, whether there is an increase in the number of users of electronic services after enabling electronic payment, measured in percentage, and it is possible to include measuring customer satisfaction with the service;

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

Having in mind the concept of the ERP document, it is not possible to cover all other activities currently performed by the Office for IT and e-Government, which will be performed in the coming period.

The plan is to propose the improvement of Information Security in the coming period as one of the activities, since many projects in this area are expected.

The largest number of indicators is defined as user-oriented, such as: the number of state administration bodies and local self-government units that use the Data Centre for data management and storage, the number of companies that use the Data Centre on a commercial basis and the number of software solutions of state administration bodies and local self-government units that migrated in the Data Centre. Also, we have the number of cities where the Smart City project was implemented as an indicator.

SR 18: Improving conditions and removing barriers to trade

Comment of the NCEU Inter-sectorial Working Group:

As the continuation of the WTO accession process as a structural reform is repeated from year to year, the proposal of the WG members is to exclude this part from the structural reform because it is a matter of issues that should be implemented at the operational level.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

This structural reform mostly continues from the previous ERP, including the part concerning the continuation of WTO accession process. Taking into account the current course of the process of Serbia's accession to the WTO, we believe that the continuation of this process is not a topic that should be implemented at the operational level, but mainly a political and reform issue. In addition, the continuation of work on WTO membership is listed as one of the priorities of this Government, and WTO accession is an important element of Serbia's integration into the multilateral trade system and a framework for further trade integration at the EU and regional level. Bearing in mind the above, and that during the preparation of the Draft ERP so far there have been no suggestions to exclude this process from the ERP, we believe that the continuation of WTO accession should remain part of this reform.

In the coming cycles, the possibility of redefining and combining activities from this reform with other reform activities aimed at improving and facilitating trade could be considered, in accordance with the Government's priorities and recommendations and suggestions of relevant stakeholders.

SR 19: Safe and quality product -industry development factor

Comment of the NCEU Inter-sectorial Working Group:

It is proposed that this structural reform definitely remain in the ERP. Adding a part that provides financial support to companies to improve the safety and quality of products and services using the latest standards in production and business organization is a good complement to the service Product Info, which was proposed in last year's ERP cycle. It is necessary, however, to pay attention that the focus of this structural reform is not shifted to its addition and shifted from the development of the Product Info portal. Also, as the European Commission reports repeat year after year, the call for the establishment and improvement of the Product Contact Point - Product Info - this process in Serbia should be accelerated by setting this goal as a priority in this structural reform.

The part in which the proposed structural reform can be improved the most in relation to the previous cycle is a better definition of indicators, i.e. that the indicators that will be defined

speak about the achieved results of the structural reform, and not its activities. For example, the percentage of technical regulations that have gone through the complete and correct notification process provided by the regulation can be measured. Set in this way, this indicator can measure the level of success in implementing the prescribed notification procedure, which is of particular importance for reducing technical barriers to trade in a non-harmonized area. Also, it is possible to define an indicator that would measure what percentage of companies from the SME sector have used their services, bearing in mind the assumption that larger companies have better human and technical capacity to deal with technical regulations internally. A set of indicators after the establishment of the Product Info service can include indicators that will measure customer satisfaction and the number of exporters using this support system. In this regard, it is necessary to introduce an assessment of the extent to which the set system was used by businessmen (and all stakeholders) in solving problems related to technical regulations and/or activities of some of the IC institutions.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

The Ministry of Economy thanks the NCEU for its comments and constructive suggestions. Adding a new component related to the development and implementation of the mechanism of financial support to companies is primarily a response to the crisis and reduction of business volume due to the COVID-19 pandemic. The idea of the proponents of this reform was not to shift the focus to this component in order to give it more importance in relation to the component Product info.

The establishment of a single digital access point Product Info and digitalization of services in the field of IC, through the implementation of this component of the SR, conditions will be created for fulfilling the recommendation of the European Commission to improve the Product Contact Point (PCP) in accordance with European Regulation 2019/515.

We agree with NCEU's proposal to improve the indicators in order to measure the impact and result of the reform itself at the level of outcomes, and not at the level of activities.

The indicator referring to the percentage of technical regulations that have passed the complete notification process will be added as soon as the digitalization of the complete notification procedure is completed, when its basic value will be known. We also agree with other proposed indicators and believe that they are very useful in monitoring the positive impact of SR on entrepreneurs, especially SMEs, but as NCEU itself stated, these indicators will be able to be included in monitoring the success of the reform only after its implementation, i.e. after the establishment of a new digital access point, because the evaluation of the success of this reform depends on the basic values that will only then be known.

SR 20: Qualifications oriented to the needs of the labour market

Comment of the NCEU Inter-sectorial Working Group:

The system that exists in the state and regulates education cannot react as quickly as the market reacts. In this regard, schools should be given more flexibility in terms of the ability to add and subtract classes, to be able to offer the classes the market needs (e.g. information technology classes) without some over-approvals and thus to adjust their teaching programme. Therefore, the focus of this structural reform should be shifted to the flexibility of the schools themselves in compiling the programmes.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

The basis for the adoption of curricula for teaching and learning is the standard of qualification determined by the sector council for a particular sector of work, in accordance with the law governing the National Qualifications Framework. Based on the qualification standard, the Institute for the Improvement of Education and Upbringing prepares a proposal for the curriculum of teaching and learning and submits it to the Ministry of Education, Science and Technological Development. The curriculum of teaching and learning contains the standard of qualification, compulsory general education, and compulsory vocational and elective subjects. Within the compulsory professional subjects, there are also subjects that are realized as work-based learning. The learning outcomes determined for the subjects that are realized within the framework of work-based learning are the basis for the development of a plan for the realization of work-based learning and are part of the school programme. The Minister in charge of education and upbringing, with the previously obtained opinion of the National Education Council and the Council for Vocational and Adult Education, adopts the curriculum of teaching and learning. The qualification standard and the curriculum of teaching and learning are updated every five years, i.e. in a shorter period of time if the needs of the economy and technological development require it. The scope of work-based learning is at least 20%, and at most 80% of the total number of hours of vocational subjects, in accordance with the appropriate curriculum. The scope of work-based learning has already been increased in accordance with the law in relation to classical VET, where practical classes are realized in the amount of 25% of the total volume of practical classes and professional practice.

SR 22: Improvement of the administrative environment for encouraging, supporting and tracking circular and economic migrations

Comment of the NCEU Inter-sectorial Working Group:

The main objection in this part is that the topic of employment has been reduced to only one structural reform - the reform for circular and economic migrations. The reform set in this way does not respect the context of COVID-19 at all, and at the same time the recommendation of the European Commission was not followed, which assessed that it is a good measure, but encourages the employment of only a small number of people. The proposal is to introduce the Youth Guarantee, following the example of the ERP of North Macedonia, whose focus would be on increasing formal employment, vulnerable categories of the population and the sectors most affected by the consequences of COVID-19.

The structural reform in the field of employment from the ERP 2019, which referred to the increase of labour activation, was not transferred to the ERP 2020, because, as explained, these were regular activities of the Ministry of Labour, Employment, Veteran and Social Policy; however, a reform formulated then was related to the adoption of a new employment strategy, which is also a regular activity of the Ministry of Labour, Employment, Veteran and Social Policy. Now, that reform is not on the broader list of structural reforms, so that the only reform in this area that remains is the reform from the previous ERP, which refers to circular and economic migrations, with a focus on the diaspora, through the development of data collection systems and tax incentives. The employment reform did not take into account the COVID-19 context, which affected a large number of employed people, especially young people in precarious jobs, especially women. This is explicitly stated in the guidelines: "2023 Economic and Reform Programmes will have to focus on the post COVID-19 recovery. In addition, the guidelines state that structural reforms should address "the most important structural barriers and thus support recovery after the COVID-19 epidemic." The only proposed reform in this area contains neither the goal nor the "key barrier to competitiveness and inclusive growth" which it meets, as the guidelines envisage, nor the contribution to the Sustainable Development Goals. Finally, this reform does not respond to the instruction from the guidelines related to

the field of employment: „Public policies to promote quality employment, equal opportunities and access to the labour market and fair working conditions will be covered and this subsection.”

Also, assessments were not taken into account: “The fact that a relative low proportion of young people and women are integrated in the labour market continues to be the key labour market challenge”, „There were no measures on the formalisation of labour in non-agricultural sectors and the funding for Active Labour Market Policies was not increased” and „Serbia is considering bringing in the Youth Guarantee (YG), which has proven to be an effective remedy to youth unemployment in the European Union. The YG provides a framework for tackling youth unemployment and inactivity and guarantees every young person below 25 years old a good quality offer of employment, continued education, apprenticeship or traineeship within a period of four months of becoming unemployed or leaving formal education. To function properly, the Youth Guarantee needs to be supported by effective hiring incentives and be based on strengthened public employment services, which provide career guidance, internships and structural reforms. It is included in the ERP as Reform Measure 20 (National Employment Policy Improvement in line with EU good practice and standards)”. In this area, the recommendations from the ECOFIN Conclusions have also been ignored - „Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy” and „Take measures to preserve employment including through short-time work schemes and ensure increased provision of effective active labour market policies to the unemployed”.

Having all this in mind, the proposal is to formulate a new structural reform that would relate to the introduction of the so-called Youth Guarantee, based on the ERP of North Macedonia, and on the line of the proposal contained in the investment package for the Western Balkans. The focus should be on increasing the employment formula and on vulnerable categories (Roma population, women, rural population) and sectors (tourism, hospitality, construction, waste management, etc.) and be related to SR 12 “Introduction of the circular economy concept”.

Response of the representatives of the Working Group for the Development and Monitoring of the ERP:

Bearing in mind that the Ministry and the Returning Point have jointly contributed to the work on structural reform 22: “Improvement of the environment for encouraging, supporting and monitoring circular and economic migration”, we use the opportunity to jointly respond to civil society comments exclusively related to this measure.

Regarding the comment given on Structural Reform 22, that the reform set in this way does not take into consideration the context of COVID-19 at all, and that the recommendation of the European Commission was not followed, which assessed that it is a good measure but provides employment incentives of only a small number of people, we consider that the reform takes into account the changes in the world labour market and in the traditional work environment, which occurred precisely as a result of the pandemic caused by the COVID-19. Namely, the pandemic influenced the decision of a large number of our citizens to return to Serbia, which created an even greater need to monitor circular and economic migrations, which is stated in the Draft Economic Reform Programme for the period 2021-2023. In addition to improving the capacity to monitor circular and economic migration, the proposed reform has a proactive approach to the diaspora as well as foreign citizens, in order to improve the administrative framework and implement programmes aimed at attracting human capital in demand from abroad. The experience of the Returning Point programme in 2020 has shown increased interest in the return of people from the diaspora due to the insecurity caused by the pandemic, and

therefore it is of great importance to provide timely direct support and incentives for the people in diaspora to return to Serbia. In that way, support is provided for the transfer of knowledge and capital from abroad, as well as support for the Serbian economy by providing human resources which are in demand.

On the other hand, it is pointed out that since the Republic of Serbia has a lack of certain human resources, the implementation of the reform will work on attracting individuals who, in addition to their knowledge and experience, can also contribute to the development of the labour market. Therefore, the focus is on deficit vocations in Serbia, which include not only high technologies and highly specialized industries, but also other vocations in demand.

At the same time, we note that we are certainly actively working on improving the position of citizens, and the fact that some activities are not on the list of structural reforms, does not mean that they are not implemented. Given the requests of the European Commission regarding the number of structural reforms, it was not possible to include all activities of the Ministry in the draft Programme. Having in mind the beginning of the implementation of the Action Plan for the implementation of the Strategy for Economic Migration for the period 2021-2027, it is of special importance to provide support to the proposed activities through inclusion in one of the measures of the Economic Reform Programme for the period 2021-2023. After the implementation of the Action Plan successfully started, it is possible to consider that in the next edition of the Economic Reform Programme 2022-2024, these activities will be included in the regular activities of the Ministry and create space for additional topics of special importance in the field of employment.

The Youth Guarantee programme, implemented in EU Member States, is an example of an intervention in which young people who are inactive and unemployed are approached through the cooperation of various sectors and social partners, including civil society organizations, with a view to long-term sustainable integration into the labour market.

“Youth Guarantee” means that young people up to the age of 25 are provided with job offers, continuing education, internship or training within a period of 4 months from entering the status of unemployment or leaving, i.e. completion of formal education.

This programme requires a stable policy coordination system, especially between the institutions in charge of education, employment, social protection and youth policy, a managing mechanism that should guide activities at the national and local level, as well as the commitment of the competent institutions to implement necessary structural reforms and, finally, significant human and financial resources.

Also, since the Youth Guarantee implies that a young person should be provided with a quality offer within 4 months of becoming unemployed, it is necessary that the National Employment Service has sufficient funds for active employment policy measures to enable availability of measures throughout the year, that is, with a sufficient number of quality vacancies to which young people are referred.

Having in mind the above, the Ministry of Labour, Employment, Veteran and Social Policy requested the International Labour Organization to prepare an analysis on the assessment of the feasibility of the implementation of this programme in the Republic of Serbia.

The findings of the analysis “Feasibility assessment of the introduction of the Youth Guarantee in Serbia” (ILO, December 2020), considering the existing administrative capacities, indicate that the ministry in charge of employment and the NES are not able to effectively manage such a complex youth employment framework. Therefore, the ILO recommends that organizational and administrative challenges affecting the capacities of both institutions should be tackled first, and then that the intervention be piloted in a maximum of three NES branches, but only for certain elements of the Youth Guarantee, such as measures to reach and activate a passive

youth who are able and willing to work (outreach), and which can be implemented in cooperation with civil society organizations. Young people who would register in this way on the register of unemployed persons, would receive an offer for a job in the NES or for participation in the measure Active Employment Programme. Also, it would be useful to introduce a data-based profiling system for piloting purposes, and adjust the monitoring framework to measure direct service delivery (programme entry and exit) and user situation after 6, 12 and 18 months. Such piloting would also allow for a more accurate estimate of the cost of introducing a complete Youth Guarantee.

In order for Serbia to be able to introduce elements of this programme, it is necessary to make prior efforts and meet certain preconditions with special emphasis on increased budget allocations (in the RS budget and through other sources of funding since Serbia does not have the possibility to use the funds of the European Social Fund), strengthening the capacity of the ministry in charge of employment as well as the National Employment Service.

Regarding the statement “The focus should be on increasing the employment formula and on vulnerable categories (Roma population, women, rural population) and sectors (tourism, hospitality, construction, waste management, etc.) and be related to SR 12” Introduction of the concept of circular economy “, we point out that the Ministry of Labour, Employment, Veteran and Social Policy is in the process of developing the Employment Strategy in the Republic of Serbia for the period from 2021 to 2026, in which measures and activities to increase profitability and quality of work will have a significant place, as well as improving the position of hard-to-employ categories of unemployed persons on the labour market.

We are grateful to the National Convention on the European Union for comments on the mentioned structural reform and we are available for any additional clarifications to the civil sector in order to produce better strategic documents and policy proposals aimed at improving the economic and social situation in Serbia.

SR 23: Improvement of the adequacy, quality and targeting of social protection measures

Comment of the NCEU Inter-sectorial Working Group:

From year to year, the structural reform dealing with social protection has had a component of increasing the scope and amount of allocations for social protection. However, what is currently relevant in this structural reform is only the introduction of IT system - Social Card. Although the introduction of such a system may be a precondition, this activity has no structural connection with what happened this year with the pandemic and the recommendation that the impact of the epidemic on vulnerable groups should be carefully monitored. It is also necessary to expand the proposed structural reform by returning to it the component related to increasing the scope and adequacy of cash benefits.

Structural reform in this area from the ERP 2019, which referred to the improvement of the adequacy, quality and targeting of social protection measures and which included the adoption of the law on social card (for the introduction of a single information system) as activities and the new law on social protection (for the improvement of beneficiaries of financial social assistance) was only partially transferred to ERP 2020, in the part related to the establishment of the “Social Card” register. This reform has also been proposed for a new ERP.

As in the case of employment, the preliminary list of ERP reforms did not take into account the context of COVID-19 which is highlighted in the ERP guidelines. In addition, none of the proposed reforms responds adequately to the guidelines in this area: social protection reform neglects to address inequality and poverty, while health care reform neglects to improve access to health services and a new instruction added in light of the COVID-19 crisis: “This section

should provide an assessment and include the relevant reform measures related to the universality of health insurance, and the accessibility, adequacy and affordability of healthcare services, as well as the sustainability of its financing”.

Estimates from the ERP assessment were not taken into account that Serbia not only lags behind the EU average, but also the situation is getting worse when it comes to: the gender gap in employment, the impact of social transfers on poverty reduction and self-reported unmet health care needs. Also, the recommendation “more attention needs to be paid to fields that are less dependent on the level of national income, such as gender equality and inequality” was not taken into account, as well as the ECOFIN conclusions: “Step up social transfers to ensure adequate income support for people at risk of poverty and social exclusion “and” Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens “.

With this in mind, it is necessary to expand this and the proposed SR24 (Digitization of the health care system) so that the component related to increasing the coverage and adequacy of cash benefits will be returned to the reform related to social protection, and the component related to the reduction of inequalities in access to health care, especially in light of the consequences of the COVID-19 epidemic will be added to the reform related to health care.

Response of the representatives of the Working Group for Development and Monitoring of the ERP:

We thank the representatives of civil society for the submitted comments and suggestions, but we would not agree with the position of NCEU that the introduction of the Social Card Register “has no structural connection with what happened this year with the pandemic and the recommendation to carefully monitor the impact of the pandemic on vulnerable groups.” because both the SC Register and the System for Protection and Automation of Social Protection Instruments will support social screening for the needs of managing the period after the pandemic and finding the most endangered individuals, especially in terms of unemployment.

We would also disagree with the view that “social protection reform neglects to address inequality and poverty” given that its overriding goal is more just distribution of social assistance as well as a faster response to changes in data affecting socio-economic status and poverty prevention.

The proposal to “return the component concerning the increase of the scope and adequacy of cash benefits to the ERP”, which was an integral part of the ERP 2019-2021, is, as a special area still relevant. A special challenge, however, is the fulfilment of planned activities with limited financial resources and a budget that is allocated for social protection, and from which the improved adequacy of cash benefits would be financed. During 2020, the dynamics of payment of the right to social benefits from the budget of the Republic of Serbia was such that certain funds were revised by the Law on Budget of the Republic of Serbia for 2020, first by the Law on Amendments to the Law on Budget of the Republic of Serbia for 2020 when the amount of funds for the stated purposes was reduced, while the Law on the Budget of the Republic of Serbia for 2021 for social benefits determined funds in a higher amount compared to the previous year by about 4.5%.

SR 24: Digitalization of the health system

Comment of the NCEU Inter-sectorial Working Group:

The introduction of structural reform that deals with the topic of the health system was assessed as a positive novelty in the proposed structural reforms, especially in light of the events related

to COVID-19. However, a number of problems with this structural reform have been identified that need to be addressed before its implementation can begin. First of all, the reform has been explained quite generally without a clear economic policy to be pursued on this issue other than digitalisation which alone will not be able to address the accumulated problems plaguing this sector. In the first place, the introduction of a centralized system in the health system did not take into account some structural obstacles such as the brain drain of skilled workforce, underdevelopment of local mental health services - a particularly important aspect nowadays, the need to reduce inequality in access to health care, etc. All of this requires a huge change in the design of the structural reform itself, as large investments are needed in this sector and the reduction of inequalities in access to health care, especially in light of the consequences of COVID-19.

Response: Proposals will be considered by the ERP WG in the next cycle.

Comments of the stakeholders on the draft ERP 2021-2023 December 2020 - January 2021¹⁰⁵

Comments IS WG NCEU

NCEU comments on ERP chapters 1 to 5

It is estimated that the data presented in the ERP are realistic, and the basic goals of the package of economic measures in the fight against COVID-19 are only partially met, because the liquidity of the economy even before the crisis was not at an enviable level. It is estimated that the macroeconomic response to the pandemic is based on the assumption that the pandemic will be completed by the end of 2020, and it is estimated that extensive economic support to the economy could last longer and be distributed more selectively, and that fiscal measures could rely more on the manipulation of the revenue side of the budget. In this regard, it is stated that in 2021 it will be a challenge to maintain macroeconomic stability. In the area of social protection, there was a delay in the realization of social cards. The reform of public companies is highlighted as a special risk, and it points to the importance of the Group for monitoring fiscal risks related to the operations of the public sector in the MoF in this area. Particular interest was expressed in the estimated GDP and public debt growth, fiscal sustainability indicators, the mechanism for introducing primary dealers in the domestic capital market, the annual financial result of the consolidated public enterprise sector for 2020, and the procedure for verification and monitoring of capital investments.

Response: The Republic of Serbia ended 2020 with the share of public debt in GDP (56.8% at the central level of government according to preliminary data) below the originally projected level (57.9%). Until the beginning of the pandemic caused by the COVID-19, thanks to fiscal consolidation measures since 2015, there is a trend of a constant decline in the share of public debt in GDP. The pandemic required an adequate response, which was not lacking, which meant providing additional financial resources that were necessary to finance measures to support the economy and citizens. Despite that, the Republic of Serbia managed to be among the countries with the lowest growth of the share of public debt in GDP in Europe during 2020, and at the same time be the most successful in terms of economic growth. Macroeconomic stability is crucial and the Republic of Serbia is ready to respond to the challenges in 2021, as

¹⁰⁵Comments are given in a concise form due to the length of the submitted attachments. The answers were prepared by the representatives of the Working Group for the development and monitoring of the ERP.

it managed to find the ideal balance of measures that needed to be taken during 2020 to keep public debt at a sustainable level, while stimulating economic activity. .

A pilot project to sell government bonds through primary dealers is in preparation. However, it was estimated that it was not an adequate time to start with its realization. The Republic of Serbia will start with its realization when all the necessary preconditions are created for it to take place in the usual circumstances, so that the real effects of the project can be seen, without the influence of current factors caused by the pandemic.

The Sector for Monitoring Fiscal Risks of the Ministry of Finance analyses fiscal risks arising from the operations of national public companies, companies that perform activities of general interest and other state enterprises, through annual business programs, development programs, quarterly business reports, financial reports, audit reports. Also, the Sector for Monitoring Fiscal Risks prepares analyses related to the operations of public enterprises and their impact on macroeconomic stability.

AREA 1: ENERGY AND TRANSPORT MARKET REFORM

Comment: NCEU Working Group 15 - Energy

SR 1: Energy market development of coupled with energy infrastructure construction is conceived so that the project of construction of the main gas pipeline Niš - Dimitrovgrad, the realization of which according to the previous ERP 2020-2022 is planned in 2022, has been omitted. It is suggested to return this project to ERP and monitor the implementation. In addition, the delay in the realization of the preparation of technical documentation for power line Obrenovac - B. Bašta, is not stated, the completion of which was planned for the middle of 2021, and the deadline has been extended until the end of 2021. It is necessary to indicate the sources of financing the reform.

Response: The construction of the main gas pipeline Niš-Dimitrovgrad is a project of high priority for the Republic of Serbia. Due to a certain delay in the information on the final approval of credit funds from the European Investment Bank (EIB), it was not possible to predict with greater reliability the dynamics of the implementation of this project. The loan in the amount of EUR 25 million have been approved in the meantime, and negotiations are underway. The tender procedure is in progress, the Contract Notice for Supervision of Works has been published. The conditions have been met for the project to be returned to the next ERP cycle.

Completion of the technical documentation for Section 3 of the Trans-Balkan Corridor project has not been postponed. The deadline for the completion of the project - May 2021, was defined at the initial meeting. Perhaps the confusion was caused by the fact that the deadline for the completion of the technical documentation for Section 4 is September 2021 (although it has not been moved since it was defined in September 2019). The sources of financing of the SR are finalized in January 2021, bearing in mind that it is necessary for the Law on Budget to be adopted before that, and therefore they were not an integral part of the draft ERP, which has been available to the public since December 2020.

SR 2: Improvement of the conditions for enhancing energy efficiency through harmonization of the legislative framework and establishing a sustainable mechanism for financing energy efficiency projects includes strengthening the administrative capacity shown through increasing the number of employees in the Department for EE Improvement. 3 employees are listed, while last year's plan provided for 30, it is necessary to state the reasons why only 10% of the planned was fulfilled. It is necessary to indicate the sources of financing the reform. In addition to the indicators listed in the ERP, it is proposed to introduce additional indicators: 1. Established a sustainable way of financing energy efficiency projects; 2. Adopted

bylaws of the Law on Efficient Use of Energy; 3. Percentage of savings achieved through the implementation of EE projects of public buildings (3% of the annual reconstruction of public buildings according to the Energy Efficiency Directive).

Response: SR within the ERP 2020-2022 did not envisage the employment of 30 new employees in the Department for the Improvement of Energy Efficiency, but it is an assessment of the necessary new jobs within the framework of the sustainable financing mechanism.

It is possible to add the indicator “Established sustainable way of financing energy efficiency projects”, while the proposal of the indicator “Adopted bylaws of the Law on Efficient Use of Energy” cannot be introduced because at this moment the values in 2021 and 2022 cannot be precisely determined, since the Law has not been adopted so the exact number of bylaws is not known. For the proposed indicator “Percentage of realized savings through the implementation of EE projects of public buildings” we believe that there is already a similar indicator in the form of “% of realized energy savings through the implementation of EE projects in relation to energy consumption in the year before the project.” As for the 3% savings percentage, this percentage in the Directive does not refer to public buildings but to central government buildings (while within the Energy Community this percentage for the rehabilitation of central government buildings is 1% per year). Sources of funding are given in the ERP in the part of estimated costs.

AREA 2: AGRICULTURE, INDUSTRY AND SERVICES

Comment: Serbian Rural Development Network and the European Movement in Serbia

SR 4: Improvement of the land consolidation process envisages the implementation of pilot land consolidation activities, and it is recommended to develop an indicator that will measure the results of the pilot project (e.g. the number of land consolidation carried out during the pilot project or covered areas).

The impression is that the value of the indicator Reduction of the duration of the consolidation procedure planned for 2025 is still significantly high (36 months). It is considered that with the acceleration of land consolidation from 50 to 36 months, there is a real danger that many projects will not be implemented or that they will be implemented more slowly, and they are of key importance for the development of agriculture and rural areas (e.g. irrigation). It is necessary to indicate the sources of financing the reform.

Response: Regarding the comments related to the improvement of land consolidation, the possibility of shortening the deadlines for the duration of the land consolidation procedure will be considered, as well as the introduction of an indicator related to the number of land consolidation carried out during the pilot project. We are of the opinion that the area of the implemented consolidation would not be the best solution as an indicator, because it is currently unknown which area will be in the process of pilot projects, nor the number of proposed pilot projects.

SR 5: Improvement of the financial support system of for agriculture through digitalization and process automation. It is recommended that in parallel with the development of the IACS system (IACS - Integrated Administrative Control System, which EU members use to reduce administrative burdens and ensure efficient and effective controls), continue to develop software solutions, procedures and institutional coordination to support farms, as in information, as well as in the process of application, processing of requests and payment of funds.

Response: We agree that the comment is expedient, but the steps should be in line with the activities and deadlines provided for in Chapter 11, bearing in mind that the establishment of a functional IACS is a condition for closing the Negotiating Chapter 11. Regarding the recommendation to continue with the development of software solutions, procedures and

institutional coordination to support agricultural holdings, both in information and in the process of application, processing of requests and disbursement of funds, we point out that a software solution for rural development (RD IT) for automatic processing of IPARD requirements and its full implementation is expected soon. Also, in the later phase of RD IT implementation, it is planned to connect it with LPIS, which will be used to pilot IACS. The Directorate for Agrarian Payments has developed a pilot solution for the electronic submission of applications for incentives for bees, and it is planned to continue work on the development of other software solutions. At the same time, we are working on improving the existing procedures that are within the competence of the Directorate. The Directorate for Agrarian Payments “pilots” all these activities by implementing IPARD I, and the Government has assigned it the role of IPARD agency, which enables the gradual preparation of users and administration for EU requirements to be implemented after EU membership.

SR 5: Improvement of the financial support system for agriculture through digitalization and process automation states the need to improve the mechanism of payment of budget support to agriculture, which is certainly a necessary step in the reform of the agricultural sector. However, the SR does not talk about changes in the creation of existing measures of the country's agricultural policy in order to maximize their effect. The essential question is the effect that these measures achieve and whether the agricultural policy measures are formulated correctly, and not only how they are implemented (e.g. milk premium). The recommendation is that the ERP envisages a substantial, comprehensive reform of the agrarian budget in the direction of: 1) formulating a national agrarian policy that will achieve the maximum effect on production and income of persons engaged in agriculture and 2) improving the harmonization of domestic agrarian policies with EU Common Agricultural Policy. It is necessary to indicate the sources of financing the reform.

Response: Gradual harmonization of agricultural and rural development policy measures is envisaged by the Action Plan for the adoption and implementation of the EU acquis communautaire in the field of agriculture and rural development, the National Agriculture Programme 2018-2020, the National Rural Development Programme 2018-2020, as well as the National Programme for the adoption of EU acquis communautaire. The ERP already contains in part the reform of budget support through structural reform 6: Improvement of the agriculture competitiveness, through the adoption of the Law on Regulation of the Market of Agricultural Products and the establishment of a legal basis for support in this area. The harmonization of other elements of budget support in the field of agricultural and rural development policy can be foreseen by the ERP in the following years, in accordance with the foreseen dynamics of harmonization with the *acquis*.

SR 6: Improvements of the agriculture competitiveness does not have an indicator that indicates a targeted change in rural infrastructure. It is recommended to define an indicator, in order to clearly see the progress (e.g. 15 infrastructure projects in rural areas). Bearing in mind that a good part of rural infrastructure is of a local character, it is recommended to envisage activities that will improve the capacities of local self-governments, both in planning and in the implementation of measures. The impression is that there is a lack of measures and activities that would support the development of market chains and the formation of producer organizations, which existed in the previous ERP. It is recommended to maintain the activity of supporting the formation of producer organizations from the previous ERP, especially since it is possible to plan within IPARD 3, and it can significantly affect market access in the sector of fruit and vegetable production, milk production and dairy. It would be desirable for the ERP to envisage ways to improve the knowledge of people employed in this sector (farmers, farm managers and other employees in the agriculture and food industry). The Agricultural Expert Advisory Service under the authority of the Ministry of Agriculture, Forestry and Water

Management is certainly one of the instruments available, but its capacities must be given additional attention.

Response: The measure related to the improvement of rural infrastructure is in the preparation phase. It is planned that the measure will be accredited within the IPARD 3 programme and that it will be implemented from the national budget. The adoption of the IPARD 3 programme is planned for the end of 2021 and the exact amounts of allocated funds by measures and by years are still unknown. As it was not known during the preparation of the structural reform when the IPARD 3 programme will be adopted, the draft document does not specify whether in 2021 a public call will be implemented from the IPARD 3 programme or from the national budget. It is planned that the local self-government units be the support beneficiaries through the measure related to the support for the improvement of rural infrastructure, with already prepared projects for different investment groups. When accrediting the measure in the IPARD 3 programme, all groups of investments that can be supported will be specified, which will be listed in the list of eligible costs. In the accreditation process, new indicators will be defined in order to clearly see the progress.

The legal framework on the regulation of the market of agricultural products should regulate markets by sectors in a unique way (with an emphasis on the introduction of standards in production), but also enable the formation of producer organizations, as well as enable and encourage contractual connection of all actors in the market chain. In that way, security in agricultural production, standardization of production, as well as its enlargement through the formation of producer organizations would increase.

Agricultural expert and advisory services significantly help agricultural farms in the field that improve their competitiveness within the IPARD programme. Services for the needs of small agricultural farms make simple business plans (for investments up to EUR 50,000) free of charge and provide advisory services.

SR: 7: Boosting industrial competitiveness. Following last year's NCEU intervention, this reform has been reinstated in the ERP. Since the RS Industrial Policy Strategy for the period 2021-2030 was adopted in March 2020, and the adoption of the Action Plan for 2021-2023 is expected in January 2021, the description of the reform should not state: "Creating a focused and better coordinated policy of industrial development through digitalization of business models of industrial production, increasing the volume of investment in industry and improving the technological structure of exports, and in coordination with the Smart Specialization Strategy" but, "Implementation of the Industry Strategy which should provide..."

Response: Bearing in mind that the previous strategic document in the field of industrial development - Strategy and policy of industrial development of the Republic of Serbia from 2011 to 2020, as its biggest shortcoming was insufficient application, the Strategy of Industrial Policy of the Republic of Serbia from 2021 to 2030 defines a framework of goals and measures that will be applicable and easier to monitor the achieved results. "Focused and better coordinated industry development policy" has a broader meaning here and implies the entirety of the strategy, action plan and all activities in the process of their implementation.

SR 8: Introduction of circular economy concept. After last year's intervention of NCEU, it was corrected that the area of circular economy will be defined by a special programme, and not by a special strategy. The programme is a lower-ranking document in relation to the strategy, and the umbrella document is the RS Industrial Policy Strategy for the period 2021-2030 where the circular economy is defined as a special goal.

Response: This SR was in ERP 2020-2022 for the first time. The measure entailed drafting a specific public policy document for circular economy matters in accordance with the Law on Planning System, according to which an Ex-ante impact assessment of circular economy was conducted in 2019. The conclusion of this analysis is that a specific public policy document is

needed for the area of circular economy, namely the Circular Economy Programme with a three-year Action Plan. The Strategy was not mentioned because two strategies will be adopted for the field of environmental protection: the Environmental Protection Strategy, which will define special goals - one will be the circular economy, and the other is the Low Carbon Development Strategy. All other areas of environmental protection will be defined through programmes (waste, air protection, cleaner production, etc.), as specific objectives of these two umbrella strategies. The measure was repeated in ERP 2021-2023 because further implementation is expected. The general comment is unclear, because in the last cycle it was planned to develop a Programme for Circular Economy with an action plan for three years, and not a strategy. Industrial policy strategy for the period 2021-2030 cannot be an umbrella strategy for the circular economy because this topic is multisectoral and covers many areas such as waste management, innovation, digitalization, circular design, use of renewable energy sources, energy efficiency, green public procurement, urban mobility, etc., but it is very important because it creates a business environment for the development of micro, small and medium enterprises that can accelerate the transition from a linear to a circular model of the economy.

Comment: Centre for Ecology and Sustainable Development - CEKOR

Reform from the previous period No. 10. Establishment of sustainable system for funding environmental protection has not found its place in the ERP again. There is a lack of a better explanation of what these new developments are, and what has been done in the past regarding this reform.

Investment in prevention programmes for the risks of natural disasters was highlighted as necessary, but it is not foreseen by any structural reform, i.e. activity. For example, it is very important to make a map of erosion, which is also provided by the Law on Land Protection from 2015, therefore it is proposed to include this activity in the reform No. 6. It is necessary to indicate the sources of financing the reform.

Response: The proposals will be considered by the ERP WG in the next cycle.

SR 6: Improvements of the agriculture competitiveness in the field of implementation of structural measures for the improvement of rural infrastructure is done through the financing of investments related to the construction of wastewater treatment plants and waste management. As an indicator of results, it is obligatory to state how many plants will be built through this measure, as well as on the basis of which criteria the projects will be selected - locations where these plants will be built. The structural measure implies implementation on the territory of the whole of Serbia according to the same criteria, and for the sake of uniform economic development. If the expected basic risk is a potentially small number of beneficiaries with prepared quality projects, it is necessary to include project preparation, including local self-governments in the reform.

Response: The measure is in the preparation phase. The planned beneficiaries of the measure are local self-government units. The preparation of project documentation is an eligible cost for all measures implemented under the IPARD programme, as will be the case with the measure related to the improvement of rural infrastructure at the time when the measure is accredited in the IPARD 3 programme.

SR 7: Boosting industrial competitiveness it is necessary to clarify how to work on the transformation of the industry from a linear to a circular model. As part of this structural reform, also envisage strict environmental criteria and the introduction of new and cleaner technologies as a precondition for obtaining incentives for industry.

Response: Three measures are envisaged to achieve the special goal of the Industrial Policy Strategy from 2021 to 2030 - Transformation of industry from a linear to a circular model. The

first measure consists of activities to promote the circular economy and education of business entities with the support of the Serbian Chamber of Commerce and the Ministry of Environmental Protection. The other two measures relate to the adjustment of the criteria for the procurement of equipment, within the existing programmes of the Ministry of Economy, in the sense of gradually encouraging the procurement of equipment used in the circular economy and equipment that is energy efficient.

SR 8: Introduction of circular economy concept. The target number of companies that will apply the concept of circular economy through circular vouchers is 10 by the end of 2022. How will these companies be selected, and why only 10 of them? The target number of local self-government units that will create local Roadmaps for the circular economy and become part of the circular community is 5 by 2023. By what criteria will local self-government units be selected?

Response: When it comes to the number of companies that will introduce the concept of circular economy by 2022, it will certainly be more than 10, because other institutions are also dealing with the promotion of circular economy as a concept for saving raw materials and energy. However, 10 companies are expected to go through a cycle of the allocation of circular vouchers (cash incentives), which entails the joint activities of the business and academic sectors on innovation and the design of measures that will contribute to environmental protection and meet sustainable development goals. In order to select adequate companies, a competition with criteria will be announced in cooperation with the Chamber of Commerce of Serbia. A special commission will be formed to select the best 10 projects, in which representatives of relevant institutions and organizations will participate. Local self-governments will be selected according to criteria that will be defined and agreed with the Standing Conference of Towns and Municipalities. Also, the selection of local self-governments in which analyses will be made for the application of the concept of circular economy will be the task of the commission, which will consist of representatives of relevant institutions and organizations.

AREA 3: BUSINESS ENVIRONMENT AND FIGHT AGAINST THE GRAY ECONOMY

Comment: Centre for European Policies (CEP)

Compared to last year's version of the ERP document, it is noticeable that the focus has been completely shifted to certain infrastructural issues related to e-Government, while the issue of improving the business environment is marginalized. The establishment of data centers, the procurement of supercomputers and the implementation of the Smart Cities project have their benefits, but these things should only be a form of infrastructural support to the reform process, which should have the ultimate goal of facilitating business. Considering also that the public administration reform comprehensively addresses the issue of e-Government, the proposal is to focus in the ERP on improving the business environment through greater use of digital services, and that the proposed activities be part of a set of measures focused on business facilitation.

SR 9: Improvement of the quality of public services through optimization and digitalization of administrative procedures - "e-PAPER"

Considering that there was not much mention in relation to the previous cycle of drafting the ERP document, the comment sent last year in the part of the subject reform concerning the single contact point (SECP) remains valid on this occasion as well.

Comments: NCEU Working Group for PP 10

Bearing in mind that the ERP states that "In the field of digital economy, it is planned to increase the availability of e-Government to citizens and the economy through the

improvement of customer services as well as further development of the national communication infrastructure.” The proposal is that the concept of digital economy also includes: digitalization of work processes and service provision, development of new digital products and services, expansion of domestic software production, application of the IND 4.0 concept in the modernization of industry, etc.

Response: The proposal will be considered in the next ERP cycle.

AREA 4: RESEARCH, DEVELOPMENT AND INNOVATION AND THE DIGITAL TRANSFORMATION

The proposal is to innovate data on digital connectivity in Serbia, but also to propose more efficient measures to improve the situation in this area (development of telecommunications infrastructure, promotional activities of operators and providers, new applications, application of standards, development and measuring the quality of infrastructure ...).

Response:

According to the Digital Economy and Society Index (DESI), which was first published for Serbia in 2017, in 2018 Serbia ranked last on the list of European countries with an index value of 40.3 in the Connectivity category, which is the infrastructure needed for digital economy and society and offers information on the types, availability and quality of internet access. In 2019, significant progress was made and the index in the Connectivity category raised to 54.8, which is above the average of the European Union.

SR 16: Increasing the availability of e-Government by improving the infrastructure and introducing new technologies. The ERP refers to “Smart City” projects, the implementation of which in Serbia is falling behind trends in the world, and even in the region. A very slow development of new “Smart City” projects is planned. The proposal is to invite IT companies that have an offer of “Smart City” solutions to more agilely promote their offer, to stimulate the interest of local governments in these projects. Also, the Ministry of Public Administration and Local Self-Government and the Standing Conference of Towns and Municipalities should initiate, coordinate and organize the exchange of experiences in the implementation of “Smart City” projects.

Response: The proposal will be considered in the next ERP cycle.

Comment: Centre for European Policies (CEP)

SR 19: Safe and quality product - a factor in the development of the industry is generally a good move. What is needed here is to state in the very description of the structural reform the way in which this component will be implemented, and in the part of this structural reform related to the establishment of the Product Info platform, it is necessary to present the procedure for the functioning of this service, i.e. the way in which the TEHNIS portal will be expanded to serve as a Contact Point for removing technical barriers to trade as this information is still lacking in the description of the structural reform itself.

Response: The new component of the structural reform related to the program of financial support to business entities is not currently elaborated in more detail, as it will be developed within the first activity 1.1. "The development of programs to business entities ", which will be implemented in 2021, while the implementation of the financial support instrument itself is planned for 2022 and 2023. A detailed description of the functioning of the new access point "Product Info", together with project documentation for the procurement of missing computer and communication equipment, software and digitization of services, will be the result of public procurement of services of analysis and needs and preparation of project documentation for "Product Info" portal and service, which will be implemented in the first half of 2021. Based on that project documentation, not only the existing TEHNIS portal will be improved, but also the existing databases, electronic services, as well as the networking of the Ministry of

Economy and key partners, ie. quality infrastructure institution (ISS, ATS and DMDM). All these improvements are the basis for the efficient operation of the Product Contact Point, which also fulfills the recommendation of the European Commission stated in the progress reports from the previous few years.

AREA 8: SOCIAL PROTECTION AND INCLUSION, INCLUDING HEALTH CARE

SR 24: Digitalization of the health care system is delayed and is being realized partially, which had a negative impact on improvisations during the COVID-19 pandemic. It has been suggested several times that the concept of the Integrated Health Information System should be developed and publicly verified before accessing digitalization. The potential risk is the loss and disclosure of patients' personal data, which can occur accidentally or in the form of misuse of personal data.

Response: The proposal will be considered in the next ERP cycle.

Comments: CEVES

In the part Structural Reform of the ERP, it is proposed to supplement the areas related to:

1. Improving public administration and management in public companies through 1.1. Accelerating the process of introducing Financial Management and Control in local self-governments and public enterprises through strengthening institutional capacity and continuing education; and 1.2. Professionalization of the management of public companies and civil servants through the implementation of transparent competitions and employment procedures; and

2. Improving the management of state property through 2.1 Preparation of a single register of users of public funds; and 2.2. Preparation of a single register of state property and indirect state property (property owned by municipalities, cities, the army of the Republic of Serbia, the Republic Pension and Disability Insurance Fund, the Development Fund and other state institutions); 2.3. Improving the regulatory framework related to the disposal of state property in terms of efficiency and transparency of the sale of state property and its leasing; 2.4. Improving the area of public-private partnership by changing the regulatory framework and strengthening institutional capacity in terms of efficiency and transparency and 2.5. Improving the area of bankruptcy of companies and banks by changing the regulatory framework and strengthening institutional capacity in terms of efficiency and transparency.

Response: On corporate governance of public enterprises the ERP contained appropriate measures in previous cycles, which were omitted, given that at this stage these are regular activities. Other proposed activities will be considered in the next ERP cycle.

Additional comments received in the process of online consultation December 2020-January 2021:

Comments: UNDP Serbia

It is proposed that the following reform areas be integrated into the ERP:

- Support for sustainable and green recovery and development in the field of Agriculture, industry and services, bearing in mind that the circular economy is only part of green recovery/development, and that it implies the transition to clean energy in the whole real sector (not only energy), sustainable and green transport, economic development of cities and municipalities towards sustainable, green and smart cities, research and development in the field of green development, integration of appropriate accounting standards and business reporting, encouragement of green sources of financing, etc.

- Introduction of mechanisms and capacity building for agile management in the field of Research, Development, Innovation and Digital Transformation, in order to provide mechanisms for fast and adequate management of economic recovery and development. This includes investments in human and management capacities, as well as technological and digital capacities of institutions for data collection and management, further integration of all databases, including the use of data from CSO networks.
- Adoption of a data strategy and introduction of a systematic approach to data that will enable society and data-based management in the field of research, development, innovation and digital transformation.
- Improving regulations that will enable greater access to sources of financing and development of capital markets in the area of Business environment of financing and development of capital markets and that the legislative framework continues to create obstacles that negatively affect different and innovative sources of financing (such as the Law on Foreign Exchange Operations on non-banking sources of financing, etc.).
- Improving and adapting the labour market to new challenges - facing future labour trends and depopulation challenges in the field of employment and the labour market.

It is suggested to supplement the ERP text with more information on sustainable development goals, integration of vulnerable groups in the labour market and economic activity, the concept of state enterprise management, inspection work, capital investment management and health care quality, and it is proposed to introduce the concept of smart city development and urbanization, methodology to assess the degree of crisis threat.

Response: Proposals for new SRs and other comments will be considered in the new ERP cycle by the WG, sustainable development goals are presented in the updated ERP 2021-2023, while the issues of state-owned enterprise management, inspection and capital investment have already been subject to structural reforms in previous ERP cycles.

We do not agree with the assessment that the Law on Foreign Exchange Operations is one of the obstacles that have a negative impact on the access to new sources of funding, because **the current legal norms prescribed by this Law can serve as an umbrella for new, innovative solutions** that have at their core legal business already regulated by the Law. We consider that it is necessary to **carefully analyse the impact of alternative sources of funding in the Serbian market on macroeconomic and financial stability**, especially in the newly emerged circumstances. Though cautious in our approach, **we are clearly supportive of innovative sources of funding**, as evidenced by the activities in which the National Bank of Serbia participated in the prior period. In this context, attention should be drawn to the legislation adopted in 2019: **the Law on Alternative Investment Funds and the Law on Open-Ended Investment Funds with a Public Offering**, which, inter alia, provide for the broadening of the range of sources of financing in the domestic financial market. Besides, with a view to facilitating access to new sources of funding, the National Bank of Serbia initiates and participates in the process of comprehensive regulation of innovative types of financing, such as **crowdfunding**. In doing so, the National Bank of Serbia will contribute to further improvement of the business environment and will help economic entities, especially SMEs, to more easily raise the capital needed for their investment projects. At the same time, we wish to highlight that the National Bank of Serbia took an active part in the drafting and adoption of the law that governs digital assets and enables the operation of platforms for trading in virtual currencies.

When it comes to the second comment that in the context of the measures and activities undertaken to implement ECOFIN recommendations it should be defined how the challenges are monitored, who forecasts them and in what way, and how these challenges are defined and identified in practice, in monitoring challenges, the National Bank of Serbia **acts as a single**

front – at the institutional level and with the Serbian Government, aware of the strong interaction of economic flows and the achievement of economic policy objectives, and hence our objectives – price and financial stability. Consistent implementation of such an approach has provided a key contribution to the results achieved. These results are distinctly measurable, which confirms that we recognized the challenges properly and timely and responded to them adequately.

In this context, we wish to underline that the National Bank of Serbia follows, in real time, in accordance with their availability, the movement of a broad range of macroeconomic and financial indicators in the international and local environment, as well as indicators of the business, investment and consumer sentiment. Based on the developed empirical models and expert judgement, we assess in a consistent way their impact on inflation, financial stability and economic activity. **This has enabled our swift response and adoption of concrete measures which are available for public insight and which have helped preserve price and financial stability, eased considerably the negative effects of the pandemic on economy and households and provided for the accelerated and sustainable economic recovery.**

Comments: UNICEF

The comments refer to the recommendations of the ECOFIN Council, regarding public consultations, coordination regarding the response to COVID-19, social protection measures and sustainable financing of health care, pointing out in particular the importance of financing and health needs outside COVID-19.

Comments: Coalition for Charity

The proposals refer to SR 8 Introduction of circular economy and refer to the suggestion that: 1. inclusion of measures related to food surplus management in the circular economy programme and 2. consideration of proposals for abolition of VAT on food donations before the expiration date, be listed in the annex to the ERP document as incentive measures that will contribute to the development of the circular economy and the reduction of environmental pollution. The proposals stemmed from analyses carried out under the Giving Framework Improvement Project.

Response: An ex-ante impact analysis for the circular economy was made in 2019 through a PLAC III project funded by the EU. The number of days to draft this document was very limited and therefore not all areas of the circular economy could be covered. We agree that the issue of food surpluses is very important and will be included in the Circular Economy Programme with an action plan for three years. Since the preparation of this document will be financed from the budget, when initiating the public procurement, one of the criteria for bidders will be to use all relevant documents in order to obtain the highest quality data.

In addition, the proposal to abolish VAT on food donations near the expiration date needs to be specifically considered.

Comments: NALED

SR 16. Increasing the availability of e-Government by improving infrastructure and introducing new technologies and SR 17. Development and improvement of the national information and communication infrastructure. The need to transpose the EU Directive 2014/16 on facilitated infrastructure construction (in addition to the new Law on e-Communications) was pointed out, as a necessary precondition for the auction of 5G spectrum (announced for 2022) and the development of new generation networks throughout Serbia whose implementation MTTT started through the project “Connected Schools”, i.e. the development of broadband internet in rural areas of Serbia. It is suggested that the ERP also list the existing obstacles in the regulatory framework related to obtaining licenses for

telecommunications infrastructure (license for the regulator, building permit and procedures in the field of environmental protection), which is recognized in the risks of SR. Although it is indicated that SR has no impact on the environment and health, regulations in this area (Law on Non-Ionizing Radiation, Law on Environmental Protection, planning acts of local self-government based on these laws) and its inconsistent adoption at the local level make it difficult to provide adequate coverage with next generation networks. The need for better coordination in the planning of infrastructure works and better use of the existing infrastructure through the transposition of the CRD into the national framework and the development of an efficient mechanism (electronic platform) for its implementation is also pointed out.

Response: It is planned to pass the Law on Broadband Infrastructure, which will transpose the mentioned "Cost reduction" directive by the end of 2021.

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

With the Decision of the Minister of Finance no. 119-01-282/2019-24, on 18 July 2019, 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:

- Prime Minister's Office
- Ministry of Finance
- Republic Secretariat for Public Policies
- Ministry of Economy
- Ministry of Trade, Tourism and Telecommunications
- Ministry of Public Administration and Local Self-Government
- Ministry of Justice
- Ministry of European Integration
- Ministry of Health
- Ministry of Education, Science and Technological Development
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Environmental Protection
- Ministry of Mining and Energy
- Ministry of Labor, Employment, Veteran and Social Affairs
- Ministry of Construction, Transport and Infrastructure
- Ministry of Youth and Sport
- Ministry of Defense
- Ministry of Culture and Information
- Ministry of Foreign Affairs
- 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
- National Bank of Serbia
- Statistical Office of the Republic of Serbia
- Republic Geodetic Authority
- National Employment Service
- Social Inclusion and Poverty Reduction Unit
- Public Procurement Administration
- Office for Information Technologies and E-Government
- Commission for State Aid Control