

**ECONOMIC REFORM PROGRAMME FOR
THE PERIOD FROM 2024 TO 2026**

Belgrade, December 2023

CONTENT

1. GENERAL FRAMEWORK AND MAIN OBJECTIVES AND GUIDELINES OF THE ECONOMIC POLICY	3
2. IMPLEMENTATION OF THE POLICY GUIDANCE	4
3. MEDIUM-TERM MACROECONOMIC FRAMEWORK	14
3.1. ASSESSMENTS OF THE INTERNATIONAL ECONOMIC ENVIRONMENT	14
3.2. CURRENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 2023	16
3.3. MEDIUM-TERM MACROECONOMIC SCENARIO	24
3.4. ALTERNATIVE SCENARIO AND RISKS	29
4. FISCAL FRAMEWORK 2024-2026	30
4.1. PUBLIC POLICY STRATEGY AND MEDIUM-TERM GOALS	30
4.2. BUDGETARY OUTTURN IN 2023	31
4.3. FISCAL PROJECTIONS 2024–2026	41
4.4. CYCLICALLY-ADJUSTED FISCAL BALANCE	47
4.5. PUBLIC DEBT MANAGEMENT	49
4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME	52
4.7. QUALITY OF PUBLIC FINANCES	60
4.8. FISCAL MANAGEMENT AND BUDGETARY FRAMEWORKS	63
5. STRUCTURAL REFORMS IN THE PERIOD 2024–2026	65
5.1. COMPETITIVENESS	65
5.1.1 Area BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY	65
5.1.2 Area REFORM OF STATE-OWNED ENTERPRISES	68
5.1.3 Area REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS	68
5.1.4 Area AGRICULTURE, INDUSTRY AND SERVICES	70
5.1.5 Area RESEARCH, DEVELOPMENT AND INNOVATION	73
STRUCTURAL REFORM 1: IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA	75
STRUCTURAL REFORM 2: IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY	84
5.2. SUSTAINABILITY AND RESILIENCE	87
5.2.1 Area GREEN TRANSITION	87
5.2.2 Area DIGITAL TRANSFORMATION	90
5.2.3 Area REFORM OF THE ENERGY MARKET	92
5.2.4 Area REFORM OF THE TRANSPORT MARKET	98
STRUCTURAL REFORM 3: GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY	102
STRUCTURAL REFORM 4: GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA	105
5.3. HUMAN CAPITAL AND SOCIAL POLICY	109
5.3.1 Area EDUCATION AND SKILLS	109
5.3.2 Area EMPLOYMENT AND LABOUR MARKET	111
5.3.3 Area SOCIAL PROTECTION AND INCLUSION	113
5.3.4 Area HEALTH CARE	115
STRUCTURAL REFORM 5: EDUCATION FOR SUSTAINABLE DEVELOPMENT AND WORK READINESS	116
STRUCTURAL REFORM 6: IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET	120
5.4. SUMMARY OF STRUCTURAL REFORMS	123
6. COSTS AND FINANCING OF STRUCTURAL REFORMS	124
7. INSTITUTIONAL ISSUES AND INVOLVEMENT OF STAKEHOLDERS	125
8. ANNEXES	127

ANNEX 1: Tables 1-11	128	
Table 1: Macroeconomic framework	128	
Table 2a + 2b: General government budgetary prospects	136	
Table 2c: Discretionary measures adopted/announced according to the Programme	140	
Table 3: General government expenditure by function (bn RSD)	142	
Table 4: General government debt developments	143	
Table 5: Cyclical developments	144	
Table 6: Divergence from previous programme	145	
Table 7: Long-term sustainability of public finances (% GDP)	146	
Табела 7a: Stock of General Government guarantees adopted/announced at [year-month] according to the Programme	148	
Table 8: Basic assumptions on external economic environment ^[1]	150	
Table 9a: Social scoreboard indicators	151	
Table 9b: Other selected indicators	151	
Table 10: The effects of structural reforms on the budget	153	
Table 11: Report on the Implementation of Structural Reforms from the Economic and Reform Plan (ERP) for the period 2023-2025	156	
ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT PUBLIC POLICY DOCUMENTS	186	
ANNEX 3: A DETAILED OVERVIEW OF COSTS AND FINANCING OF ACTIVITIES WITHIN THE FRAMEWORK OF STRUCTURAL REFORMS	200	

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

Economic activity in Serbia has shown itself to be sufficiently resilient, in view of the problems and uncertainties which it is facing. Since over a year ago, the economy has been affected by high prices of food and energy products, decline in the domestic production of electricity, weak growth of the most important trade partners and tightening of financing conditions. The growth of the gross domestic product (hereinafter: GDP) in 2022 was 2.5%, and the same growth rate is expected in 2023, in view of the still present aggravated business circumstances. A gradual acceleration of growth is anticipated in the medium-term. The projected growth rate in 2024 is 3.5%, and a return to the path of potential growth of over 4% is expected at the end of the observation period.

The economy of Serbia, as well as of other neighbouring countries which are at the same level of economic development, is affected by many uncertainties. The uncertainty of economic prospects is a consequence of a further development of geopolitical circumstances and the situation in the energy sector, prospects for growth of the most important economic partners, inflation and unfavourable conditions on the international financial market.

Macroeconomic policies in the next period must be sufficiently firm, with a view to restraining inflation as a priority task. The tightening of the monetary policy is reasonable and appropriate, while the fiscal policy is contributing to and supporting the reduction of inflation. The realised deficit in 2022 is lower than anticipated. According to the Fiscal Strategy from spring, the planned deficit of 3% in 2023 was consistent with the required turnaround of the economic policy with a view to restraining the inflation and creating reserves as a response to a high uncertainty. In the autumn cycle of revising the fiscal framework and with supplementary budget, the deficit of the general government was additionally reduced and, according to the new estimation, will amount to 2.8% of the GDP in the current year. Fiscal measures helped reduce the impact of the energy crisis on consumers and businesses. More favourable circumstances in the energy sector in 2023, relative to the previous year, enabled a redistribution of unused funds for a state intervention in the energy sector to other expenditures, and with a better achievement of total revenue, they provide additional fiscal space, which is used for preservation and improvement of the standard of living (extraordinary pension increase, salaries for employees in certain public agencies, aid for parents of children under 16, one-off aid for pensioners). A part of the fiscal space was also used for deficit reduction. The medium-term focus of the fiscal policy is on a gradual and moderate consolidation, while tailored measures continue to support the energy vulnerable households and enterprises, with a continued government activity of investing into the infrastructure and strengthening capital investments into the energy sector.

The backbone of a sustainable fiscal policy in the medium-term is a new set of fiscal rules, which are a sufficient guarantee for stabilisation and a sustainable path of deficit and debt. A full application of general fiscal rules which limit the deficit of the general government relative to the achieved level of debt, is anticipated for 2025. Until then, compliance with the needed deficit and debt reduction is ensured by the Fiscal Strategy of the Government and supported by the Arrangement with the International Monetary Fund (hereinafter: IMF).

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Implementation of the policy guidance for individual policies as part of the Joint Conclusions related to the Economic Reform Programme (ERP) in the period 2023–2025, adopted at the meeting of the Economic and Financial Affairs Council of the Council of the European Union (ECOFIN Council), held on 16 May 2023 in Brussels, within the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye, reflects in numerous reform measures and activities of the Government.

2.1. Implementation of the ECOFIN Council policy guidance set out in May 2023 for the Republic of Serbia

1. Keep an appropriately tight fiscal stance in 2023 to help disinflation, including by reducing budget support to energy SOEs, while providing targeted and temporary support to vulnerable households and companies if needed to cushion the impact of high energy prices; and plan a further gradual reduction in the deficit in the 2024 budget and in the medium-term fiscal framework in line with the SBA commitments and the new fiscal rules.

The medium-term fiscal framework has not changed significantly in relation to the previous programme, and foresees further reduction in deficit and debt levels. As of 2025, deficit is targeted at the 1.5% of GDP level, in accordance with the fiscal rule, i.e. debt level of the government sector.

Contain overall spending on wages as a percentage of GDP in line with the new fiscal rule and continue the preparatory steps towards an appropriately designed public sector wage system reform.

In the coming period, public sector salaries will remain unchanged in terms of participation in GDP and in accordance with the fiscal rule.

Strengthen medium-term budgeting via the development of a corresponding time-bound action plan and the implementation of its first steps.

An Action Plan for the strengthening medium-term expenditure framework for the period 2023–2026 was prepared and adopted with the aim of introducing more efficient medium-term budgeting, which is one of the key benchmarks for the continuation of the agreed economic programme with IMF. In 2023, the activity related to defining limits in strategic documents, in such a manner so that indicative limits by headings for the next two years are determined in Article 50 of the Budget Law of the Republic of Serbia for 2024, has been completed.

2. Implement the tax administration reform according to the ERP 2023 timeline.

The reform of Tax Administration of the Republic of Serbia (TARS) is implemented through planned activities according to the ERP 2023–2025 timeline, leading to the fulfilment of all three strategic goals of the Transformation Programme of the Tax Administration for the period 2021–2025 as follows:

- Establishing business processes and organization in accordance with the best international practice, all in order to increase the collection of public revenues;
- Improving the quality of the present and introducing new types of services tailored to the needs of taxpayers;
- Profiling a new tax officer of exceptional professionalism and competence as the result of development of human resource function.

The following activities were carried out:

1. With respect to the project Advisory Services for business process redesign, including the training of trainers for introducing new functions into the Tax Administration organisational units, after the adoption of the Design of Business Processes with Attachments and Presentations document, trainings on the topic of the redesigned business processes and recognising subprojects as well as transfer of knowledge on planning activities in risk management were carried out, along with practical

and theoretical training of the employees in the Tax Administration, members of working groups assigned to participate in redesigning business processes, special groups whose members were identified as promoters of change, as well as the senior management of Tax Administration. The Plan to introduce a new Tax Administration business model with Action Plan was adopted in mid September 2023 by the Committee for Implementation of the Transformation Programme of the Tax Administration. Final report was adopted on 20 November 2023, and work on establishing an organisational management structure of the project began, what would be the official start of the Tax Administration new business model.

2. Consulting services for the market analysis and development of specifications for a Commercial off-the-shelf solution (COTS): The process for developing the Request for Bid document was completed, and adopted by the Committee for Implementation of the Transformation Programme of the Tax Administration; and after obtained approval of the World Bank, it has been officially directed to the further procedure.

3. Procurement of the Finished commercial solution (COTS): In the reporting period, the pre-selection of potential suppliers of the ready-made solution was completed, Accordingly, Request for Bid was sent on 16 June 2023 to potential bidders of the ready-made commercial solution, which went through the initial selection process. Upon expiration of the agreed time limit for submission, the Evaluation Commission began to evaluate the received bids of potential bidders which responded to the Request for Bid.

- The made Evaluation report on the technical assessment of bids was submitted to the World Bank for approval. Upon obtained approval of the World Bank on 22 November 2023, information on the technical assessment of bids was submitted to each individual bidder.

4. Within the Project: Institutional development of the human resources function, which includes the improvement of the human resources management function through the development of the human resources strategy and improvement of the existing information system for the human resources management, 'Presentation of international best practices in the HR management field' and 'Analysis of the difference between the existing and preferable TARS situation' were prepared. Strategic Management Workshop for the management of Tax Administration was held, and the Workshop conclusions will be the starting point for the development of the future Human Resources Strategy. Technical specifications of the Human Resources Management System (HRMIS) are being prepared. Draft Human Resources Strategy was developed and presented. The document represents the aspiration of the TARS to ensure consistency and stability of the system through the human resources management, which shall be reached on a long-term basis through the fulfilment of the proposed special objectives of the Strategy. The Human Resources Strategy was adopted at the 53rd session of the Committee for Implementation of the Transformation Programme, while the document on the Reengineering of the Business Processes of the Human Resources Function was adopted on 8 December 2023.

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

The capacity of the Fiscal Risk Monitoring Department is continuously reinforced through adequate training of the employees as well as attracting new staff. Trainings are performed with the support of and in co-operation with numerous development partners. Certain improvements in terms of reporting within the Fiscal Strategy were made in 2023, also observing the models of the prescribed applicable methodology, and work on this will continue in the future as well. In this area, collaboration with the World Bank has been established, and its experts gave certain recommendations to be observed and implemented during the preparation of the new Fiscal Strategy (spring 2024).

Continue the deployment of the SOE ownership and management strategy 2021-2027 by implementing the remaining steps of the time-bound action plan 2021-2023 and preparing the new time-bound action plan for 2024-2027 to improve the governance of SOEs and reduce related fiscal risks.

The Government of the Republic of Serbia passed on 2 August 2023, at the proposal of the Ministry of Economy, Draft law on the Management of Companies Owned by the Republic of Serbia, adopted by the National Assembly on 6 September 2023. The mentioned Law came into force on 15 September 2023, and shall be applied after 12 months from the date of entry into force (as of 16 September 2024).

In accordance with the legal time limit, a Coordination body for the assessment of the compliance of special laws with the provisions of this Law was established, and certain bylaws for further elaboration and enabling more efficient implementation of laws shall be adopted as follows: Act on the classification of corporations; Act on defining additional conditions for the appointment and appointment procedure of bodies of a corporation, as well as the procedure on the implementation of the public call for directors; Code of Corporate Governance; Act on the criteria for the selection of the legal form of a corporation into which a public company will be transformed; as well as professional development courses in the corporate governance area.

Action Plan for the period 2024–2027, with the aim of further implementation of the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia has been prepared and it will soon be submitted for public review.

3. Continue to carefully assess and analyse price developments and ensure a sufficiently tight monetary policy stance to preserve price stability in the medium term, including by further tightening monetary policy, if needed.

The National Bank of Serbia began to tighten monetary conditions in October 2021, by raising the first rate at reverse repo auctions and then the reference interest rate. As of April 2022, the benchmark rate increased cumulatively by 550 basis points to a level of 6.50% level, on which it has been since July 2023, and which is its highest level in the last eight years. The corridor of the interest was expanded in the same period on two occasions - In April 2022 (by 10 bps) and March 2023 (by 25 bps) – totalling from ± 0.90 to ± 1.25 percentage points to the reference rate. In this way, the rates on deposit and credit relief increased to the level of 5.25% and 7.75%, respectively.

In addition to tightening monetary conditions by raising basic interest rates, the National Bank of Serbia decided in September 2023 to support the current tightening of the monetary policy and further increase the efficiency of the transmission mechanism of the monetary policy by raising the required reserve rate as follows:

- reserve requirement rates on the foreign exchange base of the reserve requirement for 3 p.p. each;
- percentages of RSD allocation of foreign currency compulsory reserves for 8 p.p. each;
- reserve required rates on the RSD base of the mandatory reserve for 2 p.p.

In this way, the National Bank of Serbia sought to withdraw, in the conditions of extremely high RSD liquidity surpluses in the banking sector, a part of these surpluses (about a fifth at the time) with almost neutral effect on foreign currency liquidity. In addition to the withdrawal of a part of the excess liquidity and additional tightening monetary conditions, this measure should also encourage the growth of turnover in the interbank money market and thus contribute to increasing the representativeness of the benchmark interest rates in this market (BEONIA and BELIBOR).

Inflation is slowing down in accordance with the expectations of the National Bank of Serbia, and it is expected that it will move within the objectives of the projection horizon. Future decisions of the National Bank of Serbia will depend on the movement of the key inflation factors and its expected developments in the coming period, considering that it takes time to express the full effects of the previous tightening of monetary conditions. If it is deemed necessary, in order to ensure medium-term price stability, the National Bank of Serbia does not exclude the possibility of further tightening of monetary conditions.

Strengthen further the reporting and risk management frameworks across the banking system as well as an accurate reporting of asset quality, further upgrade NPL resolution by reducing obstacles in

the judiciary, improving bankruptcy procedures and facilitating out-of-court settlement, and building on recent progress further reduce remaining data gaps in particular as regards the real estate sector.

As the result of the regulatory and supervisory activities of the National Bank of Serbia, which are supported by the commitment of the banking sector commitment to the timely resolve the issue of assets quality, stability of the financial system has been maintained, and the NPL indicator moves close to the historically lowest level of this indicator of about 3%. Given the established framework and concrete results, the National Bank of Serbia will continue its activities within the supervisory process and will continuously monitor the situation in the banking sector.

The National Bank of Serbia continuously monitors changes in the real estate market and makes strives to strengthen the database on mortgaged real estate valuations in order to enable g comprehensive data collection and analysis. In addition, the National Bank of Serbia concluded in September 2023 a Cooperation Agreement with the Republic Geodetic Authority, which has been publishing data since November 2022 on hedonic index of housing housing prices, developed in accordance with the international methodological guidelines and on the basis of a model for mass appraisal of residences, which takes into account all sales transactions regardless of the method of financing, and provides relevant price movements as well as overall developments in the real estate market in the Republic of Serbia.

Currently, the resolution of the remaining problematic placements of banks in bankruptcy and placements in the name and on behalf of the Republic of Serbia, which are managed by the Deposit Insurance Agency, is ongoing According to the Law on Consensual Financial Restructuring (*Official Gazette of the RS*, No. 89/15), the Chamber of Commerce and Industry of Serbia is defined as an institutional mediator and the only institution responsible for enforcing this law. Given that the capacity has been built and a simple procedure provided, promotion and endeavours will continue in order to make desirable results of out-of-court settlement as a way of resolving disputes. Although the Law on Consensual Financial Restructuring ensures this procedure to be used by entrepreneurs as well, so far none of them has expressed interest for this procedure. In the meantime, the NPL ratio in the corporate sector decreased to 2.1%. To further promote implementation of this procedure in the economy, as well as mediation in commercial disputes, strong media campaigns and dedication are needed.

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

When making the decision to increase the reserve requirement, the National Bank of Serbia took in to account the need to further stimulation of use of RSD in the financial system, so that the foreign exchange requirement reserve rate increased to a greater extent than the RSD required reserve rate, making the use of RSD (especially long-term) sources of financing more stimulating for banks compared to the foreign currency. Also, the National Bank of Serbia continues to pay interest on the allocated RSD reserve (currently 0.75%), as opposed to foreign currency mandatory reserves on which it does not pay interest.

In order to limit the systemic risk of euroisation, a systemic risk buffer has been applied as of June 2017 in the last examination in March 2022 was kept at 3% of total FX and FX-indexed placements of a bank approved to corporates and households in the Republic of Serbia. All banks whose share of FX and FX-indexed placements approved to corporates and households in the Republic of Serbia exceeds 10% are obliged to maintain this buffer.

In 2023, the National Bank of Serbia continued to provide banks the possibility of concluding bilateral swap transactions introduced at the beginning of 2022, which have proven to be a more efficient instrument for assisting banks in managing dinar and foreign currency liquidity, and overcoming the issue of insufficient or non-existent interbank trading limits, primarily due to greater flexibility regarding the moment of conclusion and maturity of transactions compared to regular two-week and quarterly foreign exchange swap auctions, with the organization of which the National

Bank of Serbia ceased on 1 August 2022 (not excluding the possibility of reintroduction if the need arose).

4. Further improve transparency in the adoption and implementation of legislation, particularly by ensuring a timely consultation of businesses and social partners on new legislation affecting their operations, including on temporary legislative acts impacting established supply-chains of importing or exporting companies.

The eKonsultacije Portal, as a tool for the improvement of transparency in the adoption and implementation of laws and public policy documents, continues to evolve and simplify. From putting the Portal into operation (16 December 2021) until the end of October 2023, consultations and public hearings on 59 public policy documents and 91 regulations were or are being conducted on the eKonsultacije Portal, with participation of 342 citizens.

The number of employees with moderator's roles (for 38 public-service bodies - 281 officers) has increased, while 23 civil servants from the Public Policy Secretariat and General Secretariat of the Government have the evaluator role, as well as two administrators from the Ministry of Public Administration and Local Self-Government for the part of the Portal related to the "Open Government Partnership".

Activities for the improvement of the functionality of the eKonsultacije Portal for the local self-government units are underway. The mentioned improvements will be also followed by activities directed towards the governmental authorities, local self-government units, citizens, civil society organisations and other stakeholders.

In connection with the provisional legal acts affecting the established supply chains of import or export companies, as of 31 October 2023, i.e. the expiry of the Decision amending the Decision on determining agricultural and food products for which a special duty is paid on import and determining the amount of a special duty, new measures will not be introduced.

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

In 2023, MoF initiated the process for the preparation of a new Decree on Capital Projects, adopted by the Government on 14 September 2023. The Decree is the result of a consultative process that primarily took place in co-operation with the Ministry of European Integration, with the aim of establishing a unique and comprehensive system for public investment planning and management, regardless of the type and source of financing. The new Decree modifies and improves numerous aspects of the process, primarily in terms of identification and verification of relevance of the project idea. It is foreseen that the relevance of project ideas shall be identified and verified taking into account, *inter alia*, effects of the project from the aspect of climate change and their interdependence, as well as possible impact of the intended capital project on the environmental sustainable development, i.e. the impact of the future project on environmental factors and their interdependence.

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

The Law on Amendments to the Law on Public Procurement was adopted by the National Assembly of the Republic of Serbia and published in the Official Gazette of the Republic of Serbia No. 92/23 of October 27, 2023. The law entered into force on November 4, 2023, and is applicable from January 1, 2024, except for the provision of Article 21, paragraph 1 of this law (registration of new business entities on the Public Procurement Portal), which applies from the date of entry into force of this law. Application of the Law amending the Public Procurement Law will contribute to increased transparency, efficiency and cost-effectiveness of the public procurement procedures, environmental impact in accordance with the objectives defined under the Green Agenda for the Western Balkans,

strengthening the competition in the public procurement market, reducing the risk of irregularities in the public procurement system, i.e. greater degree of legal protection of participants in the public procurement procedures, but also enhanced control by the authorised institutions. In this regard, improvement of the Public Procurement Portal in the forthcoming period is expected in accordance with the mentioned Amendments to the Law, as well as continued capacity building of the contracting authorities and contracting entities and tenderers in the public procurement procedures.

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

In the period 26–29 September 2023, a Peer review mission of the European Commission on competition and state aid was held. The purpose of this mission was getting acquainted with the way the Commission for State Aid Control works and application of regulations in practice through analysis of relevant cases with the aim of giving recommendations how to improve the work of the Commission. The outcome of this mission will be an auxiliary tool in assessing operational independence of the Commission as one of the criteria for opening the Negotiation Chapter 8 – Competition policy.

5. Adopt the national energy and climate plan in line with the Green Agenda for the Western Balkans and international commitments.

Public consultations on the Draft Integrated National Energy and Climate Plan NECP (in the period from 13 June 2023 to 28 July 2023) and Draft Report on Strategic Environmental Assessment (in the period from 22 June 2023 to 5 August 2023) were held. Draft NECP along with the Draft Report on Strategic Environmental Assessment were officially submitted on 29 June 2023 to the Secretariat of the Energy Community. The Secretariat of the Energy Community sent on 31 October 2023 recommendations provided on the Draft NECP.

Comments submitted during the public consultation process were mostly comments concerning the explanation and improvement of the text and have no significant influence on the Draft NECP.

Pursuant to submitted comments during the process of public consultations and cross-border consultations and recommendations of the Secretariat of the Energy Community, the following documents were prepared:

- Draft for final NECP version,
- Draft for final version of the Report on Strategic Environmental Assessment
- Proposal for the Report on public and cross-border consultations on NECP and Report on Strategic Environmental Assessment,
- Suggestions for responses to recommendations of the Secretariat of the Energy Community.

This documentation was adopted by the multi-sector Working Group established to monitor the development of NECP. After that, it is expected that in the coming period adoption procedures by the Government will be carried out.

The definition of a new energy policy implies the development of a new Energy Development Strategy and the definition of a just transition. A draft of the Energy Development Strategy of the Republic of Serbia until 2040 with projections until 2050 was prepared, as well as the Report on the strategic assessment of the impact of the "Energy Development Strategy on the Environment". In the following period, public and cross-border consultations will be conducted for these strategic documents as well.

A just transition will be defined within the project "Diagnostic Study of Just Transition for Serbia" with an Action Plan. Finalization of this project is expected in the first half of 2024.

Further modernise energy infrastructure and lower carbon emissions to accelerate the green transition also in the light of the upcoming EU Carbon Border Adjustment Mechanism (CBAM).

The Government of the Republic of Serbia adopted the document: Starting points of the Energy Infrastructure Development Plan and Energy Efficiency Measures for the period until 2028 with projections until 2030

Several projects for the development, reconstruction and modernisation of the transmission and distribution grids are underway. Projects for modernisation of the distribution electricity system, automation of the medium voltage network operation, replacement of electro-mechanical counters with smart counters, replacement of wooden impregnated poles with concrete electric poles including replacement of conductors, replacement of 10 kV, 20 kV, 35 kV and 110 kV power transformers.

The implementation of the distribution grid modernisation was also supported by an EU donation.

More info on these and other projects planned for implementation in the time horizon until 2030 is found in the document: Starting points of the Energy Infrastructure Development Plan and Energy Efficiency Measures for the period until 2028 with projections until 2030.

Decarbonisation of the energy sector, i.e. reduction of carbon emissions will contribute first of all to gradual decrease in the use of coal in the electricity generation and increase in share of renewable energy sources (RES) in an energy mix on the way to reaching climate neutrality.

Reduce over dependence from individual countries, accelerate renewables and energy efficiency, including launching first auctions for renewable energy sources (RES), further developing the administrative entity for energy efficiency, and the sustainability of the financing mechanism.

The most important step in reducing import dependency from individual countries is commissioning of the Gas Interconnector Niš–Dimitrovgrad–Sofia. The gas pipeline is starting to deliver natural gas from Azerbaijan.

In order to increase the share of renewable energy sources, the Republic of Serbia plans the construction of 2 GW solar power plants and wind power plants by state-owned companies.

In the Directorate for Financing and Encouraging Energy Efficiency, out of 12 systematised positions, 8 full-time civil servants and directors are currently employed.

In the Directorate for Financing and Promoting Energy efficiency a budget of 483 million dinars was provided for incentives in 2023, while in 2022, out of fees, approximately RSD 1.36 billion was collected (up to and including 30 November 2023, out of fees, in 2023, RSD 1.29 billion was collected). In 2022, the Directorate issued one public call for subsidies to citizens (contracts were signed with 151 municipalities) and one public call for public facilities (contracts were signed with 38 municipalities). In 2023, a public call was announced for public facilities (financing 21 projects for energy renovation), while subsidies to citizens are provided from the World Bank loan in the amount of EUR 44.9 million (the project runs until the end of 2027).

IPA funds were provided for technical assistance in strengthening the capacity of the Directorate (EUR 5 million) with particular focus on the improvement of the incentive and accreditation mechanisms for the use of EU funds (beginning of implementation as of 2 June 2023, duration 48 months). The Budget foresees funds for securing an EBRD loan in the amount of EUR 50 million for the Project: Energy renovation of residential, multi-family buildings connected to the district heating system – Public ESCO Project. So far, 20 municipalities expressed their interest in participation in this project, which is focused on residential buildings connected to the district heating system. EBRD will provide grants in the amount of approximately EUR 15 million to support the project.

In order to increase the use of renewable energy sources, first auctions were launched and 425.2 MW of new capacity allocated for wind and solar power plants. Total capacity of these power plants is 716.99 MW, with a total value of EUR 1 billion. This is only part of implementation of the Plan for the incentive system for the use of renewable energy sources for the period 2023–2025, which

envisages total allocation of incentives for the construction of 1.3 GW projects from the renewable energy sources. The mentioned Plan includes a framework time plan for holding auctions, auction frequency, expected new renewable energy sources capacity, total incentive funds to be allocated to preferential producers. Serbia will have in the next 3 years over 1000 MW of new capacity from renewable energy sources.

Continue to implement the price and tariff reform, as well as other reforms related to energy SOEs, in line with Serbia's commitments under the stand-by arrangement agreed with the IMF in December 2022.

The price of electricity for guaranteed supply was increased as of 1 January 2023 (on average by 8%), 1 May 2023 (on average by 8%) and 1 November 2023 (on average by 8%).

The price of natural gas for public supply was increased as of 1 January 2023 (on average by 11%), 1 May 2023 (on average by 10%) and 1 November 2023 (on average by 10%).

To further liberalise the energy market, accelerate the unbundling of all energy utilities in line with the EU acquis and, for the gas sector in line with Serbia's Action Plan; as regards Gastrans, ensure that the regulatory regime is in compliance with EU acquis and the Action plan developed for the opening in December 2021 of Cluster 4 for Energy, Climate and Transport in the EU accession negotiations.

The legal and functional unbundling of the electricity distribution system operator Elektrodistribucija Srbije d.o.o has been completed.

In April 2023 change of legal form of SOE Elektroprivreda Srbije, Belgrade, into a Joint Stock Company: Elektroprivreda Srbije A.D., was implemented.

The National Assembly adopted a Law amending the Energy Law in July 2023. The Law establishes the Republic Commission on Energy Network, as an independent and autonomous body of the Republic of Serbia, to exercise control over the electricity transmission system operators and natural gas transport system operators, whose founder is the Republic of Serbia, while control over the energy entities performing the activities of generation, distribution and supply of electricity, i.e. natural gas, and whose founder is the Republic of Serbia, shall be performed by the Government.

The Law specifies the provisions that will indisputably allow proof that control over the electricity transmission system operators, i.e. natural gas transport system operator and companies performing the activities of generation, distribution and supply of electricity, i.e. natural gas, and whose founder is the Republic of Serbia, is not performed by the same person.

Pursuant to the Conclusion of the Government of the Republic of Serbia of 16 May 2021, the Action Plan for reorganisation of PE Srbijagas, Novi Sad, was adopted. So far, a series of activities to create conditions for the certification of the transmission system operator, were carried out, of which the most important ones are the following:

- transfer of the founding rights to the transmission system operator from PE Srbijagas to the Republic of Serbia,
- amendments to the founding act of the SOE "Srbijagas" and "Transportgas Srbija" Ltd.,
- modification of management bodies of SOE "Srbijagas" and "Transportgas Srbija" Ltd,
- foundation and registration of the branch of SOE "Srbijaga" (in terms of supply), a subsidiary company of SOE "Srbijagas" for supply and registration in the Agency for Business Registers and commencement of work.

The above-mentioned Plan foresees amendments to relevant regulations in order to ensure independence in the exercise of management rights on the behalf of the Republic of Serbia, and which shall ensure certification of separate undertakings in the natural gas field.

Interdepartmental Working Group for monitoring the implementation of the Action Plan for reorganisation of SOE Srbijagas, Novi Sad, was established on 10 January 2023, and the task of the Working Group is to monitor the implementation of the Action Plan for reorganisation of SOE Srbijagas, Novi Sad, with the aim of analysing the current situation and identifying deficiencies and

activities which need to be done in order to implement complete reorganisation of SOE Srbijagas, Novi Sad. With the purpose of creating conditions for certification of the natural gas transport system operator, Transportgas Srbija, the National Assembly adopted in July 2023 the *Law amending the Energy Law*.

This Law establishes the Republic Commission on Energy Network, as an independent and autonomous body of the Republic of Serbia, to exercise control over the electricity transmission system operators and natural gas transport system operators, whose founder is the Republic of Serbia, while control over the energy entities performing the activities of generation, distribution and supply of electricity, i.e. natural gas, and whose founder is the Republic of Serbia, shall be performed by the Government.

The Law specifies the provisions that will indisputably allow proof that control over the electricity transmission system operators, i.e. natural gas transport system operators and companies performing the activities of generation, distribution and supply of electricity, i.e. natural gas, and whose founder is the Republic of Serbia, is not performed by the same person.

Thus, complete implementation of Directive 2009/73/EC concerning common rules for the internal market in natural gas shall be enabled, and conditions created for the certification of the natural gas transport system operator.

In accordance with the *Energy Law*, the National Assembly elected the president and members of the Republic Commission on 26 October 2023, which started to work on 1 November 2023. The Energy Agency of the Republic of Serbia, in accordance with its competences, ensures and monitors that Gastrans d.o.o. observes the approved scope of exemptions and performs the transport activity in accordance with the issued certificate and requirements of the EU Third Energy Package of regulations transposed into national legislation.

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

In accordance with the *Law on Social Protection* ("Official Gazette of the Republic of Serbia", Nos. 24/11 and 117/22- Constitutional Court decision), the basis for determining financial social assistance is adjusted to the consumer price index in the previous six months, based on statistical data, twice a year, on 1 April and 1 October.

As of 1 April 2022, the nominal amount of financial social assistance for an individual is RSD 9,580 (approx. 80 euros), which is an increase of RSD 465 (approx. four euros) compared to October 2021. The nominal amount of social assistance for an individual in October 2021 amounted to RSD 9,115 (approx. 76 euros).

The *Budget Law of the Republic of Serbia for 2023* ("Official Gazette of the Republic of Serbia" No. 138/22) allocates funds for rights in the field of social protection in the amount that is aligned with the existing normative framework. Any change in regulations, i.e. a change or increase in rights, also means an increase in the funds for the payment of these rights. It is necessary to wait for the effects of the implementation of the Law on Social Card ("Official Gazette of RS", No. 14/21) and possible savings, which will contribute to the increase of social assistance in the conditions of budgetary constraints.

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

In the fiscal strategy documents on the goals of fiscal policy that refer to the period from 2018 to 2024, the reduction of the fiscal burden on labour through the reduction of taxes and contributions on wages is foreseen. Reducing the fiscal burden on labour is obtained by increasing the non-taxable amount of wages and reducing the rate of contributions for compulsory social insurance, all depending on the created additional fiscal space that can be used to reduce the tax burden on wages.

Progressive taxation of earnings is achieved by not paying tax on earnings up to the prescribed non-taxable amount. Thus, the lowest salaries are exempt from part of the tax so that the tax is not paid on the prescribed non-taxable amount. For 2023, non-taxable amount of earnings has been increased

from RSD 19,300 (approx. 160 euros), as it was in 2022, to RSD 21,712 (approx. 180 euros) per month. The Law amending the Law on Personal Income Tax, adopted by the National Assembly of the Republic of Serbia at its session of 26 October 2023, prescribes an increase in the non-taxable amount of wages from RSD 21,712 (approx. 180 euros) to RSD 25,000 (approx. 208 euros) per month, applicable as of 1 January 2024. Otherwise, the non-taxable amount of earnings is increased annually by aligning the annual consumer price index.

In addition, progression is also achieved by annual income tax of citizens. Earnings (as well as other income based on work) that natural persons earn during the calendar year are also taxed with an additional annual personal income tax after the end of the calendar year. The subject of taxation with the annual tax is the income realised in a calendar year which is higher than the prescribed non-taxable amount (triple the amount of the average annual salary). The annual personal income tax rate is progressive and amounts to 10% for taxable income up to the amount of six times the average annual wages and 15% for taxable income over the stated amount.

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

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

For the 2023/2024 school year, 73 dual educational profiles with qualification standards were developed. A methodology has been prepared for the development of curricula for dual educational profiles. The methodology is in use and in accordance with this methodology, the Institute for the Improvement of Education develops new curricula and modernises the existing ones. In accordance with the Law on Dual Education, the basis for adopting curricula is the qualification standard determined by the sector skills council for a specific sector of work, in accordance with the law regulating the National Qualifications Framework. Part of each curriculum of teaching and learning for dual educated profiles is "learning through work", which is an organized process during which students, under the guidance and supervision of instructors and coordinators of learning through work, in a realistic working environment with the employer acquire competences for work in a particular occupation or group of occupations. In September 2023, amendments to the laws governing dual education and National Qualifications Framework were adopted. Some of the key amendments relate to increased coverage of work-based learning hours, spent by students in companies, evaluation of the quality of work-based learning, introducing the training centre status for schools, introducing the basis for financial support to dual education implemented through support to schools and businesses in education of students for deficit occupations.

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

Draft Youth Guarantee Implementation Plan was developed and aligned with the members of the Coordination Body, Expert Group and comments of the European Commission.

The European Commission gave as regards the Proposal for the Implementation Plan its consent and approval to continue with the adoption procedure.

Additional financial resources for the Youth Guarantee have been provided from the Budget of the Republic of Serbia for 2024, and financial framework in the Proposal for the Implementation Plan, directed for the adoption procedure, has been adjusted accordingly.

In accordance with the developed Youth Guarantee Implementation Plan, preparatory activities as regards: strengthening administrative capacity, developing the platform for the youth registration and other, have started, while the processes of piloting and involvement of young people in different measures will start in 2024, and will be implemented by the end of 2026 in selected branch offices of the National Employment Service.

3. MEDIUM-TERM MACROECONOMIC FRAMEWORK

3.1. ASSESSMENTS OF THE INTERNATIONAL ECONOMIC ENVIRONMENT

According to the autumn estimates of the European Commission (hereinafter: EC), the economic activity of the EU has lost its momentum, with almost stagnant developments in first three quarters of 2023. The economic growth of the EU countries will decelerate to 0.6% in 2023 (identical growth is expected in the euro area), while a moderate growth of 1.3% is expected in 2024 (1.2% in the euro area). The expected growth of economic activity in 2024 has been revised downward by 0.1 pp relative to the summer assessments, and remains below its potential level. A gradual acceleration of growth is expected in the medium-term, as the foreign demand approximates its pre-pandemic trends, as well as due to the growth of the real personal income, supported by a mitigation of inflation and an intensification of investment activity. Nevertheless, growth will still be weak due to a tightening of the monetary policy and its delayed impact on the real economy, as well as due to a gradual disappearance of fiscal support. Uncertainty and risks to the realization of the projection have been even stronger during the last few months, and are connected to the further development of the conflicts in Ukraine and in the Middle East, potential vulnerability of the energy market and more persistent price pressures, as well as climate change.

A decelerated growth of economic activity this year has been accompanied with a lack of a clear driver of growth due to visible weaknesses in consumption, as well as in the external sector. Private consumption has mostly stagnated, as the growth of nominal salaries has continued to lag behind the inflation, and investments have negligibly increased in the first half of the year, with a large difference in the dynamics between Member States. At the same time, consumption in the service sector has remained stable, partially due to a further recovery of tourism. However, export activity has declined, while the positive contribution of the net export is a consequence of a larger decline of import relative to export. In terms of production, weak demand and high costs of energy products are the main factors of decelerated developments of industrial production. High costs of construction material and tightened financing conditions, as well as the lack of labour force, have negatively affected the construction sector, particularly in terms of the construction of residential buildings. The dynamics of the high frequency indicators (PMI index of the euro area) in October 2023 (46.5 points) show a decline in the economic activity, as the value of the index is, for the fifth consecutive month, under the threshold of 50 points, as the lowest value since November 2020. In addition to the production sector, which has had a long-term trend of decline, problems in the service sector have also been obvious during the last few months due to a reduced demand.

A mild recovery is expected in late 2023 and early 2024, followed by a continued growth in the medium term. The global monetary tightening and increased uncertainty have caused external demand to recover more slowly than previously expected. Private consumption is projected to be a key driver of growth in the forecast period, as a result of the expected growth of salaries, continued employment growth, and further deceleration of inflation. At the same time, in spite of the expected recovery of foreign demand, the contribution of net export will remain mostly neutral in the forecast period. With a mitigation of inflation and the expected relaxation of the monetary policy and recovery of foreign demand, the growth in EU is expected to increase to 1.7% (1.6% in the euro area) in 2025. The economic activity of our largest foreign trade partners, primarily Germany and Italy, still remains considerable affected by the conflict in Ukraine and an increased inflation, which negatively affects private consumption and foreign demand. The economic activity in Germany is expected to decline by 0.3% in 2023 (according to the spring projection, a growth of 0.2% was expected), while growth in 2024 has been revised downward from 1.4% to 0.8% relative to the spring projection. Italian

economy will grow by 0.7% in 2023, and by 0.9% in 2024, which is a revision downward of 0.2 pp relative to the spring projection.

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

	Current projection			Previous (spring) projection		Previous (autumn) projection*	
	2022	2023	2024	2023	2024	2023	2024
GDP	3.4	0.6	1.2	1.1	1.6	0.3	1.5
Private consumption	4.3	0.6	1.2	0.6	1.7	0.1	1.5
Government consumption	1.6	0.2	1.0	0.7	0.7	0.3	0.8
Gross fixed capital formation	2.6	1.2	1.3	1.0	2.1	0.5	2.3
Export	7.2	0.2	2.2	3.1	3.3	2.0	3.4
Import	7.9	-0.3	2.3	2.3	3.2	1.9	3.5
Employment	2.3	1.1	0.5	0.6	0.5	0.1	0.5
Unemployment rate, labour force percentage	6.8	6.6	6.6	6.8	6.7	7.2	7.0
Inflation	8.4	5.6	3.2	5.8	2.8	6.1	2.6
Unit labour costs	3.4	6.0	3.8	5.0	3.2	4.8	2.7
Fiscal result of the general government, GDP %	-3.6	-3.2	-2.8	-3.2	-2.4	-3.7	-3.3
Gross debt of the general government, GDP %	92.5	90.4	89.7	90.8	89.9	92.3	91.4
Current account balance, GDP %	1.0	2.5	2.6	2.1	2.4	1.9 ¹	2.4 ¹

Source: EC, Autumn 2023 Economic Forecast, November 2023.

* EC, Autumn 2023 Economic Forecast, November 2022.

¹ Projections concern 19 euro area countries.

The EU labour market continued its strong growth in the first half of 2023, in spite of the deceleration of economic growth. In Q2 of this year, the activity and employment rates reached their highest levels ever. In September, the unemployment rate remained near the record low level. An employment growth of 1.0% in the EU is forecast for 2023, followed by a deceleration to 0.4% in 2024 and 2025. The unemployment rate in the EU is expected to remain stable, at 6.0% in 2023 and 2024 and 5.9% in 2025, which is still below the unemployment rate recorded in the majority of the Member States in 2019 or even 2022. Nominal wage growth is forecast to further accelerate during 2023, before gradually decelerating in 2024 and 2025. Nevertheless, a wage growth faster than the inflation growth is expected in the projection period, which will allow the lost purchase power from the previous period to be overcome.

After the record level of 10.6% in October 2022, inflation in the euro area was 2.9% a year later, its lowest level in the previous two years. At the same time, inflation in the EU had similar dynamics. The main factors of the reduction of inflation in the euro area are the decline of prices of energy products and the decline of food prices. According to the autumn forecast by the EC, the inflation declining trend is expected to continue in the projection period. Inflation in the EU is expected to drop from 6.5% in 2023 to 3.5% in 2024 and 2.4% in 2025, while the levels of inflation in the euro area, after 5.6% in 2023, will be 3.2% and 2.2% in 2024 and 2025, respectively.

The effects of the previous tightening of the monetary policy have been increasingly more visible, and continued to affect the loosening of inflation and further reduction of inflationary pressures. The European Central Bank (hereinafter: ECB) has, since the beginning of the year, raised the key interest rate six times by 200 bps in total, reaching the current level of 4.50% in September. In the forthcoming period, the ECB will continue to carefully monitor the economic developments and, in accordance with this, make future decisions on increasing the restrictiveness of the monetary policy, with a view to timely normalising the inflation to the target 2.0% in the medium-term.

After the record level of fiscal deficit of 6.7% of the GDP in 2020, during the COVID-19 pandemic, the EU deficit was subsequently reduced to 3.3% in 2022, in spite of significant measures aimed at a mitigation of economic and social impact of high prices of energy products. In 2023, a further fiscal deficit reduction to 3.2% of the GDP is expected, primarily due to a full abolition of provisional

measures of support relating to the pandemic, reduction of subsidies, and a lower net budget support aimed at overcoming the energy crisis. Also, a turnaround in the fiscal policy is expected in 2023, where its restrictive nature will be conditioned by a gradual abolition of energy support measures. Fiscal deficit is expected to be reduced to 2.8% of the GDP in 2024 and 2.7% of the GDP in 2025, while the public debt share in the GDP will be reduced to 82.7% in 2024, with an almost unchanged level in 2025 (82.5%). Nevertheless, the public debt share in the GDP will still remain above the pre-pandemic level (79%) at the end of the observation period.

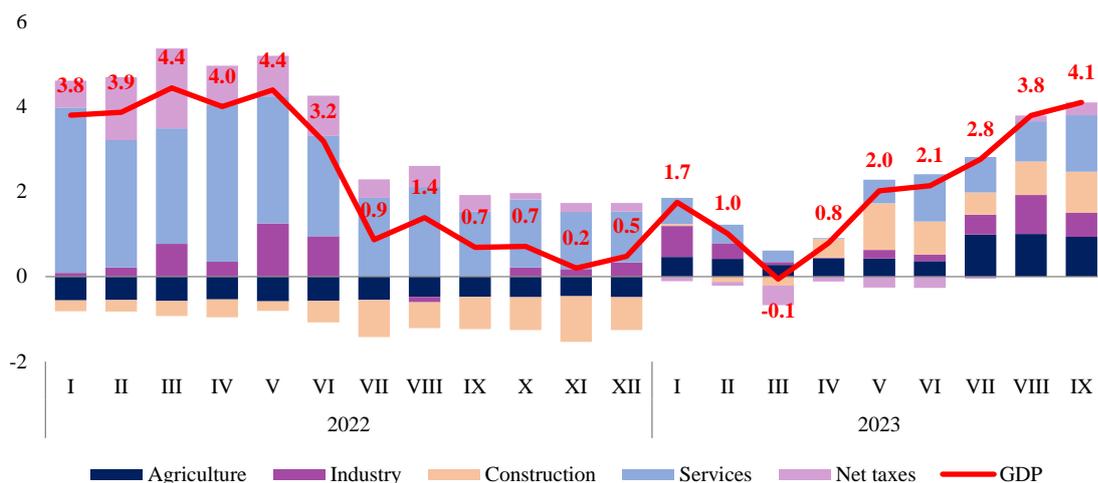
3.2. CURRENT ECONOMIC DEVELOPMENTS AND PROSPECTS FOR 2023

Real sector. Movements of the basic macroeconomic aggregates in 2023 were generally at the previously projected level. According to the data of the Statistical Office of the Republic of Serbia, the growth of the GDP in Q1 2023 was 0.9% y-o-y. In Q2 2023, the growth of the economy accelerated to 1.7%. Observed from the production side, economic growth in the first half of the year was driven by service sector, which had a growth of 1.2%. An increase of the economic activity occurred with the majority of service activities. The most important contribution came from the ICT sector, as well as professional and technical services. The most significant negative contribution came from the trade sector, partly due to a high base in the same period of the previous year due to instances of impulsive buying by the citizens after the start of the conflict in Ukraine, as well as due to the somewhat higher year-over-year inflation rate in the first half of this year, which was reflected in the lower real turnover in retail trade. A strong growth of construction in Q2 fully neutralised the drop from Q1, which resulted in a growth of this sector of 7.4% in the first half of the year. In the first half of 2023, industrial production had a growth of gross value added (hereinafter: GVA) of 1.7%, primarily as a result of the increase in production in the electricity sector, while the manufacturing industry had a drop in terms of its physical volume of 1.0% due to a slightly lower foreign demand, as well as the base effect. The agriculture, which, according to the first estimates, has had yields in 2023 which are above the multi-annual average and had a growth of approximately 10% relative to the previous (dry) year, contributed positively to the growth of the GDP. Observed by aggregates of use, the GDP growth in the first half of 2023 was fully driven by net export, while domestic demand contributed negatively, primarily due to the impact of changes in inventories. Activation of new production capacities resulted in a real growth of the export activity, which was 5.1% in spite of a somewhat lower foreign demand. On the other hand, a drop of the import of energy products and a lower import of raw materials resulted in a 3.8% decrease of the real import activity. Private consumption, affected by the high base due to instances of impulsive buying by the citizens after the start of the conflict in Ukraine, as well as due to the somewhat higher inflation rate, had a real growth of 0.4%. Simultaneously, gross fixed capital formation had a growth of 3.1% due primarily to the growth of construction works. Affected by the consumption of reserves in the winter months and the high base, change in inventories contributed negatively.

According to a flash estimate of the Statistical Office of the Republic of Serbia, the GDP growth in Q3 was accelerated to 3.5% y-o-y. The economic growth in this period was diversified and occurred in all economic sectors. The most significant positive contribution to the growth of the GDP came from the service sector and the industry sector, which, according to the estimate of the Ministry of Finance, had an increase of 2.7% y-o-y and 3.6% y-o-y respectively. The growth of the economy was additionally supported by stable developments in the construction sector and an increased production in the agricultural sector.

High frequency indicators show a gradual acceleration of the dynamics of economic activity during 2023. This is also confirmed by the Indicator of economic activity (IPAS), created by the Ministry of Finance for the purposes of reviewing the monthly dynamics of the overall economic activity. After the somewhat lower growth rates in early 2023, there has been a gradual acceleration of the economic activity since May, and thus the value of this indicator in September shows a GDP growth of 4.1% y-o-y, which is the largest monthly growth of the economy, year-over-year, since May 2022.

Chart 1 Indicator of economic activity of Serbia (IPAS), year-over-year growth rates, %



In the first nine months, the physical volume of the industrial production had a growth of 2.4% y-o-y, driven by the increased production in the electricity sector. The stabilisation of the electrical energy production, together with the impact of a somewhat lower base from the same period of the previous year, resulted in a two-digit growth of this activity, which was 15.0% y-o-y in the first nine months. Simultaneously, the mining sector achieved mild growth of 1.7%, and a lower exploitation of coal in this period contributed to the lack of better results in this sector. In the period January–September, the manufacturing industry had a mild decline of production of 0.1%, primarily as a result of a lower volume of production of certain export-oriented activities, due to a somewhat lower foreign demand. Observed by divisions of manufacturing industry, the most significant negative contribution in the first nine months came from the manufacture of fabricated metal products and the petroleum industry, which had a decrease of 9.0% y-o-y and 5.5% y-o-y, respectively. The most important positive contribution came from the pharmaceutical industry, computer and electronic industry and machine industry, with a growth of 13.8%, 52.4% and 11.7% y-o-y, respectively. When assessing the current dynamics of the manufacturing industry, it should be kept in mind that this sector’s production has had positive numbers since July, and that there was a growth by 3.0% y-o-y in September. In view of the current developments in the manufacturing industry, as well as the impact of a slightly lower base, this sector is expected to have positive growth rates in the rest of 2023, in year-over-year terms.

The service sector continues to grow, with noted divergent developments of certain activities. A slower growth of real disposable income was reflected in a deceleration of this sector in the first half of the year, but with a gradual relaxation of inflationary pressures, there was a gradual acceleration of activities in Q3. In the first nine months, good developments in tourism and hospitality continued, where the number of tourist arrivals and overnight stays had a y-o-y increase of 10.3% and 4.2% respectively, accompanied by a growth of activities of domestic and foreign tourists. Simultaneously, foreign currency inflow from tourism during the first nine months increased by 8.0% y-o-y. In addition, the growth of catering trade turnover continued, and had a real increase of 13.3% y-o-y in the first eight months. The information and communication technology sector is continuously growing, and the role of this sector has been becoming increasingly important, where the cumulative growth over the previous three years was 19%. Similar dynamics occurred in the first six months of 2023, with a real growth of the GVA of this sector of 10.0%. This was accompanied by a strong growth of the export of the ICT sector during 2023, where the export from this sector in the first nine months had a value of 2.5 billion EUR, i.e. it was increased y-o-y by 31.9%, accounting for a little more than a third of the total export of service activities. Transport activity, measured by the index of the physical volume, increased by 26.9% y-o-y in the first half of 2023, as a result of the growth of passenger transport by 53.6% y-o-y. In the first nine months of 2023, retail trade turnover had a real decrease of 3.9%, primarily as a result of slightly higher prices, as well as a high base from the same period of the previous year due to the impulsive buying on the part of the citizens immediately after

the start of the conflict in Ukraine. However, in the upcoming period, with the loosening of inflation and a growth of real available income, a somewhat more favourable situation is expected, and a gradual acceleration of activity in real amounts. This was already visible in September, when the drop in constant prices was considerably lower relative to the previous months, and was 0.7% y-o-y.

Starting with the current trends with respect to the developments of the economic activity, in view of the dynamics of high frequency indicators, economic prospects of the most important foreign trade partners, as well as the global economic trends, the Ministry of Finance has retained an estimation of the economic growth in 2023 of 2.5%.

Labour market. Due to the preserved macroeconomic stability, as well as the economic growth, the labour market largely remains resilient to the particularly negative impact of geopolitical events. Thus, in 2023, there were continued positive developments on the labour market, which were primarily reflected in the growth of employment and wages in the private sector. According to the data of the Central Registry of Compulsory Social Insurance (CRCSI), the average number of employees from January to September 2023 was higher by 2.7%, relative to the same period during the previous year, which was primarily contributed to by the employment growth in the private sector by 3.6%, i.e. 58.3 thousand persons, while growth in the public sector was 0.5%, i.e. approximately 3.3 thousand persons. In this period, the strongest sectoral contribution to the employment growth comes from ICT, scientific and technical and service activities and the manufacturing industry. According to the data of the National Employment Service, the number of persons actively looking for employment in the same period was reduced by 9.8%. Positive developments on the labour market were confirmed by the data from the Labour Force Survey. The unemployment rate, which was 10.1% in Q1 2023, subsequently decreased to 9.6% in Q2 of 2023. Relative to Q2 2022, the employment rate increased from 50.0% to 50.4%, and the rate of people outside the labour force was reduced by 1.0 pp. In the same period, the active population grew to 20 thousand people. Within the total employment, the number of formally employed people increased by 33.3 thousand, while the number of informally employed people decreased by 38.8 thousand. In addition to the above, there were certain structural improvements on the labour market. The status of the female population was improved – i.e. the number of employed women increased by 20.7 thousand. In addition, the rate of informal employment was reduced by 1.3 pp, and amounted to 12.3%. In the same period, there was a mild increase of the long-term unemployment rate by 0.3% pp, to 4.8%. From January to August, the average net salary amounted to 84,389 RSD, and had a mild real increase by 0.7% compared to the same period of the previous year, in spite of the somewhat higher year-over-year inflation in this period. The real wage growth was fully determined by the wage growth in the private sector, which was 1.8%, due to the increase of wages in the manufacturing industry and in trade. At the same time, in spite of a 12.5% increase of wages in the public sector, according to the decision of the Government from the beginning of this year, their real values decreased, mostly as a result of the accounting effect due to a slightly higher inflation in this period.

External sector. During the nine months of 2023, the current account deficit came at around EUR 0.8 bn (1.6% of GDP) and was fully financed by net FDI inflows (408% coverage). The fall in global energy prices, and partly the lower quantities of imports, led to a decrease in the current deficit by EUR 2.5 bn compared to the same period of 2022. Such trends in the current account reflect the lower goods deficit (by EUR 2.8 bn y-o-y), which was largely a consequence of dented energy imports, as well as an increase in the services surplus (by EUR 0.6 bn y-o-y), while growth of the primary income deficit (by EUR 0.9 bn y-o-y) worked in the opposite direction.

Despite the slowdown in external demand, goods and services exports continued to record high growth rates in 2023, primarily due to investment in tradable sectors from the previous period. Goods exports during the nine months of 2023 went up by 5.8% y-o-y,¹ having received the strongest boost from manufacturing (7.0% y-o-y, contribution 5.9 pp), where export growth was widely dispersed across branches (17 out of 23), as well as from electricity supply (89.3% y-o-y, contribution 2.4 pp).

¹ Data on total exports and imports of goods are given according to the balance of payments methodology, while detailed data (by different classifications) are given according to the foreign trade methodology.

Looking at markets, goods exports were powered primarily by the rising exports to European countries (4.0% y-o-y, contribution 3.6 pp), mostly those of the EU (3.3% y-o-y, 2.2 pp contribution), but also countries in Asia (16.3%, 1.2 pp contribution) and CEFTA (2.6% y-o-y, 0.4 pp contribution). By sector, the key drivers of export activity were the electricity, gas and steam supply (89.3% y-o-y, 2.4 pp contribution), electrical equipment (21.5% y-o-y, contribution 2.1 pp), motor vehicles and trailers (23.9% y-o-y, 2.0 pp contribution), miscellaneous machinery and equipment (30.6% y-o-y, 1.7 pp contribution) and metal products other than machinery (23.8% y-o-y, contribution 1.0 pp). A decline was recorded in the exports of agricultural products, hunting and service activities (-32.8% y-o-y, contribution -1.6 pp), base metals (-17.2% y-o-y, contribution -1.4 pp), as well as chemicals and chemical products (-15.7% y-o-y, contribution -1.1 pp).

In the first nine months of 2023, goods imports contracted by 6.0% y-o-y, mostly as a result of the subdued imports of electricity, gas and steam (-51.0% y-o-y, contribution -2.3 pp), crude oil and natural gas (-21.6% y-o-y, contribution -2.2 pp), chemicals and chemical products (-15.7 y-o-y, contribution -1.5 pp), and coke and petroleum products (-39.1 y-o-y, contribution -1.3 pp). Along with unclassified goods, imports rose for coal exploitation (152.2% y-o-y, contribution 0.7 pp), as well as for electrical equipment (10.4% y-o-y, contribution 0.6 pp).

The surplus on services expanded by 45.6% y-o-y in the nine months of 2023, with the biggest contribution coming from ICT services (contribution 39.3 pp), transport services (16.8 pp, mainly air transport), as well as other business services (9.9 pp). Services exports grew by 20.7% relative to the same period last year, largely as a result of the higher exports of ICT services (31.9% y-o-y, contribution 7.7 pp), other business services (21.6% y-o-y, contribution 5.4 pp) and transport services (20.5% y-o-y, contribution 3.7 pp). The largest contribution to import growth (15.2% y-o-y) stemmed from the rising imports of tourism (34.4 y-o-y, contribution 9.4 pp) and other business services (22.6% y-o-y, contribution 4.4 pp).

Observed by country, around 68% of trade in services is performed with 15 countries, eight of which are EU members (Germany, Austria, Slovenia, Greece, Italy, Croatia, Hungary, France), two are CEFTA members (Bosnia and Herzegovina, and Montenegro), one is an EFTA member (Switzerland), and the rest include the USA, United Kingdom, Russian Federation and Turkey.

The deficit on the primary income account widened by 46.3% y-o-y, primarily because of higher outflows on account of direct investment income (by 31.6% y-o-y). The surplus on the secondary income account decreased by 0.9% y-o-y, reflecting contracted official aid to the Government (49.3% y-o-y), although the net inflow of remittances recorded a 4.4% y-o-y growth. In the nine months of 2023, the inflow of remittances amounted to EUR 3.9 bn, up by 3.9% y-o-y, with the highest inflow coming from Germany (27%), Switzerland (13%), Austria (10%), France (6%) and the US (5%), i.e. countries with traditionally high inflows of remittances to Serbia.

In the period January–September 2023, the financial transaction account (excluding changes in FX reserves) recorded a net inflow of EUR 4.9 bn. Net FDI inflow in the observed period amounted to EUR 3.0 bn. Inflow to Serbia measured EUR 3.2 bn, which is a EUR 241 mn increase compared to the same period of 2022. FDI inflow remained project-diversified and channelled mostly to tradable sectors (around 60%). Observed by sector, the bulk of FDI went into manufacturing, construction and mining industries, professional, scientific, innovation and technical activities, real estate business and trade. By country, based on data for H1 2023, most FDI continued to originate from European countries (65.8%), notably those of the EU (around 51.1%), and from Asian countries (32.2%).

As regards portfolio investments, a net inflow of EUR 1.1 bn was registered in the period January–September 2023, indicating the confidence of foreign investors in Serbia's macroeconomic fundamentals, given that foreign investors did not exit from dinar government securities to any major extent despite the tightening global financial conditions and a greater shift of portfolio investment flows toward advanced compared to emerging economies. Residents' net external borrowing under financial loans came at EUR 0.8 bn, with the public sector net borrowing EUR 1.0 bn and the private sector net repaying its debt by EUR 0.2 bn.

NBS FX reserves (excluding cross-currency and asset price changes) increased during this period by EUR 4.5 bn and were significantly above the level that ensures adequate protection from external shocks. At end-September, NBS FX reserves equalled EUR 24.2 bn, their highest level thus far, covering six months' worth of the imports of goods and services, almost 180% of the money supply M1 and around 318% of the debt² maturing in the next twelve months.

Given the considerably lower current account deficit in the first nine months, our annual deficit projection now stands at 2.5% of GDP. Imports should accelerate in Q4 and increase mildly in annual terms, though still not outperforming export growth. Terms of trade, i.e. rising export prices and falling import prices of goods and services, are driving the deficit down relative to 2022.

Exchange rate. Appreciation pressures on the dinar have been prevalent since the start of 2023 (with the exception of January, when seasonal depreciation pressures occur due to the high FX demand of energy importers). To preserve the relative stability of the dinar exchange rate against the euro, in the first ten months of the year the NBS net bought around EUR 3.4 bn in the domestic FX market. Favourable balance of payments movements were conducive to appreciation pressures, and the high FX supply mostly came from domestic companies, excluding the energy sector, as a result of an influx of FX from FDI and goods exports. Other factors also worked in favour of appreciation pressures, including banks' net purchase of foreign cash from authorised exchange dealers and natural persons, as well as banks' extended FX position based on the use of payment cards and an increase in banks' net indexed assets. In the first ten months of 2023, the dinar gained 0.1% against the euro in nominal terms.

Inflation in Serbia has been on a downward trajectory since April 2023, measuring 8.5% in October. This is mostly attributable to the slowdown in growth of food prices, which accounted for around 40% of y-o-y inflation in October, as well as the lower core inflation (CPI excluding food, energy, alcohol and cigarettes), which has trended at a single-digit level since June, measuring 7.3% in October, primarily as a result of the effects of past monetary tightening, slower pace of imported inflation and declining inflation expectations.

Credit activity and monetary developments. Credit activity continued to decelerate during 2023 and in September the stock of total domestic loans, excluding the exchange rate effect, was almost unchanged (0.1% lower) from September 2022. The slower pace of lending is attributable to the high last year's base, the maturing of loans under the guarantee schemes, higher interest rates on loans amid the monetary policy tightening of the ECB and the NBS, as well as banks' stricter credit standards.

The results of the Bank Lending Survey conducted by the NBS show that banks continued to tighten their corporate and household credit standards during 2023. The rising costs of funding, as well as increased risk perception amid uncertainty as to the overall economic situation, the risk of required collateral and NPLs played the key role in the tightening of credit standards. With the exception of a mild recovery in Q2, corporate and household loan demand was subdued during 2023. With corporates, this decrease was dictated by the lower needs for financing investments and acquisitions, while with households the lower demand was under the impact of the situation in the real estate market characterised by high prices of flats, lower purchase of durable consumer goods and utilisation of earlier savings. Banks expect to see an increase in loan demand in Q4.

In September, the stock of corporate loans was 1.8% lower than a year ago, and their share in GDP equalled 20.6%. By purpose, investment loans continued up (4.3% y-o-y in September), while liquidity, working capital and other non-categorised loans declined. Such movements resulted in the share of liquidity and working capital loans in total corporate loans receding to 46.7% in September, and the share of investment loans edging up to 41.6%. Liquidity and working capital loans declined on account of the maturing loans under the guarantee schemes, inter alia, and this impact – most pronounced during H2 2022 and H1 2023 – is gradually weakening with the shrinking loan amounts that are falling due. By company size, loans approved to the segment of micro-, small and medium-

² As at June 2023.

sized enterprises accounted for 58.3% of total corporate loans in September. Y-o-y growth in household loans continued to lose pace during 2023, measuring 1.6% in September, while the share of household loans in GDP equalled 18.9%. Growth in household lending in 2023 was driven by cash loans, while the stock of housing loans in September was almost unchanged from end-2022, driving the share of cash loans in total household loans up to 44.3% in September, while the share of housing loans retreated to 39.7%.

The dinarisation of corporate and household receivables equalled 33.8% in September (16.3% in the corporate and 53.6% in the household sector), edging down 1.3 pp from end-2022. The fall in dinarisation was recorded in the corporate sector, reflecting the maturity of loans disbursed under the guarantee scheme (which were mostly approved in dinars) and an increase in FX-indexed receivables, mostly investment loans. Relative to end-2012 (28.0%), i.e. when the dinarisation strategy was adopted, the degree of dinarisation is still considerably high, confirming that the strategy has produced results.

Having in mind the seasonally common stronger lending activity in Q4 and a lower effect of the maturity of loans under the guarantee schemes (given that the amount of the maturing loans under the guarantee schemes will decline going forward), we projected lending growth at 1.6% for 2023. In 2024 we expect lending to recover gradually and edge up by around 3%, amid a lower effect of the maturity of loans under the guarantee schemes, as well as higher economic growth. Further gradual increase in lending, in accordance with GDP growth, is anticipated in the medium term.

Monetary aggregates M1, M2 and M3 posted nominal y-o-y growth of 19.4%, 21.5% and 11.8%, respectively, in September. By category, the most pronounced growth was recorded by demand deposits, propped by growth in corporate and household deposits. Dinar savings of households continued to increase, reaching a new maximum of RSD 115.6 bn in September,³ whereby their share in total household savings rose to 7.0% (compared to 6.0% at end-2022 and 1.9% at end-2012). FX deposits also continued up, driven by the increase in the deposits of corporates (thanks to the rise in FDI, exports and cross-border borrowing) and households (which were also impacted by the remittances inflow). A more pronounced rise in dinar than in FX deposits led to an increase in the dinarisation of corporate and household deposits to a new maximum of almost 42% in September (compared to 40.1% at end-2022 and 19.3% at end-2012).

Financial sector. There were no major changes in the structure of the Serbian financial system in 2023 – the banking sector is still dominant, accounting for more than 90% of total financial sector assets. As at 30 September 2023, the Serbian banking sector comprised 20 banks, of which 16 are in majority foreign ownership, two in the majority ownership of the Republic of Serbia, and two are majority-owned by domestic legal persons. Banks in majority foreign ownership are dominant in the market, accounting for 81.8% of total balance sheet assets, 87.6% of total gross loans and 80.6% of total banking sector deposits. Though displaying a rising trend, the values of the Herfindahl–Hirschman index (HHI) still do not indicate concentration in key balance sheet categories, hence the degree of market competition can be deemed satisfactory.

The banking sector's balance sheet and capital equalled RSD 5,712 bn and RSD 785 bn, respectively, at end-September 2023. Sound capital reserves built up by banks over the previous years have made them more resilient to risks amid persistent uncertainties from the international environment. The capital adequacy ratio for the banking sector equalled 22.21%, and the leverage ratio (according to Basel III) 10.78% at end-September 2023, which is yet another confirmation of the banking sector's high solvency.

The sector's liquidity reserves are more than sufficient to cover the potential needs for liquid assets, as confirmed by the movements in key liquidity indicators and the maturity structure of assets and liabilities. The monthly liquidity ratio, calculated in line with domestic regulations, stood at 2.47 (regulatory minimum is 1.0) at the banking sector level in September 2023, and trended around 2 throughout 2023. Liquid assets made up 43.52% of total balance sheet assets and 56.27% of total

³ According to preliminary data, dinar savings in October 2023 equalled a record high RSD 119.6 bn, overshooting the equivalent value of EUR 1 bn.

short-term liabilities, while the liquidity coverage ratio (according to Basel III) measured 179.13% at end-September 2023.

Despite the continued increase in global inflation and costs of financing sources, the banking sector managed to maintain profitability at a satisfactory level in 2023. The total net profit before tax realised from the beginning of the year until end-September amounted to RSD 108.5 bn, with profitability ratios ROA and ROE measuring 2.59% and 19.23%, respectively.

Although it has implemented all the 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 supervisory instruments and mechanisms to encourage banks to solve NPLs more efficiently and establish a system to prevent their re-accumulation. Also, in accordance with the ***Decision on Accounting Write-off of Bank Balance Sheet Assets***, in force since September 2017, banks are obliged to transfer all NPLs that are fully impaired to off-balance sheet records.

Eight years after the adoption of the NPL Resolution Strategy, the share of NPLs in total gross loans of the banking sector decreased by 19.08 pp to 3.17% at end-September 2023. The NPL share is almost at a historical minimum, indicating that even after the cessation of the application of numerous measures of monetary and fiscal incentives undertaken in the first phase of the COVID-19 pandemic, the NPL ratio did not increase. The stock of gross NPLs decreased by 75.03% in this period (from RSD 427.3 bn to RSD 106.7 bn). The most significant channels for reducing NPLs were the direct write-off (RSD 258 bn) and assignment (sale) of receivables (RSD 106 bn)⁴, and since 2022, the collection as well (full or partial, if the conditions for exiting the non-performing status are met). At end-September 2023, the share of NPLs in total loans amounted to 2.51%, while their share in total loans to natural persons was 4.35%. At end-September 2023, 58.70% of NPLs were covered by allowances for impairment in accordance with IFRS. The concentration risk indicator introduced at the end of 2018 with the aim of reducing the share of cash, consumer and other non-purpose loans to households with longer maturities in regulatory capital and long-term liabilities, as well as with the aim of encouraging the practice of sustainable lending to households, was reduced by nearly 20 pp at the banking sector level, in the period January 2019 – September 2023 (from 25.19% to 5.47%).

The NBS regularly reviews the obligation to maintain capital buffers that limit systemic risks in the financial system of the Republic of Serbia. The systemic risk buffer was kept at the level of 3% of the bank's total FX and FX-indexed receivables approved to corporates and households and has remained at that level ever since. The capital buffer for systemically important banks is reviewed at least once a year. In June 2023, nine banks were identified as systemically important for the domestic economy,⁵ four of which are required to maintain additional Common Equity Tier 1 capital at 2% of their risk-weighted assets, and the remaining five at 1% of their risk-weighted assets.

The countercyclical buffer rate for the Republic of Serbia is reviewed at a quarterly level. In September 2023, the NBS decided to keep the rate at 0%, thereby continuing to support corporate and household financing in an environment of tightened global financial conditions. The analysis of credit activity in terms of establishing the countercyclical buffer rate indicates that the share of total real loans in real GDP is above the long-term trend (0.6 pp according to data for June 2023), though still below the 2 pp threshold needed for introducing this buffer. In September 2023, banks allocated a total of RSD 186.8 bn of their Common Equity Tier 1 capital, or 5.8% of risk-weighted assets, for maintaining all prescribed capital buffers.

Most of the measures adopted during 2020 and 2021 in order to preserve the stability of the financial system and support the economy and citizens in conditions of the pandemic were implemented until 31 December 2021.

Against the backdrop of the necessary monetary policy tightening, the NBS showed its resolve to provide support to citizens in the given circumstances and at the same time preserve banking sector stability, while acting within its legal mandate. Hence, in December 2022, it adopted the ***Decision***

⁴ Calculated based on the data from the NPL 3 report that banks submit to the NBS.

⁵ In accordance with the Decision on Establishing a List of Systemically Important Banks in the Republic of Serbia and Capital Buffer Rates for Those Banks from 15 June 2023.

Amending the Decision on Capital Adequacy of Banks enabling banks to reschedule their receivables, without any threat to their capital, from natural persons in financial distress, based on the approved consumer, cash or other similar loans for the maturity of three years or longer relative to the previous regulatory solution (that the deadline for cash and consumer loans is shorter than nine, and for consumer loans for car purchase shorter than 11 years). Additionally, in December 2022, it adopted the *Decision Amending the Decision on Temporary Measures for Banks to Facilitate Access to Financing for Natural Persons* which, among other, extended the application of the measure that allows for an extension of the housing loan repayment deadline by additional five years relative to the initial maturity. In addition to this, the Decision continued to support facilitated access to financing for natural persons in 2023 as well.

Next, the *Decision Amending the Decision on Temporary Measures for Banks Aimed at Adequate Management of Credit Risk in Agricultural Loans Portfolio in Conditions of Aggravated Agricultural Production*, adopted in January 2023, enabled the rescheduling of agricultural loans to obligors engaged in fruit purchase and storage. This is a continuation of the NBS's support to maintaining and preserving agricultural production.

The *Decision Amending the Decision on Capital Adequacy of Banks* was adopted in June 2023. After a three-year delay due to various negative factors from the international environment, the Decision envisages that as of 1 July 2023, all new loans are to be included in reporting and calculation – non-purpose and non-investment loans approved to corporates, entrepreneurs, agricultural producers, but with a simultaneous postponement in the mandatory capital reduction for exceeding the 71% cap on the share of FX-indexed and FX loans in total loans for a year and a half (until 31 December 2024). After this date, the Decision envisages percentages of the shares of FX-indexed and FX loans in total loans which are grounds for the application of capital deductions and their gradual phasing out by 7 pp – as of 1 January 2025.

In September 2023, the *Decision on Temporary Measures for Banks Relating to Natural Persons' Housing Loans* was adopted (enforced on 13 September 2023), prescribing mandatory measures for banks, of temporary nature, to be applied until 31 December 2024. The first measure implies a temporary cap on the contracted variable nominal interest rate, or a reduction in the rate, for loans with variable interest rate approved before the day the Decision came into force, in line with strictly defined rules. The second measure restricts the interest rate for loans with fixed or variable interest rates which will be approved during the validity of this Decision. The last measure introduced the possibility of easier early repayment for all housing loan users, without the obligation to pay the fee for early repayment.

In the prior period, the NBS also conducted an analysis of the alignment of the domestic legal framework with the regulatory framework for banks in the EU, identifying the need for regulatory changes for the purpose of further alignment with that framework. In this regard, the next step towards a further alignment of regulations is the improvement of the regulatory framework for liquidity, which implies the introduction of the NSFR ratio by the end of the year.

By establishing the **instant payment system** – the NBS IPS system, the NBS enabled the execution of retail payments in real time 24/7/365. Beside developing the infrastructure for accepting instant payments at merchants' points-of-sale via merchant cash registers, mobile apps for merchants, POS terminals and internet sale points, in order to provide additional support to the development of the e-commerce market and further popularise electronic payments in the country, the NBS improved the instant payment service on the internet by implementing deep-link technology, thus enabling customers to perform the entire shopping process using only one device (e.g. mobile phone), and without leaving sensitive data about the payment instrument online. Payment of bills by scanning the NBS IPS QR code on bills/invoices has also been facilitated without having to go to the bank in person, which proved to be particularly effective during the pandemic. As of September 2021, banks can offer their clients a new "Transfer" service, which enables citizens to send funds to the payee's account in a simple, quick and secure manner just by using the payee's mobile phone number. Instant

payment of fees and charges for services provided by public administration bodies on the e-administration portal has also been made possible by scanning the NBS IPS QR code from a unique payment slip, thus contributing to the further digitalisation of public administration and the efficiency of public services provision.

By developing the new payment infrastructure based on instant payments, non-bank payment service providers have also been enabled to participate in the NBS IPS system and offer instant payment services, whereby competitiveness among participants in the payment services market is encouraged.

In recognition of global payment trends and the current changes in regulations governing the EU payment services market, the NBS continues to implement activities to further improve the regulatory framework and align it with European regulations and international standards in the area of payment services and payment systems. In this regard, and as part of the project to modernise cashless payments and connect Western Balkan economies, activities were initiated for the purpose of alignment with SEPA standards and joining the Single Euro Payments Area. The aim is to further modernise cashless payments and reduce the costs of regional payments, as well as support the green and digital transition by establishing efficient and interoperable payment systems.

Keeping up with global trends, the Republic of Serbia **adopted the Law on Digital Assets**, which regulates in detail the issuing and secondary trading in digital assets, including the operations of platforms for trading in virtual currencies and exchanging them for money. The Law entered into force on 29 June 2021. Since then, the NBS has issued two licences for the provision of virtual currency services, hence there are two licensed digital assets service providers operating in Serbia at the moment.

3.3. MEDIUM-TERM MACROECONOMIC SCENARIO

According to the medium-term macroeconomic projection, the cumulative growth rate 2024–2026 will be 12.2% and will be determined by the growth of the domestic demand, with an almost neutral contribution of the net export. This source of growth has been determined by both a permanent increase of investments, and a growth of private consumption due to the growth of real disposable income. On average, Serbian economy will grow at the annual rate of 3.9%, which is unchanged relative to the previous expectations. An increase of real private consumption will accompany the growth of the economic activity and will be 3.7% on average. Stable growth of fixed investments is expected, and its annual average will be 6.1%. With an activation of new production capacities and recovery of foreign demand, the volume of foreign trade will also be increasing. In addition, effectuation of FDI from the previous period will contribute to the increase of competition and affect the efficiency of domestic manufacturers, while, on the other hand, new sales channels will be activated and new niche markets opened. Export will annually grow at the average rate of 10.0%, which is faster than the expected annual import rate, which will be 9.3% on average.

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

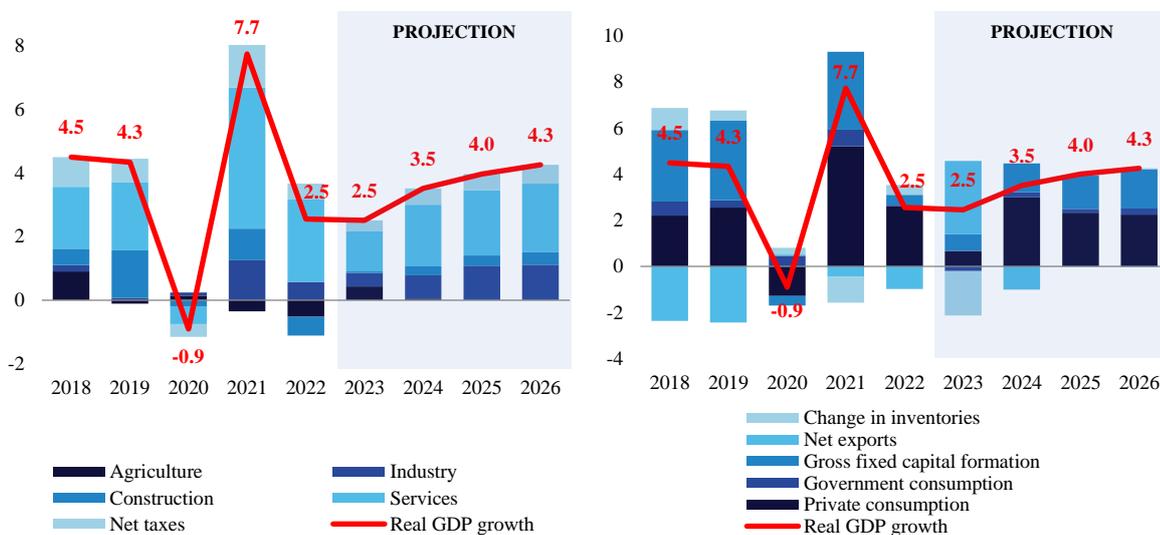
	Estimate	Projection		
	2023	2024	2025	2026
GDP, billion RSD (current prices)	8,103.5	8,773.7	9,461.1	10,148.4
Real growth of the GDP, %	2.5	3.5	4.0	4.3
GDP deflator, %	11.4	4.6	3.6	2.9
<i>Real growth of individual components of the GDP, %</i>				
Private consumption	1.0	4.3	3.4	3.3
Government consumption	-1.3	1.5	1.1	1.8
Gross fixed capital formation	3.1	5.2	6.0	6.9
Export of goods and services	3.0	8.1	10.5	11.5
Import of goods and services	-1.4	8.4	9.2	10.2

Source: Ministry of Finance

In terms of supply, the service sector and industry will retain the role of dominant sources of growth and increase the created GVA with an average annual growth of 4.1% and 4.3% respectively. A

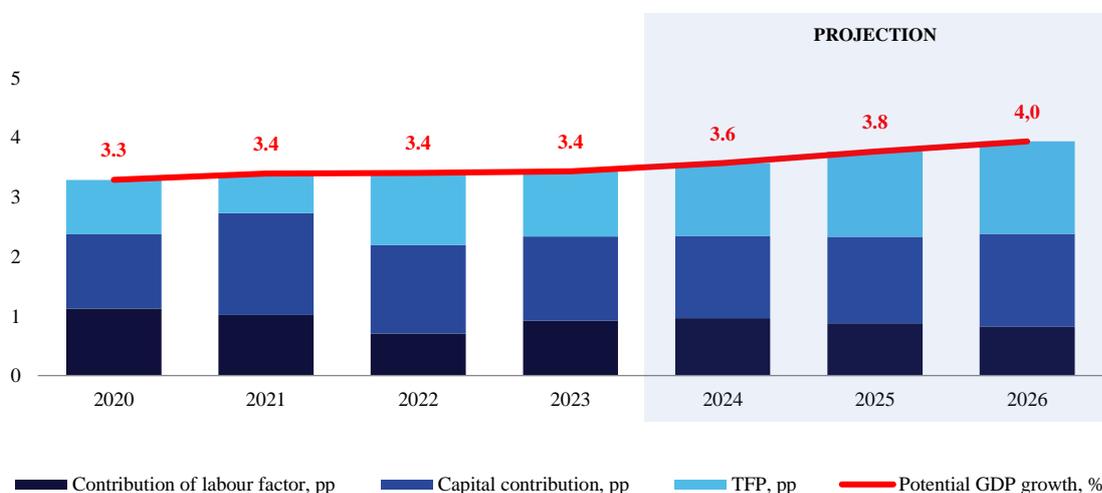
positive contribution will also come from an increase of the construction activity, which will be 6.3% on average. Reaching European standards and raising the competitiveness in agriculture will reduce the variability of the production of this sector caused by agrometeorological conditions, but the assumption of average agricultural season was retained in the revised projection.

Chart 2 Contribution to the real growth rate of the GDP, production and expenditure approach, pp



In this three-year scenario, the Government still remains committed to the preservation of the model of economic growth based on investments and export, which is supported by the growth of private consumption. Acceleration of all administrative procedures, tax unbundling of the economy with a view to raising its competitiveness, signing of agreements which ensure the preservation of the existing foreign markets and opening of new ones, more intense and efficient execution of infrastructure works, preservation of energy stability with an execution of green agenda projects, are just some of the measures which should ensure healthy foundations for the growth of the GDP in the circumstances of growing geopolitical tensions. Digital transformation and construction of a digital ecosystem remains a strategic orientation of the Government. A more efficient activity of the state administration, shortening of procedures for citizens and businesses with a focus on the digitalisation will accelerate the convergence of our economy with developed countries. A new system of fiscalization and amendments of customs regulations will reduce the participation of grey economy in overall economic flows, ensuring a favourable economic environment. The FDI incentive will still have as its goal their sectoral and regional dispersion, in order for assumptions of equal development and full utilisation of comparative advantages to be ensured.

Chart 3 Contribution of the factors of production to the potential growth rate



According to the central scenario, a continuation of the growth of potential GDP is expected in the medium term, with a gradual disappearance of negative effects of international economic relations and return to a growth path of 4.0%. Potential GDP in the period 2024–2026 will gradually increase at an average rate of 3.8%. Realisation of capital projects and a continuation of the initiated investment cycle, supported both by a stable inflow of FDI and by domestic innovative activities, will ensure an increasingly stronger contribution of capital and factor productivity to the growth of potential GDP. Digitalisation will considerably accelerate these processes and additionally raise the efficiency of the utilisation of available capacities. The Government will, through considerable planned investments into the energy infrastructure, additionally contribute to the raising of the potential of the economy. An adequate and credible monetary policy, with further improvements of the financial system and more favourable investment environment, transfer of knowledge and technologies from the most developed countries, should ensure a positive impact on both of the production factors. On the other hand, strengthening of the rule of law, reform of legislation in the field of economy and business, acceleration of procedures and raising the efficiency of the administration should ensure a maximization of the factor productivity in the medium-term. Favourable developments on the labour market will also contribute to the growth of potential GDP.

Labour market. The labour market is expected to remain on the positive growth path in the upcoming period. Public policy makers continuously adopt measures aimed at both the improvement of the quality of labour, as well as the investment in human capital, all for the purpose of easier overall employment, particularly with respect to businesses which have a higher added value. The success of these measures so far is confirmed by the data on the growth of the number of employees from 2014 up to and including the period from January to September 2023 in the ICT sector by 55,235 persons and in scientific and technical activities by 44,250 persons. Policies aimed at reduction of the number of employees in the grey economy and their transfer to the contingent of formally employed, which would improve their labour conditions, will continue, and the positive effect would be reflected on the budget revenue. In the medium-term, positive results of the implementation of the measures of the active policy of employment, pre-qualifications and support to the social entrepreneurship are expected, which will facilitate the availability of job positions to socially vulnerable categories of the society and thus further ensure inclusiveness of the economic growth. In addition, a continuation of the policy of the reduction of the tax burden of wages, accompanied with an increase of the minimum cost of labour with a view to improving the living standard of persons with the lowest income, will contribute to favourable labour market developments. In line with the above, a reduced unemployment rate and a continued real wage growth is projected in the medium-term. In the private sector, wage growth is expected to accompany the growth of productivity, while wages in the public sector will grow in line with the fiscal rules.

Monetary policy, exchange rate policy and inflation

The NBS has implemented *inflation targeting regime* as its monetary strategy since 2009. Thanks to the achieved price stability, anchored inflation expectations, significant improvement in macroeconomic indicators and outlook for Serbia, and above all, the sustainable narrowing in external and internal imbalances, since 2017 the inflation target has been lowered **to 3%±1.5 pp and established at that level by end-2026**. This confirms the NBS's and Serbian Government's commitment to taking measures toward maintaining low, stable and predictable inflation in the medium term.

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

In conditions of high surplus dinar liquidity in the banking sector, in September 2023 the NBS decided to raise the required reserve ratios, for the first time since 2015, as follows:

- Required reserve ratio on FX base by 3 pp each, to 23% and 16%, for liabilities with agreed maturities of below and over two years, respectively.

- The percentages of dinar allocations of FX required reserve by 8 pp each, to 46% and 38%, depending on the maturity of liabilities.
- Required reserve ratios on dinar base by 2 pp each, to 7% and 2%, depending on the maturity of liabilities.

The aim of the required reserve increases has been to support the monetary tightening implemented thus far through the lifting of key interest rates of the NBS, thus additionally enhancing the efficiency of the monetary policy transmission mechanism and aiding inflation's return within the bounds of the target. Also, the adoption of this measure within the required reserve policy helped to **maintain the principle of stimulating dinar and long-term sources of bank financing through differentiation of required reserve ratios, depending on the currency and maturity of liabilities.**

In accordance with the chosen monetary strategy, the NBS **will continue to implement the managed floating exchange rate regime.** It will intervene in the FX market in order to ease the excessive short-term volatility of the dinar exchange rate against the euro, preserve the price and financial system stability and maintain an adequate level of FX reserves.

Amid elevated inflationary pressures, mainly due to the workings of supply-side factors from the international environment, **in October 2021 the NBS embarked on the process of monetary tightening.** From October to April 2022, it tightened monetary conditions by raising the weighted average repo rate in one-week reverse repo auctions, mopping up surplus liquidity from the banking system. By April this year, this rate was increased by 84 bp. Given that the weighted average repo rate almost levelled with the key policy rate, **in April 2022 the NBS initiated a cycle of key policy rate hikes. Concluding with July 2023, the rate was increased by 550 bp to 6.5%, remaining on hold thereafter. The interest rate corridor was broadened on two occasions** – in April 2022 by 10 bp and in March 2023 by 25 bp – in total from ± 0.90 to ± 1.25 pp relative to the key policy rate. Bearing the above changes in mind, the rates on deposit and credit facilities were raised to 5.25% and 7.75%, respectively.

Key policy rate hikes in the observed period were the NBS's response to cost-push pressures that had turned out stronger and more persistent than expected, stemming mainly from the international environment, especially after the outbreak of the conflict in Ukraine, as well as the NBS's response to the rising imported inflation. The goal of monetary tightening was to contain the second-round effects of the rise in food and energy prices on other prices via inflation expectations, and to prevent additional inflationary pressures from factors on the demand side. In this way the NBS seeks to ensure that the Serbian inflation is on a downward path and that it returns within the bounds of the target by the end of the projection horizon. At the same time, the NBS significantly contributes to containing the effects of the spillover of import price growth on domestic prices and to the macroeconomic stability by **maintaining the relative stability of the dinar exchange rate against the euro.**

Medium-term inflation projection

Under the NBS's November projection, after dropping to around 8% late this year, y-o-y inflation will retreat within the target band ($3\pm 1.5\%$) most probably towards mid-next year, continuing to slow down thereafter and approaching the target midpoint in late 2024. Though geopolitical tensions and fragmentation increased further with the outbreak of another armed conflict, several key factors will aid the downward trajectory of y-o-y inflation: effects of past monetary tightening, subsiding inflation expectations, lower imported inflation, falling prices of primary agricultural commodities and aggregate demand in conditions of slackened global economic growth. On the other hand, global oil prices will most likely exert inflationary pressure over the next year. Accordingly, all inflation components, save for petroleum product prices, should contribute to inflation weakening, with food and non-food industrial product prices playing the key role. In the absence of major external shocks, medium-term inflation should move within the target band, around the target midpoint of 3%.

The key risks to inflation projection are still mainly associated with factors from the international environment – geopolitical relations and the global growth outlook, as well as their impact on global prices of energy and primary commodities. After the outbreak of the Middle East conflict, risks

associated with geopolitical tensions have heightened, and those concerning the speed of decline in core inflation and the degree of monetary policy tightening by leading central banks have subsided. At home, risks to the projection are associated with the level of FDI inflows, outcome of the agricultural season next year, pace of investments in infrastructure and the energy sector.

External sector and its medium-term sustainability

Thanks to the inflow of FDIs into export-oriented sectors, underpinned by the achieved macroeconomic stability and a more stimulative business environment, export diversification has increased over the past few years – in terms of both product and geography. This is also indicated by a decline in the HHI by product over the last decade, from 0.22 in 2013 to 0.20 in 2023, and by partner country from 0.26 to 0.23.

Commodity exports composition by *processing stage* shows that products of the middle stage of processing had the largest share in the first nine months of 2023 (32.2%). Next come resource-based products (26.2%), followed by products of lower stages of processing with a share of 18.6% (flat-rolled products, furniture, plastic products, footwear), while primary products accounted for 9.0% of total exports. The share of high-technology products (mainly electrical machines) in total exports was 7.8% during the first nine months of 2023, which is a rise by almost 3 pp compared to 2013 (4.8%).

When it comes to *price competitiveness indicators*, it is important to emphasize that the real effective exchange rate of the dinar (calculated on the basis of consumer prices according to the currency basket consisting of the euro and the dollar⁶) in the previous eight years concluding with 2022, cumulatively observed, remained almost unchanged. In the nine months of 2023, under the impact of stronger inflation growth in Serbia compared to the euro area and US inflation, the average real effective appreciation of the dinar was 8.2% y-o-y. Calculated on the basis of unit labour costs, the dinar has depreciated against the euro in real terms since 2017, due to the rapid growth of unit labour costs in Serbia when compared to the EU, and partly due to the mild nominal appreciation of the dinar against the euro. During the nine months of 2023, earnings in Serbia (with more pronounced growth in the private sector) grew faster than the economic activity, so unit labour costs in Serbia continued up, more pronouncedly than unit labour costs in the euro area. Given the unchanged value of the dinar against the euro, this resulted in the real appreciation of the dinar of about 9% y-o-y. That cost competitiveness does not have a major impact on FDI inflow, while the preserved macroeconomic stability and achieved structural improvements do, is shown by the fact that FDI inflows since 2017, concluding with September this year, amounted to nearly EUR 24.5 bn (the annual average of around 7.2% of GDP), despite the pandemic and the Ukraine crisis. Also, goods and services exports have continued to record relatively high growth rates, their share in GDP increasing to 58.8% from 38.2% in 2013, exactly as a result of high FDI inflows which significantly boosted export demand, so that exports demonstrated significant resilience even amid shrinking external demand.

International investment position. At the end of Q2 2023, the negative international investment position (IIP) amounted to 77.0% of GDP (EUR 49.5 bn). This share declined relative to end-2022 (by 5 pp) as a result of faster growth in nominal GDP. On the assets side, trade loans, deposits and direct investments of residents abroad increased, while on the liabilities side, there was primarily an increase in FDIs and financial loans. **At end-Q2 2023, net FDIs accounted for around 97% of net IIP, indicating an extremely favourable structure of IIP from the standpoint of external sustainability.**

On the liability side of the IIP, the share of debt instruments was around 50.7%, of which intercompany loans accounted for 24.0%. Almost half of the *total external debt* refers to the public sector (53.9 %). Observed by the remaining maturity, around 94.7% of external debt of the public sector (consisting of the general government and the NBS) is long-term, and around 63% is contracted at the fixed interest rate. The public external debt is dominated by two currencies – the euro (62.6%)

⁶In the scale of 80:20.

and the dollar (26.5%). It is important to note that the participation of the euro and the dollar in FX reserves is largely aligned with the currency structure of public external debt.

In the structure of external debt of the private sector, corporate debt accounts for the major share (around 80%). Over 90% of corporate debt is euro-denominated, and the fact that over 90% of export payments are made in euros contributes to the reduction of currency risk of the external corporate debt. Also, 51% of the debt is contracted at the fixed interest rate. Observed by the remaining maturity, almost 76% of corporate debt is long-term. Around 95% of banks' external debt is denominated in euros, and almost 90% is contracted at a variable interest rate. In terms of the remaining maturity, almost 54% of the external debt of the banking sector (excluding deposits) is long-term.

Medium-term external sustainability. The projected movement of the current account deficit over the medium term of around 4% of GDP is largely determined by structural factors. As in the previous nine years, the current account deficit is expected to be covered by net FDI inflows. Under the influence of strong FDI inflows, as well as the anticipated continuation of the investment cycle in the field of transport and utility infrastructure, investments are expected to continue exerting a positive influence on the growth of imports, primarily of equipment and intermediate goods. On those grounds, it is estimated that the growth of goods and services imports will average around 6% per year over the next three years. On the other hand, as a result of past investments in tradable sectors and the expansion of the export base (both by product and geography), as well as the gradual recovery of external demand, growth in goods and services exports in the next three years is projected at the average annual rate of around 6%.

On the other hand, as a result of the higher FDI inflow to Serbia, the yield based on their ownership will remain a solid expense item in the primary income account, while in the secondary income account a stable inflow of around 7–8% of GDP is expected in the medium term, primarily owing to the remittances inflow.

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

Speaking of external debt movements in the medium term, the external debt sustainability analysis shows that under all macroeconomic scenarios (assuming different levels of the GDP growth rate, interest rates and the exchange rate), except the scenario with a real depreciation of 30% in 2024, **Serbia's external debt will decline in the medium term. According to the baseline scenario, Serbia's external debt will be around 60% of GDP at the end of 2027.** One of the main factors that will contribute to this reduction is the increase in the openness of the Serbian economy (measured as a percentage of the exports and imports of goods and services in GDP) to around 130% of GDP in 2027. The increasing openness of the Serbian economy and its greater integration into global trade flows is certainly influenced by the high FDI inflow, projected at around EUR 4.1 bn this year, close to the last year's record level. Given that most of these investments were directed to tradable sectors, the major Serbian exporters are mostly foreign-owned companies. Continuation of the EU integration process, along with bilateral free trade agreements and agreements with economic groups (CEFTA, EFTA, Eurasian Economic Union) concluded by the Serbian Government, and the maintenance of the achieved macroeconomic stability will lead to a further improvement of the business climate, which will in turn enable greater international exchange and continued growth of FDI.

3.4. ALTERNATIVE SCENARIO AND RISKS

The medium-term scenario of the developments of the economic activity of the Republic of Serbia is still influenced by many risks, primarily from the international environment. Macroeconomic framework risks mostly come from the uncertainty with respect to the development of the situations in Ukraine and Israel, as well as the impact of new international economic and political relations.

Development of the prices of energy products, global limitations of trade, as well as higher uncertainty with respect to current expectations, may have a considerably stronger impact on the domestic economy. In accordance with this, an alternative scenario has been created, which entails a materialisation of the risks from the international environment, and consequently lower economic growth rates, particularly in 2024.

The starting point of this scenario is the assumption that there will be a new shock on the market of energy products, which would result in a higher than expected inflation in the countries which are our most important foreign trade partners, which would be reflected in a lower real disposable income and a lower than expected economic growth in the EU. In addition, geopolitical tensions would be harsher than in the baseline scenario, which would result in additional financial disturbances and a deepening of uncertainty. These developments would be reflected in increased production costs and a reduced potential of business entities to invest in further production capacities, which would result in a lower than expected growth of investments. As a consequence, the expected volume of foreign trade would be reduced. In addition, a stronger growth of prices of energy products negatively affects the domestic demand, real disposable income and a slower growth of private consumptions than originally expected. The materialization of these risks would result in a lower growth rate of the GDP by 1.7 pp in 2024 than the one in baseline scenario, since these factors would largely be reflected in the export activity, the dynamics of the investment components of the GDP, as well as the private consumption. In 2025 and 2026, differences from the original expectations would be relatively smaller due to a gradual recovery of the economy from shocks and effects of the lower base.

Chart 4 Projection of GDP movements, year-over-year growth rates, %

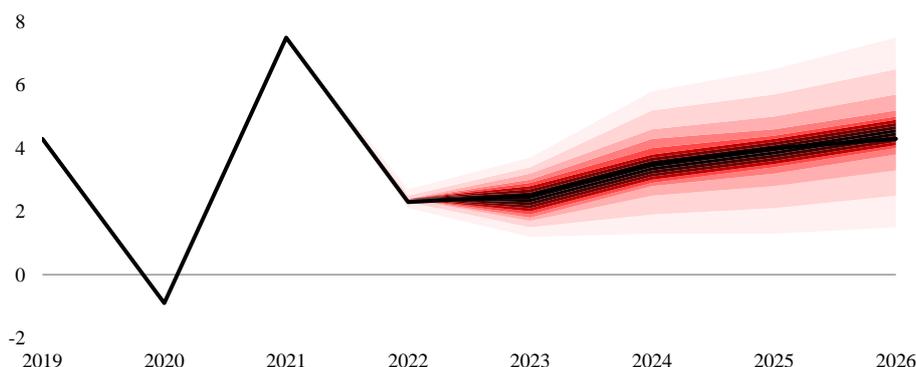


Table 3 Alternative macroeconomic scenario

	Estimate	Projection		
	2023	2024	2025	2026
GDP, billion RSD (current prices)	8,103.5	8,664.2	9,180.6	9,718.3
Real growth of the GDP, %	2.5	1.8	2.5	3.3
GDP deflator, %	11.4	5.1	3.3	2.5
<i>Real growth of individual components of the GDP, %</i>				
Private consumption	1.0	2.6	2.7	2.8
Government consumption	-1.3	0.4	0.8	1.3
Gross fixed capital formation	3.1	1.4	2.5	4.8
Export of goods and services	3.0	4.1	6.9	8.6
Import of goods and services	-1.4	5.3	6.0	7.6

4. FISCAL FRAMEWORK 2024-2026

4.1. PUBLIC POLICY STRATEGY AND MEDIUM-TERM GOALS

The mitigation of the Coronavirus pandemic, high inflation caused by a crisis on the international energy markets and raw materials and the conflict in Ukraine characterized 2022 and early 2023 throughout the world, with a danger that uncertainty and crisis may last a long time. In that kind of

situation, the task of the economic and fiscal policy is to ensure the stability of economic flows and preserve the standard of citizens.

The end of 2022 was, in terms of public finance, characterized by a lower deficit of the general government and a lower level of public debt than planned. Favourable fiscal trends continued at the start of this year, with a slightly better collection of revenue than expected and savings in funds intended for overcoming the energy crisis. This kind of development of events enables a better fiscal image in the medium-term, faster reduction of the public debt and a larger fiscal space.

The planning of economic and, particularly, fiscal policy in the upcoming period will primarily depend on the impact assessment of the Ukraine crisis on the international environment and domestic situation. It has been decided that, in addition to the high uncertainty with regard to global economic flows, fiscal policy should focus on the balance and stabilisation of public finance, in order to continue the trend of reduction of the share of the public debt in the GDP and strengthen the foundations supporting economic growth. In parallel with this, the space for a timely response of the fiscal policy to economic flows needs to be provided. Any fiscal intervention of the government for the purpose of minimizing the effects of the crisis will be combined with the efforts to ensure that the development programmes are not stopped and that infrastructure projects are financed from the budget.

The medium-term fiscal framework envisages a moderate abandonment of the expansive fiscal policy which was present during the pandemic, where a considerable portion of budgetary resources in the upcoming period will be allocated for the mitigation of the energy crisis and increase of investment. In view of the uncertain economic situation, the budget will certainly be a “safety net” in the case of an escalation of unfavourable developments. On the one hand, it will ensure the continuity of developmental and social programme, and on the other hand, sustainability of public finances and the continuation of the reduction of the public debt in terms of the share of the GDP. In view of the expected macroeconomic developments, the envisaged annual fiscal deficits allow a reduction of the share of the government sector debt in the GDP in the upcoming period.

Fiscal policy will, in the next period, be focused, in line with the available fiscal space, on further reduction of the total tax burden of the work which additionally unburdens the businesses, i.e., increases the competitiveness of the private sector. On the expenditure side, infrastructure projects and capital projects will be prioritized, as well as the pension and salary policy. In doing so, efforts will be made that increases of these largest categories of expenditure do not exceed the planned sustainable framework.

The stability of public finance and sustainable fiscal framework will be contributed by the amendments of the Budget System Law, which, inter alia, redesigned the set of fiscal rules, general and special, and defined special measures in case they are not observed. There was special emphasis placed on the amendment of general rules concerning the public debt and deficit of the government sector, and special rules relating to the sustainable level of expenditure for salaries and pensions.

4.2. BUDGETARY OUTTURN IN 2023

The fiscal framework for 2023 was planned in the circumstances of a prolonged unfavourable geopolitical situation, high uncertainty at the energy market and negative inflationary trends, particularly at the food market. Fiscally, the previous year was characterized by the necessary and intense adjustments to the new negative circumstances in the energy sector, through the significant budgetary allocations for ensuring energy security. Some of the fiscal efforts were also directed to the preservation of the living standard of the citizens. On the one hand, this was implemented through the increased allocations aimed at vulnerable population categories, while, on the other hand, measures of control of the prices of basic food staples and amortisation of the growth of the prices of petroleum products through the reduction of excise burden. An increased uncertainty was also caused by a possible irregularity in supply of energy products, which additionally affected the prices.

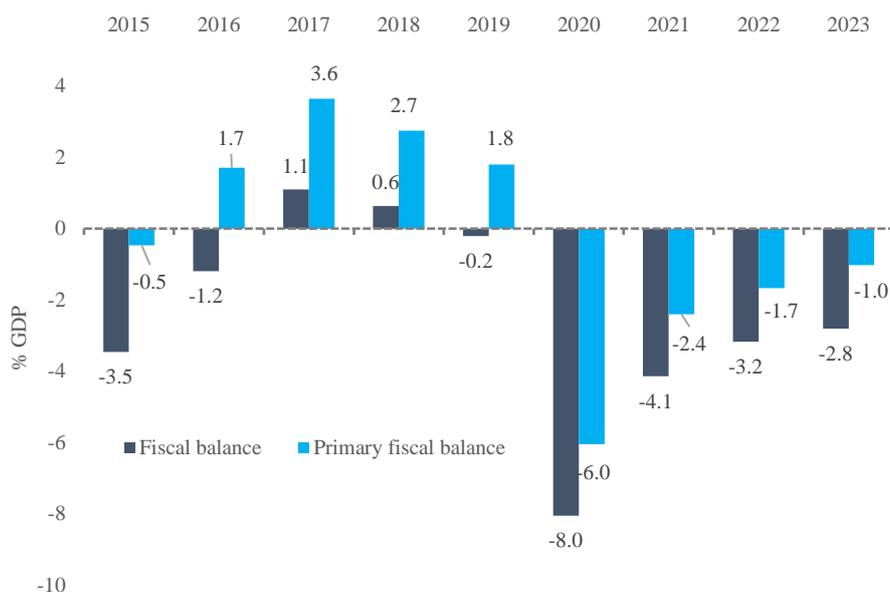
Mitigation of negative effects of the energy crisis, growing inflation, need to maintain the living standard of the population affected the creation of the fiscal framework for 2023. The expenditure side of the budget ensures a high amount of funds for further resolution of the energy crisis. In order

to improve the economic status and standard of pensioners, the amendment of fiscal rules included a change of the manner of indexation of pensions. Pensioners' allowances were considerably increased in 2022 and 2023, but a mechanism of protection from an excessive increase of the share of expenditure for pensions in GDP was also introduced. In order to safeguard the standard of the employees in the public sector, salaries were raised by 12.5%, while resources were provided for raising the salaries of military personnel by 25%. A high share of public investments into the GDP was retained, as support for the recovery of economic growth. At the revenue side, the envisaged continuation of the excise burden of the petroleum products is important till the end of April with an unchanged amount of excises for other products, in order to mitigate inflationary trends. The multi-annual policy of tax burden reduction of labour was also continued in 2023. The estimated effect of the loss of revenues on the basis of increasing the non-taxable census and reduction of the contribution rate by 1 pp amounted to 41 billion RSD in 2023.

Risks which were taken into account when planning the fiscal framework for the current year are still present, with a partially changed impact of certain factors. In the first half of the year, economic activity mostly remained at the planned level. Inflation developments were mildly above the expected ones, and there was a certain decline of the prices of energy products on the international market. In parallel with the stabilisation of the production of electricity, the expected need for a government intervention in this area was also reduced. Public revenues in the first half of the year moved above the expected levels, but with significant changes in their structure. Developments in the labour force market exceeded expectations in terms of the growth of average salaries and employment, which is reflected positively on the collection of labour taxes. Individually, the largest growth was that of the collection of the profit tax. An amount of revenues from excise duties higher than the planned was accrued partially due to the change of excise policy during the year. Unplanned extraordinary non-tax revenue, collected during the year, are, as usual, included in the revised amount of non-tax revenue. On the other hand, the collection of a part of the consumption tax is lower than expected, primarily as regards the value added tax.

The rebalancing of the budget of the Republic of Serbia in September provided for the funds for undertaking new measures which would affect the personal income, changes in the policy of agricultural subsidies, and a reallocation of unspent funds for a state intervention in the energy sector. The fiscal framework established by the rebalancing envisages a deficit of the government sector by 2.8%, which is a decrease of 0.5% of the GDP compared to the original plan. The public debt share at the end of 2023 will be 53.3% of the GDP, which is lower by 2.8% of the GDP than in the previous estimate. The revenue estimation has been increased by 132.5 billion RSD, while the estimate of expenditure has been revised upward by 96 billion RSD, which reduced the estimate of the fiscal deficit by 36.5 billion RSD. Higher revenue, as well as savings on the expenditure side, and a reallocation of funds for the purchase of energy products, ensured a fiscal space for the implementation of new measures for an improvement of the economic status of certain population categories. These measures include extraordinary indexation of pensions by 5.5%, an increase of salaries for the categories of employees in the health care sector - also by 5.5%, and one-off aid for mothers or fathers with children under 16. A payment of one-off aid to pensioners in the amount of 20,000 is also envisaged. Extraordinary pension and salary increases in the public sector have a structural nature, while the next regular adjustment of pensions in early 2024 was 14.8%.

Chart 5 Fiscal result of the general government 2015-2023, GDP %



Source: Ministry of Finance

Table 4 Revenue, expenditure and result of the general government in 2023, in billion RSD

	budget* 2023	May 2023 estimate	September 2023 estimate	Differential between the estimate for September/ budget	change %	September 2023 estimate GDP %
PUBLIC REVENUE	3312.9	3389.5	3445.5	132.5	4.0	42.5
Current revenue	3259.5	3336.1	3395.9	136.4	4.2	41.9
Tax revenue	2936.1	3001.7	3044.3	108.2	3.7	37.6
Personal income tax	325.3	333.0	339.4	14.1	4.3	4.2
Corporate profit tax	212.2	219.2	275.0	62.8	29.6	3.4
VAT	865.0	865.0	823.7	-41.3	-4.8	10.2
Excise duties	332.1	348.1	362.0	29.9	9.0	4.5
Customs duties	86.0	82.6	83.0	-3.0	-3.5	1.0
Other tax revenues	106.8	107.3	107.6	0.8	0.8	1.3
Contributions	1008.7	1046.5	1053.6	44.9	4.4	13.0
Non-tax revenue	323.3	334.3	351.5	28.2	8.7	4.3
Grants	53.5	53.5	49.6	-3.9	-7.2	0.6
PUBLIC EXPENDITURE	3577.0	3634.5	3673.0	96.0	2.7	45.3
Current expenditure	2872.7	2903.4	3002.9	130.2	4.5	37.1
Expenditure for employees	779.4	779.4	785.0	5.6	0.7	9.7
Purchase of goods and services	591.2	605.3	627.0	35.8	6.1	7.7
Repayment of interest	146.1	146.1	151.1	5.0	3.4	1.9
Subsidies	220.1	234.6	221.9	1.9	0.9	2.7
Social assistance and transfers	1038.2	1040.3	1093.5	55.3	5.3	13.5
<i>of which pensions</i>	770.0	770.0	776.5	6.5	0.8	9.6
Other current expenditure	97.7	97.8	124.2	26.5	27.1	1.5
Capital expenditures	561.5	588.4	584.6	23.1	4.1	7.2
Net budgeting loans	117.3	117.3	61.0	-56.3	-48.0	0.8
Activated guarantees	25.5	25.5	24.5	-1.0	-3.9	0.3
Result	-264.0	-245.0	-227.5	36.5		-2.8
Result in % GDP	-3.3	-3.0	-2.8	0.5		

Source: Ministry of Finance

* The original budget for 2023 was, for the purpose of comparability with the new estimate for the current year, adjusted for amounts which originated from the expansion of the coverage of the general government which concerns inclusion and reporting on own funds (revenue and expenditure) of health institutions. The total volume of these funds is 29.5 billion, both in the revenue and expenditure side.

The envisaged fiscal result enables the implementation of intervention policies for the purpose of mitigating the crisis, while retaining the trend of reducing the share of the public debt in the GDP, with the compliance with the fiscal rules, which are to be fully applied as of 2025. A structural analysis of the fiscal result in 2023 identified that approximately 1.1% of the GDP concerns one-off and temporary measures.

The projection of government sector revenue was increased by this fiscal framework by 132.5 (4%) RSD relative to this original one. The most important factors which resulted in the changes in the amount and structure of revenues of the government sector are:

- the base effect (better accrual at the end of the previous year and in the first seven months of the current year);
- strong growth of corporate profitability in 2022;
- existence of a non-structural (temporary) portion in the collection of VAT in 2022;
- revocation of the measure of reduction of excise duty burden for petroleum products and envisaged changes of the excise duty policy;
- larger consumption of certain excisable products, primarily petroleum products;
- stronger growth of the collection of regular non-tax revenue;
- developments in the labour market being more favourable than the envisaged;
- growth of the import activities being lower than the original projected one, primarily due to a lower import of energy products;

More favourable developments on the labour market have positively affected the revenue arising from personal income tax and contribution for mandatory social insurance. The projection of government sector revenue was increased by this fiscal framework by 14.1 billion RSD relative to the original amount. During the original projection of the income tax, projections of the movements of average salaries and employment were taken into account, as well as the assessments of the effects of the reduction of the tax burden of salaries in 2023. The same assumptions are used for the projection of revenues from social contributions which make up the largest individual revenue at the level of the government sector. The collection of this tax form in late 2022 was somewhat above the planned one, but the key reason for the revision of the projection upwards was a strong wage growth, primarily in the private sector, recorded during the first three quarters of 2023. Estimated revenue from income tax and social contributions have been revised upwards in the total amount of 55.3 billion RSD. The rest of the income tax consists of other forms such as the dividend tax, interest income tax, annual income tax, tax on income from the lease of immovable property etc. Estimated income from these groups of taxes has been increased by 3.8 billion RSD, primarily due to the better collection at the end of the previous year.

Profit tax revenues were revised the most, relative to the original projection, by 49.6 billion RSD. The profitability of the economy achieved in 2022 was considerably higher than originally expected. There is considerable uncertainty in the projection of this tax category, because the final data on profitability were not known at the time when the budget was developed. The high amount of collected profit tax achieved in 2022 resulted in an increase of the share of this tax in the GDP (3%), exceeding the average values from the previous period. Guided by the cautionary principle, the original projection provided for a gradual reduction of the share of this tax form in the GDP, i.e. return to the average level from the previous period. After the payment of the profit tax according the final statement for 2022 (end of June 2023), the annual estimation of this tax was also revised. The net profit of the economy in 2022, according to the published data of the Business Registers Agency, was 1,239 billion RSD and was higher than in 2021 by 28.3%.

Value added tax revenues were revised upward in the absolute amount of 41.3 billion RSD, or 4.8%. In addition to the customs revenue, VAT is a revenue category which had a weaker tax collection in 2023 than planned. The collection of VAT during the first half of 2023 is notably deviating from the template seen over the previous years. The cause of such a trend is an incidentally high last year base. During the previous year, there was a growth of consumption which did not arise just from the usual personal income, but largely arose from the consumption of persons who were temporarily staying in

the country, a higher inflow from tourism, and a considerable growth of remittances, as well as a fiscal stimulus. In addition, there was a considerable increase of so-called “panic buying” in 2022 during the first months of the conflict in Ukraine. These two factors contributed to the non-structural increase of VAT revenue in the previous year, i.e. increased expectations for 2023, through the so-called base effect. In the structure of the VAT collection, the import component is growing slower than expected, and consequently, has slower growth of the GDP return arising from the foreign trade.

A lower growth of import demand, primarily of energy products, caused a revision of the estimated customs income downward by 3 billion RSD compared to the original projection. Customs receipts mostly, but not fully, match the dynamics of the import VAT, and therefore, in accordance with the change of the VAT structure, the volume of foreign trade and customs duty fluctuations in the first half of the year, the projection of this income form has been revised. Just as in the case of effects on VAT, lower growth of the import demand is primarily a consequence of the lower import of energy products than the originally expected one. This is partly a consequence of lower quantity needs, but also a decline of the prices in the international market compared to the first half of the previous year.

The projection of revenue from excise duties has been increased by 29.9 billion RSD relative to the original projection, mostly due to the increase of revenue from excise duties on petroleum products. In order to stop the excessive growth of the prices of petroleum products in the previous year and during 2023, the regular indexation of excise rates with the last year inflation was postponed. Also, the legal possibility of temporary reduction of the amount of excise duties was used, ranging from 5% to 20%, as is the legal maximum. Thus, revenues on excise duties on petroleum products for 2023 were originally planned taking into account the excise reduction by 10%. Due to the stagnation and decline of the prices of crude oil at the international market, a decision was made during Q1 to reduce the price by 5%, and completely abolish it after that, without any higher impact on the retail selling price. A somewhat stronger growth of consumption was during the first half of the current year. In addition, the effect of the changes in the excise duty policy was taken into account, which envisaged an increase of the amount of the excise duties in the last quarter of this year.

An increase of the revenue from excise duties on tobacco is a result of a better collection in the first half of the year than expected, as well as the anticipated increase of the amount of excise duties. During the development of the original budget projection, a drop in consumption, which is present for multiple years, was anticipated. Nevertheless, market developments indicate that this year's drop of consumption of tobacco products is somewhat lower than expected. At the end of the previous year, a better collection than planned was noted during the development of the original budget. A projection of revenues from other excise duty products (electrical energy, alcohol and coffee) was increased due to a somewhat better achievement of excise duty revenue through all three categories of products relative to the plan.

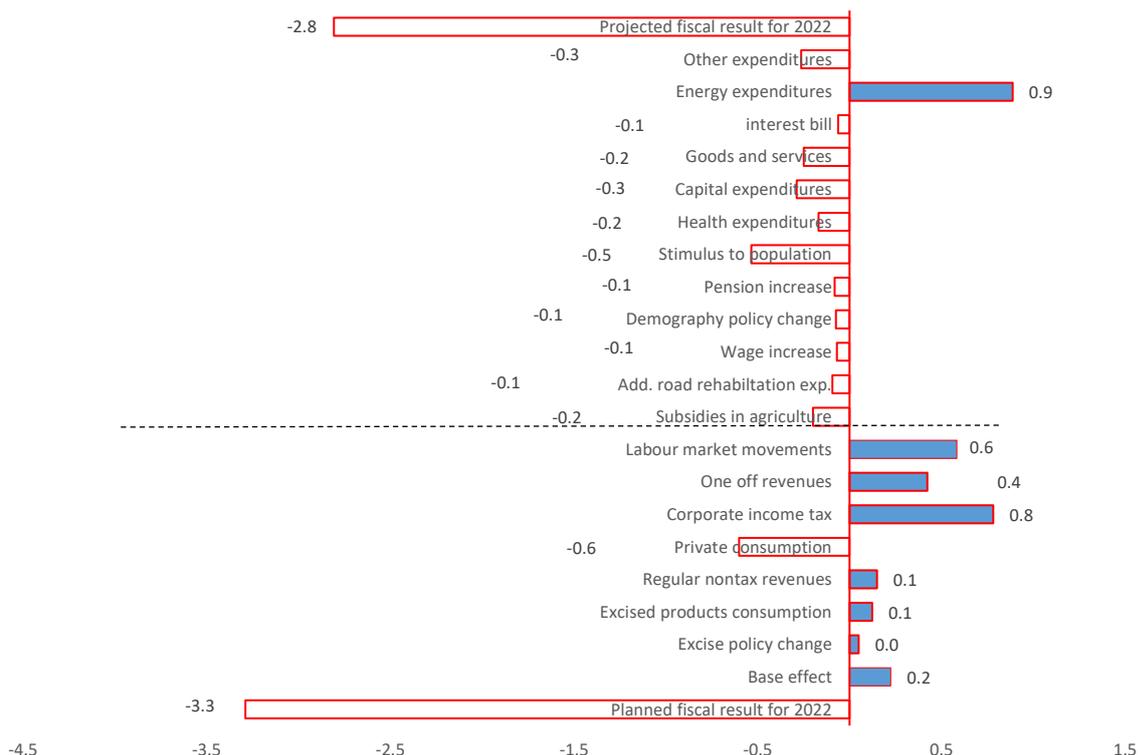
The implementation of the cited measures which, both this year and the previous year, reduced the excise duty burden both in the absolute and in the relative terms, had significant effects on the amount of public revenue. Thus, the estimated loss of revenue in 2022 was 37.5 billion, and it is anticipated that it will amount to 63 billion RSD for 2023. For both years in total, the estimated loss amounts to 100.5 billion RSD, or 1.3% of the GDP. Approximately 80 percent of this loss is due to the reduction and lack of indexation of the excise duties on petroleum products.

Non-tax revenues were revised upward by 28.2 billion RSD, in accordance with the developments as regards of both regular and extraordinary non-tax revenues. Regular non-tax revenues include various taxes, fees (including road toll), fines, revenues of bodies and organisations and all other revenues accrued through the routine dynamic during the year, with certain seasonal variations. A significant part of this increase concerns road-toll revenues, since the adjustment of their amount was not initially planned. The rest concerns regular non-tax revenues of the budget of the Republic of Serbia, such as fees for using mineral substances, organizing games of chance, etc. An increase of the projected amount of these revenues is a result of a higher accrual at the end of the previous year, higher achievement relative to the plan, and a collection higher than expected during the previous part of the current year. Extraordinary non-tax revenues consist of payments to the profits of public enterprises

and agencies, budget dividends, income arising from collected receivables of the Deposit Insurance Agency, emission premiums, etc. The plan of extraordinary non-tax revenues has also been adjusted after the realization and announcements of certain payments arising from this. This mostly refers to revenue arising from budget dividends and received interest.

On the revenue side, the expansion of the coverage of the government sector by the inclusion of all sources of finance of the health institutions in 2023, resulted in an increase of non-tax revenue by 29 billion, and included own revenue of health institutions. A lower portion of the revenue of health institutions concerns donations, and there was an increase of these revenues. Due to the comparability, the original non-tax revenue plan was adjusted by the same amount, in view of the fact that this is not about a higher accrual than the planned, but about an expanded coverage of revenue accrued by health institutions. The inclusion of the revenue and expenditure side of all the sources of finance of health institutions, according to the planned timetable of adjusting the coverage of the government sector with the international standards, increased both the revenue and the expenditure side of the of the government sector and gave a more correct overview of economic classifications of consumption with the final users, the health institutions themselves. Certain categories of expenditure are now included in economic classifications within which they were executed in the health institutions (salaries, goods and services, capital expenditure etc.). These revenues have so far been included, but as final expenditure of the budget of the Republic of Serbia, Deposit Insurance Agency or local self-governments.

Chart 6 Contribution of certain factors to the adjustment of fiscal results relative to the plan for 2023, % of the GDP



The estimated government sector revenue was increased by this fiscal framework by 96 billion RSD relative to the original plan. Expenditure for purchase of goods and services had the largest increase, while budgeting loans had the largest reduction, mostly due to considerably smaller needs for purchase of energy products.

An expenditure estimate for employees in 2023 was revised upward by 5.6 billion RSD. This is mostly a result of the anticipated wage increase for employees in the education sector and a part of the health care sector by 5.5%, starting with the wages for September of the current year. This estimate

(as well as the original plan) includes expenditure for wages which are financed from own funds of health care institutions, in the amount of 12.9 billion RSD. This change will, in line with the Budget System Law and the new set of fiscal rules, result in a change of the upper allowed limit of the share of expenditure for salaries in the GDP.

Expenses for goods and services have been increased by 35.8 billion RSD. A part of the increase of the expenditure for goods and services concerns the current road maintenance by PE Roads of Serbia. A larger allocation is also envisaged for all needs in the health care system. The remaining increase concerns expense of the Republic of Serbia and of local governments. Similarly as with personnel costs, expenses financed from own revenues of health institutions, in the amount of approximately 17 billion RSD, were included in the expenditure for goods and services.

Interest expenses increased by 5 billion RSD, due to a change of the conditions on the capital market. An increase of agricultural subsidies had a key impact on the increase of total expenditure from budgetary subsidies. Expenses for subsidies were increased by 16.9 billion RSD relative to the original plan. There were significant changes in the structure of subsidies relative to the original plan envisaged in the budget. Agricultural subsidies were also increased by 32 billion RSD, while energy subsidies were reduced by 26 billion RSD. An increase of subsidies for agriculture concerns the field of livestock farming (premium for milk and incentives per head of cattle), as well as direct allowances by hectare of agricultural area.

Expenses for subsidies in other levels of government, according to a new estimate, have been reduced by 4 billion RSD. Social protection expenses have been revised upward by 24.3 billion RSD relative to the original plan. A part of the increase concerns the planned permanent pension increase by 5.5% since October 2023. A pension increase expense is expected to be increased by 6.6 billion RSD on that basis. Also, as a one-off measure, aid in the total amount of approximately 33 billion RSD will be paid to pensioners. At the level of the budget of the Republic of Serbia, an increase by 6.7 billion RSD is envisaged, mostly for additional measures for family welfare. In the health care system, the increase of expenditure on this basis was 7.5 billion. The expansion of the coverage of the government sector with all sources of finance of health institutions, resulted in a more accurate classification of certain expenses. Thus, a portion of social protection expenses at the local level could now be classified as a transfer to health institutions by the local government. The reduction of this category of expenditure is by 3.4 billion.

According to the estimate of other current expenses in 2023 indicates an increase by 26.5 billion RSD relative to the original plan. In the budget of the Republic of Serbia, the total increase is 14.5 billion RSD, of which 12 billion RSD concerns an on-off aid to mothers and single fathers of children aged up to 16. The purpose of this group of expenditure was reclassified due to the change of the coverage of the government sector. A portion of the expenditure, in the amount of 13.2 billion RSD at the level of the budgets of the Republic of Serbia and the Autonomous Province of Vojvodina, previously shown within the framework of this category, has now been reclassified as a transfer to health institutions, where final consumption is realised.

It is estimated that the realisation of public investments will be higher by 23.1 billion RSD than the original plan. The majority of this amount is used for infrastructure projects and construction of the road and rail infrastructure, as well as construction of a health care network. Relative to the original plan, the rebalancing of the budget of the Republic of Serbia changed the structure of capital expenditures, primarily in accordance with the dynamics of consumption in the previous period. Capital expenditures have thus reached 7.2% of the GDP in 2023. The inclusion of capital expenditures of health institutions resulted in an increase of both the original and the revised plan by 16 billion RSD.

The planned amount of budgetary loans, which include envisaged funds for the purchase of energy products, has been significantly revised, due to positive developments at the market and a recovery of the electrical energy production.

Table 5 Revenue, expenditure and result of the general government, January–September, in billion RSD

	Jan.– Sept. 2022	Jan.– Sept. 2023	Jan.– Sept. 2023 growth rate in %	2023/2022 growth rate in %
PUBLIC REVENUE	2273.5	2516.6	10.7	9.2
Current revenue	2263.3	2486.6	9.9	8.1
Tax revenue	2033.6	2244.3	10.4	8.8
Income tax	219.4	251.5	14.7	10.1
Corporate profit tax	166.8	220.6	32.3	4.7
VAT	579.1	598.6	3.4	11.0
Excise duties	251.2	269.4	7.3	3.1
Customs duties	57.4	59.1	3.0	4.6
Other tax revenues	72.0	79.5	10.4	7.8
Contributions	687.9	765.6	11.3	9.9
Non-tax revenue	229.6	242.3	5.5	2.1
Donations	10.2	30.0	194.0	229.9
PUBLIC EXPENDITURE	2238.3	2500.8	11.7	9.2
Current expenditure	1896.4	2120.0	11.8	12.6
Expenditures for employees	519.0	570.6	9.9	12.2
Purchase of goods and services	382.0	414.1	8.4	8.7
Repayment of interest	97.2	120.2	23.7	36.2
Subsidies	104.2	141.7	36.1	46.2
Social assistance and transfers	691.6	781.5	13.0	12.3
<i>of which pensions</i>	474.4	573.6	20.9	20.7
Other current expenditure	102.5	91.9	-10.3	-26.4
Capital expenditures	304.4	313.3	2.9	11.8
Net budgeting loans	26.1	50.0	91.4	-43.0
Activated guarantees	11.5	17.6	52.8	43.7
Fiscal result	35.2	15.8		

Source: Ministry of Finance

The amount of arrears (delays of over 60 days)* of budget beneficiaries and mandatory social insurance organisations on the last day of September 2023 was 2.6 billion RSD (approximately 0.04% of the GDP), and had decreased compared to the end of 2022.

Budget beneficiaries and PE Roads of Serbia created arrears in payment in the amount of 1.3 billion RSD, as did mandatory social insurance organisations.

Table 6 Status of arrears of budget beneficiaries and mandatory social insurance organisations at the end of 2022 and in September 2023, in billion RSD

	31 December 2022	30 September 2023
Budget beneficiaries and PE “Roads of Serbia”	2.1	1.3
Mandatory social security insurance	1.3	1.3
TOTAL	3.5	2.6

Source: Ministry of Finance

* In line with the definition which was used for the purposes of monitoring of implementation of arrangements with the IMF.

S0 indicator of short-term fiscal sustainability

The European Commission designed a composite S0 indicator for assessing short-term fiscal sustainability, which, through the identification of potential short-term risks in the current year, tries to anticipate the fiscal stress in the next year. If the value of the S0 indicator exceeds the defined threshold, the country is deemed to be under a short-term risk of fiscal stress. In addition to the values for the entire indicator, for the purpose of locating the source from which the risk originates, values of Sub-index and its components are also taken into consideration. The composite S0 indicator consists of two Sub-indices, which contain a series of variables of fiscal and macro-financial sustainability. The values of these sub-indices below the defined threshold indicate a lack of short-term fiscal risk.

In 2022, values of the fiscal (0.22) and financial sub-index (0.27) were within the threshold defined for them, as was the value of the entire S0 indicator for the Republic of Serbia (0.25). This generally indicates that there is no danger of any macroeconomic instability in the upcoming medium-term period. A successfully preserved macroeconomic and fiscal stability established in the previous period ensured the space for fast and significant measures of fiscal and monetary policy support.

Chart 7 S0 indicator for Serbia 2015–2022

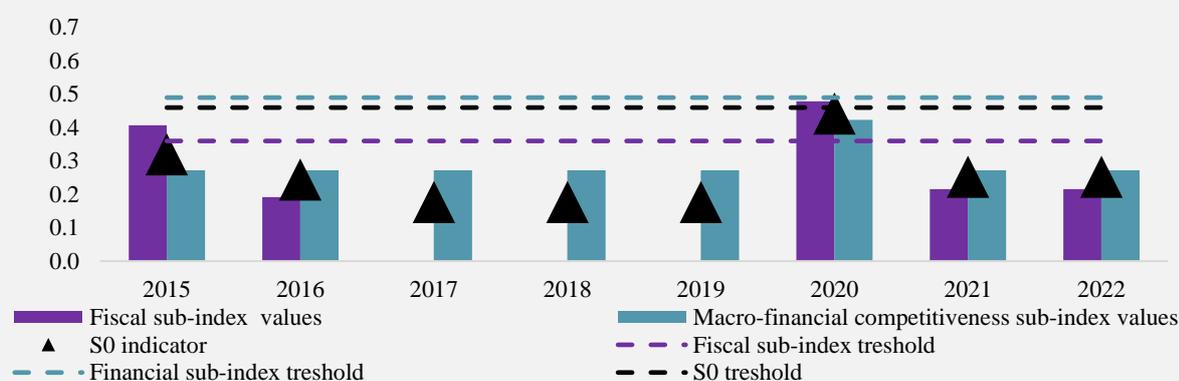
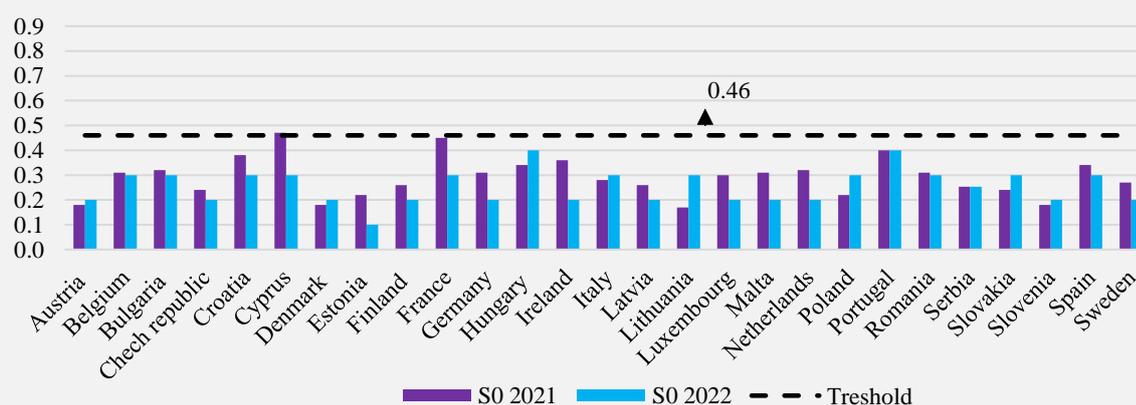


Chart 8 S0 EU countries and Serbia



Calculation of the S0 indicator for the Republic of Serbia, was made by the Ministry of Finance, based on the EC methodology.

On the basis of the European Commission data for EU countries for 2022 and the calculation of the Ministry of Finance for the Republic of Serbia, we conclude that the majority of the observed countries, as well as Serbia, were not exposed to short-term risk of the realisation of fiscal stress, in view of the fact that the value of S0 never exceeds the defined threshold. A minimization of potential risks for the occurrence of fiscal stress in observed countries will be necessary with a view to creating

4.3. FISCAL PROJECTIONS 2024–2026

Fiscal policy targets are aimed at maintaining fiscal stability and reducing the share of the public debt in the GDP. The medium-term fiscal framework envisages a gradual reduction of the government sector deficit to the level of 1.5% of the GDP until 2026 and a decline of the public debt share to under 50% of the GDP. Projections of fiscal aggregates 2023-2026 are based on the projections of macroeconomic indicators for the above period, planned tax policy which entails further alignment with the EU laws and directives and fiscal and structural measures, including a further reform of major public enterprises.

Due to the fiscal consolidation measures in the previous period, a fiscal space was created that enabled rich packages of measures as a part of the fight against the effects of the pandemic crisis during 2020 and 2021. In 2022, funds were provided for the purpose of mitigation of the effects of the energy crisis caused by the conflict in Ukraine. The response of the fiscal policy in the upcoming period, created measures and their fiscal implications will be designed in such a manner that they do not jeopardise the stability of public finance and the speed of the reduction of the public debt, that they maintain the living standard of the population and help the economic development, as well as to ensure the flexibility of the response to a possibly stronger crisis.

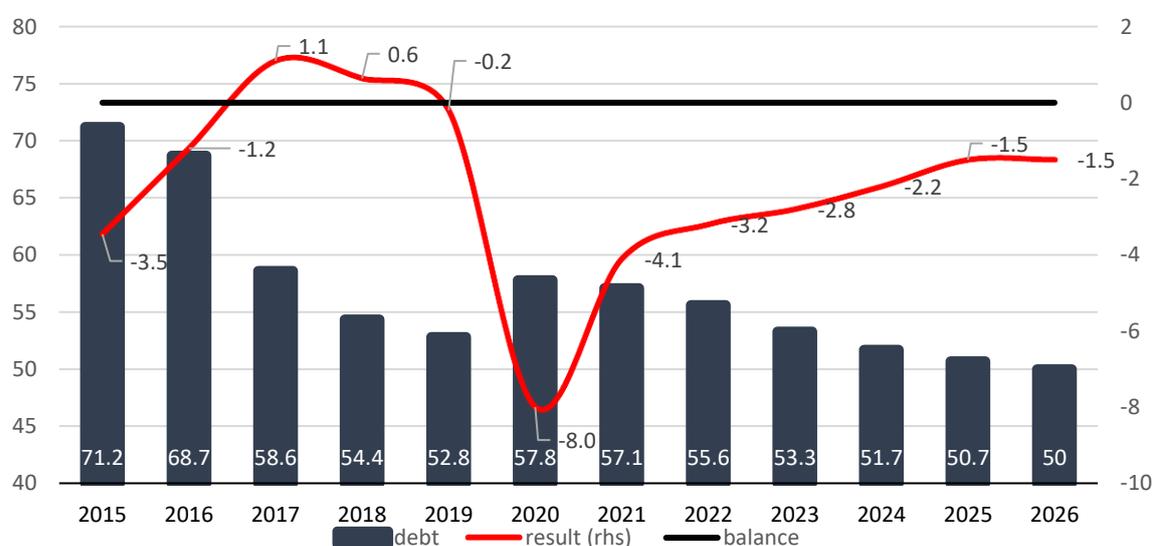
Table 7 Fiscal aggregates 2022–2026, GDP %

Description	Execution	Estimate	Projection		
	2022	2023	2024	2025	2026
Public revenue	43.8	42.5	42.6	42.5	42.3
Public expenditure	46.9	45.3	44.8	44.0	43.8
Consolidated fiscal result	-3.2	-2.8	-2.2	-1.5	-1.5
Primary consolidated result	-1.7	-1.0	-0.1	0.6	0.8
General government debt	55.6	53.3	51.7	50.7	50.0
Real growth rate of the GDP	2.3%	2.5%	3.5%	4.0%	4.3%

Source: Ministry of Finance

Fiscal policy targets in the upcoming medium-term period will be ensuring a stable position of public finance and a declining public debt path. Reduction of the share of the public debt is tightly connected to the reduction of deficit as the main indebtedness factor, so that the dynamic of deficit reduction also causes a change of debt fluctuation. The growing costs of indebtedness on the international financial market also require a cautious and restrictive fiscal policy.

Chart 10 General government fiscal result and public debt, % of the GDP



Expansive fiscal policy during 2020 and 2021 reduced the negative economic consequences of the pandemic. In 2022, the focus was transferred to the protection of businesses and citizens from the economic crisis. For the upcoming medium-term period, moderate reduction of deficit of the government sector is envisaged so that the needed flexibility of the national economy would be ensured through fiscal policy, as well as a timely and efficient response to any external shocks. This primarily concerns the expenditure side. On the revenue side, the priority will remain further reduction of tax burden of wages and continued fight against tax evasion and grey economy.

Revenues from 2023 to 2026 were projected on the basis of:

- projection of the developments of the most important macroeconomic indicators: GDP and its components, inflation, foreign exchange rate, foreign trade, employment and wages;
- existing and planned change of tax policy;
- estimated effects of fiscal and structural measures in the upcoming period.

Table 8 Total revenue and grs 2022–2026, GDP %

Description	Execution	Estimate	Projection		
	2022	2023	2024	2025	2026
PUBLIC REVENUE	43.8	42.5	42.6	42.5	42.3
Current revenue	43.5	41.9	42.1	42.1	41.9
Tax revenue	38.9	37.6	38.0	38.0	38.0
Personal income tax	4.3	4.2	4.3	4.4	4.5
Corporate profit tax	3.0	3.4	2.9	2.9	2.8
VAT	11.0	10.2	10.3	10.4	10.3
Excise duties	4.8	4.5	4.5	4.3	4.1
Customs duties	1.1	1.0	1.0	1.0	1.1
Other tax revenues	1.4	1.3	1.3	1.3	1.2
Contributions	13.4	13.0	13.6	13.8	14.1
Non-tax revenue	4.6	4.3	4.2	4.0	3.8
Grants	0.2	0.6	0.4	0.4	0.4

Source: Ministry of Finance

A mildly declining trend of revenue in terms of share of the GDP is expected in view of the projected structure of the medium-term growth of Serbian economy. The collection of postponed obligations from 2020 increased the level of revenue over the trend in 2021 and 2022, but it also strengthened the effect of the decline of the share of the revenue in the GDP in 2023. Projection of tax revenue entail the maintenance of the existing level of collection.

In 2024, the policy of reduction of the tax burden on wages and contributions is expected to continue. In 2023, contributions for pension and disability insurance borne by the employer were reduced by 1 pp and a non-taxable amount of wage was increased to 21,712 RSD, and an increase of the non-taxable part of the wage to 25,000 RSD is expected in 2024. The effect of this measure is estimated to approximately 14 billion RSD, of which approximately 10 billion is the effect of a decrease of revenue arising from income tax.

The prevailing form of personal income tax is wage tax, so that developments of the salary mass and employment are the main factors affecting the development of this tax form. In view of the fact that these two components are expected to grow faster than the nominal growth of the GDP, a mild growth of the share of income tax in the GDP is expected. A higher amount of these revenues in 2022 (as well as in 2021) was a result of the collection of the part of the postponed wage tax from 2020 within the package of measures in the fight against the pandemic.

Other forms of income tax (dividend tax, interest income tax, annual income tax, etc.) will be growing more slowly, i.e. in accordance with the development of the general economic activity.

With wage tax, the fight against grey economy was crucial, in view of the considerable number of unreported workers and cash-in-hand payment of wages. During the last few years, checks were intensified and sanctions enhanced, which resulted in combating grey economy in the field of labour

and employment, but it is important that continuous engagement in this field continues in the upcoming period.

Fluctuations of the share of the contribution to the GDP have the same path as the fluctuation of the share of the wage tax, in view of the fact that the same assumptions on the fluctuations of wages and employment were used for their projection. After a reduction in 2023, compared to the period 2021–2022, when outstanding liabilities were collected on the basis of postponed contributions from 2020, a gradual growth of the level of contribution relative to the GDP is anticipated. The projections include the negative effect of the increase of non-taxable census on the revenues from the contributions in 2024, which amounts to approximately 4 billion RSD.

Corporate tax revenues 2023–2026 will depend on the economic growth path, relative stability of the exchange rate of dinar and the overall profitability of the economy. The amount of estimated revenue arising from this is uncertain both due to economic factors, and the possibility of using tax loan or return, as well as differences between the accounting and tax balances. The growth of the profitability of the economy in 2022 contributed to the significant rise in corporate tax in 2023 in view of the fact that corporate tax according to the final statement will be paid the next year. It is expected that profit tax until 2026 will stabilise in accordance with the fluctuations of the GDP.

The main determinant of the fluctuations of the VAT is domestic demand guided by the disposable personal income. Disposable income, as the largest consumption determinant, depends on the fluctuations of wages, pensions, social assistance and other forms of income, including remittances, as well as the dynamics of the retail credit activity of banks.

Similarly to income tax, risks for the achievement of the projected VAT in the upcoming period, in addition to the overall uncertainty of the international economic environments, also concern the fluctuations of salaries in the private sector, growth of economic activity, as well as the extent of grey economy, i.e. efficiency in its reduction.

A more efficient collection and control of tax payers will continue in the forthcoming period, where the effects of the fight against the grey economy are not explicitly included in the medium-term projection of public revenue. In this segment, possibilities for further improvement will be created by strengthening and modernisation of the tax administration.

The projection of revenues arising from excise duties was created on the basis of the applicable excise duty policy and the projected consumption of excisable products. An extraordinary increase of excise duties of 8% is anticipated to occur in October this year, and to be adjusted to the growth of consumer prices in January, for the first time since 2020.

In the previous period, from March 2022 to 30 April 2023, due to an increase of producer prices of petroleum products due to the growth of the prices of crude oil on the world market, and for the purpose of preservation of stability and standard of the citizens and a smooth supply of the market with petroleum products, the Government temporarily reduced the amount of excise duties on petroleum products on multiple occasions (non-lead and lead petroleum and gas oils - Diesel fuel) by reducing the latest valid adjusted amounts of excise duties on the cited petroleum products from 20% to 5%, depending on the period of application. On the basis of this, during 2023, excise taxes were not indexed by the growth of consumer prices in 2022, and the reduction of excise duties on petroleum products was in force until 30 April 2023. Over the upcoming years, due to caution, no growth of the consumption of petroleum products has been assumed.

Within the excise duty policy with regard to tobacco products, further gradual adjustment to the EU Directives is expected, in line with the medium-term plan of gradual increase of excise duty burden. With cigarettes, it will be directed through a gradual increase of excise duties, so that the EU minimum of 1.8 EUR by pack would be reached in an acceptable time in the RSD counter value, recalculated according to the official middle exchange rate of the National Bank of Serbia. In the upcoming period, for the purpose of a projection of revenues from excise duties, due to caution, further natural decline of the tobacco product market is anticipated annually.

Revenue from excise duties on alcoholic beverages, coffee and electricity are projected in accordance with the existing structure of consumption and the current excise policy, and an excise on natural gas used for heating and driving of motor vehicles is envisaged for 2025.

Customs revenues will be stabilised at the level of 1% of the GDP in the upcoming period. Custom revenues were projected in accordance with the projected fluctuations of the import, exchange rate and consumption.

Stabilisation of the share of other tax revenues in the GDP is also projected. The most important tax revenue in this category is property tax, whose share is about 70%. The nominal increase of this revenue may be expected on the basis of the expansion of the base. An increase of the level of collection, through an increase of the coverage of immovable property for which tax is paid (i.e. on the basis of the expansion of the tax base) is not included in the medium-term projections and is a positive risk. In addition to the property tax, other tax revenues include taxes on the use, keeping and holding of goods, and other forms of tax at the local level. They were projected in accordance with the fluctuations of the inflation, in view of the fact that the inflationary component was incorporated in a considerable part of these tax forms.

A reduction of the share of non-tax revenue in the GDP is expected, from 4.6% at the end of 2022, to 3.8% of the GDP expected at the end of 2026. The reason for the reduction of the projected share of non-tax revenue in the GDP is the exclusion of all the revenues which are not considered structural/permanent, which primarily concerns extraordinary categories of non-tax revenue, from the base year - 2022 - as well as from 2023. Extraordinary non-tax revenues are mostly one-off, uncertain to an extent, both with respect to the amount and with regard to the moment of payment. Most of these revenues consist of unscheduled payments of the profits of public enterprises and agencies, budget dividends, income arising from collected receivables of the Deposit Insurance Agency, emission premiums, etc. Regular non-tax revenues include various taxes, fees, fines, revenues of bodies and organisations and all other revenue accrued through the routine dynamic during the year. This type of non-tax revenues is indexed with the incurred inflation in the previous year, or matches the change in the value of the base to which it is applied, and due to this it is adjusted with the projected inflation.

The process of the country approaching the EU membership increases the available resources from the IPA and IPARD funds which make up the prevailing portion of the donation revenues. The projected revenues from donations include funds on the basis of the sectoral EU budget support. In 2023, exceptionally, the total inflow of EU donations as aid for mitigation of the energy crisis will amount to 18.4 billion RSD. Revenues from donations are neutral relative to the result, in view of the fact that they are equal to the expenses arising from the same.

Responsible fiscal policy in combination with good macroeconomic performances in the previous period ensured a relaxation of the policy of salaries and pensions and considerable increase of capital investments as important components of the development of the economy. Special attention has been paid to the improvement of the efficiency of the realisation of government capital investments. The social component of the budget was increased by better targeting of social assistance programmes and larger allocations for health and education. Salaries and pensions together make up over 40% of expenses at the level of government sector and their stabilisation is of crucial importance for the sustainability of public finances.

Table 9 Total expenditure 2022–2026, GDP %

Description	Execution	Estimate	Projection		
	2022	2023	2024	2025	2026
PUBLIC EXPENDITURE	46.9	45.3	44.8	44.0	43.8
Current expenditure	36.4	37.1	37.2	37.0	36.7
Expenditures for employees	9.8	9.7	10.0	10.0	10.0
Purchase of goods and services	7.9	7.7	7.7	7.5	7.5
Repayment of interest	1.5	1.9	2.1	2.2	2.3
Subsidies	2.3	2.7	2.4	2.2	2.2
Social assistance and transfers	13.1	13.5	13.8	14.0	13.6
<i>of which pensions</i>	9.0	9.6	10.6	10.8	10.4
Other current expenditure	1.9	1.5	1.3	1.2	1.2
Capital expenditures	7.4	7.2	6.8	6.5	6.6
Net lending	2.9	0.8	0.5	0.2	0.2
Activated guarantees	0.3	0.3	0.3	0.3	0.2

Source: Ministry of Finance

In 2020 and 2021, there was a change in the trend of public expenditure with respect to the proportions of the pandemic crisis. Realized assistance measures resulted in a temporary increase of the share of the expenditure side of the budget in the GDP. In 2022, the expansiveness of the fiscal policy was reduced, but considerable funds were ensured for mitigation of the energy crisis consequences, same as in 2023.

As regards the limited the fiscal space in the upcoming period, salaries will be increased in a moderate and controlled way, taking into account their share in the GDP.

Article 27e of the Budget System Law provides for a maximum limit of expenses for employees of the government sector of 10% of the GDP. Adjustment of salaries in all institutions (entities) which comprise the government sector is limited by the defined share of these expenses in the GDP. Furthermore, this limitation shall be adjusted upwards in case of an increase of the coverage of the government sector, i.e. by inclusion of new entities into the government sector, i.e. downwards in case of excluding entities from the government sector⁷.

As the fiscal framework of the government sector has been expanded for own resources of health institutions and secondary schools, the estimated level of expenses for employees from these resources is 0.2% of the GDP. Expansion of the coverage of the government sector, on this basis, implies an adjustment of the maximum limit for employee expenses in the government sector to 10.2% of the GDP.

Expenses for goods and services will decrease in the medium-term period in terms of the share in the GDP, taking into account that it is envisaged that they nominally grow slower than the growth of the nominal GDP. The high level in 2022 was mostly a result of the higher expenses in the health sector.

In view of the growing costs of indebtedness with regard to the situation on the international financial market and the needs for financing the deficit, the projection is that the level of interest the upcoming period will mildly grow.

Social assistance and transfers to the population are the largest expenditure category of the government sector. The largest individual item of this group of expenditure, and at the same time the largest item of all expenses, are pensions. From 2020 and up to and including 2022, pensions were adjusted by using the Swiss Formula in order to simultaneously ensure the growth of the living standard of pensioners and sustainability of the pension system and the public finance system. The Swiss Formula entails indexation, i.e. a pension increase equal to the sum of a half of the growth rate of the average salary and half of the growth rate of consumer prices.

Since 2023, a different method of indexation of pensions has been applied, i.e. adjustment of pensions is and share of pensions in the GDP is taken into account, in order to additionally protect the living standard of pensioners. The manner of indexation of pensions, and their fluctuations, defines the path

⁷ New entities may be included or excluded from the coverage of the government sector in accordance with the statistical criteria and international standards which define them.

of the fluctuations of total expenditure for social protection with regard to the share of the GDP. As regards the current estimation of the level of the pension mass in the GDP, an indexation of pensions with the growth of the average salary is expected for the next year. In addition, pensions which were subject to extraordinary indexation (5.5%) were paid in November 2023. The other forms of social benefits and transfers to the population in the upcoming period will be adjusted with the application of the prescribed indexation, current and planned changes of policies in this field, and projected number of beneficiaries.

Reduction of subsidies used as aid to inefficient segments of the public sector enabled an increase of this part of subsidies which constitute real incentives to economy, primarily to agriculture and small and medium enterprises, and which result in an acceleration of the economic activity. During 2023, there was a temporary growth of subsidies in terms of the share of the GDP, caused by higher expenses intended for overcoming the negative effects of the growing prices of energy products, which will be financed from the donations of the European Union, and additional subsidies intended for agriculture and transport infrastructure.

Categories of other current expenditure consist of various expenses, such as grants to associations, political parties, religious and sports organisations, fines, damages etc. Similarly as with subsidies, one-off growth is caused by a fiscal response to the crisis, in view of the fact that fiscal stimuli were paid to the population from this position.

During the previous years, the efficiency of execution of public investment was considerably improved. The capital expenditures in 2022 reached up to 7.4% of the GDP, in spite of problems caused by the pandemic and the energy crisis. In the upcoming medium-term, the high level of investment in the public infrastructure is expected to continue, particularly after the decision to hold Expo 2027 in Belgrade. The most important works are on the road, rail, municipal and water infrastructure, mostly financed from international loans. In addition to the transport infrastructure, funds were provided for additional capital investments into the health care, energy, environmental protection, education, culture, defence and other fields which are the most important functions of the state. This is all a part of a new investment cycle at the national level, which is enabled by the creation of the fiscal space and supported by favourable conditions for indebtedness on the international financial market in the previous period.

Overall medium-term goal of the fiscal policy is an increase of investments into infrastructure at all levels of government. As regards the local level of government, this primarily concerns investments into the water supply and sewerage infrastructure, waste management, local road infrastructure etc. The City of Belgrade is expected to seriously embark on the project of construction of the metro this year, with the assistance of the government.

In the medium-term fiscal framework, a balanced total financial position of the self-government is projected by the end of 2026. This means that all towns and municipalities aggregately have an approximately balanced budget. The projection was created on the basis of developments in the previous period, when local self-government units were most often in surplus. This kind of situation on the level of all local self-governments is a consequence of the discharge of debt in the previous period. This does not mean that individual LSGUs cannot be in deficit (in conformity with the fiscal rule), which depends on the fiscal position of each individual municipality and town.

The developments of the category of budgetary loans were mostly affected by the funds intended for overcoming negative consequences of the energy crisis. In 2022, funds were paid for these purposes in the amount of 2.7% of the GDP. It is estimated that the percentage of enforcement in 2023 will be approximately 0.5% of the GDP. A reduction of the share of this expenditure category to 0.2% of the GDP is expected in the forthcoming period.

Repayment on the basis of issued guarantees and payment of guarantees for commercial transactions are liabilities on the basis of public enterprise debts which the budget of the Republic of Serbia had assumed, since these enterprises were unable to execute them independently. These revenues were large burden in view of the long-term inefficient business transactions of a large number of state-

owned enterprises and companies. In the previous period, these revenues were considerably reduced, and the repayment plan envisages these expenses will amount to 0.2% of the GDP annually by 2026.

4.4. CYCLICALLY-ADJUSTED FISCAL BALANCE

A cyclically-adjusted fiscal balance is a fiscal balance from which the isolated impact of the economic cycle is excluded, and the identity which is the starting point is as follows⁸:

$$FB = CB + CAB$$

A part of the fiscal balance (FB) which is not affected by cyclical fluctuations is called cyclically-adjusted fiscal balance (CAB) and the goal of this procedure is isolation of a cyclically-adjusted component of fiscal balance (CB) which is a result of the impact of the production gap. Real fiscal balance will be equal to the cyclically-adjusted one in case that the production gap equals zero, i.e., if the growth rate of the real GDP is equal to that of the potential one. Structural fiscal balance is further calculated by eliminating one-off effects on the revenue and expenditure side, this showing the structural (permanent) fiscal position.

The fiscal space created in the previous period and a considerably structurally improved fiscal policy of the country have enabled a relaxation of the fiscal policy in the time of crisis.

With the outbreak of the COVID-19 pandemic in early 2020 and introduction of health care measures for citizens, the global economy entered an unprecedented crisis. The impact on the fiscal policy was visible in reduced budget revenues, which were a consequence of the deceleration of economic activity due to the pandemic, and dramatically higher expenses caused by higher health care costs and adoption of a large aid package to businesses and citizens. In this situation, the usual analysis of the economic cycle, quantification of fiscal multipliers and assessments of the elasticity of the fiscal balance compared to the production gap does not provide fully correct assessments of the fiscal position of the country. Fiscal policy response to a complex economic situation caused by the Coronavirus pandemic in 2020 and 2021 is in the form of a large package of assistance measures for businesses. In case of absence of support measures for the businesses and citizens, a mild drop of the GDP in 2020 and strong recovery during 2021 would not exist, and a bigger contraction of the economy would cause a considerably slower recovery in the upcoming medium-term period.

Table 10 Fiscal balance and components for calculation of cyclically adjusted balance 2005–2026, % GDP*

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

⁸ A detailed description of the methodology used and the results is available in the Fiscal Strategy for 2013 with projections for 2014 and 2015, or on the website https://www.mfin.gov.rs/upload/media/jzsbpL_601ab1585ca02.pdf

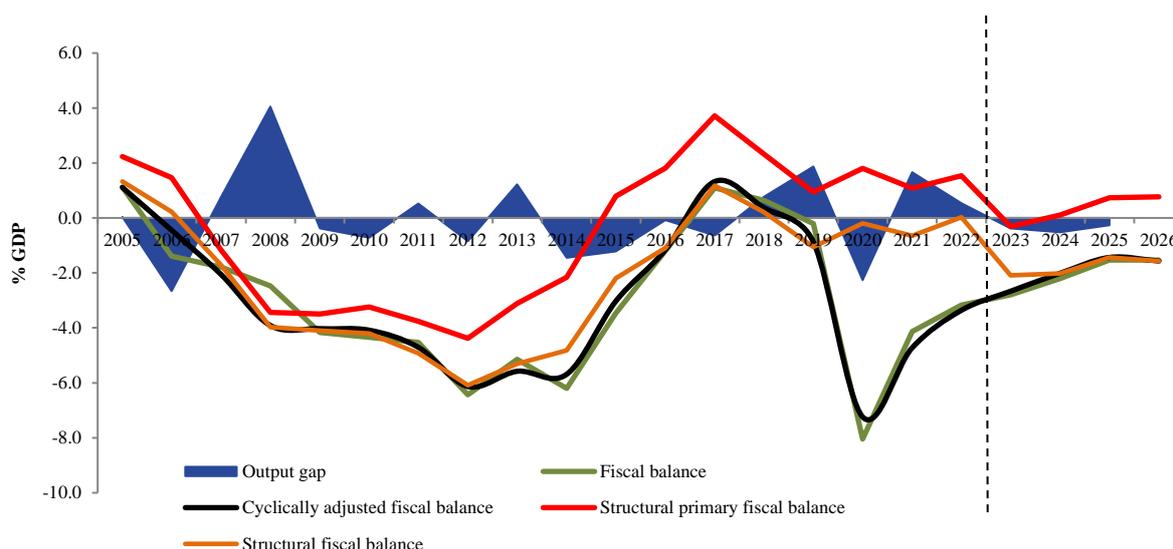
2023	-0.4	-2.8	-1.0	-2.7	-0.9	-2.1	-0.3	-1.0
2024	-0.5	-2.2	-0.1	-2.0	0.1	-2.0	0.1	-1.0
2025	-0.3	-1.5	0.6	-1.4	0.8	-1.4	0.8	-0.7
2026	0.1	-1.5	0.8	-1.5	0.8	-1.5	0.8	0.0

* Projected values for the period 2023–2026 are displayed,

** Structural primary balance was obtained by excluding assessed one-off revenue and expenditure. Results which indicate a change of structural primary deficit do not explicitly exclude the effects of the increased efficiency of revenue collection, so the assessment of the structural adjustment in 2015 and 2016 are partially different from the previously shown effects.

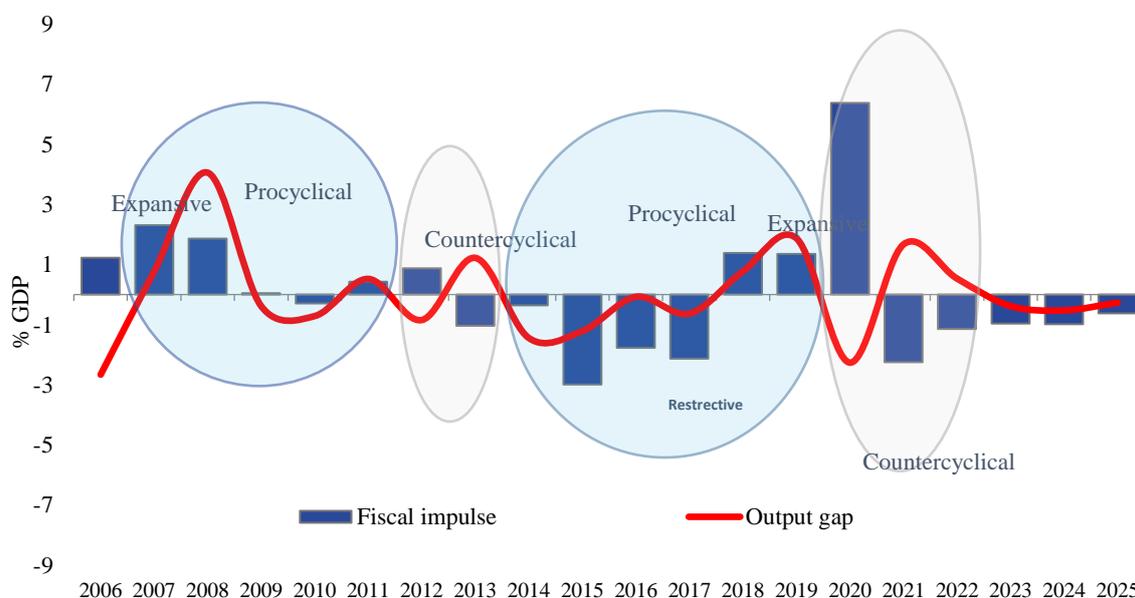
Source: Ministry of Finance

Chart 11 Output gap, cyclically-adjusted and structural fiscal balance 2005–2026, % GDP*



* Projected values for the period 2023–2026 are displayed

Chart 12 Character and effects of the fiscal policy 2006–2026, GDP %*



* Projected values for the period 2023–2026 are displayed

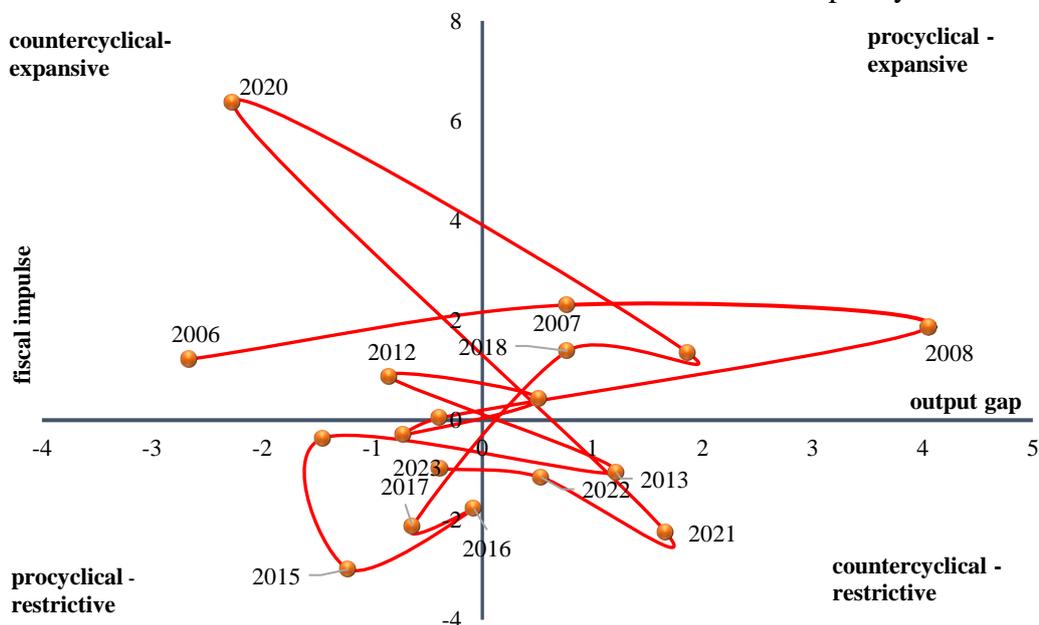
The structural fiscal position of the country was not undermined between 2020 and 2022, because the implemented assistance measures to businesses and citizens from the domain of fiscal policy were of temporally limited nature. Other than that, the energy crisis caused considerable government interventions in the domain of ensuring energy stability in 2022. For these purposes, 2.8% of the GDP was spent. During 2022, a certain amount of resources was realised as a form of aid to citizens in the

amount of 0.9% of the GDP. Other than the increased expenses for energy products, aid to citizens and businesses is also ensured by reducing excise duties on petroleum products.

During 2023, a change in the structure position of the government sector was partially caused by a change in the formula for adjustment of pensions in accordance with the new fiscal rules, as well as an extraordinary pension at the end of the previous 2022 and 2023. A new special fiscal rule introduces a direct link between the method of adjustment of pensions and share of this form of expenditure in the GDP. This kind of systemic solution ensures that sustainability of public finances is not endangered, and that income and standard of pensioners reflect the economic power of the country to a greater extent. The remaining mild decline of the structural fiscal position is a consequence of the growth of the share of interest expenditure in GDP. Increased indebtedness expenses, as a consequence of measures for combatting inflationary tendencies on the domestic and international market, will certainly have a negative effect of similar intensity in the upcoming period. However, a set of adopted fiscal rules, inter alia, provides for a direct link between the planned levels of the fiscal result and the share of public debt in the GDP. Thus, a limit of the structural fiscal result in the medium and long term is set, with the basic goal to ensure a sustainable level of public debt.

Since the fiscal impulse is defined as a differential between two consecutive cyclically-adjusted (primary) results, it is estimated that fiscal policy during 2020 was exceptionally expansive and countercyclical, directed towards mitigation of the negative economic cycle. Due to a somewhat smaller scope of the package of measures of economic support in 2021, the fiscal policy was more restrictive than the previous year, and is countercyclical in nature. In 2022 and 2023, it was assessed that the fiscal policy was mildly restrictive, in spite of the considerable allocations for mitigation of the energy crisis. It is partially a consequence of the growth of interest expenses which are excluded from the calculation of the primary result. A similar restrictive nature of the policy, due to the needs to raise fiscal results to the level envisaged by fiscal rules, is expected in the period from 2024 to 2026.

Chart 13 Character and effects of the fiscal policy 2006–2023, GDP %



4.5. PUBLIC DEBT MANAGEMENT

In accordance with the international practice and pursuant to the Public Debt Law (*Official Gazette of the Republic of Serbia*, Nos. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20), the Public Debt Management Strategy for the upcoming medium term should be supported and consistent with the Government’s general medium-term macro-economic framework, and is an integral part of the Fiscal Strategy. The Public Debt Management Strategy is based on principles that define the need for

a transparent and predictable borrowing process, with the permanent development of the government securities market and an acceptable level of exposure to financial risks.

At the end of September 2023, general government debt amounted to RSD 4,188.7 billion, or 51.7% of the GDP. Of that, 3,894.1 billion RSD refer to direct liabilities, RSD 4,156.0 billion to indirect liabilities, while RSD 30.2 billion refers to unguaranteed debt of local self-government units and 2.4 billion dinars in unguaranteed debt of PE Roads of Serbia and the company Corridors of Serbia LTD. The direct public debt of the Republic of Serbia amounted to RSD 3,939.5 billion, while the indirect public debt of the Republic of Serbia amounted to RSD 216.5 billion. The internal public debt of the Republic of Serbia amounted to RSD 1,205.2 billion, while the external public debt of the Republic of Serbia amounted to RSD 2,950.8 billion. According to the data from September 30, 2023, the largest part of the currency structure of the general government debt is euro-denominated, amounting to 58.3%. After that, the most represented are the dinar with 20.5%, and the US dollar with 13.7%. The rest of the debt is denominated in special drawing rights at 6.9% and other currencies at 0.6%. On September 30, 2023, the largest share of general government debt was fixed interest rate (72.5%), while public debt with a variable interest rate accounted for 27.5% of the total debt. Among the variable interest rates, EURIBOR is the most represented with a share of 70.3%, followed by the variable interest rate for special drawing rights - 24.8%, Belibor - 4.3%, while the share of liabilities with other interest rates is 0.6%.

Fiscal framework 2024–2026: Due to the fiscal consolidation measures in the previous period, a fiscal space was created that enabled rich packages of measures as a part of the fight against the effects of the pandemic crisis during 2020 and 2021. In 2022, funds were provided for the purpose of mitigation of the effects of the energy crisis caused by the conflict in Ukraine. The response of the fiscal policy in the upcoming period, created measures and their fiscal implications will be designed in such a manner that they do not jeopardise the stability of public finance and the speed of the reduction of the public debt, that they maintain the living standard of the population and help the economic development, as well as to ensure the flexibility of the response to a possibly stronger crisis. Fiscal policy targets in the upcoming medium-term period will be ensuring a stable position of public finance and a declining public debt path. The reduction of the public debt ratio is tightly connected to the reduction of deficit as the main indebtedness factor, so that the dynamic of deficit reduction also causes a change of debt fluctuation. The growing costs of indebtedness on the international financial market also require a cautious and restrictive fiscal policy.

Having in mind the projected result of the budget of the Republic of Serbia for the period 2024-2026, including the volume of withdrawal of credit funds for project financing from budget beneficiaries, the effects of the dinar exchange rate against the euro and the US dollar in the underlying macroeconomic scenario, the central government debt should be at the level of 49.0% of the GDP at the end of 2026.

Table 11 Basic projection of the status of the general government debt until 2026

	2023 p	2024 p	2025 p	2026 p
Central government debt, bill. RSD	4273.9	4472.9	4719.9	4967.9
Central government debt, in % of the GDP	52.7%	51.0%	49.9%	49.0%
Unguaranteed debt of local self-government units*, GDP %	0.6%	0.7%	0.8%	1.0%
General government debt, in % of the GDP	53.3%	51.7%	50.7%	50.0%

* and other government sector

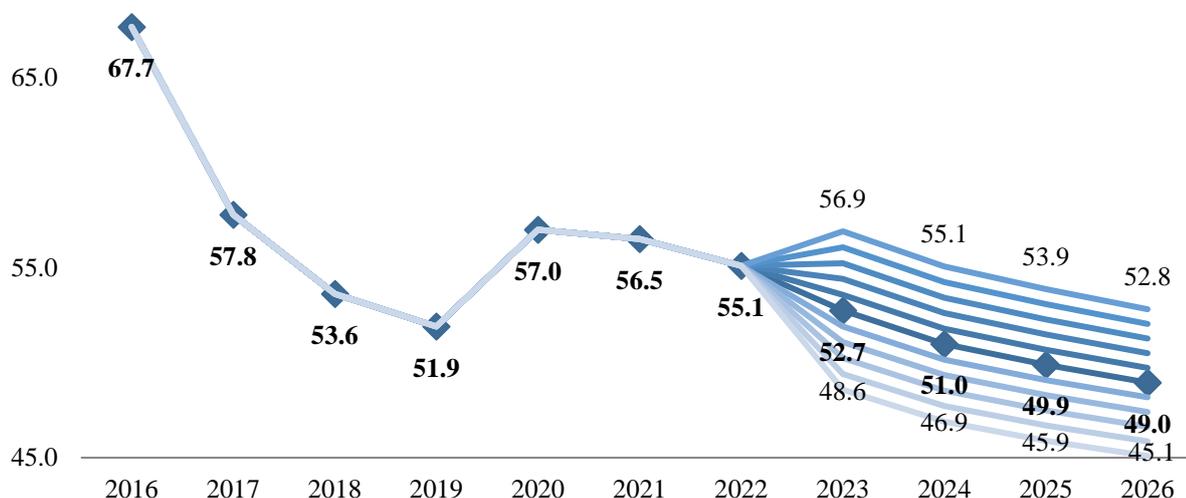
Source: Ministry of Finance

The unguaranteed debt of the local government is projected to be approximately 1.0% of the GDP by the end of 2026. At the end of 2026, the general government debt should be at 50% of the GDP.

Financial and fiscal risks may lead to a stronger growth of public debt than the baseline scenario predicts. The risks that are present and can lead to an increase in indebtedness and public debt servicing 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 (79.4%), it is clear that the foreign exchange risk will determine the behaviour of the public debt to GDP ratio in the following period, and significantly condition the success of fiscal policy measures aimed at consolidating public finances and reducing the share of public debt in the GDP.

Chart 14 Impact of the changes in the exchange rate of RSD relative to the public debt to GDP ratio – Central government



Source: Ministry of Finance

The chart presents the movements of the central government public debt to GDP ratio depending on the changes of the dinar exchange rate against a certain basket of currencies. The basic projection is shown with alternative scenarios depending on the appreciation or 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 2026 would range from 45.1% to 52.8%, while under the baseline scenario it would be at the level of 49.0%.

With a view to reducing the exposure to variable interest rates, new obligations are contracted at fixed interest rates where possible, and particularly with respect to loans intended for financing investment projects.

For the purpose of portfolio optimisation and a more efficient public debt management, an analysis of costs and risks of alternative debt strategies was conducted by using the World Bank's Medium Term Debt Strategy Model (MTDS) for the baseline scenario, as well as taking into accounts any shocks that may result in a change of the baseline scenario, such as: exchange rate, changes of interest rates on the international and national market, combined shock.

The Public Debt Management Strategy in the upcoming medium-term period is based on the assumption that financing will be provided by borrowing on the domestic and international financial market. Flexibility in terms of market choice, debt currency and financing instruments, are necessary conditions for ensuring the financing of the expenditures from the budget of the Republic of Serbia. The decision on annual borrowing is made within the Budget Law for a specific fiscal year. Depending on the change in underlying fiscal aggregates, adjustment of the borrowing plan is possible during the fiscal year.

An international link (i-Link) is to be established in early 2024 between the Central Register, Securities Depository and Clearing and Euroclear Bank, so as to facilitate the settlement transactions of the government benchmark bonds through the Euroclear provider of post trade transactions. The main advantages of joining the Euroclear system are the expansion of the investor base through the easier availability of domestic securities to foreign investors, which further reduces costs in the downstream chain of participants in the purchase of securities, and thereby the decline in security yields and lower borrowing costs for the issuer. Also, the liquidity of the secondary market increases by expanding the investor base.

4.6. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS PROGRAMME

Fiscal risks are about the exposure of public finance to certain circumstances which may cause a deviation from the projected fiscal framework. The deviation may occur in revenue, expenditure, fiscal result, as well as state property and liabilities compared to what was planned and expected. The Government may not affect external risks, such as natural disasters or global financial crises, but it is possible to define exit strategies which would mitigate their impact (preservation of stability in good times, so that the fiscal policy could adequately respond in case of natural disasters etc. in the circumstances of recession or crisis). Internal risks, or their materialization, are a consequence of activities in the public sector, and thus the probability of their realisation may be affected by decisions and policies of the Government.

Identification of the largest financial risks which may affect state finances in the medium term is a starting point in a better management of fiscal risks. There are detailed data on certain fiscal risks, and it is easy to identify if, and how probably it is that, fiscal aggregates will be affected medium-term. For others, however, there are no sufficiently detailed data, but their very identification raises awareness on the possibility that they may result in a deviation from the planned fiscal framework in the upcoming period.

The Ministry of Finance has a leading role in the management of fiscal risks. As the key institution for medium-term macroeconomic and fiscal planning, budget formulation and management, the Ministry of Finance must also have the leading role in the establishment of an institutional and legal structure, and enhancement of capacities necessary for fiscal risk management. The Division for Monitoring of Fiscal Risks, as an organisational unit for management of fiscal risks in the Ministry of Finance, was founded with a goal to work on the strengthening of the legislation and the methodological framework, capacity building, and development of technical tools and models necessary for monitoring and assessment of fiscal risks. The purpose is that these activities result in risk identification and assessment and proposing of exit strategies, as assistance to the Government in the preservation of stability of the public finance, which is the key goal of the fiscal policy and one of the main preconditions for a more dynamic economic growth.

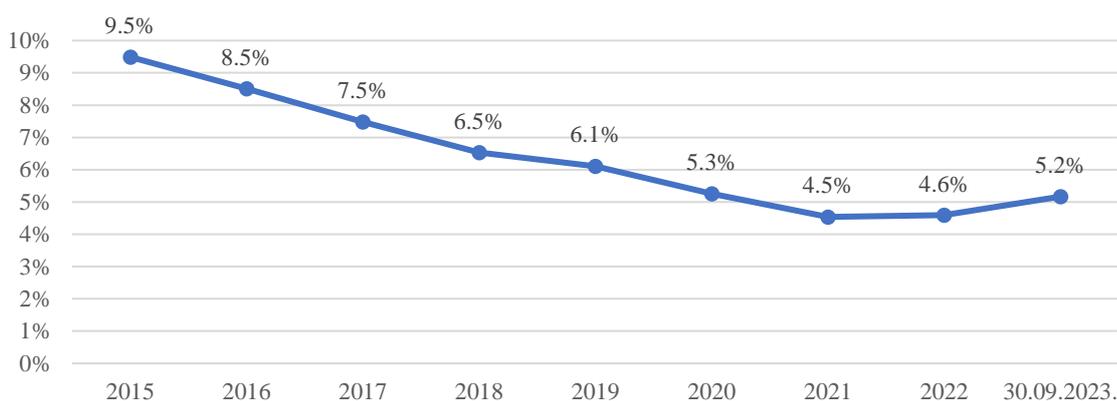
For the purpose of implementation of the above process of monitoring fiscal risks, in October 2021, the Uniform Methodology was adopted, prepared with the assistance of the World Bank, which includes four basic methodologies, namely: 1) Methodology for monitoring fiscal risks arising from the business activity of public enterprises; 2) Methodology for monitoring fiscal risks to the budget of the Republic of Serbia arising from the activities of local self-government units; 3) Methodology for monitoring fiscal risks arising from the judicial proceedings; 4) Methodology for monitoring fiscal risks arising from natural disasters.

Guarantees issued by the state affect the amount of public debt as well as the amount of deficit, if the loan repayment is assumed by the state instead of the original debtor. Issued guarantees are, according to the definition from the Law on Public Debt⁹, a part of indirect liabilities and are included in the public debt in the total amount. Limitations placed on the issuance of new guarantees yielded results, and the share of indirect obligations in the total public debt is decreasing. Indirect obligations (guarantees issued by the Republic of Serbia) constituted 4.6% of the total debt of the government sector at the end of 2022. At the end of Q3 2023, they constituted 5.2% of the debt of the government sector.

At the end of 2022, the debt balance according to the issued guarantees amounted to 1.5 billion EUR, or 2.6% of the GDP.

⁹ Law on Public Debt (*Official Gazette of the Republic of Serbia*, Nos. 61/05, 107/09, 78/11, 68/15, 95/18, 91/19 and 149/20).

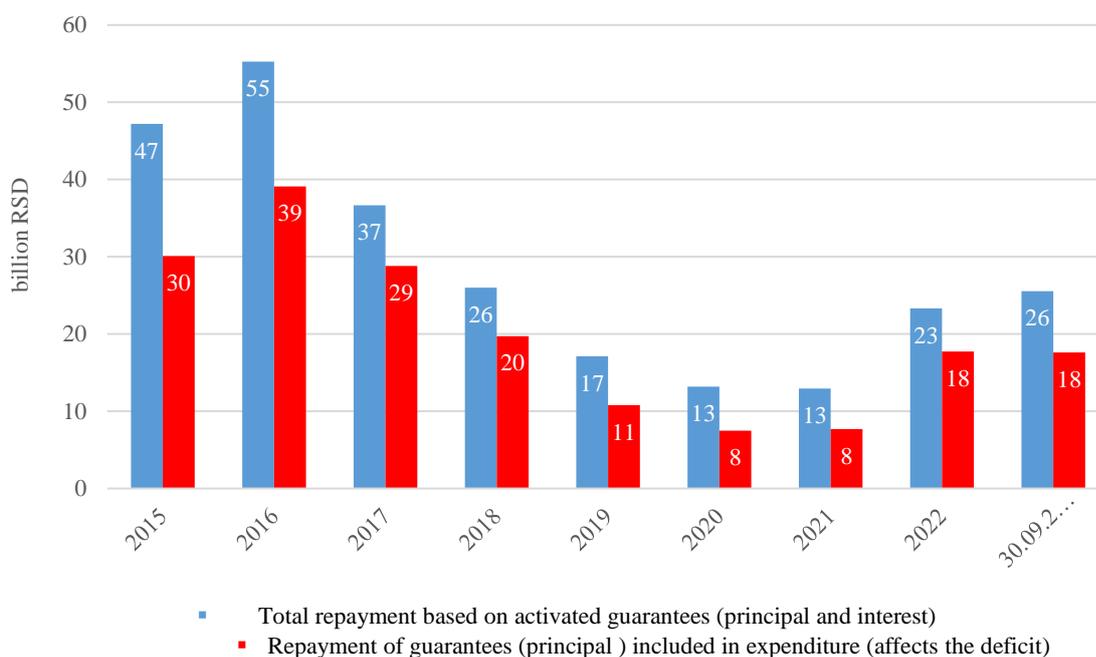
Chart 15 Share of indirect debt in the total public debt of the Republic of Serbia



Repayment of the principal amount on the basis of guaranteed loans settled from the budget of the Republic of Serbia in 2022 amounted to 21.3 billion RSD, out of which 17.7 billion RSD affects the deficit. Accounting methodology until 2014 did not include repayments arising from guarantees into expenses¹⁰.

Since 2014, a part of these expenses has been included in the budget expenses¹¹. Independently from the budgetary and accounting overview, the debt paid by the government instead of the main debtor increases the overall borrowing requirements.

Chart 16 Debt repayment on the basis of activated guarantees, billion RSD



The repayment plan on the basis of guarantees (principal amounts and interest) in the Law amending and supplementing the Law on the Budget of the Republic of Serbia for 2023 (*Official Gazette of the Republic of Serbia*), No. 75/2023) provides for an amount of 35.7 billion RSD, of which the amount of 24.5 billion RSD for repayment of the principal amount by guarantees is included into expenses affecting the result.

¹⁰ Repayment arising from guarantees from the budget of the Republic of Serbia is included into revenues with a cash basis. International standards, based on an accrual basis, include in the expenses the entire amount of the remaining debt at the moment of activation of the guarantee, while the debt repayment itself arising from it is treated as a financial transaction.

¹¹ A portion of expenses for repayment on guarantees for PE Roads of Serbia is not included in the budget expenses, because this enterprise is a part of the government sector, and expenses which are financed by guaranteed loans were a part of the expenses of the government sector at the time when the funds were being spent, while the repayment itself is treated as a financial transaction (“below the line”).

Indirect debt, and inclusion of a part of repayments arising from guarantees into the budgetary expenditure, and increase of deficit arising from that, increased the awareness on the growing fiscal risks arising from issued guarantees. Thus, activities were undertaken to limit the issuance of new guarantees. Amendments to the Law on Public Debt prohibits issuance of new guarantees for loans for the purposes of liquidity. Amendments to the Law on the Development Fund of the Republic of Serbia disabled any further issuance of a counter-guarantee for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to the limitations in the issuance of public guarantees, a key step in the reduction and elimination of fiscal risks on this basis concerns a reform of state-owned and public enterprises, beneficiaries of guarantees, so they could be able to repay their own loans. A large number of enterprises, which are the biggest beneficiaries of guarantees, is undergoing the restructuring process, i.e. implementing restructuring plans developed in collaboration with international financial institutions.

In accordance with the Law amending and supplementing the Law on the Budget of the Republic of Serbia for 2023 (*Official Gazette of the Republic of Serbia*, No. 75/2023), issuance of guarantees in the amount no higher than 319.8 billion RSD is planned.

Structural reforms of public and state-owned enterprises, enhancement of their capacities for a market game and financial sustainability, on one hand, and limited and targeted issuance of new guarantees, on the other hand, will contribute to the reduction of fiscal risks in this regard and maintenance of expenses in the planned (projected) limits in the upcoming medium term.

Business activity of public enterprises is an important source of fiscal risks, both on the side of budget revenue and on the side of budget expenditure. Public enterprises are facing many problems in the business activity, from the repayment of claims, to regular settlement of obligations towards creditors, state and employees, etc. The state, as the founder and only owner, is responsible for their activity, and is their last resort in case of insolvency. There are several channels through which fiscal risks may materialize relating to the activity of public enterprises. The largest, but not the only risk, are public guarantees issued for loans of public enterprises. Sustainability, efficiency and profitability of public enterprises affect the budget revenue / amount of profit paid to the budget. The quality of products and services provided by public enterprises affects the efficiency and profitability of the private sector and, ultimately, the amount of tax paid to the budget.

Public enterprises are an important segment of Serbian economy, and employ approximately 67.5 thousand people. Public enterprises are founded as companies for activities of general interest. Their activity is regulated by the Law on Public Enterprises, adopted in February 2016, the Law on the Management of Companies Owned by the Republic of Serbia, which was adopted in September 2023, as well as sub-sectoral laws defining specific areas not included in the Law on Public Enterprises (Law on Energy, Law on Companies, etc.).

In autumn 2021, there were disturbance on the world energy market. The crisis in the energy sector added to the already existing crisis caused by the COVID-19 pandemic. Due to the increased demand caused by the post-pandemic development of the economy and problems in supply, i.e. insufficient supply and insufficient supplies, prices of natural gas reached maximum values ever recorded. This encouraged demand for other energy products, whose prices exceptionally rose. High prices of other energy products, and in Europe also reduced production in wind power plants and high prices of licences for CO₂ emission, resulted in a growth of the prices of electricity, also to the maximum values ever recorded. In such circumstances, production of electricity from coal rose, since it was less expensive than production of electricity from gas.

So far, it has been shown multiple times that a growth of the one of the basic energy products, such as petroleum and gas, results in the growth of the other prices on the market. This already difficult situation has been further aggravated by the crisis in Ukraine. The issue of energy security and European dependence on Russian fossil fuels has become one of the key problems. This turn of events caused the prices of electricity and natural gas in the world to reach values significantly higher than the ones that were usual over the last few years. The energy crisis inevitably spilled over to Serbia,

with energy enterprises being affected the most, particularly JSC Electric Power Industry of Serbia and PE Srbijagas.

Due to higher prices of electricity, which would endanger the business activity of economic entities in the Republic of Serbia, as well as energy entities which conduct the activity of transfer or distribution of electricity (relating to the supply of electricity for losses), it is recommended that JSC EPS should supply such entities at prices considerably lower than the market prices, which has exposed JSC EPS to financial risk, i.e. the risk of raised prices was fully transferred to JSC EPS.

Throughout 2022, and continuing in the first half of 2023, the Republic of Serbia fought to ensure the supply of key energy products through financial and strategic measures. In addition to the above, further efforts were made to continue with the transformation of the enterprises from the energy sector. Thus, on 6 April 2023, the form of JSC Electric Power Industry of Serbia was changed from a public enterprise to a non-public joint stock company. An increase of the prices of electricity as of 1 September 2022, rational planning of resources, fluctuations of the prices of energy products and positive hydrological trends, resulted in JSC EPS having results in the first half of 2023 that were much better than the ones planned for this period. In 2023, realisation of planned activities continued. Since 1 May 2023, a new increase of the prices of electricity by 8% occurred, whose effects would have a positive impact in the upcoming period.

As regards PE Srbijagas, unfavourable market developments and the financial position of the natural gas distributor caused the Republic of Serbia to take part in financing purchases of reserve quantities of gas, as well as co-financing regular purchases, in the previous period. Proactive work regime during 2022 ensured additional storage capacities for natural gas in Hungary, from where stored quantities were occasionally withdrawn during the 2022/2023 winter season, and the remaining quantities will enable additional security of supply of the market during the winter season 2023/2024. Fluctuations of the prices of energy products at the world market caused PE Srbijagas to also adjust the selling prices of gas. Thus, since 1 January 2023, PE Srbijagas has been applying new prices of natural gas in the activity of public supply higher by 11%. As of 1 May 2023, a new increase of prices of natural gas has been introduced for public supply of small buyers and households of 10%. The full effects of these increases will be visible in the second half of 2023.

PE Roads of Serbia did not escape the effects of the global energy crisis, and was identified as having high fiscal risk due to the growth of prices of basic energy products and main raw material needed to conduct basic activity, which could additionally aggravate the financial position of this public enterprise, and thus also increase its reliance on the budget of the Republic of Serbia. For the purpose of timely preventing an impact on the budget, the Republic of Serbia adopted a series of measures in 2023. In order to avoid negative effects and their impact on the budget of the Republic of Serbia, PE Roads of Serbia has, since 1 April 2023, increased the road toll prices by 14%, and 8% for vehicles with a tag device.

A similar situation was identified with Corridors of Serbia LLC, due to high expenses for capital investments, which are within the purview of this company, and thus, changes of the prices of raw materials may considerably increase the costs of the implementation of projects and increase the company's reliance on the budget of the Republic of Serbia, for the purpose of a continued execution of projects.

Total assets of the national public enterprises at the end of 2022 amounted to 3,454 billion RSD, and the end results was net loss in the amount of 69 billion RSD.

Table 12 Main financial indicators of the business activity of public enterprises, billion RSD

Description	2021	2022
Total assets	3,217	3,454
Own capital	1,140	1,147
Total revenue	776	938
Net revenue	-12.7	-69
Subsidies	67.3	56
Subsidies, excluding PE Roads of Serbia	38.1	33

Source: Financial statements for 2021 and 2022

In 2022, subsidies, shown in the percentage of total revenue, were lower than in the previous year, and made up approximately 6% of total revenue of public enterprises. Certain subsidies have the character of capital, such as subsidies for PE Roads of Serbia, intended for reconstruction of road infrastructure.

The total net result in Q3 2023 was a gain in the amount of 83.4 billion RSD. The current year result was overestimated for the amortisation costs of the PE Roads of Serbia, since the enterprise only records these costs at the end of the year, in the overall amount for that year. In Q3 of this year, 27 enterprises accrued profit in a total amount of 101.8 billion RSD, which is higher than the planned profit of 53.2 billion RSD. The company with the strongest impact on the positive net result in the observation period was JSC Electric Power Industry of Serbia, which accrued net profit in the amount of 87.4 billion RSD. In Q3 of this year, 9 enterprises incurred a net loss in the total amount of 18.4 billion RSD, which is worse than planned loss in the amount of 7.9 billion RSD.

For the purpose of reduction of fiscal risks relating to the business activity of public enterprises, restructuring processes of the largest public enterprises (groups of enterprises which deal with rail transport – JSC Serbian Railways, JSC Serbian Railways Infrastructure, JSC Srbija Voz, JSC Srbija Kargo, JSC EPS and PE Srbijagas). The entire process is implemented in collaboration with the world's leading financial institutions - IMF, World Bank and the European Bank for Reconstruction and Development (hereinafter: EBRD), so that these enterprises would have healthy starting points and would start functioning according to the market principle, and reduce potential fiscal costs which may arise from their business activity.

The Division for Monitoring of Fiscal Risks also assesses fiscal risks of public enterprises by applying the model prescribed in the Uniform Methodology for Monitoring of Fiscal Risks in the Republic of Serbia, the so-called Altman Z-score. By applying this model, a composite index of different financial indicators of public enterprise operating risk for each PE is calculated.

According to the data from financial statements submitted on 31 December 2022, of 36 public enterprises monitored by the Division for Monitoring of Fiscal Risks, by applying this model, 12 public enterprises (33.3%) were identified as high-risk, one public enterprise (2.3%) was identified as moderate risk, while the remaining 23 public enterprises (63.9%) have a low risk in their business activity. Public enterprises with identified high risk of business activity are mostly from the energy sector, which was caught in a global energy crisis, or railway enterprises, or other enterprises which are undergoing the restructuring process. The Division for Monitoring of Fiscal Risks monitors such enterprises particularly closely.

The Division for Monitoring of Fiscal Risks will be working on improving this model in the upcoming period, with additional qualitative information which may be of importance for risk assessment of public enterprises.

Payment of the profit by public enterprises and dividends of capital societies with state ownership make a considerable part of non-tax revenue. Companies which were founded by the Republic of Serbia or in which the Republic of Serbia has a share of ownership are obliged to, no later than on 30 November, pay at least 50% of the proportional part of the profit according to the final statement for 2022, into the budget of the Republic of Serbia, which is, according to the law governing companies, entitled to as a member of the company.

Prior to the period of fiscal consolidation, the Republic of Serbia had considerable fiscal costs of saving state banks. Total costs of state interventions in the banking sector 2012–2015 amounted to approximately 900 million EUR. This is the amount allocated for recapitalization of banks, various financial transactions when merging unsuccessful banks to the more successful ones, including the payment of insured and non-insured deposits (for which resources from the Deposit Insurance Fund were also used).

The Republic of Serbia has a direct share in the capital in the country's banking sector today of the following:

- JSC Bank Poštanska Štedionica Belgrade (78.55%),
- JSC Srpska Banka Belgrade (76.69%).

For the purpose of consistent implementation of the exit strategy and fiscal risk reduction arising from this, reform activities in the field of state financial institutions, initiated in 2012 or 2015, are continuing.

The Business Strategy 2023 – 2025 was adopted by the Assembly of Bank Poštanska štedionica in December 2022. According to the business strategy, BPŠ will continue to implement activities with an emphasis on further improvement and development in the following fields: doing business with individuals, entrepreneurs, micro, small and medium legal entities, local self-government units, public enterprises founded by the Republic of Serbia or autonomous province or a local self-government unit and companies in which the Republic of Serbia or autonomous province or a local self-government unit has ownership; improvement of the internal organisation of the bank, corporate governance and risk management; enhancement of the IT infrastructure.

In line with the Government Strategy for State Banks, Expert Working Group for transformation of the Serbian Bank into a specialised financial institution for providing all kinds of financial services and support to specialised industry of the Republic of Serbia, was established on 21 January 2019 and started its formal activity in March 2019, when its founding session was held. Due to the continuing COVID-19 pandemic caused by the SARS-CoV-2 virus, as well as the crisis caused by the war in Ukraine and the current activities of the Ministry of Finance during the crisis, activities for the transformation of Srpska Banka are to continue in 2024.

The reform of regulations governing the Serbian financial system was implemented in February 2015. One of the characteristics of this reform is a transfer of the competences for monitoring the operating results and the activity of the management authorities in banks, insurance companies and other financial institutions in which the Republic of Serbia is a shareholder, as well as organisation and implementation of the procedure of selling shares in them, from the Deposit Insurance Agency to the Ministry of Finance, starting from 1 April 2015. The regulatory reform also transposed the Bank Recovery and Resolution Directive (BRRD) into Serbian legislation, and the bank restructuring was entrusted to the National Bank of Serbia. In December 2016, a set of regulations implementing the Basel III standards into the national regulatory framework was adopted, achieving a significant level of compliance of national regulations with the relevant EU regulations in this field. In 2017, activities continued for improvement of national regulations governing the activity of banks, for the purpose of their further alignment with the EU regulations. The main goals of adopting these regulations were to increase the resilience of the banking sector by enhancing the quality of capital and introducing capital buffers, better monitoring and control of the exposure of the bank to the liquidity risk, further enhancement of the market discipline and transparency of business activity in the Republic of Serbia by publishing all relevant information on the business activity of the bank, as well as by adapting the reporting system to the new regulatory solutions.

One of the limiting factors for the growth of the credit activity was a relatively high level of non-performing loans. In August 2015, the Strategy for Handling Non-Performing Loans was adopted, and it is being executed by implementing two three-year actions plans, one prepared by the Government, another prepared by the National Bank of Serbia, for the purpose of reducing the level of non-performing loans. Key areas of implementation entailed strengthening the capacities of banks

for handling non-performing loans, improving the legislation for appraisal of the value of the security instruments, non-performing loan market development, etc.

Since the adoption of this strategy, a number of laws and by-laws have been adopted or amended, the institutional capacity has been improved, and numerous measures for easier write-off and transfer of irrecoverable claims. By creating stable operating conditions, our economy entered an investment cycle in 2015, and since then, investments have been a large part of the growth of the businesses by their volume. The profitability of the economy also grows in the circumstances of low and stable inflation and relatively stable exchange rate. All of those were key factors for a sustainable resolution of the matter of non-performing loans. This is also clearly seen from the fact that the industries with largest growth experienced the largest decline of non-performing loans – which is obvious in the processing industry and construction.

Deposit insurance is a mechanism which contributes to the preservation of financial stability and ensures protection of depositors. The deposit-guarantee scheme ensures that every protected depositor shall be paid the full amount of deposit in each bank up to the insured amount of 50,000 EUR in case of bankruptcy or liquidation of the bank. Deposit insurance is regulated by the Deposit Insurance Law. The guarantee of the payment of insured deposits by the government, directly by budget resources or indirectly by issuing a debt guarantee of the DIA, is a source of fiscal risks and possible fiscal expenses. However, due to the achieved stability of the banking sector, since 2015 there has been no need to use the resources of the Fund to insure deposit, nor of the government on the basis of the payments of insured amounts of deposit.

In view of the situation caused by the state of emergency in the Republic of Serbia, in order to enable the mitigation of economic and financial consequences of the COVID-19 pandemic, measures of support to businesses were taken, with a view to increasing the liquidity of economic entities. One of such measures was the adoption of the Law on the establishment of guarantee scheme as a measure of support to businesses for mitigating the consequences of the COVID-19 pandemic caused by SARS-CoV-2. In 2021, the Law on the establishment of the second guarantee scheme was adopted, granting additional 500 million EUR of aid. Overall, within both guarantee schemes, banks placed loans in the approximate amount of 2.4 billion EUR.

There are considerable fiscal risks arising from court decisions, domestic and international courts, penalties and compensation for damages by state authorities. The Republic of Serbia, on the basis of fines and penalties according to the court decision as well as the compensation for injury damages or damage caused by state authorities, paid a total of 121 billion RSD from its budget between 2009 and 2020. In 2021, an amount of 16.6 billion RSD was paid from the budget of the Republic of Serbia on that basis. In 2022, these expenses amounted to 26.8 billion RSD, and they reached the amount of 18.9 billion RSD during the period from January to September 2023. The decision of the European Court of Human Rights obliged the Republic of Serbia to pay its public debt arising from unpaid foreign exchange savings that citizens of the former republics of the Socialist Federal Republic of Yugoslavia and citizens of the Republic of Serbia have placed with banks which have their seat in the territory of the Republic of Serbia and their branch offices in the territories of the former republics of the SFRY. Potential obligations may also arise from decisions of the Constitutional Court, on the basis of submitted constitutional appeals and decisions of the European Court of Human Rights upon submitted complaints of the employees of former socially-owned enterprises (unpaid wages, contributions for mandatory social security insurance, default interest, costs of the proceedings, receivables arising from commercial transactions).

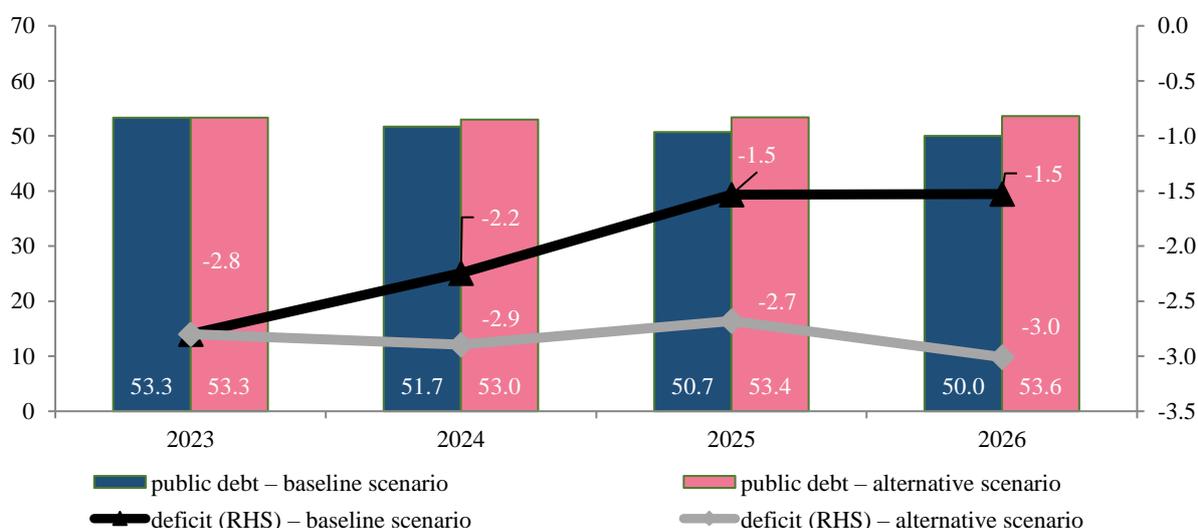
The permanently present risk of natural disasters requires investments into prevention programmes order to reduce potential fiscal expenses for elimination of damage arising from those situations. Prevention means the inclusion of a broad spectrum of financial instruments (such as reserve funds, potential credit lines and, in particular, insurance) which should be available to the state. In 2014, the Republic of Serbia faced disastrous consequences of floods, where the total damage (with losses) was appraised at over 1.7 billion EUR. In December 2014, the Government adopted the National Disaster Risk Management Programme, to be implemented in collaboration with the World Bank, the United

Nations and the EU. Within the framework of the National Disaster Risk Management Programme, another umbrella law concerning the issue of natural disasters and was adopted in 2018 - the Law on Disaster Risk Reduction and Emergency Management. In 2019, the Republic of Serbia paid 4.22 billion RSD from its budget for compensation of damages for injury or damage caused by natural disasters or other natural causes. During 2020, an amount of 2.8 billion RSD was allocated for this purpose, while the amount spent for these purposes in 2021 was 520.3 million RSD. In 2022, an amount of 263.9 million RSD was allocated for this purpose, while the amount spent for these purposes during the first nine months of 2023 was 270.3 million RSD.

Alternative scenario of fiscal developments 2024–2026

The following chart shows the developments of the share of deficit and the public debt in the GDP on the basis of an alternative macroeconomic scenario, which entails growth rates of 1.8%, 2.5% and 3.3% in the upcoming three-year period.

Chart 17 Main and alternative scenario of fiscal developments 2023–2026, in % GDP



Slower growth would, through its components, also affect the achievement of fiscal aggregates, primarily on the revenue side, and mostly on revenues arising from work and consumption taxes. This kind of GDP dynamics would result in a deficit and public debt higher than in the baseline scenario. At the end of the period, amounts of deficit and debt would even be higher than in 2023. The assumption of this scenario is that the pension and salary policy, as well as nominal amounts stipulated for capital investments, would be the same as in the baseline scenario, but, in view of fiscal rules, a policy change must occur either on the revenue or the expenditure side in order for the fiscal result to return to the level stipulated by fiscal rules.

Comparison with the previous programme

The medium-term fiscal framework was not significantly changed relative to the previous document¹², except that better revenue contributed to the reduction of the expected deficit in the current year. Medium-term goals have not changed since 2025, planned deficits are in line with the fiscal rules, which enables a further reduction of the public debt share in the GDP.

¹² Economic Reform Programme 2023–2025

Table 13 Comparison of fiscal indicators of the two programmes, GDP %

	2022	2023	2024	2025	2026
Economic Reform Programme 2022–2024					
Revenues	43.0	40.9	40.4	39.6	–
Expenditure	46.8	44.2	42.5	41.0	–
Result	-3.8	-3.3	-2.2	-1.4	–
Economic Reform Programme 2023–2025					
Revenues	43.8	42.5	42.6	42.5	42.3
Expenditure	46.9	45.3	44.8	44.0	43.8
Result	-3.2	-2.8	-2.2	-1.5	-1.5
Differential					
Revenues	0.8	1.6	1.2	0.9	–
Expenditure	0.2	1.1	1.2	1.0	–
Result	0.6	0.5	0.0	-0.1	–

Source: Ministry of Finance

4.7. QUALITY OF PUBLIC FINANCES

The crisis in Ukraine introduced uncertainty in all economic flows, strongly affecting the supply chains and creating additional inflationary pressures on the markets of food, energy, raw materials and other goods. The reduction of domestic production of electricity in 2022 increased the needs for its import at considerably higher prices, while significant additional funds were also needed for supply of gas with a deterioration of conditions on financial markets. In such extraordinary circumstances, the Republic of Serbia concluded a new two-year arrangement with the IMF in December 2022. The programme has the following goal: 1) preservation of macroeconomic and financial stability by adjusting policies to the new economic shocks; 2) enhancement of the resilience of the economy to energy shocks by implementing appropriate energy policies and reforms for facing challenges of the domestic energy sector, at the same time protecting the most deprived persons; 3) giving incentives to a faster, greener and more inclusive sustainable growth in the medium-term by implementing overall structural reforms. The objectives of the programme are compatible with the efforts of the Republic of Serbia to join EU.

In the upcoming period, continued reform in the field of employment, resource management and wages system in the government sector is expected. The goal of the medium-term fiscal policy is maintenance of expenditure for employees at a sustainable level, with an adequate structure of employees, in order to ensure a higher quality of provided services. In the upcoming medium-term period, the emphasis will be on structural measures, which would, through the planned number of employees on the one hand and establishment of a new wages system in the government sector on the other hand, contribute to the increase of efficiency and quality of provided public services. In parallel with that, a new framework is planned, which would, at the level of the government sector, on the basis of a new methodology, manage employment in the government sector.

The existing employment system, which is managed by the Government Committee for approvals of new employments and additional hirings by public funds beneficiaries, will continue to function in the transitional period, i.e. until the new system is fully operational. In late 2020, amendments to the Budget System Law were adopted, in order to allow institutions to hire new persons in the transitional period, up to the 70% of persons who are leaving the institution or retiring, while the approval of the Committee is necessary if the number of newly employed exceeds 70%. The purpose of this measure is to ensure greater flexibility in employment at the level of institutions themselves, in accordance with their needs for new personnel. In addition, a limit of 1% is established for increasing the total number of employee with a job of unlimited duration compared to the level from the end of 2020. The electronic information system for calculating the employees' wages in the public sector "Iskra" currently includes all direct budget beneficiaries, institutions from the field of culture, judiciary, labour and social protection and education (other than establishments of tertiary education), while health care institutions and local self-government units with indirect beneficiaries (pre-school institutions, cultural, sports and social protection institutions) will be included in the next phase. The

essence of this system is better planning, execution and control of the expenses for employee salaries, greater transparency and better human resource management in the conditions of stronger competition from the private sector, which has a negative impact on the attraction and retention of employees in the public sector, particularly in view of the attractiveness of wages in the private sector, which may result in a considerable outflow of personnel if these reforms are not implemented. The system will include over 450,000 employees in the public sector, and only employees in the sector of defence, security and internal affairs and institutions of tertiary education will remain excluded.

The crisis in Ukraine, through the negative impact on the market of energy products, particularly emphasised all the challenges and problems with which the energy sector in Serbia is facing and which may be resolved only by implementing a comprehensive set of necessary reforms, which are crucial both for ensuring energy security and for fiscal and external sustainability. Raising of prices of energy products in phases (gas and electricity) are a necessary measure for compensating the exogenously conditioned high costs of their purchase. Far bigger problems concern deeply rooted structural weaknesses of the energy sector which require urgent and comprehensive reforms. The priority is given to the restructuring of large state-owned energy companies, in order to increase their efficiency and reduce the budget support and fiscal risks. The status change of EPS from a public enterprise into a joint stock company, done this April, is for the purpose of strengthening this company long-term through hiring of professional management. This change is accompanied by the adoption of a new statute of the company in accordance with the new Law on the Management of Companies Owned by the Republic of Serbia, which is to be adopted in the upcoming period. By the end of the year, a detailed strategic plan of restructuring of this company should be developed, which should resolve numerous problems in business activity and which will define steps in the transformation of the company, ensuring its stabilisation and specifying reform priorities in the management and organisational structure. In accordance with the principle of transparency, all strategic and financial plans for JSC EPS and PE Srbijagas will be published, for which the task of separating essential and auxiliary activities is expected to be completed by the end of 2024. Also, we will continue the practice of publishing a list of 20 largest debtors to these two companies on the monthly level. The next priority is the adoption of the Integrated National Energy and Climate Plan of the Republic of Serbia, which is expected by the end of the year and whose goal is greenhouse gas emissions reduction, increase of the share of renewable energy sources and increase of energy efficiency. The investment plan for the energy sector is expected to be implemented in the next 2-5 years, which will ensure stability in the supply of energy products and stabilise the production of electricity, with a definition of subjects and sources of finance for these projects. In accordance with this investment plan and Integrated National Energy and Climate Plan of the Republic of Serbia, the amended Energy Development Strategy of the Republic of Serbia with projections up to 2050 will be adopted, and funds for these investments will be an integral part of the capital expenditures in the budget of the Republic of Serbia. At the same time, a more favourable environment needs to be ensured and the existing legislation improved in order to enable a larger private sector involvement in the field of renewable energy sources.

The Government, with the support of the European Bank for Reconstruction and Development (hereinafter: EBRD), adopted the Strategy of Ownership and Governance of State-Owned Enterprises owned by the Republic of Serbia 2021-2027, as a single act which provides a strategic vision and instructions relating to the goals of owner/managers, goals of financial and public policies, as well as principles of corporative management and practices of supervision in line with the international standards and best practice.

Strict limitation of the issuance of state guarantees is continued. In 2023, new public guarantees were issued for commercial loans for PE Srbijagas, and a new public guarantee for loans of JSC EPS. There will be no new public guarantees issued for liquidity support to state enterprises, other for PE Srbijagas and JSC EPS, not any public guarantees for any enterprise in the portfolio of the former Privatisation Agency. Issuance of guarantees for project loans granted by multilateral financial organisations will continue, as support to the investment and reform agenda.

For undertakings which consists of strategic companies from the portfolio of the former Privatisation Agency, the solution is either through privatisation tenders, or bankruptcy. The transport enterprise JSC Lasta Belgrade will be looking for companies interested in privatisation or strategic partnership. The Ministry of Mining and Energy is working on the development of plans for the Public Enterprise for Underground Coal Exploitation Resavica, whose implementation includes finding solutions for economically unsustainable mines which are to exploit their remaining coal reserves, as well as the plan of rationalisation of production and business in the parts of the system where an analysis indicates that they may be economically viable. For HIP - Petrohemija, the privatisation agreement was reached in December 2021 with the company NIS, and EC approved this takeover in September 2022.

An improvement of the public finance management is necessary, not only as support to the measures of fiscal stabilisation and structural reforms, but also as a process which raises the quality of state administration and ensures an attractive environment for investors. The new Public Financial Management Reform Programme 2021-2025 was adopted in June 2021.

Public investment management is a field of public financial management which is the subject of serious attention and for whose improvement efforts are being made. By strengthening the framework of public investment management, new infrastructure projects are intensified and the quality of existing infrastructure raised. In April 2018, the Law on the Planning System of the Republic of Serbia was adopted, establishing a national framework for planning and defining the Development Plan and the Investment Plan. The public finance management system, which is developed with the help of the World Bank, includes an integrated data base on investment projects, which is currently being developed, as well as the Single Project Pipeline. By commissioning the Public Investment Management Information System (PIMIS) in 2023, a centralised information basis was created, which serves as support to the management of capital projects. In the forthcoming period, PIMIS will be upgraded in order for its functionalities to fully reflect the revised legal framework, including its application at the local level.

Public private partnerships (PPP), as a specific form of cooperation of the state and the private sector, require special attention and caution, which is why the Ministry of Finance will still monitor projects of special importance during their implementation, and inform the Government about it.

The new Action Plan for the transformation of the Tax Administration 2021–2025, adopted in May 2021, which defines strategic guidelines and time limits within which activities will be implemented that are necessary to create a modern tax administration, which will, together with the use of modern electronic processes, provide a better and more comprehensive service to tax payers and better control and collection of revenues, i.e. improve the fight against grey economy, together with the reform and modernisation of inspection. In May 2022, a new fiscalization model (eFiscalization) was introduced, on the basis of which the first round of revisions was conducted. The system is expected to contribute to the reduction of discrepancy with taxpayers and the lower number of negative audit opinions. The system for an electronic exchange of invoices (eInvoices) was the next step, implemented in early 2023. Procurement of an information system is to soon be conducted through a tender, from a commercial provider, which will, together with a redesigned business model which is to be soon adopted, enable the implementation of modern business processes. There is an ongoing project which analyses the VAT gap where the gap analysis of data is currently being conducted in data and analytical tools are being adapted. Preliminary results suggest that the VAT gap was considerably reduced compared to 2018. The adoption of the Law on Determining the Origin of Property and Special Tax and establishment of a special organisational unit of the Tax Administration, conditions were created for a cross-analysis of personal property and income, and first revisions should start midway through this year. Development of a new human resource strategy for the Tax Administration and acceleration of employment procedures remain priorities in order to ensure an adequate number of employees. The number of the employees in the Tax Administration significantly declined over the last few years. With the upcoming wave of retirement of a large number of employees, and taking

into account the plan of transformation which entails transfer to work with higher qualifications, it is imperative that an adequate number of highly qualified staff hired, which entails adequate salaries.

4.8. FISCAL MANAGEMENT AND BUDGETARY FRAMEWORKS

In order to ensure long-term stability and sustainability of public finances, a functional system of fiscal rules needs to exist. Fiscal rules were introduced for the first time in the Budget System Law in 2010. The Republic of Serbia was one of the first countries to legally define national fiscal rules and from an independent institution called Fiscal Council, which assesses the Government's economic and fiscal policy as well as the observance of the rules. As the rules became applicable during the global economic crisis, the numerical rule for debt was violated in the first year of application already. In the meantime, fiscal rules were introduced by more and more countries. In addition to the national fiscal rules, EU Member States also apply rules defined at the level of the EU and EMU. European fiscal rules were changed several times and redefined in view of the application and effects of the application of rules. In view of the fact that it has been 12 years since the introduction of fiscal rules in the Republic of Serbia, conditions were created for their change, taking into account experiences of other countries, directions in which the fiscal rules of the EU changed, consequences and responses of the fiscal policy for the major economic crisis of 2008, as well as the experience of the last crises - primarily the health crisis as well as the economic crisis caused by the Coronavirus pandemic, and subsequently the crisis caused by the conflict in Ukraine.

A new set of fiscal rules is an integral part of the Law amending and supplementing the Budget System Law, adopted in December 2022. A deviation from these rules is possible only exceptionally and temporarily, in cases of natural disasters and external shocks which affect human health, national security and a significant decline of economic activity.

New set of fiscal rules:

General fiscal rules*:

- general government debt, including liabilities arising from restitution, will not exceed 60% of the GDP.
- target medium-term deficit is 0.5% of the GDP.

If the general government debt exceeds 60% of the GDP, the fiscal position of the general government must be balanced, so that the deficit is no more than 0% of the GDP.

If the general government debt is between 55% and 60% of the GDP, the deficit shall not exceed 0.5% of the GDP.

If the general government debt is between 45% and 55% of the GDP, the deficit shall not exceed 1.5% of the GDP.

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

Special fiscal rules**:

- share of the general government wages in the GDP is up to 10%.
- indexation of pensions depending on their share of the GDP.

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

If the total expenditure for pensions and the monetary amount as an increase for pension are equal to or greater than 10% but less than 10.5% of the GDP, the pension will be adjusted to the sum of the half percent of the change in average wage without taxes or

contributions and half percent of the change in consumer prices, in a manner defined by the law governing pension and disability insurance.

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

** will apply from the adoption of the Budget Law of the Republic of Serbia for 2025. Until that time, fiscal goals defined in the Fiscal Strategy and the Economic Reform Programme will apply.*

*** applies since the adoption of the Budget Law of the Republic of Serbia for 2023, with a gradual expansion of the government sector, in accordance with the Law.*

The quality and transparency of the state finance statistics is improved by improving the comprehensive, timely and automatic exchange of data between the competent institutions - the Statistical Office of the Republic of Serbia, National Bank of Serbia and the Ministry of Finance, in accordance with the Agreement on cooperation in the field of statistics of the national accounts of the government sector and related statistics. In April 2018, the Statistical Office of the Republic of Serbia published a list of institutions which make up the government sector, as well as other sectors, in accordance with the European System of Accounts (ESA) 2010, System of National Accounts (SNA) 2008 and the Rulebook on the deficit and the government sector debt, which was developed in collaboration with the National Bank of Serbia and the Ministry of Finance. Since midway through 2021, the Public Debt Administration has been publishing data on the Maastricht debt every three months, developed by the National Bank of Serbia in accordance with ESA 2010. There is an ongoing project in collaboration with the IMF with a goal to, within the Treasury Administration, as a central information system and comprehensive database, develop a system which would enable collection and consolidation of data for the government sector, both according to the national methodology and to GFSM 2014 methodology, as a gradual introduction of institutions into its coverage.

5. STRUCTURAL REFORMS IN THE PERIOD 2024-2026

5.1. COMPETITIVENESS

a) Analysis of the main obstacles

5.1.1 Area BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY

The achieved macroeconomic and financial stability, previous growth dynamics, implemented structural reforms, created fiscal space for a timely and comprehensive package of measures have enabled the Republic of Serbia during the crisis years due to the pandemic, the energy crisis, the conflict in Ukraine, a slower growth of the most important trade partners and tightening of the financing conditions) to maintain the business activity of Serbian enterprises, preserve the employment level and achieve a cumulative growth of 9.5% over the previous three years.

Measures against informal employment and working in the grey area continue to be undertaken and implemented. The new Programme for Suppression of the Gray Economy for the period 2023–2025 (*Official Gazette of the Republic of Serbia*, No. 21/23) was adopted in early 2023 with a view to enhancing the capacities of inspectorates and misdemeanour courts, improving the procedure of tax supervision and tax reporting, as well as a fiscal and administrative unbundling of the economy. The percentage of informal employment in the total employment decreased from 22% in 2016 to 13.6% in 2022¹³, due to, inter alia, the application of the Law on Simplified Work Engagement on Seasonal Jobs in Certain Activities, which covers jobs in agriculture. Since the launch of electronic registration of seasonal workers in agriculture, more than 75,500 seasonal workers have been registered in the Republic of Serbia¹⁴. Amendments and supplements of this Law are expected to also cover jobs in other industries (construction, service industry, tourism, home assistant jobs for the needs of individuals). The new Action Plan for the transformation of the Tax Administration 2021–2025 is being successfully implemented. It defines strategic guidelines and time limits within which activities will be implemented that are necessary to create a modern tax administration which will, together with the use of modern electronic processes, provide a better and more comprehensive service to tax payers and better control and collection of revenues and improve the fight against grey economy.

The new fiscalization system (e-fiscalization) contributes to the improvement of the business environment and reduction of grey economy, and is compulsory for all tax payers since May 2022¹⁵. The system functions through a centralised digital platform within the Tax Administration, with an online transmission and check of data which are sent from fiscal cash registers in real time.

The introduction of the centralised e-invoice system contributes to the reduction of grey economy, improvement of the business environment and the VAT gap. The e-invoice system makes it possible to reduce the costs of processing e-invoices, reduce the necessary time for paying bills, improve the cross-border trade and reduce the overall administrative burden of the economy.

The e-Excise system and the system of electronic dispatch notes are in development. They will be connected, with the possibility of automatic data exchange. Thus, the computer and information vertical chain will be completed, and will be a sustainable system of combating the grey economy.

Approach to financing small and medium enterprises and entrepreneurs (SMEE) is improving from year to year. Small and medium-sized enterprises make up 60% of the business sector production excluding agriculture. The legal framework in the field of financing was improved by adopting the Law on Open-Ended Investment Funds subject to Public Offering (*Official Gazette of the Republic of Serbia*, No. 73/19) and the Law on Alternative Investment Funds (*Official Gazette of the Republic of Serbia*, No. 73/19), which enable alternative sources of financing¹⁶. The systemic

¹³ Statistical Office of the Republic of Serbia, Labour Force Survey 2021 <https://publikacije.stat.gov.rs/G2023/Pdf/G20235695.pdf>

¹⁴ <https://naled.rs/vesti-region-slozan-u-uvodjenju-elektronske-prijave-za-sezonske-radnike-7973>

¹⁵ The obligation of sending, receiving, processing and keeping e-invoices between public sector actors (G2G) and private sector actors which do business with the public sector (B2G) started on 1 May 2022, while the obligation of public sector actors which do with the private sector started on 1 July 2022. Since 1 January 1993, all private sector actors have become mandatory users of the B2B system.

¹⁶ Recommendation 4 of the ECOFIN Council, May 2019: “Adopt special laws on alternative investment funds (investment vehicles).”

monthly monitoring of lending to SMEE indicates a constant improvement of SMEE financing conditions (lower interest rates, longer loan maturity periods, larger loan volume). Improved financing conditions have resulted in greater competitiveness of the SMEE sector, whose productivity (GDP by employed person ratio) is higher than 19.2% in 2022 compared to 2021¹⁷. For the purpose of support to economic entities, particularly SMEE, financial support programmes are continuously being implemented, and a progressively larger amount of grants is allocated for this purpose every year from the budget. As regards the increase of the use of standards in production and organisation of business activity, certification of products and the management system, the Programme of Support to the Development of Competitiveness is being implemented, so that economic entities would be encouraged to use the services in the field of quality infrastructure more and thus improve their competitiveness, both on the local and on the foreign markets. Grants and subsidies are also available from other programmes financed from public funds and EU funds, and are increasingly frequently combined with credit funds of commercial banks, development financial institutions and international financial institutions. The implementation of the Industrial Policy Strategy of the Republic of Serbia from 2021 to 2030 (*Official Gazette of the Republic of Serbia*, No. 35/20) will improve the competitiveness of the Serbian industry, primarily in the SMEE sector. In addition, by implementing the new Strategy for Development of Small and Medium-sized Enterprises and Entrepreneurship for the period from 2023 to 2027 (*Official Gazette of the Republic of Serbia*, No. 97/23) with its Action Plan, efforts will be made to improve the approach to financing.

Transparency of the public procurement processes is enhanced by establishing an e-platform and introducing obligatory electronic communication and electronic data interchange in public procurement procedures, in accordance with the Public Procurement Law, which was adopted in 2019. The Public Procurement Portal makes it possible for procuring entities to compile and post plans and notifications at the Portal, to post tender documentation and decisions in public procurement procedures, as well as other options and features such as: **eSubmission, eAuction, dynamic purchasing system, e-Planning, e-Appeal and eCatalogue**. The new Public Procurement Portal facilitates collection and recording of data on all procedures launched in accordance with this Law. The number of contracts concluded in 2022 was 251,949 (37.7% more than the previous year) in the total value of 662.7 billion RSD (18.4% more than in 2021; 9.3% of the GDP), which are record values¹⁸. Open procedures made up 97.8% while negotiated procedures with no public call announcement made up only 1.3% of the total value in 2022. The average duration of an open public procurement procedure was shortened to 47 days in 2022 (48 in 2021), while the average number of bids by public procurement procedure retained a value of 2.5 in 2022¹⁹.

In addition to a noticeable progress in the reduction of administrative burden on the economy during the recent years, the business environment in the Republic of Serbia is still burdened with expenses and complicated administrative procedures. The administrative burden on the economy in the Republic of Serbia was reduced to 2.95% of the GDP in 2021²⁰ from 4.07% of the GDP in 2010. By adopting the Law on Fees for the Use of Public Goods (*Official Gazette of the Republic of Serbia*, Nos. 95/18, 49/19), all fees paid for the use of natural resources, goods of general interest and goods in general use were consolidated in one place (these fees had been regulated by 19 special laws). Between 2019 and 2022, within the framework of the Programme for the simplification of Administrative Procedures and Regulations – e-Paper²¹, over 3,500 administrative procedures for

¹⁷ Statistical Office of the Republic of Serbia, *Enterprises in the Republic of Serbia by size, 2021 and 2022*, edited by the Public Policy Secretariat of the Republic of Serbia

¹⁸ The total number and total value of contracts concluded in 2022 includes the number and value of both contracts concluded by applying the provisions of the Public Procurement Law, and contracts concluded by applying the provisions of the 2015 Public Procurement Law.

¹⁹ Public Procurement Office, *Annual Report on Public Procurement in the Republic of Serbia for 2022* <https://jnportal.ujn.gov.rs/annual-reports-ppo-public>

²⁰ Measurement of the 2021 administrative expenses in the Republic of Serbia was completed in early October 2022. The Report on the measurement of the 2021 administrative expenses in the Republic of Serbia is available at the website of the Public Policy Secretariat of the Republic of Serbia.

²¹ The Programme for the simplification of Administrative Procedures and Regulations – e-Paper has been implemented in continuity since 2019. The first Programme was adopted for the period from 2019 to 2021, and the new Programme for the simplification of Administrative Procedures and Regulations – e-Paper for 2023-2025, together with the Action Plan for its implementation, was adopted on 4 May 2023. <https://rsjp.gov.rs/sr/vesti/usvojen-program-za-pojednostavljenje-administrativnih-postupaka-i-regulative-e-papir-za-period-2023-2025-godine/>

businesses and citizens and over 2,300 administrative applications within the purview of over 100 public administration bodies, 64 public administration services were digitalised, and 393 administrative procedures optimized (of which the procedure was abolished for 21), resulting in savings for the economy in the approximate amount of 33 million EUR per year. A total of 86 public administration services were digitalised between 2019 and 2023, of which 22 public administration services in 2023. Pursuant to the Law on the Register of Administrative Procedures (*Official Gazette of the Republic of Serbia*, No. 44/21), and the Regulation on the Management, Functioning and the Establishing of Data entered in the Register of Administrative Procedures (*Official Gazette of the Republic of Serbia*, No. 84/22), the Register of Administrative Procedures has been established, together with its publicly available portal, where, since March 2023, you can find information on administrative procedures for citizens, and information on over 2,800 procedures for businesses and citizens (such as the application form, required documentation, costs of the proceedings, access to electronic services, etc.), which makes it possible for the economy to save additional time and money and improves the legal certainty, predictability and uniformity of the actions of the public administration.

Reduced burden on the judicial system. By adopting the Decision on the Act regarding Amendments to the Constitution of the Republic of Serbia (*Official Gazette of the Republic of Serbia*, No. 16/22), conditions were created for an enhancement of independence and accountability of the judiciary and further reinforcement of the rule of law. The Republic of Serbia has 159 courts with 2,503 judges who effectively worked in 2022 (their average age in 2021 and 2022 was 52 years). The average number of resolved cases by judge in 2022 was 852 (963 in 2021). A total of 1.8 million cases were received in 2022 (723 by judge), which is fewer than in 2021 (958 of cases by judge received in total). Although still high, the number of unresolved cases has been continuously decreasing (from 3.2 million in 2012 to under 1.2 million in 2022), as has the time needed to resolve a case (from 534 days in 2012 to 201 days in 2022). In order to reduce the number of pending cases older than three years from the date of submission of the initial act, the Unified Programme for the Resolution of Backlog Cases in the Republic of Serbia 2021-2025 was adopted.²²

Evident progress has been achieved in transparency and reliability of the regulatory framework, but structural challenges to be resolved still remain. **The Republic of Serbia is ranked 15 (of 193 UN Member States) according to the e-Participation index** (a jump of 26 positions) in the UN E-Government Survey 2022, and only three EU Member States (Denmark, Finland and Estonia) have a more participatory online interaction between the state and citizens. The **eConsultations portal** (which has been functional since December 2021) contributes to the participation of the public, primarily of the citizens, in the process of preparation and adoption of public policy documents and regulations. The number of citizens who use the portal has been growing and was 342 by the end of October (183 by the end of 2022). Since it has become functional, consultations and public debates on 59 public policy documents and 91 regulations have been conducted on the eConsultations portal. The **e-Space** will contribute to further enhancement of the efficiency, transparency and coordination of operations of holders of public powers, as an electronic system of digital data exchange between holders of public powers in the procedure of preparation, coordination and monitoring of the development of spatial and urban plans, also intended for implementing planning procedures with public participation, expert control and compliance control of planning documents, as well as their accessibility, publication and storage. Pursuant to Article 166 of the Law on Planning and Construction (*Official Gazette of the Republic of Serbia*, Nos 72/09, 81/09 - corrigendum, 64/10 - CC, 24/11, 121/12, 42/13 - CC, 50/13 - CC, 98/13 - CC, 132/14, 145/14, 83/18, 31/19, 37/19 - as amended, 9/20, 52/21, 62/23), the Agency for Spatial and Urban Planning of the Republic of Serbia, which is currently being established, will be responsible for establishing the eSpace system.

²² 2022 Annual Report on the Work of the Courts in the Republic of Serbia, <https://www.vk.sud.rs/sr-lat/godi%C5%A1nji-izve%C5%A1taj-o-radu-sudova>

5.1.2 Area REFORM OF STATE-OWNED ENTERPRISES

The new Law on the Management of Enterprises Owned by the Republic of Serbia (*Official Gazette of the Republic of Serbia*, No. 76/23) entered into force on 15 September 2023, and will start to apply 12 months from its date of entry into force (other than certain provisions). In this Law, the management of enterprises owned by the Republic of Serbia is, for the first time, regulated in a consolidated way. So far, public enterprises and limited liability companies which conduct business activities of general interest have been under a special legal regime (Law on Public Enterprises), while other state-owned enterprises applied the Law on Companies. The most important novelties set out in the cited Law concern the centralized ownership model of management: the Ministry of Economy will be a state administration body which fulfils a centralized ownership function, except for enterprises in the field of energy. A new manner of monitoring the performance of state-owned enterprises is being introduced - the Ministry of Economy shall each year lay down a plan of annual general objectives and key performance indicators of limited liability companies for each company separately, and shall monitor their realization. Furthermore, officers of a limited liability company will be obliged to professionally develop in the field of corporate governance. It is established that state-owned enterprises are obliged to conduct their business activity in a transparent manner, adopt an ethical code of limited liability company, and implement the Corporate Governance Code of Limited Liability Company, which is to be adopted by the Government. The Law lays down the basis for further digitalisation of records by establishing the Single Record of Corporate Governance of Limited Liability Company and further development of an information platform for planning, monitoring of implementation, coordination of activities and reporting of a state-owned limited liability company.

5.1.3 Area REFORMS IN THE AREA OF ECONOMIC INTEGRATIONS

The Republic of Serbia is not fully integrated into the international economic system, as it is not yet a member of the World Trade Organization (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 amending and supplementing the Law on Genetically Modified Organisms (*Official Gazette of the Republic of Serbia*, No. 41/09), which is one of the obstacles to completing the WTO accession process. At the same time, several bilateral negotiations on market access within the WTO, which are being conducted with individual Member States of the organization, including Russia and Ukraine, remain to be completed, which makes the situation more difficult.

Regional cooperation is one of the priorities of the Republic of Serbia, and the foundation for the economic growth, maintenance and increase of stability. It is based, inter alia, on the Central European Free Trade Agreement (CEFTA). Continuous progress and deepening of regional cooperation, especially through regional initiatives and the improvement of CEFTA, also contribute to the integration of this part of Europe into the European Union. **Facilitation of the trade in goods and services** is conducted in accordance with the CEFTA *Additional Protocols 5 and 6*. An agreement has been reached on the text of the Decision on recognition of the status of Authorised Economic Operator (AEOs) for the Republic of Serbia, the Republic of Moldova, the Republic of North Macedonia and the Republic of Albania, the Decision on the establishment of a Veterinarian Working Group, the Decision on the facilitation of eCommerce, the Decision on Dispatch Services, the Decision on recognition of Professional Qualifications, the Decision on prevention of unjustified geo-blocking, the Decision on trade-related aspects of intellectual property rights, the Decision on establishing a Sub-committee for Intellectual property rights, the Decision on establishment of CEFTA bodies and the Decision on the functioning of the CEFTA Secretariat, and their adoption is pending. Negotiations are ongoing about the Decision on the harmonisation of the veterinary certificate, the Decision on the establishment of the electronic system for facilitation of customs risk management, the Decision on recognition of the results of the conformity of industrial products, the Decision on the facilitation of the trade in services provided by travel agencies and tourist operators,

and the Decision on the rules for services regulations. CEFTA Green Corridors are functioning successfully at all border crossings between the CEFTA Parties, and steps are being undertaken to connect them with the border crossings with the EU. In addition, steps have been undertaken to accelerate the movement of goods and shortening of procedures (there has been a trial submission of notifications on shipments accompanied by veterinary and phytosanitary certificates through an electronic data exchange system, and efforts are being made to harmonise the working hours of customs and inspections at border crossings).

After the foreign trade in 2021 had fully recovered from the shock caused by the pandemic, a strong growth continued in 2022. The total volume of foreign trade in goods increased by 31.2% YoY in 2022 (66.6 billion EUR)²³, i.e. higher by 10.4% than the value of the Serbian GDP in the same year. Export in the value of 27.6 billion EUR in 2022 had a growth by 26,3% YoY, while import grew by 34.8% (39 billion EUR), and thus foreign trade deficit (11/4 billion EUR) was increased by 61.2% YoY, i.e. export covered 70.6% of import in 2022 (75.6% in 2021). The high growth of export is a result of the growth of foreign demand due to a recovery of the economies of foreign trade partners, after the implementation of restrictive measures for combating the pandemic, activating new export-oriented capacities due to a high inflow of foreign direct investment from the previous period, as well as a continued growth trend of export prices. The recovery of foreign trade is also reflected in a higher export of the Republic of Serbia by 8.2% YoY and reduction of import by 5.1% YoY **during the seven months in 2023** (16.8 billion EUR and 21.4 billion EUR respectively), compared to the same period in 2022.²⁴

The current account deficit of the payment transactions was 6.9% of the GDP in 2022 and was higher by 83,7%, primarily due to an increase of the trade deficit by 55.6% and an increase of primary income deficit by 45.8%²⁵. The current deficit was mostly covered by the net inflow of foreign direct investment (4.3% billion EUR).

The most important foreign trade partners of the Republic of Serbia are those that Serbia has a free trade agreement (FTA) with: EU-27, CEFTA, EFTA, Eurasian Economic Union and Türkiye. During the eight months in 2022, approximately 80% of the foreign trade was conducted with the partners that Serbia had a FTA with, and almost 87% of Serbian export was placed in these markets. Negotiations on a FTA are ongoing with Egypt, South Korea and United Arab Emirates, while negotiations with China were completed in late 2023.

The Customs Administration actively works on the automation of import and export, with IPA support, which will make it possible for customs procedures to be implemented in a non-paper environment for customs and businesses, which will help the growth of foreign trade, ensure a faster flow of goods, reduce operational costs and further improve public finances.

EU-27 Member States accounted for 58.7% of the total trade of the Republic of Serbia in 2022, where the export of goods to the EU had a growth by 25.7% YoY (17.7 billion EUR)²⁶. The export of goods to the EU was increased by 3.62 billion EUR or 25.7% YoY, with a growth of trade deficit by 50.4% YoY. During the seven months in 2023, the share of the EU in the total foreign trade in goods of the Republic of Serbia was 59.9% (23 billion EUR), which is by 1.8% higher than the same period in 2022²⁷. Due to the growth of export by 6.6% YoY and a drop of import by 2.1% YoY, the trade deficit with the EU was reduced by 38% YoY (0.9 billion EUR). **Consequences of the introduction of protective measures (import quota)** by the EU in January 2019 for certain groups of steel and iron products for a three-year period, and the drop of the international demand for these products due to the pandemic, are still felt. The introduction of a new regulatory control of carbon dioxide emissions (decarbonization) in the EU may affect the export of these products in the upcoming period.

²³ Statistical Office of the Republic of Serbia, External Trade in 2022, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231197.pdf>

²⁴ Statistical Office of the Republic of Serbia, External Trade, July 2022 <https://publikacije.stat.gov.rs/G2023/Pdf/G20231242.pdf>

²⁵ National Bank of Serbia, 2022 Balance of Payments, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika

²⁶ Statistical Office of the Republic of Serbia, External Trade in 2022, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231197.pdf>

²⁷ Statistical Office of the Republic of Serbia, External Trade, July 2023, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231242.pdf>

A trade surplus of 2.36 billion EUR with the **CEFTA Parties** was achieved in 2022 (higher by 11.3% YoY), mostly as a result of the export of: electricity, cereals and cereal products, oil and petroleum products, iron and steel and beverages. The coverage of import by export in 2022 was 216.5%.

5.1.4 Area AGRICULTURE, INDUSTRY AND SERVICES

Relatively high share of GVA of the agriculture, forestry and fishery and food processing sectors in the total GDP of the Republic of Serbia (6.2% on average between 2017 to 2022)²⁸ compared to the EU average (1.3% of the GDP in 2021)²⁹ **is partially a reflection of favourable natural conditions** (geographical position, natural resources, climate factor) **and resources for agricultural production** (used agricultural land makes up approximately 40% of the territory). The agricultural potential is not fully exploited due to lack of technological development in all branches of agriculture and due to sparsely populated rural areas. On the other hand, it is noticeable that, compared to five years ago, the income of foreign trade in agriculture has increased several times, which has directly contributed to the growth of GDP. **Approximately 15% of the total number of employees in 2022 worked in agriculture** (205.2 thousand formally employed persons, as well as 225.5 thousand of informally employed)³⁰, which is considerably above the EU average (4%³¹). A simplification of work engagement of individuals, and payment of taxes and payroll taxes for jobs of seasonal nature in this branch of activity, contributed to an increase of the registered employment.

The achieved **value of export of agricultural food products exceeded 4.8 billion EUR in 2022 (almost a fifth of the total export)**, and the achieved value of import exceeded 3.2 billion EUR. The growth trend of the surplus of trade in agricultural food products continued during 2022 (almost 1.6 billion EUR), as well as the coverage of import by export (155%)³². Nevertheless, in spite of the increase of the share of the structure of the export of agricultural good products in the previous 10 years, **the structure of this export is still dominated by primary agricultural products, with 61% in 2022**, but is lower than the latest five-year average (73%)³³.

The economic weakness of the largest number of agricultural entities, and the fact that they are technically and technologically under-equipped, is the main challenge on the road to the development of agricultural activity in the Republic of Serbia. The largest number of holdings is small or medium-sized and engaging in extensive production, without any specialised production in a specific sector. Holdings up to 5 ha make up 71.5% of the total number, while the average area of the used agricultural land at the level of the Republic of Serbia is 6.2 ha³⁴ (17.4 ha on average in the EU in 2020). Farms of this size are too small to be competitive either for direct sale on the European market, or the sale of raw materials for processing.

Everyday activities in plant production and achieved yields are recorded through the **Field Book** (identical names of implemented agro-technical and other measures, units of measurement, machinery and tools used, plant nutrition and plant protection products, etc.). Tenants of state-owned agricultural land are obliged to keep the Field Book. In view of the fact that numerous activities accompany any type of plant production (crop production, fruit and vegetable farming) for the purpose of a facilitated and fast use and possibility of analysing the data from the Field Book, a software solution needs to be developed in the upcoming period.

Independent activity without any tendency for association, insufficient investments in agriculture, and a fragmented market chain, limit the development of agricultural production. The land consolidation process is expected to contribute to the increase of the percentage of

²⁸ Statistical Office of the Republic of Serbia, Gross added value by activities, edited by the Public Policy Secretariat of the Republic of Serbia, <https://data.stat.gov.rs/Home/Result/0902010301?languageCode=sr-Cyrl>

²⁹ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_agriculture,_forestry_and_fisheries_statistics

³⁰ Statistical Office of the Republic of Serbia, Labour Force Survey. 2022, edited by the Public Policy Secretariat of the Republic of Serbia, <https://publikacije.stat.gov.rs/G2023/Pdf/G20235695.pdf>

³¹ OECD (2021), Competitiveness in South East Europe 2021: A Policy Outlook, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/dcbc2ea9-en>

³² Statistical Office of the Republic of Serbia, Communication No. 197 17.07.2023.

³³ Ministry of Agriculture, Forestry and Water Management, Report on the Status of Agriculture in the Republic of Serbia in 2022. <http://www.minpolj.gov.rs/download/ZK-2022-I-knjiga.pdf>

³⁴ Statistical Office of the Republic of Serbia, Farm Structure Survey, 2018 – Land, Belgrade, 2019

agricultural land, investments, productivity and employment in agriculture. The land consolidation process, which is governed by the Law on Agricultural Land (*Official Gazette of the Republic of Serbia*, Nos. 62/06, 65/08-as amended, 41/09, 112/15, 80/17 and 95/18- as amended) needs to be further improved, in order to reduce the average duration of the procedure from the adoption of the land consolidation programme by the local self-government unit assembly, to the vesting of the owner in property of the consolidated area. Land consolidation must be accompanied with the construction of agricultural infrastructure - a network of field/uncategorized roads. and depending on the reason why the land consolidation was initiated, it may also be accompanied by the construction of public roads, an irrigation and drainage network, etc. **The share of the irrigated areas is 4.6% of the total area of used agricultural land**³⁵(approximately 8% in Europe in 2016³⁶). Through the initiated and planned investment projects, conditions are created for the irrigation of almost 100,000 ha of additional agricultural land. Net inflow of FDI in agriculture cumulatively amounted to 482 million EUR between 2015 and 2022, i.e. only 1,9% of the total inflow of FDI in the Republic of Serbia³⁷.

The Law on the ratification of the Sectoral Agreement between the Government of the Republic of Serbia and the European Commission on the mechanisms for the implementation of EU financial assistance to the Republic of Serbia concerning the Instrument for Pre-Accession Assistance in Rural Development (**IPARD III**) (*Official Gazette of the Republic of Serbia - International Treaties*, No. 4/23) was adopted in early 2023. Through this support package, a grant in the amount of 377.1 million EUR will be available to Serbian farmers during the upcoming years, of which 288 million EUR from the EU budget. The Republic of Serbia expects the budget execution activities to be allocated for the existing measures (Measure 1, Measure 3, Measure 7 and Measure 9) from the IPARD III programme, with the defined conditions being met. The accreditation package for new measures of the IPARD III programme (Measure 4 – Agro-environment-climate measure and organic production and Measure 5 – Implementation of local rural development strategies – LEADER approach) will be sent to the European Commission during the last quarter of 2024, while their implementation is to be in 2025.

Support beneficiaries must be entered into the Register of Agricultural Holdings (RAH), in order to be able to compete for resources from the national budget or from the IPARD funds. At the moment, there are 446,774 active AH entered into the Register³⁸, of which 99% is registered as a family agricultural holding, while only 0.8% and 0,2% have the status of a legal entity or an entrepreneur, respectively.

The future agriculture legal framework will also include objectives and activities of the European Green Deal, in terms of establishing a fair, healthy and environmentally sound market chain of food products, and through activities of reduction of the use of pesticides, fertilisers and antibiotics, as well as reduction of the risk of their use, and the +one hand, and improvement of the environmental protection and preservation of biodiversity, on the other. All investments in the machinery and equipment which are the subject of support (through the IPARD measures) must meet the standards concerning emissions of harmful gases. Within the framework of the IPARD measures, advance payments were also introduced in order to increase the utilisation of funds. Simplification and digitalisation of seven administrative procedures in the field of agriculture by the end of 2023.

Industrial production maintains the sale level in spite of unfavourable conditions due to the conflict in Ukraine, which mostly concern the increase of the price of energy products, lack of raw materials from import, disruption of trade chains and reduction of demand (year-to-year growth of industry by 1.8%, processing industry 1.4% in 2022³⁹, i.e. growth of industry by 1.7%, and a drop of processing industry of 1.0% between January and June 2023). The share of industry in the creation of the total GDP was 21.9%⁴⁰, while the share of FDI in the processing industry is 34.6% of

³⁵ Statistical Office of the Republic of Serbia, Farm Structure Survey, 2018 – Land, Belgrade, 2019

³⁶ Eurostat, Agri-environmental indicator - irrigation, <https://ec.europa.eu/eurostat/statistics-explained>

³⁷ NBS, Foreign Direct Investment, net liabilities by activities, edited by the PPS, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

³⁸ Open Data Portal, <https://data.gov.rs/sr/datasets/rpg-broj-svikh-registrovanikh-poljoprivrednikh-gazdinstava-aktivna-gazdinstva/> *no data for Kosovo and Metohija:

³⁹ Statistical Office of the Republic of Serbia, Agricultural production indexes 2022, <https://publikacije.stat.gov.rs/G2023/HtmL/G20231027.html>

⁴⁰ Statistical Office of the Republic of Serbia, National Accounts, Constant Prices <https://www.stat.gov.rs/oblasti/nacionalni-racuni/>

the total FDI in 2022⁴¹. In spite of the risk that the crisis may produce serious disturbances on the labour market, employment in the processing industry was preserved and increased by 0.5% in 2022⁴², and this trend continued in 2023, when it experienced a growth by 1.8% (9,085 persons) compared to the 2022 average⁴³. The growth of the processing industry export in 2022 was 22.8%, and the growth of import 23.9%. The processing industry export increased by 9.6%, while import experienced a drop of 6.1% YoY between January and June 2023⁴⁴.

The service industry continues to grow, with noted divergent developments of certain activities.

A record trade surplus of the service sector of approximately 2.3 billion EUR in 2022 (growth of 65.5% YoY). The service sector, characterized by positive developments in 2022, experienced a contribution to the growth of the GDP of 0.7 pp in Q4 2023⁴⁵, primarily due to the growth of information and communication services. The growth of the export of services by 27.9% YoY during six months in 2023 was accompanied by a growth of almost all service activities, where the export of transport services and ICT services ensured the most important positive contribution (growth of 33.4% and 39.6% YoY respectively)⁴⁶.

Export of ICT services was in the value of 2.7 billion EUR (year on year growth of 45%), while the import of ICT services was in the value of 733 million EUR in 2022, so the surplus amounted to 1.9 billion EUR. The largest partners for the export of these services are the EU countries (particularly Germany) and the USA. The value of the export of ICT services was 1.6 billion EUR during the six months in 2023.

Incentives to the tourism sector and investments in the infrastructure affected the success of the recovery and further development of the tourism sector after the pandemic.

The foreign exchange inflow from tourism amounted to 2.5 billion EUR in 2022, which was a growth of 56% compared to 2021 and 73.3% higher than in 2019⁴⁷. The growing trend, expressed in the number of tourist overnight accommodations, continued in 2022, with 12.2 million overnight accommodations, or 50% more than in 2021⁴⁸. Even though domestic tourists again dominated the number of overnight accommodations, the number of foreign tourists who visited our country was almost double (4.9 million) in 2019. The total number of tourist visits between January and August 2023 was 2,789,922 (growth of 11.4% compared to the same period in 2022), when the total number of overnight accommodations was 8,520,376 (growth of 6.4% compared to the same period in 2022). Between January and June 2023, the foreign exchange inflow from tourism grew by 10.3% YoY (1.3 billion EUR). The incentive for the development of domestic tourism through allocation of vouchers for subsidised use of services of accommodation in the service establishments in the territory of the Republic of Serbia continued in 2023 - 300,000 vouchers in the value of 5,000 RSD by voucher (around 43 EUR), of which an amount of 262,546 was allocated by October 2023, and 222,560 vouchers were realized.

E-commerce, an activity that has in particular gained in importance after the pandemic, continues its upward trend.

In 2022, 41.9 million transactions were realized by using online payment cards for purchase of goods and services in the selected currencies, which is by 35.5% higher than in 2021, where RSD transactions by payment cards increased by 33.9% YoY (from 22.6 million transactions in 2021 to 30.3 million transactions in 2022)⁴⁹. At the same time, **the number of customer complaints to online purchases was reduced** (1,604 in 2022 as opposed to 1,673 in 2021)⁵⁰. Positive tendencies of e-commerce continued during Q1 2023 (12.2 million transactions of

⁴¹ NBS, Foreign Direct Investment, net liabilities by activities, 2022, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

⁴² Statistical Office of the Republic of Serbia, Registered Employment, 2022, edited by the PPS, <https://publikacije.stat.gov.rs/G2023/Htm/G20231025.html>

⁴³ Statistical Office of the Republic of Serbia, Registered Employment, Q2 2023, edited by the PPS, <https://publikacije.stat.gov.rs/G2023/Htm/G20231209.html>

⁴⁴ Statistical Office of the Republic of Serbia, External Trade, June 2023, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231208.pdf>

⁴⁵ Statistical Office of the Republic of Serbia, National Accounts, <https://www.stat.gov.rs/oblasti/nacionalni-racuni/>

⁴⁶ NBS, Payment Transactions, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

⁴⁷ NBS, Payment Transactions, https://nbs.rs/sr_RS/drugi-nivo-navigacije/statistika/platni_bilans/

⁴⁸ SORS <https://publikacije.stat.gov.rs/G2023/Pdf/G20238002.pdf>

⁴⁹ NBS, Payment Transactions of the Purchase of Goods Online, <https://nbs.rs/sr/ciljevi-i-funkcije/platni-sistem/statistika/>

⁵⁰ Ministry of Trade, Tourism and Telecommunications, Report on the work of the National Register of Consumer Complaints for 2021

the online purchase of goods and services by payment cards, which was a growth by 27.3% YoY). **The total number of virtual points of sale also increased**, and there were 3,178 of them at the end of 2022 in total (2,774 at the end of 2021), and 3,610 virtual points of sale at the end of Q1 2023⁵¹.

5.1.5 Area RESEARCH, DEVELOPMENT AND INNOVATION

The innovational ecosystem in the Republic of Serbia is continuously improved, which reflects on the rise of the Republic of Serbia in the ranking lists of the international innovation indexes. The Republic of Serbia is seen as an **emerging innovator** measured by the European Innovation Scoreboard 2023, which is 63.2% compared to the EU average in 2023. The innovation index for the Republic of Serbia increased by 15.1 pp between 2016 and 2022 (compared to the EU results in 2016), which is higher than the increase of this index for the EU, which is around 8.5 pp in the same period, which means that the **difference between the performance of the Republic of Serbia and the EU average is progressively decreasing**

The Republic of Serbia is ranked 53rd of the 132 countries in the Global Innovation Index 2023⁵² and, compared to the previous year, it has climbed two positions in the ranking. The Republic of Serbia is ranked 32 of the 39 European countries, which is a good result in view of the fact that this is the part of the world with the highest concentration of countries with very developed innovational ecosystems - 15 global innovative leaders come from Europe. **In the category of upper middle-income countries**, which consists of 33 countries, **the Republic of Serbia is among the first ten.**

Reforms of the science and innovation system in the Republic of Serbia over the previous years were supported by the **adoption of the legislative framework**: Law on the Science Fund of the Republic of Serbia (*Official Gazette of the Republic of Serbia*, 85/18); Law on Science and Research (*Official Gazette of the Republic of Serbia*, No. 49/19); Law on Innovation Activity (*Official Gazette of the Republic of Serbia*, No. 129/21), and the following **strategy**: Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2021 to 2025 “Power of Knowledge“, with the Action Plan 2021-2023 (*Official Gazette of the Republic of Serbia*, No. 10/21); Smart Specialisation Strategy of the Republic of Serbia for the period 2020-2027 (*Official Gazette of the Republic of Serbia*, No. 21/20), Startup Ecosystem Development Strategy of the Republic of Serbia for the period from 2021 to 2025 (*Official Gazette of the Republic of Serbia*, No.125/21), Strategy for the Development of Artificial Intelligence in the Republic of Serbia for the period 2020-2025 (*Official Gazette of the Republic of Serbia*, No. 96/19). Recognised **weaknesses and threats** in this domain **are eliminated by changing the system of financing science and research, by significant investments into the science research infrastructure, as well as increased orientation of scientific research towards the economy.**

Funds for the integration of the research network of the Republic of Serbia into European and global networks are insufficient, although investments into research and development have been increasing over the last few years. Total allocations for science in the Republic of Serbia were 99%⁵³ of the GRP in 2021 (higher by 0.08 pp or more compared to the previous year) and were twice lower than the EU-27 average (2.27%⁵⁴ of the GDP in 2021). Business sector investments were 0.45% of the GDP, which was considerably under the EU-27 average (1.5% of the GDP in 2021⁵⁵).

Numerous possibilities were opened to institutions and companies in the Republic of Serbia for participation in the Horizon Europe programme and other EU programmes (EUREKA and COST). Since the start of the realization of the Horizon Europe programme, 307 institutions from the Republic of Serbia received funding for 234 projects with the total budget of 80.6 million EUR⁵⁶.

⁵¹ NBS, https://nbs.rs/export/sites/NBS_site/documents/platni-sistem/statistika/el_novac/prihvatna_mreza.xlsx

⁵² An annual ranking of countries by capacity and success in innovation, published by the World Intellectual Property Organization. It consists of 81 indicators, grouped into innovation inputs and innovation outputs.

⁵³ SORS <https://data.stat.gov.rs/Home/Result/100109?languageCode=sr-Cyrl>

⁵⁴ Eurostat <https://ec.europa.eu/eurostat/databrowser/view/tsc00001/default/table?lang=en>

⁵⁵ https://ec.europa.eu/eurostat/statistics-explained/images/1/16/R_and_D_expenditure_Excel_V3.xlsx

⁵⁶ Report on the implementation of the Action Plan for the implementation of the Government Programme 2023-2026

The combined institutional project financing model has enabled a multi-year planning of activities of science research institutions. Support to science research activity is provided through the activities of the **Science Fund**, which **manages competitive project calls**, on the basis of which 415 projects have been supported with 79.5 million EUR, in which over 2,700 researchers are involved. The Science Fund is currently implementing 10 programmes, of which nine is in the stage of implementation, and one is in the stage of evaluation⁵⁷.

Creation of innovation, strengthening of the connection between science and economy, establishment of new and reinforcement of existing enterprises with innovative potential, are supported by the **Innovation Fund** through various financial instruments. Since its establishment, over 1,720 projects have been financed with 79.8 million EUR⁵⁸. The following amounts were approved: 53.9 million EUR for 656 innovative projects; 5.6 million EUR for 1,144 innovation vouchers; 5 million EUR for 39 start-up participating in the *Katapult* Accelerator programme; 2 million EUR for support to 58 start-ups in the earliest stage of development within the framework of the Smart Start Programme; 1.5 million EUR of support for 72 technology transfer projects.

By investing into innovative infrastructure, the network of science and technology parks (NTP), which provide infrastructural and expert support to innovative activities, is expanded. Innovators have four state-of-the-art NTPs - in Belgrade, Novi Sad, Niš and Čačak - at their disposal. The total number of companies which are members of all NTPs is 155 occupants and 82 companies with virtual membership (which use all the services other than the premises of the park), which employ 3.905 individuals.

The Institute for Artificial Intelligence Research and Development of Serbia, which is fully operational, strives to **connect science and economy** and contribute to the development and transfer of technology from the domain of artificial intelligence and machine learning. With a view to improving public health, it will carry out research and application of artificial intelligence in medicine together with the “Dr. Milan Jovanović - Batut” Institute for Public Health of Serbia. Cooperation with businesses was also initiated, primarily with the companies Continental Automotive Serbia (development of the most innovative technologies for the automotive industry) and NTT Data (global innovator of the IT and business services). In the Government Data Centre, the **National AI Platform**⁵⁹ has been operational since December 2021. The Republic of Serbia was chosen to be a **member of the Global Partnership on Artificial Intelligence (GPAI)** at its annual conference in Tokyo, in late 2022.

The Centre for the Fourth Industrial Revolution in Serbia was established⁶⁰ **in May 2022,** with a focus on two areas - biotechnology and artificial intelligence. The Centre makes it possible for fundamental research in the field of biotechnology, molecular biology and medicine to be used for development of the economy. Due to the activity of the Centre, the Republic of Serbia has joined the European Molecular Biology Laboratory (EBML), starting a three-year journey to a full membership.

Through the construction of the BIO4 Campus⁶¹, **Belgrade has become a recognisable point of research and development in the Southeast Europe.** The conceptual design of the Campus was developed during 2022, preparatory works started in 2023, and it was planned that it becomes fully functional in 2026. The Campus will include: 7 faculties, 9 science and research institutes, an extension of the NTP Belgrade, research and development centres of pharmaceutical and biotechnological companies (domestic and foreign), 7 centres of exceptional science infrastructure, a conference hall and multimedia exhibition centre, and other features. This environment is expected to attract researchers from the entire world, as well as mitigate the departure of domestic experts from the country.

⁵⁷ <https://fondzanauku.gov.rs/>

⁵⁸ Serbian Innovation Fund, <http://www.inovacionifond.rs/cir/o-fondu/rezultati>

⁵⁹ This platform is a latest generation high-performance supercomputer. ready to process an enormous quantity of information in a short time. It is available to the state, the local self-government, universities, science and technology parks, and start-up companies.

⁶⁰ Jointly established by the Government of the Republic of Serbia and the World Economic Forum under the auspices of the Office for Information Technology and e-Government, with the support of the United Nations Development Programme.

⁶¹ Biotechnology, biomedicine, bioinformatics and biodiversity

The Republic of Serbia became a member of the European High Performance Computing Joint Undertaking (EuroHPC JU) in 2022, established by the European Commission, which includes European Union Member States, European countries, as well as private partners with the aim of developing the super-computing ecosystem in Europe.

Comprehensive information system eScience with a portal became operational in May 2023. The system enables a higher visibility and availability of scientific results and research infrastructure to the academia and the business community on the national and international level. A key framework for establishment of a future information system has been defined, models and procedures of accreditation of scientific research organisations and procedures of assigning scientific titles. The portal already includes 19,954 researchers, 206 organisations and 685,744 works.

Improvement of the framework for the activity of start-ups entails, inter alia, establishment of the **Register of operators of the national innovation system**⁶² in the Innovation Fund. Keeping records of operators of the national innovation system will facilitate the financing of innovation activity, implementation of economic incentive measures and stimulative procedures. The software solution was completed, and in December 2023, the portal of the register (E-Innovation) became operational. According to the 2022 Startup Genome data, the value of the startup ecosystem in Belgrade and Novi Sad was appraised at 1.1 billion USD. According to the 2023 Global Startup Ecosystem Index (GSEI), the Republic of Serbia is ranked 51, having climbed one position compared to the previous year.

Insufficient human resources for research and development is limiting the economic growth and innovativeness. There were 3,654 employees in research and development: job positions⁶³ per a million inhabitants in 2022, and they made up 0.8% of the registered employment (twice less than the EU-27 average of 1.6%⁶⁴ in 2021). Science research is carried out by 17,512 researchers (52.5% are women), which makes up 70.5% of the total number of employees in the science and research job positions. Only 11.3%⁶⁵ of researchers are employed in the business sector.

b) Reforms

STRUCTURAL REFORM 1: IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA

1. Description of the structural reform

The aim of the structural reform is diversification and further growth of the foreign trade of the Republic of Serbia, both on the regional and on the global level, increased competitiveness of all actors on the market of the Republic of Serbia, including companies owned by the Republic of Serbia, as well as increased legal certainty of economic entities.

The structural reform consists of five measures:

Measure 1 – Improvement of conditions and elimination of obstacles to trade

The aim of this measure is ensuring conditions for further growth of foreign trade of the Republic of Serbia. The current situation in the international environment is an additional difficulty for the implementation of activities for accession to the WTO, aimed at resolving the matter of the existing ban on the foreign trade in genetically modified organisms and the completion of open bilateral negotiations with certain WTO members. For the purpose of further trade integration in the region envisaged by the Common Regional Market Action Plan, activities will be undertaken to implement obligations from the CEFTA Additional Protocol 5, CEFTA Additional Protocol 6, and to continue negotiations on CEFTA Additional Protocol 7. Serbia is taking over the chairmanship of CEFTA in 2023 and plans to accelerate the implementation of agreed protocols, to the extent that it is possible.

⁶² In early November 2023, the new Rulebook on the register of subjects of the national innovation system (*Official Gazette of the Republic of Serbia*, No. 93/2023) and the Law on the Amendments of the Law on the Republic Administrative Fees (*Official Gazette of the Republic of Serbia*, No. 92/2023), which prescribed the amounts of fees for registration of an entity, entered into force.

⁶³ Source: SORS, calculation by the PPS, <https://data.stat.gov.rs/Home/Result/1005?languageCode=sr-Cyrl>

⁶⁴ Source: Eurostat https://ec.europa.eu/eurostat/databrowser/view/rd_p_perslf/default/table?lang=en

⁶⁵ Source: SORS: Bulletin “Scientific and research activity in the Republic of Serbia, 2022”

As a part of the activities of the National Coordination Body for Trade Facilitation (NCBTF), with the involvement of the private sector, the new Action Plans for the period 2024-2025 will be adopted, and their implementation will start with a view to eliminating obstacles to trade, particularly technical and phytosanitary measures, as well as facilitating customs procedures.

Measure 2 – Improvement of the strategic framework of the quality infrastructure and integration in the EU single market, as well as the strategic framework of conformity and safety of products in all stages in the supply chain, including import and digital supply chains.

The aim of this measure is improvement of competitiveness of Serbian products on the domestic and foreign market, and creation of conditions for a full integration of the Republic of Serbia into the EU single market. The final stage of the compilation of analyses which will serve as the basis for the development of the new Quality Infrastructure Development Strategy of the Republic of Serbia for the period 2024-2030 with the Action Plan for the implementation of the Strategy for 2024 and 2025. The Strategy with the Action Plan will be adopted during 2024. The execution of this Action Plan will include, inter alia, creation of conditions for a full integration of the Republic of Serbia into the EU single market for at least three groups of industrial products (Agreement on Conformity Assessment and Acceptance of Industrial Products - ACAA) for electric and electronic products, machinery and personal protective equipment (PPE). For these groups of products, this entails a full application of technical regulations and standards aligned with the EU, developed IC institutions and a network of accredited bodies for conformity assessment, as well as efficient market surveillance of the application of technical regulations.

The measure also entails efficient implementation of regulations on technical requirements for industrial products, together with ensuring the legal basis for adopting a general national market surveillance strategy. Modernisation of the legal framework and its implementation will support the introduction of electronic market surveillance.

Measure 3 - Improvement of competitiveness of the agriculture

The aim of this measure is growth of competitiveness of the agricultural and food sector in the Republic of Serbia. With a view to creating conditions for improvement of competitiveness of agriculture, activities are to be undertaken aimed at (a) improvement of infrastructure in rural areas; (b) establishment of a regulatory framework for the land consolidation process and digitalisation of the expert surveillance procedure over the geodetic technical works; (c) regulation of the legal framework in the field of agricultural market, quality scheme for agricultural products and foodstuffs, and organic production; (d) improvement of capacities of the line ministry through digitalisation and automation of the system for financial support to farmers. By establishing a new Register of Agricultural Holdings (eRPG), the Land Parcel Identification System (LIPS) and other elements of the Integrated Administrative Control System (IACS), a functional IACS will be established, with automation and acceleration of the procedure of submission of applications, payments and control and incentives.

Measure 4 - Improvement of sustainable and efficient management of companies owned by the Republic of Serbia

The aim is improvement of the system of management of enterprises owned by the Republic of Serbia. In accordance with the Strategy of State Ownership and Management of Business Entities Owned by the Republic of Serbia for the period 2021-2027 and its Action Plan, the new Law on the Management of Enterprises Owned by the Republic of Serbia was adopted (*Official Gazette of the Republic of Serbia*, No. 76/23), entered into force in September 2023, and will start to apply from September 2024. In the upcoming period, appropriate by-laws will be drawn up. The Law prescribes that the Ministry of Economy will undertake further activities for establishment of a single policy of state ownership in the management of state-owned enterprises, cooperating with other authorities, by defining objectives and controlling the implementation, and with higher accountability of management bodies of state-owned enterprises, which will enable a more transparent system of surveillance and a more efficient implementation of public policies. The law also prescribes that the

matter of corporate governance of state-owned enterprises should also be regulated, in accordance with the best international practice.

Measure 5 - Improving the efficiency of the misdemeanour procedure

The aim of this measure is reduction of grey economy by increasing legal certainty of economic entities and increasing investment, by amending the Law on Misdemeanours, as well as by training misdemeanour judges for misdemeanour proceedings concerning grey economy. This measure entails adoption of amendments to the Law on Misdemeanours, with a view to accelerating misdemeanour proceedings by transmission of cases in electronic form between inspectorates and misdemeanour courts (exchange of cases and information on the status of the case by connecting the e-Inspector system and the Misdemeanour Courts Case Management System (SIPRES) and further training of misdemeanour judges for misdemeanour proceedings concerning grey economy.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	Accession negotiations with the WTO												
2.	Implementation of the process of trade facilitation and implementation of CEFTA Additional Protocols 5 and 6, as well as adoption of Additional Protocol 7 on the resolution of disputes												
	Measure 2												
3.	Development and adoption of the IC Strategy 2024-2030 with the Action Plan 2024-2025												
4.	Creation of conditions for a full integration of the Republic of Serbia into the EU single market for three groups of industrial products (electric and electronic products, machines and PPE) and signing of the ACAA for these groups of products												
5.	Efficient implementation of market surveillance activities												
	Measure 3												
6.	Preparation and adoption of laws and by-laws for the purpose of implementation and improvement of rural infrastructure												
7.	Adoption of laws and by-laws concerning organic production, quality schemes for agricultural products and foodstuffs; adoption of by-laws on the basis of the Law on Managing Agricultural Market												
8.	The preparation and adoption of laws on land consolidation and laws on agricultural land; adoption of by-laws concerning land consolidation and implementation of expert surveillance in land consolidation procedures and implementation of the piloting of land consolidations												
9.	Digitalisation and development of a radio system for management and												

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	control of incentives for the purpose of preparations for the EU Common Agricultural Policy (linking the Register of Agricultural Holdings with the Register of Animals and the Land Parcel Identification System, development of a Geo-Spatial Application (GSA) and other elements of the IACS, other than the Area Monitoring System (AMS).												
	Measure 4												
10.	Adoption of by-laws for the application of the Law on the Management of Enterprises Owned by the Republic of Serbia												
11.	Digitalisation of the system of corporate governance of state-owned enterprises												
	Measure 5												
12.	Amending the Law on Misdemeanours												
13.	Implementation of trainings of misdemeanour judges for misdemeanour proceedings concerning grey economy												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
Assessment of the achievement of the trade facilitation actions by the Republic of Serbia according to the UN Global Survey on Digital and Sustainable Trade Facilitation*	61.3% (2019)	82.8% (2023)	87% (2026)
Global Quality Infrastructure Index (GQII)**	82 (2021)	83 (2024)	84 (2026)
Share of agricultural food products in the total export value	18.5% (2019)	18.8% (2024)	19% (2026)
Import of final convictions compared to the number of submitted applications for initiation of misdemeanour proceedings by the inspectorate in the field of grey economy in one year	45% (2023)	50% (2025)	55% (2026)

* Source of verification: <https://www.untfsurvey.org/economy?id=SRB&year=2021>

** Source of verification: <https://gqii.org>

4. Expected impact on competitiveness

The structural reform directly and indirectly affects the increase of competitiveness. Accession to WTO membership, improvement of trade by applying CEFTA Additional Protocols, as well as activities of the NCBTF in the field of trade facilitation, will significantly impact the elimination of trade barriers, and thus also the increase of competitiveness of Serbian enterprises on the regional market, as well as the growth and further development of Serbian economy. The positive impact on the competitiveness is reflected, inter alia, in the reduction of costs of foreign trade in goods, shortening of the timeframe for conducting procedures at border crossings, as well as mutual recognition of documents, mutual acceptance of products in trade with the EU, and continued alignment with the EU legislation concerning free movement of goods. Signing the ACAA for three groups of selected products will positively affect the competitiveness of manufacturers/exporters from the Republic of Serbia, which will be able to certify their products in Serbia and export them to

the EU market without any additional research or certification, which will considerably lower their costs and the time needed to place a product on the EU market. In addition, this agreement will enable domestic conformity assessment bodies to provide their research and certification services on the EU market. Market surveillance supports the free movement of goods and development of fair competition with no unnecessary trade barriers. The development of rural infrastructure should facilitate the development of local communities, business activity and competitiveness, growth and employment in rural areas, which results in an economic, social and territorial development, i.e. smart, sustainable and inclusive growth. Development of quality scheme for agricultural products and foodstuffs will enable manufacturers to also protect their products with protected geographical indication at the EU level. In addition to the recognisability, products will be standardised and have competitive prices. Also, introduction of international standards in the organic production will directly affect the increase of competence of manufacturers, both on the domestic and on the foreign market. Increased value of agricultural products and foodstuffs directly affects the increase of export and of the GDP. A more efficient implementation of the land consolidation process is expected to result in consolidated land holdings, creation of regular-shaped parcels suitable for access to machinery, regulation of infrastructure, more efficient renting of state-owned agricultural land, which will reflect in an increase of agricultural production, competitiveness and growth of the GDP. A simpler way to submit an application for incentives, as well as a faster payment of incentives, will enable farmers to be more competitive on the market by reducing operational costs due to the improvement of liquidity. The new legal framework for corporate governance of state-owned enterprises and improvement of the system of state-owned enterprises creates a basis for an improvement of the centralised state ownership, which will enable a more transparent surveillance system and a more efficient implementation of public policies, as well as reduction of fiscal risks. The improved efficient misdemeanour procedure, increase of the number of trained misdemeanour judges for misdemeanour proceedings concerning grey economy, as well as increase of final convictions compared to the number of submitted applications for initiating misdemeanour proceedings by inspectorates in the field of grey economy, directly affect the improvement of the business environment as a precondition for improvement of competitiveness.

5. Estimated costs of activities and sources of financing

The total costs for the implementation of the structural reform amount to 140.9 million EUR, namely: 22.3 million EUR for 2024, 59.5 million EUR for 2025, and 59.1 million EUR for 2026.

Costs of realization of the structural **measure 1 - Improvement of conditions and elimination of obstacles to trade** amount to a total of 74,310 EUR, or, by year: 2024: 34,770 EUR, 2025: 19,770 EUR, and 2026: 19,770 EUR. The structural measure consists of two activities (activity 1 and activity 2):

Activity 1 Negotiations on accession to the World Trade Organization, for which an estimated amount of 37,155 EUR is to be allocated, specifically: in 2024: 17,385 EUR, in 2025: 9,885 EUR, and in 2026: 9,885 EUR. During 2020 (2019 was the baseline year), one new employee was hired to work on these duties. Also, an amount of 15,000 EUR remains to be spent from the donation for the period 2022-2024, which will be divided into two parts, one for this activity and one for **Activity 2. Implementation of the process of trade facilitation and implementation of CEFTA Additional Protocols 5 and 6, as well as adoption of Additional Protocol 7 on the resolution of disputes**, which means 7.500 EUR each in 2024. In addition, for **Activity 2**, one new employee was hired in 2020, and thus the costs are identical to those for Activity 1: 2024: 17,385 EUR, 2025: 9,885 EUR, and 2026: 9,885 EUR and 37,155 EUR respectively.

The costs of implementing structural **measure 2 - Improvement of the strategic framework of the quality infrastructure and integration in the EU single market** amount to a total of 1,286,439 EUR, namely: 628,813 EUR for 2024 and 328,813 EUR for 2025 and 2026 each. This structure consists of three activities (Activity 3, 4 and 5):

Activity 3 Development and adoption of the IC Strategy 2024-2030 with the Action Plan 2024-2025, which is to be implemented in 2024, and for which an estimated amount of approximately 350,000

EUR is to be allocated. Funds are also necessary for services of recruiting experts, who will conduct the required analyses and provide support to the Ministry of Economy in the preparation of the cited strategic documents. Financial resources will be provided from IPA funds (IPA 2019) through the EU4BE - EU for Better Business Environment project, which includes the project Quality Infrastructure, Competitiveness Development Factors - Preparatory Activities for Improving the Strategic and Legislative Framework, implemented by the World Bank.

Activity 4 Creation of conditions for a full integration of the PC into the EU single market for three groups of industrial products (electric and electronic products, machines and PPE) and signing of the ACAA for these groups of products, for which an estimated amount of approximately 250,000 EUR should be allocated, specifically: 50,000 EUR for 2024, 100,000 EUR for 2025 And 100,000 EUR for 2026. These financial resources are needed to cover the services of experts who will conduct the required analyses of the IC system and the market for selected groups of products, with a view to creating conditions and signing the cited agreement, and will be provided through the IPA 2021 Internal Market project.

Activity 5 Efficient implementation of market surveillance activities, for which an estimated amount of 686,439 should be allocated, specifically 228,813 EUR for all three years each. These financial resources are necessary for goods and services and will be provided from the budget of the Republic of Serbia in 2024, while sources of financing for 2025 and 2026 will be subsequently determined.

The total costs of structural **measure 3 - Improvement of competitiveness of agriculture** amount to a of 138,960,515 EUR, specifically: 21,655,934 EUR for 2024, 58,538,910 EUR for 2025, and 58,765,671 EUR for 2026. The structure consists of 4 activities:

Activity 6 Preparation and adoption of laws and by-laws for the purpose of implementation and improvement of rural infrastructure, for which an amount of 106.212.243 EUR is needed, specifically: 4,464,971 EUR for 2024, 50.247.047 EUR for 2025, and 51,500,225 EUR for 2026. The estimated amount of financial resources for the payment of subsidies with respect to the Improvement of rural infrastructure from the national budget and the budget of the autonomous province/local self-government unit is 14,333,243 EUR, specifically: for 2024 (3,210,763 EUR – budget of the Republic of Serbia; 1,235,208 EUR - budget of the AP and LSGU), for 2025 (3,531,839 EUR– budget of the Republic of Serbia; 1,235,208 EUR - budget of the AP and LSGU), for 2026 (3,885,017 EUR– budget of the Republic of Serbia; 1,235,208 EUR - budget of the AP and LSGU). Estimated costs of preparation and implementation of the reform with respect to the improvement of infrastructure in rural areas by implementing Measure 6 - Investments into rural public infrastructure of the IPARD III programme are defined by the amount of subsidies intended for beneficiaries of the IPARD programme for the period 2021-2027. In 2024, pre-financing is intended for preparation of IPARD Management Body for accreditation of the IPARD Measure 6 in the amount of 19,000 EUR (budget of the Republic of Serbia). For announcement of the First Public Call in 2025, budget in the amount of 45,480,000 EUR (EU financial assistance resources: 34,110,000 EUR; budget of the Republic of Serbia: 11,370,000 EUR). For the announcement of the Second Public Call in 2026, the amount of planned resources is 46,380,000 EUR (EU financial assistance resources: 34,785,000 EUR; budget of the Republic of Serbia: 11,595,000 EUR).

Activity 7 Adoption of laws and by-laws concerning organic production, quality schemes for agricultural products and foodstuffs, adoption of by-laws on the basis of the Law on Managing Agricultural Market, for which an amount of 19.734.563 EUR needs to be allocated, specifically: 13,038,114 EUR for 2024, 3.348.229 EUR for 2025, and 3,348,220 EUR for 2026. In 2024, the following resources are necessary: for education, development of a rulebook and informing farmers (180,000 EUR, goods and services, IPA); subsidies to beneficiaries for market regulation rules and measures (12,711,864 EUR, budget of the Republic of Serbia); development of the Trader Register (146,250 EUR, capital expenses, budget of the Republic of Serbia). In 2025 and 2026, resources were necessary for subsidies to beneficiaries for market regulation rules and measures (budget of the Republic of Serbia).

Activity 8 Preparation and adoption of the Law on Land Consolidation and Law on Agricultural Land, adoption of by-laws concerning land consolidation and implementation of expert surveillance in land consolidation procedures and implementation of the piloting of land consolidations. for which an amount of 2,812,712 EUR needs to be allocated, specifically: 20,904 EUR for 2024, 870,904 EUR for 2025, and 1,920,904 EUR for 2026. In 2024, financial resources in the amount of 20,904 EUR are necessary for salaries for the two new employees (budget of the Republic of Serbia). In 2025, financial resources are necessary for: salaries (20,904 EUR, budget of the Republic of Serbia); recruiting experts for the development of by-laws, training and purchase of office supplies, translation services (250,000 EUR, goods and services; IF: to be determined); purchase of servers and development of network infrastructure (600,000 EUR, capital expenses, IF: to be determined). In 2026, financial resources are necessary for: salaries (20,904 EUR, budget of the Republic of Serbia), training and purchase of office supplies (50,000 EUR, goods and services. IF: IPA), software (600,000 EUR, capital expenses, IF: IPA) and the implementation of the piloting of land consolidation (1,250,000 EUR, capital expenses, IF: budget of the Republic of Serbia).

Activity 9 Digitalisation and development of a radio system for management and control of incentives for the purpose of preparations for the EU Common Agricultural Policy for which the following amount needs to be allocated: 10,200,997 EUR, specifically: 4,131,945 EUR for 2024, 4,072,730 EUR for 2025, and 1,996,322 EUR for 2026. In 2024 financial resources are necessary for: development of the LPIS software (500,000 EUR, capital expenses, IF: World Bank loan); connecting the Cadastre, the Animal Register and the RAH (150,000 EUR, goods and services, IF: World Bank loan); development of the software and hardware (1,179,661 EUR, capital expenses, IF: IPA); development of a geospatial application for submission of applications for incentives (GSA) and other elements of the IACS (847,457 EUR, capital expenses, IF: budget of the Republic of Serbia), trainings (159,285 EUR – budget of the Republic of Serbia, 117,500 EUR – World Bank loan); salaries for 112 new employees (1,178,042, IF: budget of the Republic of Serbia). In 2025 financial resources are necessary for: salaries (1,178,042 EUR, IF: budget of the Republic of Serbia); development of the software and hardware (1,474,576 EUR, capital expenses, IF: IPA), consultant services for drawing up technical documentation, trainings, development of the legal framework for establishment of the IASC (905,084 EUR, goods and services, IF: IPA); training of employees (372,695 EUR – budget of the Republic of Serbia, 142,333 EUR – World Bank loan). In 2026 financial resources are necessary for: salaries (1,178,042 EUR, IF: budget of the Republic of Serbia); development of the software and hardware (294,000 EUR, capital expenses, IF: IPA), trainings (524,280 EUR, goods and services, IF: budget of the Republic of Serbia).

Costs of the structural measure 4 - Sustainable and efficient governance of state-owned enterprises owned by the Republic of Serbia amount to a total of 554,237 EUR. The structural measure consists of two activities (activity 10 and activity 11):

Activity 10 Adoption of by-laws for the application of the Law on the Management of Enterprises Owned by the Republic of Serbia, for which an amount of 427,119 EUR needs to be allocated for 2025 (127,119 EUR should be allocated from the budget of the central government, for salaries of new persons. An amount of 300,000 EUR from the IPA funds is to be applied for, for the purpose of additional professional development of employees).

Activity 11 Digitalisation of the system of corporate governance of state-owned enterprises, for which an amount of 127,118 EUR needs to be allocated for 2025 from the budget of the central government, for salaries of new persons.

For the implementation of the structural **measure 5 – Improvement of efficiency of misdemeanour proceedings**, no additional funds are necessary (*Activity 12. Amending the Law on Misdemeanours; Activity 13. Implementation of trainings of misdemeanour judges for misdemeanour proceedings concerning grey economy*).

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

The measures of this structural reform will directly and indirectly affect social objectives such as employment and poverty reduction. Creation of better conditions for trade positively affects the increase of employment by involving the local market into the European market game, which will indirectly affect reduction of poverty. An improvement of the quality and safety of domestic industrial products is a precondition for strengthening the competitiveness of Serbian economy, which, through growth of the export of cited products to the EU market, may have a direct impact on ensuring a higher level of protection of safety and health of beneficiaries, increase of employment and poverty reduction, as well as an increase of the living standard of the population. Development of rural infrastructure improves the quality of life in rural areas and develops a business environment which enables individuals and legal entities to develop their own business activities, or their self-employment and employment of local population, as well as a more even regional development. Application of the Law on Managing Agricultural Market enables legally regulated actions of all the entities on the market, which will considerably contribute to the introduction of new legal entities in the fields of production, processing and trade in agricultural products, and thus also to an increase of employment. Application of the law on quality schemes for agricultural products and foodstuffs will contribute to a better regulation of the system of protection of the geographical indications of cited products, which will encourage new manufacturers to enter the system of geographical indications and to band together. Rural areas with a high unemployment rate, which have favourable conditions for organic food production, may benefit from organic production. Digitalisation in agriculture will affect poverty reduction of agricultural holdings, as it will eliminate the expenses of submission of applications for incentives. After the completed land consolidation process, the mechanism for disposal of unused land in favour of women and young people was established. In the cases where participants in land consolidation were persons who had moved from the Republic of Serbia and other persons unable to engage in agricultural production, they may dispose of their property rights over the land in the land consolidation process, and offer it for sale, or gift it to vulnerable populations. A possible stimulation for people to dispose of their property rights is the fact that expenses such as charges for transfer of ownership, fees and other expenses have been abolished, which shortens the procedure of disposal of land. Also, reduction of grey economy and higher legal certainty of economic entities directly affects the reduction of unemployment on the labour market, and indirectly affects poverty reduction.

7. Expected impact on the environment and climate change

Structural reform directly and indirectly affects the environment and climate change. In view of the fact that implementation of trade facilitation activities will result in a digitalisation of certain foreign trade systems, abolishment of certain administrative procedures and acceleration of the flow of goods at border crossings, positive effects on the environment and climate change are expected. Development of competitiveness of Serbian products on the domestic and foreign market, together with creation of conditions for a full integration of the Republic of Serbia into the single market, has a positive impact on the environment, as it will contribute to the improvement of technical regulations and application of standards, including environmental requirements (e.g. SRPS ISO 14001 - Environmental management systems, SRPS ISO 50001 - Energy management systems), which will enable economic entities to increase their environmental responsibility, and reduce the impact on climate change through responsible business activity. Market surveillance ensures observance of standards in the field of energy efficiency, environmental protection and reduction of harmful effects on climate change. Improvement of rural infrastructure contributes to the preservation of the environment, as investments intended for financing concern, inter alia, construction of waste water treatment plants and waste management. Organic production is based on the holistic production system, which promotes and strengthens the agro-ecosystem, health, including biodiversity, biological cycles, and land. The biggest benefit of organic production is its contribution to sustainable use and preservation of natural resources. Digitalisation in agriculture has a positive impact on the environment and climate change, as the entire procedure of receiving incentives will be automated

and digitalised, without any supply, delivery, transport or storage of paper. Establishment of the IACS creates conditions for application of the Common Agricultural Policy rules and a compliance testing with the ecological requirements for payment of incentives, as well as payments on the basis of incentives for ecological measures, which will contribute to the greening, investment in reduction of greenhouse gas emissions in agriculture, effectively contributing to the requirements of the European Green Deal. Construction of an irrigation and drainage system in a land consolidation procedure creates conditions for a favourable soil water and air regime, which results in the prevention of: adverse effects of water retention in agricultural land, reduction of adverse effects of climate change, and reduction of soil fertility.

8. Potential risks

Risk	Risk probability	Planned activities for mitigation of adverse effects of the risk
Accession to WTO entails multilateral negotiations, thus the completion of the process also depends on other participants (WTO Member States, where some of them are directly involved in the current situation in Ukraine)	High	Closure of bilateral negotiations with the WTO Member States In this regard, adoption of the law on GMO will facilitate bilateral negotiations with some WTO Member States.
Adoption of decisions at the CEFTA Joint Committee has been blocked by the Provisional Institutions of Self-government in Pristina. Several decisions were agreed on the expert level, but their adoption is pending.	High	Coordinated action with other CEFTA Parties, as well as with the European Commission, with the objective to de-block the process of adoption of decisions at the CEFTA Joint Committee.
Natural outflow of personnel in market surveillance authorities is not accompanied by the appropriate employment dynamics	High	Implementation of the strategic framework with the expected employment dynamics.
Failure to adopt laws and delays in adoption of by-laws concerning agriculture	Medium	The Work Plan of the Government is to provide for the adoption of a regulatory framework in the field of agriculture.
Delay in the development of the LPIS software and delays in the approval and start of the IPA 2021 project	Medium	Defining strict deadlines for development of the LPIS software Coordination of activities with the competent authorities for a timely approval of the 2021 IPA project.
A large number of parties interested in the resolution of property rights relations in a land consolidation procedure, and the complexity of the procedures of their resolution	High	Implementation of public debates, roundtables and other methods of informing interested parties in the procedure of adoption of the regulatory framework.
Challenges in the application of the new regulatory framework due to the existing discrepancy and the reach of the legal framework which regulates the business activity of state-owned enterprises	Medium	Cooperation with the competent ministries and authorities
Inadequate application of the Law on the Management of Enterprises Owned by the Republic of Serbia	Medium	Cooperation with competent ministries, authorities and state-owned enterprises.
Impossibility of employing the lacking personnel/lack of approval for employment in the Ministry of Economy	Medium	Systematise and fill job positions for various education profiles
Insufficient capacities in the field of implementation of misdemeanour proceedings	Medium	Continued improvement of capacities through trainings and new employment,

STRUCTURAL REFORM 2: IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY

1. Description of the structural reform

The objective of the structural reform is to create an efficient knowledge-based economy, capable to develop and market top innovative products and services competitive in the global market.

The accomplishment of the set objective includes the construction of BIO4 Campus and new science technology parks, as well as the expansion of the existing ones, providing support to the projects: Ložionica, Innovation District and Smart City, along with the GovTech programme of the Innovation Fund, as well as the improvement of the regulations concerning the autonomous driving in Serbia. The described activities are significant from the aspect of improving the functioning of the resource efficient and competitive market economy, especially in the field of supporting the startup development.

The structural reform consists of four measures:

Measure 1 – Creating conditions for the development of biosciences and bioeconomy through the construction of BIO4 Campus

The objective of this measure is to provide support to intensive development in the fields of biotechnology, biomedicine, bioinformatics and biodiversity. BIO4 Campus is a platform for encouraging collaboration and connectivity with the research and business communities in these areas at the national and international levels. The construction of BIO4 will create an opportunity for the concentration of people, multidisciplinary expertise of the latest technologies and infrastructure (faculties, institutes, science technology parks, etc.) in the fields of biotechnology, biomedicine, bioinformatics and biodiversity. BIO4 Campus will be the first such campus in the wider region and a recognised global map point of development in this area. The completion of the activity on the construction of BIO4 Campus is scheduled for 2026.

Measure 2 – Development of the startup ecosystem

The objective of this measure is strengthening the infrastructure support network to startups in all stages of development through the expansion of the existing, i.e. construction of new STPs. The objective of the GovTech programme is to provide a platform for the collaboration between the public sector and innovative entities, and to encourage the use of new technologies in resolving complex challenges the public sector faces on a daily basis. The process of implementation of the GovTech programme is planned to be carried out over an 18-month period, starting in 2024.

Measure 3 - Support to the development of talents and creative industries by establishing the multifunctional innovative-creative centre Ložionica

The objective of this measure is establishing a unique space designed to provide all necessary (technical) support to the development of talents and creative industries. The multifunctional centre Ložionica is a creative hub designed in such a manner to enable: Local and international networking, education through knowledge transfer, presentation of examples of good practice, and the possibility of testing ideas and solutions, as well as their presentation to interested business entities, individuals, groups and organizations.

Measure 4 - Setting the infrastructure and environment for the creation and application of innovative IT solutions

The objective of the measure is a better and greater quality functioning of the local self-government units (LSGUs) through application of innovative IT solutions. The proposed measure includes two components: Smart City Project and construction of the Innovation District in Kragujevac. The Innovation District within the State Data Centre will enable an opportunity for the development in several fields, primarily cyber security. Innovative solutions based on cloud technologies and oriented towards sustainable development, will be created through the Smart City Project, while the

improvement of the relevant regulatory framework will create conditions for the development and testing autonomous vehicles in the Republic of Serbia.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	Construction and international visibility of BIO4 Campus												
	Measure 2												
2.	Expansion and improvement of infrastructure of STP Niš, STP Čačak and STP Belgrade and RITP Kruševac												
3.	Implementation of the GovTech programme, along with the empowerment of startups for attraction of investments												
	Measure 3												
4.	Reconstruction of the Ložionica facility along with the development of different support programmes												
	Measure 4												
5.	Construction of the Innovation District in Kragujevac												
6.	Implementation of the Smart City Project												
7.	Creating the regulatory framework for autonomous driving												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
Value of the startup ecosystem*	USD 1.1 billion (2022)	USD 1.3 billion (2025)	USD 1.5 billion (2026)
Number of innovative enterprises in the Incubator for creative industries (CI) within Ložionica (cumulative)	0 (2023)	15 (2025)	30 (2026)
Number of educational institutions and business entities using the Innovation District capacity (cumulative)	0 (2023)	10 (2025)	20 (2026)
Number of Smart City implemented solutions (cumulative)	0 (2023)	3 (2025)	5 (2026)

* <https://startupgenome.com/report/gser2023>

4. Expected impact on competitiveness

Structural reform has an impact on increasing competitiveness through identifying the national development potentials by connecting research and innovation forces with the needs of the economy. Increased number of startups stimulates economic growth, increases exports and GDP, and creates jobs necessary for the development of the knowledge-based economy. The reform encourages further development of the innovation infrastructure, strengthens capacity for providing support to the startups in all stages of development, accelerates public and private investments in this field, enables the development of the national venture capital market, as well as transfer of knowledge from science to economy. Networking and working with individuals and developing companies and product presentation will lead to increase in competitiveness of domestic products in the foreign market and contribute to strengthening of the national market of creative industries. The construction of the Innovation District and the ecosystem of smart solution for cities shall ensure significant

infrastructural support to further development of technologies and ICT services, as well as stimulating environment for the development of innovative IT solutions, which will have a significant impact on increasing competitiveness in this field. By creating autonomous transport solutions with continuous development of artificial intelligence, the Republic of Serbia is positioned as a regional leader in these areas.

5. Estimated costs of activities and sources of financing

The total cost for the implementation of the structural reform amounts to EUR 461 million, as follows: EUR 114.5 million in 2024; EUR 211 million in 2025; and EUR 135.5 million in 2026.

The total cost of structural **Measure 1 - Creating conditions for the development of biosciences and bioeconomy through the construction of BIO4 Campus** amounts to EUR 296 million.

Structural Measure includes *Activity 1. Construction and international visibility of BIO4 Campus*, for which it is necessary to allocate EUR 50 million in 2024, EUR 150 million in 2025 and EUR 96 million in 2026. Part of the funds is provided from the loan of the Council of Europe Development Bank (CEB), while the source of funds for goods and services in the amount of EUR 50 million in 2025 and 2026 each still needs to be determined.

The total cost of structural **Measure 2 - Development of the startup ecosystem** amounts to EUR 74.4 million, as follows: EUR 38.25 million in 2024; EUR 25.65 million in 2025 and EUR 10.5 million in 2026. This structural Measure consists of two activities (Activities 2 and 3):

Activity 2. Expansion and improvement of infrastructure of STP Niš, STP Čačak and STP Belgrade and RITP Kruševac, for which allocation of EUR 69.4 is estimated, as follows: EUR 37.25 million in 2024; EUR 23.65 million in 2025 and EUR 8.5 million in 2026. The funds are necessary for goods and services as well as capital expenditure and shall be provided from project loans.

Activity 3. Implementation of the GovTech programme, along with the empowerment of startups for attraction of investments, for which allocation of EUR 5 million is estimated, as follows: EUR 1 million in 2024; EUR 2 million in 2025; and EUR 2 million in 2026. The funds are necessary for subsidies and transfers and shall be provided from the Budget of the Republic of Serbia.

The total cost of structural **Measure 3 - Support to the development of talents and creative industries by establishing the multifunctional innovative-creative centre Ložionica** amounts to EUR 47.8 million.

Structural measure includes *Activity 4. Reconstruction of the Ložionica facility along with the development of different support programmes*, which started in 2022 and for which it is necessary to allocate from the Budget of the Republic of Serbia EUR 21.6 million in 2024; EUR 20.3 million in 2025; and EUR 5.9 million in 2026. The funds are necessary for capital expenditure.

The total cost of structural **Measure 4 - Setting the infrastructure and environment for the creation and application of innovative IT solutions** amounts to EUR 42.4 million. This structural action consists of three activities (Activity 5, 6 and 7):

Activity 5. Construction of the Innovation District in Kragujevac, whose implementation begins at the end of 2023, and for which funds are planned in the Budget of the Republic of Serbia in total amount of EUR 26.9 million, as follows: EUR 1.9 million in 2024, EUR 8.5 million in 2025 and EUR 16.5 million in 2026. The funds are necessary for capital expenditure.

Activity 6. Implementation of the Smart City Project, whose implementation began in 2022, and for which funds are planned in the Budget of the Republic of Serbia in total amount of EUR 15.2 million, as follows: EUR 2.5 million in 2024; EUR 6.35 million in 2025 and EUR 6.35 million in 2026. The funds are necessary for capital expenditure.

Activity 7. Creating the regulatory framework for autonomous driving, for whose implementation funds are estimated in the amount of EUR 218 thousand, as follows: EUR 82 thousand in 2024 and EUR 68 thousand in 2025 and 2026 each. The funds are necessary for goods and services (training, engagement of experts, etc.) and will be financed in 2024 from the Budget of the Republic of Serbia, while the source of financing in 2025 and 2026 will be determined subsequently.

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

Thanks to the implementation of this structural reform, new markets generating new jobs, particularly for entrepreneurial, young and educated people, are being created, while the investment in startups creates human capital with competencies and skills necessary for modern economy based on knowledge and innovations, which directly impacts the increase in employment, poverty reduction and has positive effect on gender equality.

7. Expected impact on the environment and climate change

The implementation of this structural reform will have positive effect on the environment and climate change due to digitalisation of classic processes and new digital services, which will lead to savings of electricity and quantities of used paper, and the number of cut-down trees.

8. Potential risks

Risk	Risk probability	Planned activities to mitigate negative risk effects
Contractors' delay in performing unexpected works	Moderate	Regular coordination and monitoring by the project management unit.
Insufficient interest of startups for participation in the GovTech programme	Low	Intensive promotion of support, emphasising the significance of the support programme in this stage of the startup development.
Difficulties in obtaining necessary permits	Low	Observance of legal provisions and procedures. Good time planning.
Difficulties in procurement of necessary equipment related to the establishment of infrastructure and environment for the creation and use of innovative IT solutions	Low	Observance of contractual provisions and procurement procedures.

5.2. SUSTAINABILITY AND RESILIENCE

a) Analysis of main obstacles

5.2.1 Area GREEN TRANSITION

The sensitivity of economy to climate change and high level of environmental pollution adversely affect overall competitiveness of the Republic of Serbia at the global market. In order to make a green transition, in the coming period it is necessary to improve air quality, upgrade waste and wastewater management, remove unregulated landfills, establish a circular economy concept and improve the financing system sustainability.

The drafting of the Environmental Protection Strategy – Green Agenda for Serbia, as an umbrella document necessary for the green transition implementation, has been initiated. The Law on Climate Change (*Official Gazette of the Republic of Serbia*, No. 26/21) enables the legal framework for the establishment of a system for reducing greenhouse gas emissions in a cost-effective and efficient way, in order to minimise adverse effects of altered climate conditions. The **Low Carbon Development Strategy of the Republic of Serbia for the period 2023–2030 with projections until 2050** (*Official Gazette of the Republic of Serbia*, No. 46/23) **was adopted in June 2023**. This Strategy is designed to reduce greenhouse gas emissions (by 33.3% compared to 1990), increase in forest carbon sinks, increase in resilience to climate change in priority sectors, and promote transition towards a climate-neutral economy and society resilient to climate change. Action Plan for the implementation of the Strategy in the period 2024–2030 will be adopted within one year from the date of adoption of the Strategy. Public debate (from 14 September to 3 October 2023) on Proposal of the Programme for Adaptation to Changed Climate Conditions with Action Plan *is over*. The National and Local

Pollution Sources Register⁶⁶ contains a set of systematized information and data on sources of environmental pollution, pursuant to which institution at all levels of government may adopt more efficient measures in the environmental protection field.

With the aim of efficient air quality management in the Republic of Serbia, monitoring of air quality in accordance with the Air Protection Law (*Official Gazette of the Republic of Serbia*, Nos. 36/09, 10/13 and 26/21 – as amended) was established⁶⁷. The ambient air quality in 2021 was mainly affected by emissions of PM10 and PM2.5 suspended particles, sulphur dioxide and nitrogen oxides, of which the most present were suspended PM10 particles, which caused in 90% of cases excessive air pollution due to exceeding the daily threshold values.⁶⁸ Measures and activities to be implemented in the coming period for the improvement of air quality, which will contribute to environmental protection, ecosystem protection and protection of human health are defined through four special objectives of the Programme of Air Protection in the Republic of Serbia for the period 2022–2030 with Action Plan (*Official Gazette of the Republic of Serbia*, No. 140/22), which require emission reduction in the sectors of energy, stationary combustion plants, traffic, major industrial facilities and agriculture. In order to improve air quality, the Ministry of Environmental Protection (MoEP) allocated budget funds for co-financing the replacement of boilers, replacement of individual fire beds and afforestation in 2023⁶⁹, and subsidies for the purchase of electric and hybrid vehicles continued.

Untreated sewage sludge and wastewater that are directly discharged into rivers throughout the country are still the main source of water pollution. Of the total amount of wastewater discharged into the public sewage system (319 million m³) in 2022, only 18.5%⁷⁰ was treated (a drop of 0.2 pp compared to 2021), while the most common method of wastewater treatment was secondary treatment (57.6%). Although the household sector discharges 71.4% of wastewater, the industrial sector pollutes watercourses the most (especially with phosphorus and nitrogen). Of the total amount of 118 million m³ of wastewater in industry, 30 m³ million was treated in 2022⁷¹. **Water Management Plan in the territory of the Republic of Serbia until 2027** (*Official Gazette of the Republic of Serbia*, No. 33/23) **was adopted in April 2023**, as the key document in the water management process with the objective of achieving a good status for all waters in accordance with the principles of the Water Framework Directive. The construction of 5 wastewater collection and treatment plants in Belgrade is planned, which will reduce the amount of discharge into the Sava and the Danube. Further construction of the sewage network and construction of the wastewater treatment plant within the Project: Clean Serbia⁷² is planned. **Sludge Management Programme in Serbia from 2023 to 2032** (*Official Gazette of the Republic of Serbia*, No. 84/23) **was adopted in October 2023**, which is going to contribute to the establishment of safe, sustainable, and cost-effective management of sludge from the municipal wastewater treatment plants. This Programme defines short-term and long-term measures in order to ensure the use of sludge as a resource.

Improving waste management and removal of unregulated landfills are key factors for preserving the environment. Economic activities created 174.7 million tons of waste in 2022 (2.5 times more than in 2021), of which 82.9% is non-hazardous and 17.1% hazardous waste⁷³. Most of the waste is generated in mining (94.4%). Of the total generated waste, 98.6% was disposed of, and

⁶⁶ The Rulebook on the Methodology for Creating the National and Local Pollution Sources Register, as well as the Methodology on Types, Manner and Deadlines of Data Collection (*Official Gazette of the Republic of Serbia*, Nos. 91/10, 10/13, 98/16 and 72/23) <https://www.paragraf.rs/propisi/pravilnik-metodologiji-izrada-registra-izvora-zagadjivanja.html>

⁶⁷ <http://www.amskv.sepa.gov.rs/>

⁶⁸ Serbian Environmental Protection Agency, State of the Environment Report in the Republic of Serbia 2021, http://www.sepa.gov.rs/download/IZVESTAJ_2021.pdf

⁶⁹ Contracts signed with 27 LSGUs for the replacement of boiler rooms in public institutions and 19 LSGUs for the replacement of individual fire beds. The Kragujevac heating plant was subject to modernisation, which will contribute to reducing carbon dioxide (CO₂) by 70%, reducing NO_x and eliminating PM particles. In 2023, second public call has been announced, on the basis of which RSD 120,000,000.00 was allocated for the replacement of boiler rooms in cities and municipalities. Furthermore, contracts were signed with 55 LSGUs on the basis of a public call for afforestation projects with the aim of protection and conservation of landscape diversity.

⁷⁰ Statistical Office of the RS, Drinking water supply and waste water from settlements, 2022, <https://publikacije.stat.gov.rs/G2023/Html/G20231135.html>

⁷¹ Statistical Office of the RS, Use and protection of water against pollution, 2022, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231129.pdf>

⁷² <https://cistasrbija.rs/>

⁷³ Statistical Office of the RS, Generated and treated waste, 2022, <https://publikacije.stat.gov.rs/G2023/Html/G20231186.html>

only 1.4% was reused. In 77 municipalities and towns, in the past two years, more than 730 unregulated landfills, out of 3,500, as estimated to be, were removed, while in 2023, contracts were signed with 30 towns and municipalities for the removal of 170 more unregulated landfills. The last amendments to the Law on Waste Management (*Official Gazette of the Republic of Serbia*, Nos. 36/09, 88/10, 14/16, 95/18, 35/23) in April 2023, systematically improve waste collection, transport, storage, treatment / recovery, and disposal, as well as waste supervision. The first phase of consultation on the topic of deposit return system in the Republic of Serbia has begun.

Planning additional investments in municipal infrastructure. The Project: Clean Serbia foresees the construction of sewerage in 89 sites, 157 wastewater treatment plants and 5 million meters of sewer pipes. Phase 2 of the Project: Clean Serbia is being carried out, while the start of Phase 3 is planned in 2024. The length of the sewerage infrastructure, which will be reconstructed in Phase 2, is 444 km in the territory of 9 LSGUs. After completing the entire project, 2.36 million people more will be connected to the sewerage system. Two wastewater treatment plants are planned to be built in Belgrade, thus reducing the amount of direct sewage discharge into the Danube by approximately 90%.

It is necessary to increase the soil resilience to changes in climatic conditions through further investment in the construction of new irrigation infrastructure and modernisation of the existing one, anti-hail system, subsidising insurance premiums, afforestation, etc. The provisions of the European Green Agreement should be implemented in the legal framework in the field of agriculture, through activities aimed at reduced use of pesticides, artificial fertilizers and antibiotics, i.e. reduced risk of their use on the one hand, and preservation of biodiversity on the other hand. In the territory of the Republic of Serbia, only 4.6% of used agricultural land are currently irrigated, (7-8% in Europe). Through the initiated and planned investment projects, the conditions are created for the irrigation of nearly 100,000 ha of additional agricultural land by 2025. About 25% of the territory of the Republic of Serbia (2.26 million ha) is covered in forests, which is significantly below the EU average (39%⁷⁴), while the area of forested land increased by 3% in 2020 compared to 2017⁷⁵. However, the volume of afforestation works was reduced by 19% YoY in 2021, while it has increased by 13% YoY in 2022⁷⁶.

Green transformation process requires additional investments, both for the state and the economic sector. The funds from the Budget of the Republic of Serbia, bilateral donations, IPA funds, WBIF and loans of international financial institutions are used to fund the green transition. In accordance with the Law on Fees for the Use of Public Goods (*Official Gazette of the Republic of Serbia*, Nos. 95/18, 49/19, 86/19, 156/20, 15/21, 15/23) polluters pay the fees for the protection and improvement of the environment depending on the type and amount of pollution. **Revenues from environmental fees** amounted to EUR 2.08 billion (3.9% of GDP) in 2021, which is 11.9% more than in the previous year⁷⁷. Energy taxes have the largest share in the revenue (87.4%), as well as the taxes in the field of transport (6.9%), while pollution charges and fees for the use of resources participated with 4.2% and 1.5%, respectively. **The total cost for environmental protection**⁷⁸ amounts to EUR 515 million in 2021, which is 32.3% more than in the previous year. As per the structure of these costs, investments for environmental protection account for 55.4% (of which 64.7% in the field of air protection), while the share of current expenditures is 44.6%. Investments in environmental protection of EUR 285 million (0.48% of GDP) in 2021 are nominally higher by 85.2% YoY. The investments from the Budget of the Republic of Serbia in the environmental protection sector have been increasing over years: Planned budget funds in the amount of EUR 210 million (0.35% of GDP) in 2023 are by 14.4% higher compared to 2022. In addition to financial support for the implementation of the green transition, further strengthening and coordination of institutional and

⁷⁴ Eurostat, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Forests,_forestry_and_logging

⁷⁵ Statistical Office of the RS, Forestry in the Republic of Serbia, 2022, <https://publikacije.stat.gov.rs/G2023/Pdf/G20235697.pdf>; Research on the changes in the forest area is conducted every three years.

⁷⁶ Statistical Office of the RS, Raising and Cultivating Forests, 2022, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231120.pdf>

⁷⁷ Statistical Office of the RS, Calculation of fees in the field of environment, 2021, <https://publikacije.stat.gov.rs/G2023/Html/G20231090.html>

⁷⁸ Statistical Office of the RS, Environmental protection costs, 2021, <https://publikacije.stat.gov.rs/G2022/Pdf/G20221291.pdf>

administrative capacity at the national and local levels are necessary, as well as the harmonisation with EU policies and obligations in the European integration process.

At the end of 2023, the Project: Improving public financial management for the green transition, financed by the WB and AFD, began, with the objective of developing methodologies and practice to identify ever better green elements in strategic documents, budget, capital projects, fiscal risks, public procurement and management of state-owned property, in order to ensure better interdepartmental coordination and better identification of projects and resources contributing to the green transition.

The ecological information system enables monitoring the sites and reporting environmental problems. About 70% of citizens' reporting received through the system refer to sites where there is a problem with solid waste.

Circular economy is considered to be an important strategic concept for the green transition of the Republic of Serbia. The Ministry of Environmental Protection and the UN Development Programme, with the support of the Global Environment Fund, awarded **at the end of 2022 recognitions and cash prizes to the authors of 21 best innovative ideas (of which 12 include the cooperation between science and economy) for further development of circular economy in the Republic of Serbia.**

5.2.2 Area DIGITAL TRANSFORMATION

The most dynamic sector in the Republic of Serbia in the past 10 years is the Information and Communications Technology (ICT) sector, which makes this sector the driving engine of the development and economic growth. Exports of ICT services have increased by almost 2.3 times in the period from 2015–2019⁷⁹. The outbreak of the global pandemic led to a decrease in demand in all sectors, and thereby the exports of ICT services increased by only 1.2% YoY in 2020. However, after the relative normalization of the situation at the international market, the increase in the ICT export of 29.1% YoY in 2021 and 45% in 2022 (total EUR 2.7 billion), and its share in the total export of services, accounts for 24.3%. The generated surplus in the exchange of ICT services of almost EUR 2 billion is more than double increase compared to 2020. Despite the decline in revenues and the number of projects, IT companies in the Republic of Serbia managed to preserve liquidity and human resources, so that the export of ICT services recorded a growth of 39.6% YoY in the period January-June 2023. Although employees in the ICT sector represent only 3.3% of total registered employment⁸⁰, the number of employees in this sector is growing significantly from year to year (17% in 2022, 14% in 2021, 12% in 2020 and 7% in 2019.).

According to the **Network Readiness Index 2022**⁸¹, as an indicator of the development of the digital economy, i.e. **the country's readiness to join the IT sector**, in 2022, the Republic of Serbia ranked 55th out of a total of 131 ranked countries, **which is moving up two places**. The highest progress has been made in the field of Governance (49th place), where in the case of *E-Commerce Legislation* indicator even the first place in the world was achieved, while the lowest ranking was recorded in the field of Technology (77th place), primarily when it comes to the Computer software spending indicator (105th place).

The Republic of Serbia is committed to the development of digital transformation, thus, in the previous period, legislative and strategic frameworks have been greatly improved, due to which it became the leader of digital transformation in the region. In order to complete the harmonization with the EU regulatory framework in the field of electronic communications, the new **Law on Electronic Communications** (*Official Gazette of the Republic of Serbia*, No. 35/23) **was adopted in April 2023**, which includes the transposition of the provisions of the European Electronic

⁷⁹ The export of ICT services amounted to: 611 million euros in 2015 (25.5% growth y-o-y), 740 million in 2016 (21.1%), 899 million in 2017 (21.6%), 1.13 billion in 2018 (26.2%), 1.4 billion in 2019 (25.4%), 1.4 billion in 2020 (1.2%), 1.9 billion in 2021 (29.1%) and 2.7 billion in 2022 (45.0%). Source: NBS, Balance of Payments of RS, wider scheme; item `Telecommunications, computer and information services`.

⁸⁰ Statistical Office of the RS, Registered employment, annual average 2022; item Telecommunications, computer programming and consulting activities, Information service activities <https://publikacije.stat.gov.rs/G2023/HtmlL/G20231025.html>

⁸¹ Network Readiness Index 2022, <https://networkreadinessindex.org/country/serbia/>

Communications Code. The Law ensures interconnection and availability between electronic communications networks of new generation and their use by the citizens and economy, as well as market development and improvement of the business environment; enables more efficient management and use of limited public goods; and provides additional protection of end-users, along with enabling maximum benefits regarding the choice, price and quality of services.

The eGovernment Development Index⁸² of the Republic of Serbia was rated the highest in 2022, as 'very high', which placed Serbia in 40th place (out of 193 countries), improving Serbia's position by 18 places compared to 2020, thus ranking it among the three countries with the greatest progress in the field of eGovernment in Europe. The same report states that only 4% of employees in the public sector have no basic computer skills, and that only 35% out of 1,700 public services are available electronically.

Global trends, such as the digital transformation of business models, are increasingly having effect on all industries and sectors in the Republic of Serbia. The support to digital transformation of small and medium enterprises has been provided by **StarTech Programme**⁸³, with the aim of accelerating the growth of Serbian companies and the traditional economy based on agriculture and processing industries into a digital, export-oriented economy based on knowledge and innovations⁸⁴. The third annual public call⁸⁵ for the grant in the amount of USD 1 million (the amount of individual grants from \$15,000 to \$100,000) and up to 1,000 hours of expert support for the implementation of business plans, was published in March 2023⁸⁶.

The process of digital transformation was also recognised as a special objective of the Industrial Policy Strategy of the Republic of Serbia 2021–2030 (*Official Gazette of the Republic of Serbia*, No. 35/20) and the Action Plan for its Implementation for the period 2021–2023 (*Official Gazette of the Republic of Serbia*, No. 37/21), within which the Ministry of Economy, in cooperation with the Centre for Digital Transformation of the Chamber of Commerce and Industry of Serbia, implements Measures and activities concerning the promotion and raising awareness in the industry on the significance of digital transformation, education of business entities for the application of digital solutions, as well as connecting of the industry representatives with the companies providing digital solutions. Furthermore, the Ministry of Economy, within the implementation of the mentioned three-year Action Plan, provided incentive funds for the reimbursement of 50% of verified digital transformation costs for all companies who have successfully applied digital solutions in their business, in the amount up to EUR 6,000, and for the artificial intelligence projects up to EUR 12,000 in dinar equivalent.

The communication infrastructure in the Republic of Serbia needs to be further improved. The development of communication infrastructure in rural areas ("white or grey zones") takes place through the Project: Construction of broadband ICT in rural areas of the Republic of Serbia. Phase 1 includes the construction of communication infrastructure in 706 rural settlements in the "white zones". So far, the optical network was constructed in 118 settlements, and the construction began in 161 more settlements. Through the Project: Connected Schools, implemented in the period from 2018 to June 2023, fast, reliable and secure internet covers more than 3,800 school facilities of primary and secondary schools in the Republic of Serbia, with more than 35,000 teaching rooms, where more than 730,000 pupils and students are educated, and employing more than 100,000 teachers and professors.

The focus of the Government is on the positioning of the national eGovernment Portal as a principal place for the provision of e-services. The eGovernment Portal, as a unique eCounter for the state authorities' services (the employees of the public administration exchanged electronic documents *ex officio* 170 million times), has enabled easier and faster online communication with the

⁸² United Nations Report - United Nations eGovernment Survey 2022

⁸³ The Programme worth 5 million euros is implemented by NALED in cooperation with the Government of the Republic of Serbia and with the support of Philip Morris International.

⁸⁴ <https://startech.org.rs/>

⁸⁵ Three segments are foreseen within the public call: Support for start-ups with innovative ideas; Support for small and medium-sized businesses for the development of innovations and/or digital transformation, and Support for small and medium-sized businesses for the development of innovations or digital transformation, for the purpose of export and increase in jobs.

⁸⁶ <https://startech.org.rs/konkurs2023>

public administration, by using computers or smart phones. These services are used by as many as two million citizens, while almost three million documents were sent to the e-mailbox within the eGovernment Portal. Some of the most used services are scheduling appointments for enrolment in primary school, submission of applications for enrolment in a preschool institution, eTalents, eConsents, eCertificates from the official registers, eKindergarten. **State Data Centre in Kragujevac** for data management and storage **was awarded an international certificate**⁸⁷ for meeting the highest level of reliability, security and equipment and data storage efficiency - Certificate for Class 4.

The Republic of Serbia is the 4th in Europe (after the Republic of Estonia, French Republic and the Republic of Lithuania) and 11th in the world (out of 198 states), according to the **GovTech index of maturity of technologies in public administration**, determined by the World Bank, which measures the improvement of all aspects of state administration through digitization. In just two years, the Republic of Serbia advanced 40 positions on this index, which ranks it among the most successful in the world.

The central information system in the field of catering and tourism, **eTourist**, has been since 2022 the source of data on tourist traffic (the number of arrivals and overnight stays) and accommodation capacities, published by the Statistical Office of the Republic of Serbia. A total of 24,158 of hospitality facilities with accommodation units were registered up to and including September 2023. Furthermore, the new Travel Agency module was released into production on 1 October 2023 and is a unique place and a mandatory way of keeping records of all travel agencies prescribed by the Law on Tourism, as well as the only instrument through which travel guarantee certificates are issued. The records of sold tourist trips also enable through the module monitoring of the turnover of travel agencies, guaranteed by the obtained amount of the travel guarantee. The new module released into production is a mandatory way of keeping records for all travel agencies prescribed by the Law on Tourism.

The **eConsultations Portal** contributes to participation of the public, primarily citizens, in the process of preparing and adopting regulations and public policy documents. The number of citizens using this Portal is cumulatively increasing and amounts to 342 up to and including October 2023.

The Republic of Serbia, in the previous period, through the pilot project, **digitalized the preparation process of the Economic Reform Programme document**, from the analysis of the main obstacles by fields, proposing structural reforms, to defining costs and sources of financing. The Portal was used in drafting the Economic Reform Programme for the period 2024–2026.

5.2.3 Area REFORM OF THE ENERGY MARKET

The energy sector in the Republic of Serbia accounts for about 4% of GDP. In order to increase the contribution of the energy sector to economic growth, it is necessary to improve the energy efficiency, increase the volume of investments in the construction of new capacities, strengthen the internal market, restructure public enterprises, increase the level of energy security, additionally adjust energy prices, implement the decarbonisation process and increase the use of the RES. It is necessary to align the national legislation with the EU acquis and achieve a greater level of regional cooperation.

Of the total electricity generated in the Republic of Serbia, coal-fired thermal power plants produced 66%, hydropower plants 26.1%, thermal power plants – heating plants 3.3%, wind power plants 2.7%, and other power plants 1.9% of electricity in 2022 (EPS AD generates approx. 94% of the total electricity)⁸⁸. Losses in the distribution network are still high and amount to 11.22% of the electricity taken into the distribution system in 2022. The reliability of electricity supply has been improved as

⁸⁷ EN 50600 is a European standard relating to design, construction and management of data centres and similar digital infrastructures. For now, only 8 data centres in the Western European countries possess this certificate for Class 4, thus, the State Data Centre in Kragujevac is the first of its kind in Eastern and Southeastern Europe.

⁸⁸ Statistical Office of the RS, Balances for 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202022>.

measured by reducing the value of the SAIFI index: 6.93 in 2022 (8,27 in 2021) and SAIDI index: 617 in 2022 (892 in 2021)⁸⁹.

It is necessary to adopt long-term strategic documents in order to determine energy and climate goals. Two of the most important strategic documents for the energy sector have been prepared: Integrated National Energy and Climate Plan of the Republic of Serbia for the period until 2030, with the projections until 2050, as well as the Energy Development Strategy of the Republic of Serbia for the period until 2040, with the projections until 2050. These strategic documents will be a road map of energy transition of the Republic of Serbia. The drafts of these documents provide for an increase in the RES capacity, improvement in the energy efficiency and reduction in the emission of greenhouse gases. The last amendments to the *Energy Law (Official Gazette of the Republic of Serbia, Nos. 145/14, 95/18, 40/21, 35/23, 62/23)* of July 2023 will contribute to complete unbundling of the business activities of transport and supply in the field of gas, as well as corresponding unbundling of business activities in the electricity sector. A novelty is the establishment of the Republic Commission on Energy Network, as an independent and autonomous body to exercise control over the electricity transmission system operators and natural gas transport system operators, whose founder is the Republic of Serbia. Priority projects in the energy sector are defined under the starting points of the Energy Infrastructure Development Plan and Energy Efficiency Measures for the period until 2028 with projections until 2030, adopted in June 2023. The Programme for the Strategy implementation, to be prepared and adopted by the Government, after the adoption of the Energy Development Strategy of the Republic of Serbia until 2040 with the projections until 2050, will define projects, Measures and activities in the energy sector of the Republic of Serbia, for a three-year period.

Existing power plants emit large amounts of harmful gases including the greenhouse gases, which has an adverse effect on the environment and human health. The energy sector is one of the biggest air polluters in the Republic of Serbia. Sulphur dioxide (SO₂) emissions in 2021 amounted to 378.2 kilotons (Gg), which is by 9.4% less than in 2020. The largest emission of SO₂ originates from the electricity, gas and steam supply sector (primarily thermal power plants within EPS AD that use lignite⁹⁰) with a share of 92.4% and drop of 8.4% compared to 2020⁹¹. Thermal power plant (TPP) Kostolac B is the only thermal power plant in the Republic of Serbia with the installation intended for the flue-gas desulphurisation (FGD). The construction of a FGD installation in TPP Nikola Tesla A is in a final stage and will contribute to the reduction of SO₂ emission to the level below 200 mg/Nm³, and the emission of powdery substance to less than 20 mg/m³. The construction of a FGD installation in TPP Nikola Tesla B is underway and will enable the reduction of SO₂ emissions by about 20 times. Equipment for the reduction of nitrogen oxides (NO_x) was installed in TPP Nikola Tesla A with primary measures, and the full application of this mechanism is planned until 2026. In TPP Nikola Tesla B, equipment for the reduction of nitrogen oxides emissions with primary measures on B1 block was installed, while the completion of works and full application of this mechanism is planned until 2026 by installing the equipment for the reduction of nitrogen oxides emissions with primary measures on B2 block as well. After full implementation of primary measures for the reduction of nitrogen oxides emissions to the 200 mg/m³ level on the boilers in TPP Nikola Tesla A and TPP Nikola Tesla B, in the coming period, secondary measures, which would additionally reduce the NO_x emissions to values below 170 mg/Nm³ are planned as well. In TPP Kostolac B, the project for the reduction of nitrogen oxides emissions with primary measures was completed. (NO_x emissions after the project implementation amount to approx. 220 mg/m³). On both blocks of TPP Kostolac B there are low-nitrogen burners, and the works on introduction of secondary denitrification measures are underway, which will further contribute to the reduction of NO_x emissions to the level below 170 mg/Nm³⁹². The operation of power plants which remain in operation will be aligned with

⁸⁹ EDS, https://elektroistribucija.rs/o-nama/informacije/dokumenta/GI_2022.pdf

⁹⁰ TPP Kostolac A emitted 54,753 tons of SO₂, TPP Nikola Tesla A 63,314 tons of SO₂, and TPP Nikola Tesla B 63,862 tons of SO₂ in 2021, European Environment Agency,

https://cdr.eionet.europa.eu/rs/eu/energycommunity/envyknvkw/LCP_Energy_Community_Serbia_2021_final.xlsx/manage_document

⁹¹ Statistical Office of the RS, Announcement, Calculation of air emissions, 2021 <https://www.stat.gov.rs/sr-Cyrl/vesti/statisticalrelease/?p=13799&a=25&s=2504>

⁹² EPS, <https://www.eps.rs/cir/vesti/Pages/zs-2023.aspx>

the provisions of the Law on Environmental Protection. The Government adopted a Conclusion recommending to public institutions to shut down boiler rooms with the capacity below 50 MW, which use as an energy source coal, residual fuel oil or fuel oil, and for which there are technical possibilities of connection to the remote heating system or gas pipeline. The practice of charging fees for the protection and improvement of the environment in accordance with the *Law on Fees for the Use of Public Goods (Official Gazette of the Republic of Serbia, Nos. 95/18, 49/19, 86/19, 156/20, 15/21, 15/23)* continued.

It is necessary, pursuant to detailed previous analyses, to prepare adequate responses to the EU's Carbon Border Adjustment Mechanism – CBAM. Working Group for impact assessment of EU's Carbon Border Adjustment Mechanism and Working Group for drafting a specific plan for the implementation of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading. Serbia is not expected to export significant amounts of electricity in the future, and the costs of EU CBAM, in the part related to the electricity, are not expected to be high. However, due to high share of coal in generation of electricity, in spite of its gradual reduction, too fast introduction of high cost of CO₂ emission may endanger the economy competitiveness. A sustainable mechanism of the emission price, which will have as little effect as possible on the connection of the electricity market with the EU market, along with the financial and other support of the EU to the decarbonisation process, should be selected.

It is necessary to improve the energy efficiency, to continue to strengthen sustainable financing mechanisms and additionally build and improve the capacity of the Administration for Financing and Encouraging Energy Efficiency. Energy intensity in the Republic of Serbia is four times higher than the average in the OECD countries, and if the national product is measured by purchasing power, it is 1.69 times greater than in EU. About 34% of total energy consumption in households is consumed in the form of electrical energy in 2021 (in EU it is about 25%⁹³). The average consumption of thermal energy per square meter per year is estimated one-third higher than the average in EU Member States. The implementation of measures that increase energy efficiency in the housing sector is a key factor for starting the energy transition, achieving energy policy goals and reducing energy poverty. Green building certification has been introduced for all public facilities and all buildings over 10,000 m², as well as the obligation of energy passports for all new buildings. Subsidy projects up to 50% of the value of works performed on thermal insulation of walls, replacement of windows and external doors, old boilers as well as the installation of solar panels in households, continued. Subsidies for more than 20,000 households, which contribute to savings of 235,000 MWh and reduction of carbon dioxide emission by more than approx. 103,000 tons of CO₂ on a yearly basis, are provided. Coverage of more than 50,000 households in the next five years is expected. In the forthcoming period, a greater focus of these Measures will be on energy-vulnerable population and municipalities which are known for their high air pollution.

Beside residential buildings, energy rehabilitation projects have been implemented in schools, kindergartens, health centres and municipality buildings. One hundred seven energy rehabilitation projects, reducing the carbon dioxide emissions by 13,000 tons per year, were completed. Further implementation of energy renovation measures is foreseen, including the replacement of windows and doors, improving the insulation of buildings, replacement of boilers with more efficient ones and installation of heat pumps, installation of solar collectors for water heating, modernisation of public lighting and installation of solar panels. It is intended to save energy from 30% to 50% per year.

The energy renovation project concerning 26 main Government buildings has begun, and the project is implemented by the Ministry of Mining and Energy, with the support of the Council of Europe Development Bank, United Nations Development Programme and Administration for Joint Services of the Republic Bodies. The project is envisaged to increase comfort, reduce significantly financial expenditures, and increase environmental standards.

⁹³ Eurostat, <https://ec.europa.eu/eurostat/databrowser/view/ten00125/default/table?lang=en>

The implementation of the Project: Clean Energy and Energy Efficiency for Citizens in Serbia, which contributes to reduction of energy and carbon intensity in the housing sector, improvement of air quality in urban environment, greater quality of heating and better living conditions for households with lower income, continued.

It is necessary to create conditions for the transfer to the use of renewable energy sources, along with the modernisation and construction of new production capacity. The share of RES in gross final energy consumption was 25.28% in 2021 (26.30% in 2020.)⁹⁴. Most of the production capacity in the electricity sector is more than 30 years old, which limits the development of this sector and the energy market. The domestic demand for electricity is increasing, which indicates the necessity of building new infrastructure capacities in the medium-term. Additional financial investments in the energy sector are required, along with the retraining of the employees and improving their skills. RES participates with 37% in the total installed capacity in 2022. Revitalization of HPP Djerdap 1 has been completed, and total power of its six aggregates increased to 1,140 MW. Revitalization in the hydro sector will continue in the next period as well, and the most significant projects are the modernisation of the Vlasinske Hydropower Plants, HPP Bistrica, HPP Potpeć and HPP Djerdap 2. The Law amending the Law on the Use of Renewable Energy Sources (*Official Gazette of the Republic of Serbia*, Nos. 40/21, 35/23) of April 2023, foresees greater integration of RES in the energy system, and additional encouraging of private investments in RES through auctions. Auctions for allocation of market premiums for RES – wind power plants (400 MW) and solar power plants (50 MW) in 2023, were launched and implemented. The auction procedure is fully digitalised. These are at the same time the first auctions carried out within the Plan for the incentive system for the use of renewable energy sources for the period 2023–2025, where allocation of market premiums for 1,300 MW for renewable energy producers in the next three years, are foreseen. As the result of the first implemented auction, total capacity of power plants after the construction (in the next three years) will be 716.99 MW. The quota set for wind power plants is fully filled at 400 MW, while when solar power plants are in question half of the quota: 25 MW of 50 MW is filled. Total value of investments signed up for auctions amounts to EUR 1.2 billion. The value of investments which have entered the quota amounts to EUR 1.1 billion.

Preparations for the construction of the reversible hydropower plant (RHPP) Bistrica 628 MW are continuing, and the preparation of documents for RHPP Djerdap 3 of 2,400 MW is expected. Thermal power plant-heating plant (TE-TO) Pančevo with a capacity of 200 MW was put into operation, as the first highly efficient heating plant in the Republic of Serbia and the region, which will use natural gas as a fuel for the production of electrical and thermal energy. The construction of the new block B3 in TPP Kostolac B with a capacity of 350 MW, to be put into operation in Q4 2023, continued. The EPS Green Road document foresees the reduction of coal-fired capacity until 2035, shutdown of certain old power plants and increase of EPS investment in green energy.

So far, ten wind power plants with a total power of 535.94 MW on the power distribution network have been built (in 2023, WPP Alibunar 1 of 9 MW, connected to the distribution system, and WPP Krivača 103.3 MW, connected to the transmission system, were put into operation). The works on the construction of a wind power plant in Kostolac with a total capacity of 66 MW, and whose investor is EPS AD, have started, while the completion of works is expected in 2024.

The biggest Solar power plant DeLasol in the Republic of Serbia, in Lapovo, with capacity of 9.9 MW, was opened. On an annual basis, it will generate 15,000 MWh of electricity sufficient for the needs of approx. 2,100 households.

New biomass heating plants were built in Priboj, Mali Zvornik and Novi Pazar, and the beginning of works for the construction of such plant is expected in Majdanpek.

The implementation of the Project: District Heating System Rehabilitation, implemented together with the German KfW Development Bank, continued. The rehabilitation and modernisation of the existing heating plants is being carried out with the aim of switching to the district heating and greater

⁹⁴ Statistical Office of the RS, <https://data.stat.gov.rs/Home/Result/SDGUN070201?languageCode=sr-Cyrl>

use of RES. The project is implemented in 7 cities with a total value of EUR 32 million. Works for the rehabilitation of the heating network in Niš and Leskovac began, and works in Bor, Jagodina, Negotin and Senta are expected to begin soon; as for the Cerak heating plant in Belgrade, tender procedures are underway.

Installation of solar panels on the roofs of TPP Nikola Tesla A and Nikola Tesla B is expected, as well as on the ash disposal sites of TPP Kolubara A and TPP Morava after closing. Construction of two solar power plants in the Kostolac area are expected as well. In Kula, construction of Agrosolar power plant with planned capacity of 660 MW is underway. Working Group for the selection of the strategic partner for the implementation of the Project of construction without management or maintenance of self-balanced high-capacity solar power plants with battery systems for electricity storage in the Republic of Serbia (*Official Gazette of the Republic of Serbia*, Nos. 37/23 and 71/23), was established.

Households that have acquired the status of buyer-producer (prosumer), which generate electricity for their own consumption using solar panels, are allowed to “store” the excess of produced energy in the power grid during summer⁹⁵, and to withdraw this excess during the winter when the production of the facility is lower. The volume of installed power of prosumers is limited in order to enable safety of the power system, greater participation of citizens and small and medium-sized enterprises in the energy transition process, encourage better balance between production and prosumers during the year. Total number of prosumers amounts to 2,259 (including residential communities and industry), of total installed power 35.69 MW. **More than 1,670 households have obtained a prosumer status**, and their total installed capacity amounts to 13.7 MW. The Amendments to the *Law on the Use of Renewable Energy Sources* (*Official Gazette of the Republic of Serbia*, Nos. 40/21, 35/23) foresee that after 1 July 2024, prosumers may choose to change their status and may join the category of active buyers as a new participant in the market.

It is necessary to improve the distribution network of energy sources through the installation of the latest generation equipment and introduction of a modern management and supervisory system. The existing distribution system is old and additional investments in the distribution system are needed (modernisation of the low-voltage network, mid-voltage network automation and digitalisation), in order to ensure reliable electricity supply and reduce losses on the network. Implementation of the Smart Metering project, automation of the medium-voltage distribution network, as well as the project of improvement of the distribution network with replacement of power transformers, is expected in the next period. The construction of the Trans-Balkan Electricity Corridor will contribute to the reduction of electricity losses and the reduction of the load on existing transmission capacity. So far, first two sections of this corridor were completed. Works on the third section are currently underway, while the start of works on the fourth section is planned for the first half of 2025. The construction of the Pannonian Corridor for the transmission of electricity should be completed in the next five years. In the gas sector, total loss during supply, distribution and for own consumption amounted to 392 GWh in 2022 (308 GWh in 2021)⁹⁶. To the development of the electricity market will contribute the Alpine/Adriatic-Danube Power Exchange - ADEX, the first regional power exchange for Central and South-Eastern Europe. An organised interday electricity market has been established, which is particularly important for the integration of new RES capacities.

Work has continued to increase the level of market liberalisation and building in order to meet the challenges of market concentration in the electricity sector. The procedure for unbundling Elektromreža Srbije AD as the operator of the electricity transmission system and its certification by the Energy Agency of the Republic of Serbia (AERS), according to the ownership separation model, has been completed. The founder of Elektrodistribucija Srbije d.o.o. Belgrade with a 100% share is the Republic of Serbia, to which AERS issued a license for the performance of the energy activity of

⁹⁵ Considering the open electricity market in the Republic of Serbia, prosumers may contract the supply with other suppliers (other than EPS AD).

⁹⁶ AERS, Report on the work of the Energy Agency of the Republic of Serbia for 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202022.pdf>

electricity distribution and management of the electricity distribution system in 2021. In February 2022, AERS approved the Compliance Programme of Elektrodistribucija Srbije d.o.o. Belgrade, and in February 2023, AERS also gave consent to the terms and conditions for the appointment and duration of the mandate of the Person responsible for compliance monitoring, and prior consent for his appointment. Public enterprise Elektroprivreda Srbije changed its legal form to a non-public joint-stock company, in which the Republic of Serbia is the only owner⁹⁷. The change in legal form and adoption of Articles of Association seek to strengthen the energy sector, introduce professional management, improve management and business. Direct and indirect regulation of energy prices is still an obstacle for the market free functioning.

It is necessary to intensify activities related to functional unbundling in the natural gas sector. Gastrans d.o.o. Novi Sad was licensed as the transport system operator by AERS. Certification and licensing of the company Transportgas Srbija d.o.o. Novi Sad as the transport system operator has not been completed. Implementation of the PE Srbijagas Reorganisation Plan continued. PE Srbijagas operates on 60.7% of the total distribution grid in the Republic of Serbia and sells to end-customers 80% of the total amount of gas sold in 2022⁹⁸. It is necessary to continue to implement the Action Plan with the aim of reorganising PE Srbijagas, particularly in the segment of certification and licensing of Transportgas Srbija d.o.o. A joint company for energy trading owned by Srbijagas and Hungarian Company MVM CEEnergy Zrt. has been established.

It is necessary to increase the level of gasification and to diversify the direction and source of gas supply. About 60% of the territory of the Republic of Serbia is gasified, while only 12.3% of households are connected to gas⁹⁹. Currently, 610,000 households are included in the remote heating system. There is a 4% drop in natural gas consumption in 2022. Domestic production meets only 7.3% of the total natural gas needs. Works began on the construction of the Gas Interconnector between the Republic of Serbia and the Republic of Bulgaria in February 2022, which enables diversifying of the supply routes and sources and connection to the Southern Gas Corridor. This connection will enable the Republic of Serbia to supply natural gas from the Caspian region, the Middle East and from the liquified natural gas terminal (LNG Terminal) in the Republic of Greece. The new gas pipeline will have a capacity of 1.8 billion m³ of gas and the first gas supplies are expected at the beginning of 2024. The works are carried out with the support of IPA funds and loans of the European Investment Bank (EIB). Through the planned construction of the transport gas pipeline Mokrin - Romanian border (in length of 13.1 km in the territory of the Republic of Serbia), the Serbian gas pipeline will be connected with the gas system Transgaz and the gas pipeline Brua in Romania. Preparation of the project and technical documentation for the new gas interconnector with North Macedonia, enabling connection to the Eastern Mediterranean (EastMed) pipeline, has started. The first gas & steam power plant, intended for combined electricity and thermal energy production using natural gas, was put into operation.

A high level of compliance with the EU acquis regarding security of supply has been achieved, including minimum oil reserves. In 2023, a safe and uninterrupted supply of domestic market with oil derivatives has been provided. An oil pipeline construction project, in order to connect to the oil pipeline network in Hungary, is underway. This oil pipeline route is 304 km long, its capacity is 5.5 million tons of oil per year, while estimated value of the construction investment in the territory of the Republic of Serbia is EUR 157 million. The construction of this pipeline will enable connection to the Druzhba Pipeline, what would improve the security of oil supply.

It is necessary to set the price of electricity so that it reflects the costs of regulated activities (network charges), as well as market prices for electricity, taking into account the standard of living and protection of energy-vulnerable customers. Gradual increase in prices of electricity should be supported by appropriate social welfare programmes in the conditions of high risk of energy

⁹⁷ EPS, <https://www.eps.rs/cir/vesti/Pages/19-23.aspx>

⁹⁸ AERS, Report on the work of the Energy Agency of the Republic of Serbia for 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202022.pdf>

⁹⁹ AERS, Report on the work of the Energy Agency of the Republic of Serbia for 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202022.pdf>

poverty. The price of electricity for households with taxes and fees amounted to 8.39 eurocents per kilowatt-hour in 2022 (26.95 eurocents per kilowatt hour is EU-27 average)¹⁰⁰. On average, it is 20-45% lower than the price in other SEE countries. The price of electricity for industry is slightly higher and amounts to 12.81 eurocents per kilowatt-hour in 2022 (23.58 per kilowatt hour is EU-27 average)¹⁰¹. The number of protected customers who exercised the right to reduce their electricity bill was at the level of around 63,000 in 2022¹⁰².

As of 1 January 2023, the price of electricity was increased by 8%, while the price of gas was increased by 11% (compared to the previous average price). As of 1 May 2023, the price of electricity was increased by additional 8%, and the price of gas by 10%. As of 1 November 2023, the price of electricity was additionally increased by 8%, and gas by 10%. Amendments to the Regulation on Energy-Vulnerable Customers (*Official Gazette of the Republic of Serbia*, Nos. 137/22, 46/23 – other rulebook), foresee the ease of the procedure and expansion of household groups which can achieve this status. These amendments are designed to triple the number of citizens who can achieve the status of energy-vulnerable customers. The Ministry of Mining and Energy, in cooperation with the Delegation of the European Union to Serbia, created an online questionnaire (<https://form.jotform.com/231352578641357>) where citizens can check if they meet all criteria for achieving the status of energy-vulnerable customers.

Due to the increase in the price of energy products on the global market, according to the Regulation on Limiting the Price of Oil Derivatives (*Official Gazette of the Republic of Serbia*, Nos. 63/23, 71/23 and 81/23) of June 2023, and the Rulebook on calculation of the average wholesale price of oil derivatives EURO DIESEL and EURO PREMIUM BMB 95 (*Official Gazette of the Republic of Serbia*, No. 64/23) of August 2023, the Euro diesel and gasoline price adjustment practice, every seven days, in order to protect consumers and the economy, continued.

5.2.4 Area REFORM OF THE TRANSPORT MARKET

In the field of transport, there is a good level of alignment with the EU acquis.

In the previous period **drafting of the** National Traffic Development Strategy for the period 2023–2030 **started** within the Western Balkans Trade and Transport Improvement project. As a part of these activities, the National Strategy of a Smart Traffic System (*ITS Strategy*) will be prepared, which will include not only road traffic but also railroad traffic in terms of implementation of modern ITS technologies and innovations.

It is necessary to complete the reconstruction of the existing road sections and build new ones. The realisation of infrastructure projects largely depends on the duration of expropriation procedures and the efficiency of the real estate cadastre. Four hundred twelve km of highways are currently being built, and reconstruction of 746 km more is planned.

Intercity Road Passenger Transportation market (IPT) in the Republic of Serbia is characterised by many weaknesses, primarily operators without a license, lack of competition in the market, insufficiently defined standards, inadequate management at the strategic and tactical levels. All abovementioned resulted in reducing the level of quality of the IPT system services and impaired sustainability of operators in the previous period; thus, special attention of the relevant department will be paid to addressing these challenges with structural measures.

It is necessary to adjust the toll price so that it corresponds to the costs required for the construction and maintenance of the road infrastructure, and to increase the bandwidth of toll stations. The transition to a new performance-based regular road maintenance system is underway. The toll collection in the Republic of Serbia is carried out at 66 toll stations, on 830 kilometres of highways. Toll prices for direct payments at toll stations has been increased by 14%, and electronic payments by 8% in 2023. A project to expand 26 toll stations with the aim of increasing capacity and

¹⁰⁰ Eurostat, https://ec.europa.eu/eurostat/databrowser/view/NRG_PC_204_custom_6886348/default/table?lang=en

¹⁰¹ Eurostat, https://ec.europa.eu/eurostat/databrowser/view/NRG_PC_205/default/table?lang=en

¹⁰² AERS, Report on the work of the Energy Agency of the Republic of Serbia for 2022, <https://www.aers.rs/Files/Izvestaji/Godisnji/Izvestaj%20Agencije%202022.pdf>

smooth passage of vehicles through toll stations, is underway. The number of users of electronic toll collection is expanding, over 500,000 active users of electronic toll payment TAG devices and more than 300 distribution points. Toll revenues increased by 9.68% YoY, while the number of vehicles in the road traffic increased by 6.09 million (growth of 9.75% YoY) in 2022¹⁰³. The number of electronic toll collections increased by 15.89% YoY in 2022. An increase in the volume of passenger kilometres by 29.7% YoY and net ton kilometres by 4.9% YoY was achieved in road traffic in 2022¹⁰⁴. The total number of passenger vehicles that entered Serbia increased by 9.5% YoY, and the output of passenger vehicles from the Republic of Serbia increased by 9% YoY in 2022 (input growth by 11.5% YoY and output growth by 12.2% in Q1 2023)¹⁰⁵. A greater level of regional cooperation regarding the interoperability of electronic toll collection through the use of a unique TAG device in the territories of the Republic of Serbia and North Macedonia¹⁰⁶ was enabled. Since September 2023, integrated toll collection on the highways in Croatia has been enabled. Establishment of a unique toll collection system with Albania and Greece in the forthcoming period is being planned. The process of introducing the toll collection system through free flow technology for heavy goods vehicles is underway.

Development of passenger and freight railway traffic is limited due to the outdated railway network. In order to develop and improve the railway network, the following is necessary: increasing the level of electrification of the railways; achieving greater axle load on the network; enabling traffic on the network at a speed of more than 100 km/h; and improving the management of railway assets. Improving the process of issuing licenses for train drivers and safety certificates for railway companies, along with additional strengthening of the mechanisms of mutual recognition of railway vehicles, would contribute to the further opening and liberalisation of the railway market. Increase in the use of railway transport in the transport of goods and passengers would contribute to preservation of environment, less road traffic load and implementation of the green transition process. The last Amendments to the Law on Railway (*Official Gazette of the RS*, Nos. 41/18, 62/23) of July 2023, created conditions for additional improvement of construction, reconstruction, use and protection of the railway infrastructure, maintenance and reconstruction of railway road crossings and licensing of carriers. The Law on Interoperability of the Railway System (*Official Gazette of the RS*, No. 62/23) was adopted in July 2023, defining conditions related to design, construction, putting into operation, upgrading, renewal, operation and maintenance of parts of the railway system, as well as conditions to be required for the employees, with the aim of achieving interoperability. In order to automate and facilitate traffic management on the main corridors connecting the Republic of Serbia with countries in the region (and further with the EU Member States), Technical Specification for Interoperability (TSI) application started.

Total length of the railway network in the Republic of Serbia is 3,348.1 km (electrified 1,301.9 km)¹⁰⁷. On about 50% of railways, the speed of traffic is limited to 60 km/h, while on less than 5% of railways the allowed speed is over 100 km/h. Transportation on the public railway infrastructure is currently carried out by 16 railway carriers. Srbija Voz a.d. (60.1%) and Serbia Cargo a.d. (24.1%) have the largest share in the number of realised routes, while private carriers had a share of 15.8% in 2022¹⁰⁸. The total of 381 million passenger km (growth of 33.7 % YoY) and 1.6 billion net tonne-kilometres (drop of 23.5% YoY) were achieved in the railway traffic in the period January–September 2023. Pursuant to individual analyses and forecasts related to the entire network, it is estimated that in the Republic of Serbia in the next period (until 2030) approx. 15.7 million passengers and approx. 87.92 million tons of goods will replace road transport with rail transport. Furthermore, works on the reconstruction and construction of 52 km of regional and 143 km of main lines are completed.

¹⁰³ Annual Report on the toll collection of PE Roads of Serbia https://www.putevi-srbije.rs/images/pdf/suiss/UISS_godisnji_izvestaj_2022.pdf

¹⁰⁴ Statistical Office of the RS, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231170.pdf>

¹⁰⁵ Statistical Office of the RS, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231139.pdf>

¹⁰⁶ <https://openbalkan-etc.com/#function>

¹⁰⁷ Network Statement for 2023, chrome-

extension://efaidnbmnnnibpcajpcgclefindmkaj/https://infrazs.rs/IzjavaMreza/Izjava%20o%20mrezi%202023.pdf

¹⁰⁸ Report on the regulation of the railway services market for 2022,

<https://www.raildir.gov.rs/doc/izvestaji/Izvestaj%20o%20regulisanju%20trzista%20zeleznickih%20usluga%20za%202022%20i%202023%20POSLAT.pdf>

From the beginning of the launch of the Belgrade-Novı Sad high-speed railway, transport by more than 20 passenger trains and 1,500 freight trains, along with 3 million passengers¹⁰⁹, was performed. Works on the Novi Sad-Subotica railway (108.2 km) are underway and the completion is planned by the end of 2024. In November 2023, establishing passenger traffic from Subotica to Szeged is planned. The project on renovation of 27 railway station facilities is carried out. Beginning of rehabilitation and electrification of five regional railways approx. 588 km long is being planned, while works on the construction of 198 km of high-speed railways are underway. Project documentation for the reconstruction of the Belgrade-Niš high-speed railway is being developed, total value of EUR 2.8 billion, while the beginning of the works is planned for 2024¹¹⁰. This project is supported with the funds of the European Investment Bank and European Bank for Reconstruction and Development, and the completion of works is planned in 2027. On the Belgrade-Niš high-speed railway, 2.3 million passengers per year are expected. The Belgrade Centre Railway Station `Prokop` was opened in October 2023. Preparation of technical documentation for the reconstruction of the Niš-Dimitrovgrad railway, 230 km long has begun, while the beginning of works is planned at the end of 2023.

Pursuant to the adopted Law on Metro and City Railways and signed Memorandum of Understanding for the Belgrade Metro project, the first metro line is expected to be completed by 2028, the completion of the second line is planned by 2030, while the deadline for the completion of the entire project is scheduled for 2033. Backfilling of the Makiško Polje terrain is underway, after which works on the construction of the depot will follow. The Belgrade metro will return up to 20% of energy to the system, which is particularly important from the aspect of environmental protection. It is planned that the first metro line will have 28 trains with three carriages each, which will transport 435 people.

It is necessary to facilitate the procedures at border crossings, improve traffic safety and strengthen the inspection services capacity. The number of traffic accidents increased by 3.6% YoY, while the number of casualties is lower by 4.2% YoY in 2022¹¹¹. The number of traffic accidents with fatal outcome is bigger by 30% than the EU average. The Republic of Serbia was approved to participate as an observer in the Care – EU database on road accidents. There is an increase in traffic signals, especially in the zones of educational institutions and in places marked as black holes. The development of the Traffic Safety Strategy from 2022 to 2030 and the Law on Rail Transport Safety is underway. In the next period, it is necessary to continue contracting the performance-based maintenance of roads. It is necessary to expand the capacity of the Railway Directorate as a regulatory body and a body responsible for railway safety. Expansion of border crossings with Hungary (Santovo-Bački Breg) for freight transport was completed, contributing to reducing downtime and faster transportation of people and goods¹¹². The works on reconstruction and expansion of the border crossing Horgoš 1 on the E-75 highway, reconstruction of 16 traffic lanes to 24, are underway, which will increase the existing flow capacity by 50%¹¹³. With the aim of increasing safety on railway crossings, National Campaign: It's a Thin Line¹¹⁴ has been launched. Out of more than 2,100 road–railway crossings in the Republic of Serbia, approx. 400 is equipped with active protection, while a modernisation process for 400 railway crossings more has been initiated.

It is necessary to establish and strengthen the capacity of combined/intermodal transport. The construction of the Intermodal Terminal in Batajnica was completed. The construction of this intermodal terminal will encourage the development of a modern combined transport through the increase in share of railways and connection to road transport. The construction of intermodal terminal in Makiš, on the site where the depot for the metro was, is being planned.

¹⁰⁹ Infrastructure of Železnice Srbije a.d., <https://infrazs.rs/2023/03/prva-srpska-brza-pruga-za-godinu-dana-3-miliona-putnika-skoro-20-hiljada-putnickih-i-1-500-teretnih-vozova/2/>

¹¹⁰ Infrastructure of Železnice Srbije a.d., <https://infrazs.rs/2023/02/potpisan-grant-za-brzu-prugu-beograd-nis-predsednik-vucic-poklon-eu-vredan-610-miliona-evra/2/>

¹¹¹ Statistical Office of the RS, <https://publikacije.stat.gov.rs/G2023/Pdf/G20231070.pdf>

¹¹² PE Roads of Serbia, <https://www.putevi-srbije.rs/index.php/корпоративне-вести/24-01-23-zavrsna-konferencija-ipa-projekta-prekogranicne-saradnje-srbije-i-madjarske>

¹¹³ PE Roads of Serbia, <https://www.putevi-srbije.rs/корпоративне-вести/10-02-23-radovi-na-гп-хоргош-1-напредују-по-плану-3>

¹¹⁴ Železnice Srbije a.d., <https://www.zeleznicesrbije.com/predstavljena-nacionalna-kampanja-tank-a-je-linija/>

In the areas of maritime and inland waterway transport, a high level of alignment with the EU acquis has been achieved. Inland waterways include 1,680 km of waterways and over 610 km of canals. The water transport potential is not fully used and it is necessary to achieve greater interoperability with the road and rail transport. It is necessary to enable the connection of Serbian ports to the basic and comprehensive Trans-European Transport Network (TEN-T). In order to strengthen regional cooperation, it is necessary to harmonise port tariffs and overcome administrative barriers. The total volume of cargo transportation on inland waterways in the Republic of Serbia is 15.3 million tons in 2022, which represents a drop of 3.5% compared to 2021¹¹⁵. The most frequently transhipped type of cargo is gravel, sand and stone aggregates, which together make up 33.9% of transshipment. The drop in the volume of transshipment was mainly influenced by the global geopolitical situation. There has been a larger cruise ship docking by 4.6% and an increase of 44% of passengers on the rivers in 2022¹¹⁶. The implementation of the River Information System (RIS) continued, as well as active participation within the framework of EU strategies for the development of the Danube region and the Adriatic-Ionian region. Further development of water transport through investments and adjusting the legal framework would contribute to relieving other types of transport and reducing the level of environmental pollution.

It is necessary to continue investing in infrastructure and superstructure that will provide the conditions for receiving and serving the needs of individual vessels, as well as providing charters (*rent-a-boat service*). The Government adopted decrees on proclamation of a port area for two marinas, in Smederevo and Veliko Gradište, and port area of the international passenger terminal in Šabac¹¹⁷. An international passenger terminal was opened in Sremska Mitrovica¹¹⁸. Implementation of the Project: Sail through Serbia, in order to build the missing nautical infrastructure, has started. The construction of international passenger terminals in Zemun, Šabac and Ram is underway. Reconstruction of the Djerdap 2 lock is 60% financed from the loan of the European Investment Bank and 40% from the CEF Fund - Connecting Europe Facility. Within the Project: Removal of the sunken German fleet from the Second World War from the Danube (from 857 km to 862 km), preparation of documentation has been completed, funds provided (loan of the European Investment Bank and grants from the Western Balkans Investment Framework), and a contract was concluded for the supervision of works. Works on the modernisation of the Port of Novi Sad are underway, while the beginning of works on the reconstruction of the Port of Belgrade through public-private partnership is expected in the coming period. The beginning of the implementation of the Project: Improving the conditions for the transfer of ships within the Tisza dam is planned, which will increase the transport of goods on the Republic of Serbia-Hungary route. Works on the reconstruction of the Ports of Bogojevo and Prahovo have begun.

In the field of aviation, a good level of alignment with the acquis has been achieved. International Nikola Tesla Airport in Belgrade, Constantine the Great Airport in Niš and Morava Airport near Kraljevo are operational. All major modernisation and expansion works on the Belgrade Airport, scheduled for the end of 2023, which will contribute to the increase of the annual capacity to almost 15 million of passengers per year¹¹⁹, were completed. The construction of a new terminal building at the Constantine the Great Airport in Niš is in its final stage, which will increase the annual capacity to 1.5 million passengers, enable more flights and speed up cross-border procedures. At the Nikola Tesla Airport in Belgrade, the number of passengers increased by 71% YoY, and the number of commercial flights increased by 34% YoY in 2022¹²⁰, while in Q1 2023, increased number of passengers by 77% YoY (1.3 million passengers) and growth in the number of flights by 39% YoY (more than 15 thousand take-offs and landings), were recorded¹²¹. At the Constantine the Great Airport in Niš, the number of passengers increased by 2.7% YoY and a drop in transported goods by

¹¹⁵ Port Governance Agency, <https://www.aul.gov.rs/deset-godina-agencije>

¹¹⁶ Port Governance Agency, <https://www.aul.gov.rs/vise-kruzera-i-putnika-na-rekama-u-srbiji>

¹¹⁷ Port Governance Agency, <https://www.aul.gov.rs/nova-lucka-podrucja-marina-i-medjunarodnog-putnickog-pristanista>

¹¹⁸ Port Governance Agency, <https://www.aul.gov.rs/otvoreno-meunarodno-putnicko-pristaniste-u-sremskoj-mitrovici>

¹¹⁹ Nikola Tesla Airport, <https://beg.aero/cir/node/625>

¹²⁰ VINCI Airports – 2022 traffic, <https://beg.aero/sites/belgrade/files/pictures/saobracaj-decembar-2022-cyr-aerodrom-beograd.pdf>

¹²¹ VINCI Airports – traffic on 31 March 2023. <https://beg.aero/sites/belgrade/files/vinci/news/pdf/vinci-airports-traffic-2023q1-cyr.pdf>

70.5% YoY in 2022¹²² was recorded, while in the period January–June 2023, the number of passengers increased by 34.1% YoY and a 64.8% YoY drop in transported goods was recorded. At the Morava Airport, in 2022, air traffic was performed by 580 aircraft (200 in 2021), and the number of transported passengers amounted to 13,683 in 2022 (1,488 in 2021)¹²³.

b) Reforms

STRUCTURAL REFORM 3: GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY

1. Description of structural reform

The aim of the reform is reflected in the transformation of energy production through the transition from fossil fuels to renewable energy sources and the improvement of energy efficiency, in order to contribute to the "green" energy transition of the Serbian economy and society.

In line with the commitments under the Paris Agreement, the Government adopted the Nationally Determined Contribution of the Republic of Serbia in 2022, which set the objective of reducing greenhouse gas emissions by 33.3% (without the LULUCF sector: without land use, land use change and forestry) by 2030 compared to 1990. In line with the commitments under the Treaty on the Energy Community, the Republic of Serbia shall be obliged to adopt the Integrated National Energy and Climate Plan of the Republic of Serbia (INECP) for the period up to 2030, with projections up to 2050, which shall define the objectives of increasing the participation of RES and energy efficiency, as well as the measures and policies that need to be implemented to achieve these objectives.

The structural reform comprises two measures:

Measure 1- Increasing energy production from renewable energy sources

The aim of this measure is the greening of the energy market through the allocation of incentives for the production of electricity from renewable energy sources in the form of a system of market premiums and a system of "feed-in"¹²⁴ tariffs for small plants and demonstration projects in the auction procedure launched for 2023 for wind farms (400 MW) and solar power plants (50 MW). The three-year "Incentive System Plan for the Use of Renewable Energy Sources" foresees the allocation of incentives for building the new capacities (a total of 1.3 GW) for the production of electricity from the sun and wind. Electricity producers will be protected from changes in market prices in terms of the price offered by the producer at the auction by paying the difference between the offered price at the auction and the market price by applying a two-sided market premium. Also, in the field of renewable energy sources, by the end of 2024, it is planned to optimise and digitalise administrative procedures/public administration services pertaining to the acquisition, transfer, extension and change of the status of privileged, temporary privileged and producers from renewable energy sources as well as energy permits.

Measure 2- Improving the efficiency of the energy sector

The aim of this measure is to increase efficiency through measurable energy savings on the side of final consumption, switching to billing based on energy consumption (CBB) in 20 LSGUs for facilities connected to district heating systems, where energy is still billed according to a flat-rate system, and to increase savings in CO₂ emissions generated based on energy/energy carriers savings. The improvement of energy efficiency in multi-family buildings connected to the district heating system, which have the highest energy consumption (of the registered buildings), will be co-financed through the public ESCO concept, where ESCO is a partner of the country, and LSGUs will conduct public calls for the selection of multi-family buildings, through which the facilities to be energetically rehabilitated and then included in the procedure of switching to consumption-based billing will be

¹²² Constantine the Great Airport, Niš, <https://ini.aerodromisrbije.rs/statistika/>

¹²³ Morava Airport, Kraljevo, <https://kvo.aerodromisrbije.rs/statistika/>

¹²⁴ "Feed-in" tariffs are planned incentive purchase prices per produced kWh from RES that are harmonised with the technology being applied and prescribed by the Government of the Republic of Serbia for a certain period of time.

selected. In addition to the rehabilitation of buildings and switching to consumption-based billing, the ESCO business operation principle will be promoted and LSGUs will gain specific experience on the best way to switch to consumption-based billing for buildings with the highest energy consumption. The measure has been harmonised with the recommendation of the European Commission to switch to consumption-based billing from the district heating system, and it is in line with the eco-design measures that limit the placing on the market of energy-inefficient devices, as well as with the current projects of the Directorate for Financing and Encouraging Energy Efficiency aimed at the widest possible coverage of EE measures in households and the public sector.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	Allocation of incentives for new RES capacities through the auction procedure for wind power plants and solar power plants												
2.	Optimisation and digitalisation of administrative procedures/services in the area of the green agenda/renewable energy sources												
	Measure 2												
3.	Technical assistance for the implementation of tender procedures in the field of energy efficiency												
4.	Development of a technical, economic and legal study with energy efficiency surveys												
5.	Investment implementation - contracting, construction works in selected residential communities, monitoring and supervision of works												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
New capacities for energy production from RES through the allocation of incentives through the auction procedure for wind power plants (WPP) and solar power plants (SPP) (expressed in MW)	0 WPP, 0 SPP (2022)	400 WPP, 50 SPP (2023)	1,000 WPP, 300 SPP (2025)
Energy savings in rehabilitated multi-family buildings that consume the most energy compared to the condition before rehabilitation (average expressed in percentage)	0 (2023)	35% (2025)	35% (2026)

4. Expected impact on competitiveness

This reform will create a suitable framework for increasing the competitiveness of the energy sector and attracting investments in the sector of renewable energy sources. One of the key elements of the proposed measures is encouraging investments in new wind and solar power plants, which contributes to the green transition and increased competitiveness through the development and integration of new capacities for renewable energy on the market. These innovations enable the rapid and efficient development of new "green energy" capacities, which directly contributes to achieving climate neutrality and at the same time increases the competitiveness of the energy sector. Optimisation and digitalisation of procedures pertaining to the acquisition, transfer, extension and change of the status

of privileged, temporary privileged and producers from renewable energy sources, as well as energy permits, make the business operations of economic entities in this area simpler, more efficient, reduce administrative costs of business operation and stimulate investments into renewable energy sources. The business environment thus becomes more transparent and predictable. Energy efficiency measures on the final consumption side (such as in residential buildings) create the potential for energy producers to expand their market (consumer consumption). Also, the activity of switching to energy consumption-based billing is one of the key measures for sustainable and competitive operation of the district heating system.

5. Estimated costs of activities and sources of financing

The total costs for the implementation of the structural reform amount to 67.7 million EUR, namely: for the year 2024, 2.2 million EUR, for the year 2025, 41.5 million EUR, and for the year 2026, 24 million EUR.

The costs of structural **measure 1 - Increasing energy production from renewable energy sources** amount to a total of 170,000 EUR. The structural measure consists of two activities (activity 1 and 2):

Activity 1 Allocation of incentives for new RES capacities through the auction procedure for wind power plants and solar power plants for which no allocation of funds is needed. In 2025, income shall be generated in accordance with the two-sided market premium system. Privileged producers will pay the guaranteed supplier more than the guaranteed supplier will pay to privileged producers by 3,430,000 EUR. The funds shall be provided from a special fee for the incentive of privileged electricity producers, which is paid with the electricity bill.

Activity 2 Optimisation and digitalisation of administrative procedures/services in the area of the green agenda/renewable energy sources for which 170,000 EUR have been provided within the project entitled "EBRD - Digitalisation of Administrative Procedures of Importance for the Improvement of the Business Environment for Investments in Renewable Energy Sources", financed by the European Bank for Reconstruction and development - EBRD. These funds will be used for consulting services, and the activity itself should be finalised in 2024. Funds are necessary for subsidies and transfers, and they will be provided from other grant sources.

The costs of structural **measure 2 - Improving the efficiency of the energy sector** amount to a total of 67,550,000 EUR, namely: 2,025,000 EUR in 2024, 41,525,000 in 2025 and 24,000,000 in 2026. The structural measure consists of three activities (activity 3, 4 and 5):

Activity 3 Technical assistance for the implementation of tender procedures in the field of energy efficiency, for which it is necessary to allocate 50,000 EUR, for the year 2024 - 25,000 EUR and for the year 2025 - 25,000 EUR. The funds are necessary for goods and services (this refers to the costs of the services of consultants on the project, preparation of the project and tender, for the preparation of the study and EE survey and during the implementation of the project), and they will be provided from other grant sources.

Activity 4 The development of a technical, economic and legal study with energy efficiency surveys requires the amount of 2,000,000 EUR for the year 2024. The funds are necessary for goods and services (this refers to the costs of the services of consultants on the project, preparation of the project and tender, for the preparation of the study and EE survey and during the implementation of the project), and they will be provided from other grant sources.

Activity 5 Implementation of the investment - contracting, construction works on selected housing communities, monitoring and supervision of works pertaining to the services of an implementation consultant and contractor's works, for which it is necessary to allocate 65,500,000 EUR, for the year 2025 - 41,500,000 EUR and for the year 2026 - 24,000,000 EUR. Funds are necessary for goods and services (this refers to the costs of services of consultants on the project, preparation of the project and tender, and implementation of the investment). The source of funds for the consultant has yet to be determined. For the finalisation of the investment, funds are necessary for goods and services, and they will be provided from sources of other grants and project loans (EBRD).

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

The structural reform proposed improvements to the energy transition process, i.e. the decarbonisation process, by providing a positive impact on the reform of the energy sector and the economy of the Republic of Serbia in terms of employment, reducing energy poverty and improving the quality of the environment, which also has an impact on the health system. The envisaged measures should encourage the inflow of direct foreign investments, the development and implementation of projects in the field of electricity production from renewable energy sources, the opening of new "green" jobs, the development of the construction industry, benefits for the local community, as well as more secure energy supply to the national economy and citizens.

7. Expected impact on the environment and climate change

The proposed structural reform will define the process of energy transition, as well as measures, projects and activities that should contribute to the reduction of GHG emissions by 33.3% (without LULUCF). The impact of the planned measures on environmental protection and reducing the impact of climate change is manifold. Allocating incentives in the form of a market premium for new RES capacities through the auction procedure for new investments in the field of renewable energy sources and the construction of new wind and solar power plants contributes to increasing the share of energy from renewable sources, which, along with the implementation of energy efficiency, plays a central role in the decarbonisation of the energy sector and "green transition". Through the planned investments for EE, energy savings of about 81 GWh per year and a reduction of 20,000 tons of CO₂ are expected, and according to some indicators, the introduction of consumption-based billing in all district heating systems could lead to significantly greater savings (of about 350 GWh and 90,000 tons of CO₂).

8. Potential risks

Risk	Risk probability	Planned activities for mitigation of adverse effects of the risk
The risk of building an energy facility within the prescribed period	Medium	Financial security instrument for acquiring the status of a privileged producer and building an energy facility
Increase in prices of raw materials, equipment, etc.	Medium	The amount of the incentive takes into account inflation in the Euro area
Ability of citizens/users of district heating to service financial liabilities (to pay for the heating service and repay the investment)	Medium	The parameters for the servicing of liabilities by users of the heating service (repayment period, monthly obligations, etc.) will be predicted so that the total amount of liabilities after the implementation of the project (for the heating service and repayment of the investment) does not exceed the amount that the users allocated only for the heating service bill before implementation of the project.

STRUCTURAL REFORM 4: GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA

1. Description of structural reform

The aim of the structural reform is the complete regulation of the transport services market and the reduction of harmful gas emissions by reducing individual transport (passenger cars) through increasing the mobility of the population, the availability and attractiveness of public transport services for passengers and/or goods in road and rail transport, and in accordance with EU regulations, standards and practice.

The structural reform comprises two measures:

Measure 1 - Improvement of the intercity road passenger transport system

The aim of the measure is to raise the level of quality of road transport services in accordance with EU regulations, standards and practice, increase competitiveness and efficiency, increase the mobility of the population between regions, and reduce the negative impact on the environment. The system of intercity road passenger transport (IPT) is one of the essential elements of a multi-modal sustainable transport system. This system offers effective solutions to a range of current mobility challenges, including climate change, connectivity and social inclusion, as well as reduction of the congestion on the transport network. The IPT system is regulated by the provisions of the Law on the Transportation of Passengers in Road Traffic (*Official Gazette of the Republic of Serbia*, Nos. 68/15, 41/18, 44-18 - as amended, 83/18, 31/19 and 9/20), as well as by-laws adopted based on this Law. IPT is performed as transportation between two or more local self-government units on the territory of the Republic of Serbia. Based on the analysis of the existing transport policy and the analysis of the current state of play of the system, it is necessary to reform the IPT system in the Republic of Serbia in accordance with Regulation EC 1370/2007 (Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on Public Passenger Transport Services by Rail and by Road and repealing Council Regulations (EEC) Nos. 1191/69 and 1107/70), in order to improve the quality of service and management of the passenger transport sector and thus enable the implementation of tenders for signing multi-year contracts with carriers on the market of intercity passenger transportation.

Measure 2 - Improvement of railway infrastructure

The aim of the measure is to increase the number of passengers and goods in rail traffic. In order to increase the number of passengers and goods in railway traffic, as well as to further reduce the emission of harmful gases, the railway infrastructure projects in the Republic of Serbia, which are currently underway and the implementation of which is expected in the coming period, include the electrification of railway lines that were not electrified (Niš – Dimitrovgrad, Belgrade Centre – Vršac). The measure also implies the procurement of new electric traction compositions that will further improve the mobility of the population between cities.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	A detailed analysis of the current state of play of the IPT system												
2.	Harmonisation of national legislation regarding passenger transport in IPT in accordance with EC 1370/2007												
3.	Application of the new Methodology for Accessing the IPT Market - Digitalisation												
	Measure 2												
4.	Increasing the number of kilometres of electrified railways in the Republic of Serbia												
5.	Procurement of new electric traction compositions												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
Total number of transported passengers in road traffic	52.6 million (2017)	55 million (2025)	58 million (2028)
Share of the population with adequate access to public transport, by gender, age and disability (SDGs 11.2.1)	N/A	90% (2025)	95% (2030)
Total number of transported passengers in rail traffic	2.8 million (2021)	8 million (2026)	15 million (2029)

4. Expected impact on competitiveness

The structural reform affects the increase in competitiveness and efficiency of road and rail transport by providing equal conditions for the use of transport infrastructure, limiting the uncontrolled development of certain transport segments and stimulating the increase of competition on the market. The reform of the IPT system will provide transparent and equal conditions on the market in order to increase the competitiveness of this form of transport. The implementation of the reform is expected to further increase the number of carriers that have registered timetables in IPT; currently there are around 140 of them. The proposed measure will improve the competitiveness of railway traffic through the opening of the market for railway services, that is, it will also enable the increase in the business operation of private railway carriers.

5. Estimated costs of activities and sources of financing

The total costs for the implementation of the structural reform amount to 275.8 million EUR, namely: for the year 2024, 72 million EUR, for the year 2025, 138.7 million EUR, and for the year 2026, 65.1 million EUR.

The costs of structural **measure 1 – Improvement of the intercity road passenger transport system** amount to a total of 1,370,000 EUR, namely: 822,000 EUR in 2024, 137,000 EUR in 2025 and 411,000 EUR in 2026. The structural measure consists of three activities (activity 1, 2 and 3):

Activity 1 Detailed analysis of the current state of play of the IPT system for which 822,000 EUR have been provided from the budget of the Republic of Serbia. These funds will be used for goods and services in 2024.

Activity 2 Harmonisation of national legislation regarding passenger transport in IPT in accordance with EC 1370/2007, for which 137,000 EUR have been provided from the budget of the Republic of Serbia in 2025. Funds are necessary for goods and services.

Activity 3 Application of the new Methodology for Accessing the IPT Market - Digitalisation for which 411,000 EUR have been provided from the budget of the Republic of Serbia in 2026. Funds are necessary for goods and services.

The costs of structural **measure 2 - Improving the railway infrastructure** amount to a total of 274,416,665 EUR, namely: 71,266,666 EUR in 2024, 138,466,666 EUR in 2025 and 64,683,333 EUR in 2026. The structural measure consists of two activities (activity 4 and 5):

Activity 4 Increasing the number of kilometres of electrified railways in the Republic of Serbia, for which a total of 182,416,665 EUR needs to be allocated, for the year 2024, 42,416,666 EUR, for the year 2025 104,166,666 EUR and for the year 2026 35,833,333 EUR. The activity will partly be financed from the budget of the Republic of Serbia (39,416,666 EUR), while the rest will be financed from a project loan (loan from the Chinese EXIM Bank - 142,999,999 EUR).

Activity 5 Procurement of new electric traction compositions for which a total of 92,000,000 EUR needs to be allocated, for the year 2024, 28,850,000 EUR, for the year 2025 34,300,000 EUR and for the year 2026 28,850,000 EUR. The activity will be partly financed from the budget of the Republic of Serbia (12,500,000 EUR), partly from a project loan (loan from the Chinese EXIM bank amounting to 54,500,000 EUR), while for 2025 and 2026 (25,000,000 EUR) source of financing to be determined later. Funds are necessary for subsidies and transfers and capital expenditure.

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

The structural reform directly affects the reduction of poverty, because through the established system of connection between the intercity road transport of passengers and the rail transport system, as well as the development of both systems, the citizens of the Republic of Serbia will spend less on transportation to the desired destination. Indirectly, it can affect the increase in employment, in situations where the distance of the workplace was a decisive factor for accepting the job. The structural reform will increase the mobility of the population between regions in the Republic of Serbia, which affects all economic and social indicators in the country, improves the quality of services and accessibility for all users of rail traffic. In line with the plan to meet the United Nations Sustainable Development Goals (SDGs) by 2030, this structural reform will provide access to safe, affordable, accessible and sustainable transport systems for all, improve road safety, primarily by expanding public transport, with particular attention to the needs of those in a state of vulnerability, women, children, persons with disabilities and the elderly. It has a positive effect on gender equality through the reduction of the gender gap in terms of the physical mobility of women and men.

7. Expected impact on the environment and climate change

The structural reform achieves a positive impact on the environment by increasing the quality of public transport services (optimal spatial and temporal distribution), electrifying the railway infrastructure and increasing the number of electric locomotives, thus reducing the need to use passenger cars, which achieves the ultimate goal of reducing harmful gas emissions. By improving the intercity road passenger transport system, the impact on the environment is reflected through the definition of minimum service quality standards in terms of environmental standards and criteria. Strengthening the competitiveness of intercity passenger transport is also important for reducing dependence on the use of passenger cars, which will have a positive impact on the environment since for a certain amount of energy it is possible to transport a larger number of passengers with a bus than a passenger car. By improving the railway as a transport system, a positive impact on the environment is achieved, because the railway is considered environmentally friendly, even the "cleanest" form of transport. This characteristic of the railway is a consequence of its technical and operational characteristics, i.e. The fact that for a certain amount of energy it is possible to transport a larger amount of goods and number of passengers compared to other competitive modes of transport, as well as due to the use of electricity as a fuel.

8. Potential risks

Risk	Risk probability	Planned activities for mitigation of adverse effects of the risk
Income and cost risk	Medium	An adequate system of subsidies that enables fair conditions for all carriers and the sustainability of the system; The principle of cross-subsidies - line packages in the basic contract or subsequently through contract annexes.
Incorrect selection of input data for the preparation of the Study of the Optimal Network of Lines and incorrect definition of the conditions and criteria for the selection of the carrier	Medium	Development of the Study of the Optimal Network of Lines based on the proposal of minimum service quality standards; Careful determination of conditions and criteria for choosing a carrier; Cross-subsidies; Duration of the concession.
Insufficiently good operation of the monitoring and control system	High	Introduction of a system for monitoring and control; Close cooperation with inspection bodies and punishment of violators; Observance of contractual relations by all carriers and provision of services according to the criteria defined by the contract
Delay in the implementation of project activities	Medium	More efficient project coordination and implementation

5.3. HUMAN CAPITAL AND SOCIAL POLICY

a) Analysis of the main obstacles

5.3.1 Area EDUCATION AND SKILLS

The systemic improvement of education in the Republic of Serbia is being conducted in accordance with the Strategy for the Development of Education, with the aim of increasing the coverage of children's education at all levels, reducing the drop-out rate of sensitive groups from educational circles, providing better student achievements, better quality programmes (the response of the education system to the demands of the labour market) and better support for teachers.

A continuous increase in the number of children is recorded in programmes of preschool education. The number of children aged six months to 6.5 years at this level of education was 229,030 in the 2022/2023 school year, of which 111,005 (48.5%) were girls and 118,025 (51.5%) were boys. The coverage of children in programmes of preschool education varies depending on age¹²⁵, and the largest coverage is in the year before starting school. Almost 63,000 children attended the compulsory preparatory preschool programme, for children aged 5.5 and up to starting school, in the 2022/2023 school year, which represents a coverage of 97.3%¹²⁶.

The population of students in primary education is continuously decreasing due to the negative demographic trend of the population of the Republic of Serbia. At the beginning of the 2022/2023 school year, there were **505,247 students**¹²⁷ in **3,206** regular primary schools¹²⁸ (**245,443** or **48.6%** female students; **259,804** or **51.4%** male students), and **63,230** new schoolchildren enrolled in the first grade. Despite the fact that primary education is mandatory, **children's coverage is still not complete**, as evidenced by the rate of primary education coverage, which was **95.2% in 2022**.

As of the 2022/2023 school year, **a new concept of the final exam in primary education was introduced**. The final exam now includes three tests: mother tongue, Mathematics and one of the offered subjects that the student chooses (Biology, Geography, History, Physics, Chemistry). Also, as of the mentioned school year, every student shall choose **and attend four different programmes of free teaching activities** during the second cycle of primary school education (from the fifth to the eighth grade). The programmes Exercise for Health, Life Skills and Media Literacy (for the 5th and 6th grades), and Entrepreneurship, My Environment and Art (for the 7th and 8th grade) have been prepared by the Institute for the Improvement of Education; on the other hand Home Economics, Drawing, Painting and Sculpting, Guardians of Nature, By Music Through Life and Save Our Planet (for the 5th and 6th grades) and Philosophy with Children (for the 7th and 8th grades) have been prepared by professional societies¹²⁹.

The number of students attending secondary schools is relatively constant. 234,919¹³⁰ students attended regular **secondary schools** in the 2022/2023 school year (116,982 or 49.8% female students; 117,937 or 50.2% male students). 28.1% of students attended general secondary education institutions - secondary school, and 71.9% of students attended vocational secondary education institutions.

Acquisition, improvement and development of competences in accordance with the needs of the labour market are also provided by **dual education, which is experiencing continuous growth**¹³¹

The number of companies participating in the dual education system has increased to **950** by August 2023. **The number of dual education qualifications** increased to **73** in the 2023/2024 school year, and around **186 secondary vocational schools** are involved in the implementation of dual education. So far, the system of dual education has included about **16 thousand students**. Dual education is

¹²⁵ In the 2022/2023 school year, 57,478 children under the age of three (37% of the total number of live births of this age) and 108,594 children of the age of three to five and a half (68% of the total number of live births of the specified age) attended preschool institutions.

¹²⁶ SORS, <https://publikacije.stat.gov.rs/G2023/Htm/G20231102.html>

¹²⁷ SORS, <https://publikacije.stat.gov.rs/G2023/Htm/G20231078.html>

¹²⁸ Structure: number of regular central primary schools - 1,135, number of satellite schools - 2,071. Source: SORS (Statistical Office of the Republic of Serbia), Press release: Primary school education

¹²⁹ Rulebook on Amendments to the Rulebook on the Teaching and Learning Plan for the Fifth and Sixth Grades of Primary School Education and the Teaching and Learning Programme for the Fifth and Sixth Grades of Primary School Education

¹³⁰ SORS, <https://publikacije.stat.gov.rs/G2023/Htm/G20231098.html>

¹³¹ Chamber of Commerce of Serbia, situation recorded on 3 October, 2023 <https://dualnoobrazovanje.rs/>

most represented in the sectors of the metal and mechanical engineering industry (especially car industry), food, textile, wood, construction, electrical engineering, tourism and catering, trade and transport (logistics and shipping, air traffic). The economy is mostly looking for qualifications such as a locksmith-welder, industrial mechanic, machining operator, but tradespeople, as well as cooks and waiters, are also needed. Mechatronics technicians, technicians for computer control of CNC machines, as well as motor vehicle mechanics are also in demand.

At the level of higher education, the number of students has been growing in recent years, whereby the number of students in academic studies is increasing, while the number in vocational studies is at a constant level. The number of young people included in the higher education system was **248,508** in the **2022/2023 school** year (145,666 or 58.6% female students; 102,842 or 41.4% male students), of which 84.4% represent students enrolled in academic studies, and 15.6% of students attend vocational studies. For the **dual study model, 46 study programmes** have been accredited, which are implemented at **11 higher education institutions**, in cooperation with **99 companies**.

The fact that the University of Belgrade has been on the Shanghai list¹³² of the **best universities** for ten years speaks for the quality of higher education institutions in the Republic of Serbia. In the most recent list, the University of Belgrade was placed between the 401st and 500th places out of the 1,000 ranked universities in the world, where it is among the first 500 universities in 13 out of a total of 54 scientific areas by which scientific fields are ranked. The best ranking was achieved in the field of food science and food technology (between 51st and 75th place). The University of Novi Sad is ranked between the 901st and 1000th positions of this list.

Public expenditures for education amount to 3.1% of GDP for 2023, which makes the level of these expenditures constant in the last decade, but it is below the average of public allocations at the EU level (which is around 4.8% of GDP). In total budget expenditures, education expenditures account for 11.8%¹³³.

Given the existing skills mismatch in the labour market, investment in adult education is needed. The rate of participation in education and training of the population aged 25-64 in the Republic of Serbia was **5.2% in 2022**¹³⁴, which is significantly lower (about 2.29 times) than the average rate in the EU (EU-27 11.9%). Quality assurance in non-formal education is achieved through a training system at a **publicly recognised organiser of adult education activities. 156 institutions** for the implementation of **666 accredited non-formal education programmes** have this status¹³⁵.

According to the results of the **PISA test** for 2018, the average score of Serbia on the mathematical literacy scale was 448 points, on the reading literacy scale 439 points, and **on the scientific literacy scale 440 points**¹³⁶. These results show progress compared to previous cycles of testing, but Serbia still lags behind the average of the OECD countries in these areas (where the average achievement is around 500 points), indicating the need for continuous improvement of the education system in order to achieve better results and ensure quality education for all students.

Efforts to **increase student interest in science, technology, engineering and mathematics (STEM)**¹³⁷ are growing because of their proven potential to drive economic growth. EU-specific quantitative data varies, but numerous studies, including those funded by the European Commission, show a positive **impact of the availability of laboratory work to students on those students' future employability, STEM-related career choices**, and higher education success in these fields.

¹³² <https://www.shanghairanking.com/rankings/arwu/2023>

¹³³ Ministry of Finance, <https://www.mfin.gov.rs/dokumenti2/gradjanski-budzet>

¹³⁴ Eurostat, https://ec.europa.eu/eurostat/databrowser/view/TRNG_LFS_02_custom_6723288/default/table?lang=en

¹³⁵ Ministry of Education, situation recorded on 3 October, 2023 <https://prosveta.gov.rs/prosveta/srednje-obrazovanje/obrazovanje-odraslih/javno-priznati-organizatori-obrazovanja-odraslih/>

¹³⁶ <https://prosveta.gov.rs/vesti/objavljeni-rezultati-pisa-testiranja/>

¹³⁷ STEM (English: Science, Technology, Engineering, Mathematics) education represents an interdisciplinary approach to learning that integrates the four mentioned disciplines during learning and emphasises the application of what has been learned by solving real problems. STEM education provides students with appropriate training for the twenty-first century labour market, and numerous studies have unequivocally shown that developing effective and attractive programmes, and especially teaching methods, are among the best ways to foster STEM skills.

Although modern and relevant curricula for three subjects - **Physics, Chemistry and Biology** have been adopted in the Republic of Serbia, as well as regulations prescribing practical and laboratory work for students, the data collected through the Unified Information System of Education, as well as through a comprehensive direct survey, show insufficient equipment of **almost all primary and grammar schools with** laboratory equipment. The Republic of Serbia will proceed with the procurement of this equipment, with the support of funds from IPA funds.

A set of proposed educational laws (the Law on Amendments to the Law on the Basics of the Education System, the Law on Amendments to the Law on Primary Education and the Law on Amendments to the Law on Secondary Education) was adopted in October 2023 aiming to strengthen the educational function of educational institutions and implement a set of measures for better **prevention and more efficient response and action in cases of violence in schools**. With the proposed laws, among other changes, the deadline for the state graduation exam was moved to the 2025/2026 school year.

5.3.2 Area EMPLOYMENT AND LABOUR MARKET

The labour market remains largely resistant to the impact of geopolitical events. Positive developments on the labour market are reflected in the growth of employment (registered employment, predominantly in the private sector), while the slowdown in economic activity and inflation are primarily reflected in real incomes and consumption (average gross and net earnings in the period January-September 2023, grew by 1% in real terms¹³⁸).

Activity rate (15+) which is **55.8%**¹³⁹ in **Q3 2023**. (EU-27: 58.1% for the population 15+, Q3 2023, Eurostat) shows an increase of 0.7 p.p. compared to the same quarter of the previous year, while the **number of active people is 3.17 million** (an increase of 3.9 thousand year-on-year). Women have a lower rate of activity on the labour market (49%) than men (63%), so the **gender gap in the rate of activity** on the labour market amounts to **14 p.p.**

Employment rate (15+) from **50.7%**¹⁴⁰ in **Q3 2023**. (EU-27: 54.6% for the population 15+, Q3 2023, Eurostat) shows an increase of 0.5 p.p. compared to the same quarter of the previous year, while the **number of employed people is 2.89 million** (a reduction of 3.1 thousand year-on-year). The employment rate of women is 44.3% and of men is 57.6%, so the **gender gap in the employment rate** on the labour market is **13.3 p.p.** **Self-employed** (with or without employees) were 22.3% of women and 77.7% of men in **Q3 2023**¹⁴¹. When it comes to unpaid family work, women make up the majority with a share of 73.8% in total unpaid family work, while the share of men is 26.2%.

The **average net salary** in September 2023¹⁴² was about 85 thousand dinars (720 EUR), which represents a real growth of 3% YoY. Median net earnings for the same period amounted to slightly less than 66 thousand dinars (557 EUR), which means that 50% of employees earned income up to the stated amount. The **minimum price of work** in 2024, without taxes and contributions for mandatory social insurance, will amount to 271 dinars per working hour, which is an increase of 17.8%. Thus, the minimum salary will average 47,154 dinars (401 EUR) per month. Also, the non-taxable amount of salary was increased to 25,000 dinars per month, which reduced the tax burden.

Unemployment rate (15+) amounted to **9%** in **Q3 2023**. (EU-27: 5.9% for the population 15-74 Q3 2023, Eurostat) remained the same compared to the same quarter of the previous year, while the **number of unemployed amounted to 285.7 million** (an increase of 0.9 thousand year-on-year). The unemployment rate of women was 9.6% and of men 8.5%, so the **gender gap in the employment rate** on the labour market is **1.1 p.p.**

The process of demographic aging of the population, characteristic of the Republic of Serbia, is manifested by the low and constantly decreasing participation of young people. In the Republic

¹³⁸ SORS, Press release: Average earnings per employee

¹³⁹ SORS, Labour Force Survey

¹⁴⁰ SORS, Labour Force Survey

¹⁴¹ SORS, Labour Force Survey

¹⁴² SORS, Press release: Average earnings per employee September 2023 <https://publikacije.stat.gov.rs/G2023/Htm/G20231319.html>

of Serbia, there were 1,047,543 young people aged 15-29, of which 535,413 were men (51.1%) and 512,130 were women (48.9%), **according to the 2022** census. The number of young residents decreased by about 275 thousand persons or 20.8% in the previous eleven years (between two censuses /2011-2022). **The share of young people of 15,8%** in the total population also decreased by 2.6 p.p. compared to 2011 (18.4%). In addition to negative natural growth (a consequence of low birth rate and high mortality), there is also a continuous emigration of the population.

Migration in general, youth migration in particular, is seen mostly as a negative phenomenon in society. The reason for this is the negative migration balance in which young people emigrate from the Republic of Serbia to other countries or where young people leave rural areas as part of internal migration flows and go to cities. Creating an economic and social environment for slowing down the departure of the working-age population, strengthening ties with the diaspora and encouraging their return, as well as attracting foreigners with different educational qualifications, are just some of the measures implemented by the Republic of Serbia, which are part of the planning documents adopted in the previous period.

Unfavourable demographic trends point to the necessity of additional state investment in youth in order to create conditions for a better quality of life in the country. Given the diversity of needs and challenges faced by young people, in the last two years, measures related to encouraging births, facilitated housing, as well as incentives for young people for entrepreneurship have been adopted. The Strategy for Youth in the Republic of Serbia for the period from 2023 to 2030 (*Official Gazette of the Republic of Serbia*, No. 9/23) with the priorities of youth policy (February 2023) was adopted, as well as the Action Plan for the period from 2023 to 2025 for the implementation of the Strategy for Youth in the Republic of Serbia for the period from 2023 to 2030 (*Official Gazette of the Republic of Serbia*, No. 57/23) (July 2023). Also, the process of drafting the Draft Law on Youth was started in March 2023 in order to improve the system of financing and co-financing of programmes and projects of public interest within the framework of youth policy; improvement of the coordination of youth policy holders; improvement of the Unified Record of Youth Associations, Associations for the Youth and their Alliances; creating the conditions for the professionalisation and standardisation of youth work, youth offices, youth councils and youth spaces.

The establishment of youth offices in all local self-government units is an important mechanism for effectively encouraging the development of youth policy at the local level and greater accessibility to cultural, health, social and other services. 140 youth offices and 78 youth councils¹⁴³ were established at the local level. By building, equipping and operating 65 youth clubs, 73 outdoor gyms¹⁴⁴, as well as small sports fields, conditions have been created for quality leisure time, development of healthy lifestyles, active participation of young people in society, use and creation of cultural content, non-formal education and information adapted to the needs of young people. The number of public spaces for young people is increasing, where activities can be carried out in the local community and young people can be provided with integrated services at the local level.

An important partner at the local level for direct work with young people are **youth associations/associations for youth and their alliances, as well as youth workers, who form a network of over 1,700 participants** throughout the Republic of Serbia, from the national to the local level. With their expertise, youth workers can be carriers for the preparation and development of cross-sectoral initiatives. In their work, youth workers pay special attention to young people from vulnerable groups who are no longer in the formal education system and who are most often not informed about the opportunities and possibilities offered to them.

Despite the achieved economic growth and positive trends in the labour market in the Republic of Serbia, the situation of young people in the labour market requires further systemic intervention in order to remove the barriers that stand between young people and the labour market. The share of young people in the labour force is very low by European standards - the activity rate of young people (15-24) was 32.9% in Q3 2023, which is 9.5 p.p. lower than the EU average

¹⁴³ Strategy for Youth in the Republic of Serbia for the period from 2023 to 2030

¹⁴⁴ Database of the Ministry of Youth and Sports on 31 December 2021

(EU-27: 42.4%, Q3 2023, Eurostat). The youth employment rate (15-24) was 24.7% in Q3 2023, which is 11.4 p.p. lower than the EU average (EU-27: 36.1%, Q3 2023, Eurostat). The youth unemployment rate (15– 24) amounted to 24.9% in Q3 2023, which is 10 p.p. higher than the youth unemployment rate in the EU (EU-27: 14.9%, Q3 2023, Eurostat). In addition to not being employed, a significant number of young people are also outside the education and training process - in the Republic of Serbia the **NEET**¹⁴⁵ rate of young people (15-24) was **12.8%** in Q3 2023, which is higher than the average in the EU (EU-27: 10.1% in Q3 2023, Eurostat), while the NEET rate of young people (15-29) was 15.8% in Q3 2023, which is higher than the EU average (EU-27: 12% in Q3 2023, Eurostat).

After finishing school, young people do not have work experience, and this is often a requirement for establishing an employment relationship, so the **transition from school to the first steady and/or satisfactory job takes a very long time**. In this regard, the importance of **the normative regulation** of work practice is recognised, that is, that through the acquisition of practical knowledge and skills, employability and the possibility of employment on the labour market are improved. Work practices represent an effective instrument for breaking the so-called "the vicious circle of inexperience among young people". A **Draft Law on Work Practice** was prepared, which took into account the Recommendation on the Quality Framework for Work Practice of the EU Council of Ministers from 2014.

The Republic of Serbia supports youth employment, in addition to other activities and measures, and **with the gradual introduction of the Youth Guarantee**¹⁴⁶, in cooperation with all relevant ministries, social partners and other interested parties, and in accordance with the ratified Western Balkans Declaration on Sustainable Integration of Youth into the Labour Market¹⁴⁷. The implementation plan of the Youth Guarantee of the Republic of Serbia for the period from 2023 to 2026 has been prepared, and its adoption is in the final phase. The estimated costs of policy reforms and initiatives (measures) planned in the Implementation Plan amount to about 4.5 billion RSD (about 37.7 million EUR).

5.3.3 Area SOCIAL PROTECTION AND INCLUSION

The Republic of Serbia halved the value of the Multidimensional Poverty Index (MPI)¹⁴⁸ **compared to 2010 as one of 19 countries that achieved this (out of a total of 110 developing countries included). The Republic of Serbia will continue to implement appropriate measures in order to maintain a positive trend in reducing poverty, which continues to be a challenge. The at-risk-of-poverty rate decreased from 24.5% in 2013 to 20.0% in 2022**, which is still higher than the EU-27 level (16.5%, SILC, 2022¹⁴⁹). **The risk of poverty varies by age group, employment status and household type**. The most vulnerable are people aged 65 and over - 22.6%, followed by people aged 55 to 64 - 21.6%, while the lowest rate of risk of poverty was experienced by people aged 25 to 54 - 17.9%. Depending on the employment status, among persons over 18 years of age, the most exposed to the risk of poverty were unemployed persons - 49.2%, while the lowest rate of poverty risk was among those employed by the employer - 5.6%. According to the type of household, the highest rate of risk of poverty was in single-member households consisting of persons aged 65 and over - 37.5%, and the lowest in households with three or more adults - 15.4%.

The poverty risk threshold was 26,509 dinars (220 EUR) per month on average for a one-person household. The Quintile ratio indicator (S80/S20) was 5.5¹⁵⁰ in 2022, which means that the richest

¹⁴⁵ NEET - Youth not in employment, education or training

¹⁴⁶ The Youth Guarantee programme implemented in the EU member states is an example of an intervention in which inactive and unemployed youth are approached through the cooperation of various sectors and social partners, including civil society organisations, with the aim of long-term sustainable integration into the labour market.

¹⁴⁷ The declaration was ratified at the Second Ministerial Meeting of the EU - Western Balkans, which was held on 8 July, 2021 in Slovenia.

¹⁴⁸ Oxford Poverty and Human Development Initiative, Global MPI report 2023: Unstacking Global Poverty – Data for High Impact Action <https://ophi.org.uk/gmpi-report-2023/>

¹⁴⁹ EUROSTAT: At-risk-of-poverty rate At-risk-of-poverty rate - Products Datasets - Eurostat (europa.eu)

¹⁵⁰ 2021 Income and Living Conditions Survey. <https://publikacije.stat.gov.rs/G2023/Html/G20231287.html>

20% of the population had 5.5 times more income than the poorest 20%. **The Gini coefficient** in the Republic of Serbia was 32.0, which is slightly above the EU-27 average (29.6)¹⁵¹.

The share of public expenditures for social assistance and transfers in the GDP of the Republic of Serbia has been gradually decreasing in recent years, so that it amounts to 13.1%¹⁵² of GDP in 2022. The structure of expenditures is dominated by pensions with 68.9% of total expenditures for social assistance and transfers or 9% of GDP. **Expenditures for social assistance amount to 2.7% of GDP**¹⁵³ in 2022. **With the introduction of the Social Card Register**, the implementation of which began in April 2022 in 90% of social work centres, a large number of relevant data on beneficiaries of various social protection programmes (income, property, etc.) was imported into a single database. In this way, a better **control of social benefits** is made possible, i.e. solving the problem of **inclusion error**, which occurs when social assistance is received by those who do not qualify for it according to the prescribed criteria, but also detection of **exclusion error**, i.e. registration of users who can exercise some additional right or service but they did not apply for it (most often it is about the right to child allowance, free stay of the child in kindergarten, etc.). **The number of beneficiaries who are entitled to monetary social assistance decreased by slightly more than 21 thousand in 2022.** (182,773¹⁵⁴) or **10.5%** compared to 2021.

For the development of social protection policies, it is necessary to adopt a strategic framework. During the past few years, the process of developing a new *Social Protection Strategy* was initiated, the adoption of which is planned for the second quarter of 2024. The Draft Action Plan for the Strategy of Deinstitutionalisation and Development of Social Protection Services in the Community is currently being developed, which will represent a road map for the implementation of the process and coordinated development of services throughout the country, as well as the transformation of accommodation institutions into community service providers.

The Action Plan for the implementation of the Strategy for the Improvement of the Status of Persons with Disabilities in the Republic of Serbia for the period from 2020 to 2024, in the period from 2023 to 2024 (*Official Gazette of the Republic of Serbia*, No. 59/23) was adopted in order to improve the overall social and economic status of persons with disabilities and their equal participation in the society. In this manner, the actions of the responding institutions will be improved, the monitoring of achieved results, quality reporting, as well as timely revision of goals and identified measures for the sake of better planning in the future will be enabled.

Encouraging socially responsible business operation, while taking into account the **social and work inclusion of members of socially vulnerable groups and meeting their needs**, is provided by the implementation of the **Law on Social Entrepreneurship** (*Official Gazette of the Republic of Serbia*, No. 14/22). Registration of a social enterprise in the Agency for Business Registers has been possible since November 2022, and the data show that during 2023 (until July) 13 new social enterprises were registered. The Council for Social Entrepreneurship was established, which has a key role in providing guidelines for the further improvement of this sector, including the development of the Social Entrepreneurship Development Programme.

The level of gender equality in the Republic of Serbia is still not satisfactory. According to the 2023 Global Gender Gap Report¹⁵⁵, the Republic of Serbia **ranked 38th out** of 146 surveyed countries. Although the overall position is relatively good, there was a drop of 15 places compared to 2022 (23rd place). Favourable results are noticeable in the areas of education and political empowerment, with 37th and 32nd place on the list, respectively. However, a relatively weak performance was achieved in the areas pertaining to economic participation and opportunities (69th place) and health and survival (79th place).

¹⁵¹ GINI Coefficient., <https://ec.europa.eu/eurostat/databrowser/view/tessi190/default/table?lang=en>

¹⁵² Ministry of Finance, Consolidated State Balance. <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

¹⁵³ Ministry of Finance, Consolidated State Balance. <https://www.mfin.gov.rs/dokumenti2/makroekonomski-i-fiskalni-podaci>

¹⁵⁴ Ministry of Labour, Employment, Veteran and Social Affairs

¹⁵⁵ *Global Gender Gap Report* measures the current state of affairs and progress of gender parity through four key dimensions: 1) economic participation and opportunity, 2) educational attainment, 3) health and survival, and 4) political empowerment, which is why gender differences are assessed, not overall levels.

5.3.4 Area HEALTH CARE

The compulsory health insurance system in the Republic of Serbia provides health care for 99%¹⁵⁶ of the population with the status of an insured person. The right to health care is exercised by all insured persons, but the scope and content of rights from compulsory health insurance vary depending on the conditions prescribed for their exercise.

Funds for the functioning of the health care system are provided through contributions for mandatory health insurance (at a rate of 10.3%¹⁵⁷), general taxation, out-of-pocket payment, premiums for voluntary health insurance and international donations. **Total expenditure on health care was 8.7% GDP in 2020. while per capita expenditure was 672.3 USD¹⁵⁸.**

The number of publicly owned health care institutions¹⁵⁹, **in which health care is provided to insured persons at the primary, secondary and tertiary levels, does not change significantly.** The total number of health care institutions was 333 in 2022, employing 105.6 thousand workers¹⁶⁰. The number of doctors per 1,000 inhabitants is 2.9. The total number of hospital beds was 42,634¹⁶¹, or 6.4 beds per 1,000 inhabitants. The average length of treatment per patient is 7.4 days, and the average occupancy of hospital beds is 49.8%. On the other hand, **the number of privately owned health care institutions and private practices have shown an increasing trend in recent years¹⁶².** Within personal consumption, households allocated only 4.4% of personal consumption for health in 2022¹⁶³.

The costs of certain health service, which insured persons receive in privately owned health care institutions and private practice, can be financed from the funds of the compulsory health insurance. These are infertility treatment services, cataract surgery, hemodialysis, hyperbaric oxygen therapy, services in social care institutions, services in private pharmacies, various services in institutions outside the Plan of the Network of Health Care Institutions¹⁶⁴. **Funding for off-label use of drugs (so called off-label)** from mandatory health insurance funds for the treatment of children, all malignant and rare diseases, primary autoimmune diseases, as well as transplantations, was provided for the first time in 2023 by amendments to the by-law.

The number of insured persons on waiting lists is increasing, as a result of the Corona virus pandemic. The unique waiting list for 26 health care services is updated on a daily basis and published on the website of the National Health Insurance Fund (NHIF)¹⁶⁵, and the total number of persons on this list was slightly more than 77 thousand, in mid-October 2023. **In order to shorten the waiting list, the "platform for supplementary work"** was designed as a model of financing compensation for the supplementary work of healthcare workers and non-medical personnel, for work in the period when they are not performing their main job and on those days when they are not engaged in afternoon shifts¹⁶⁶.

There are inequalities in the health care of vulnerable groups compared to the general population. People with disabilities have the right to health care, which is financed from the funds of compulsory health insurance. However, **their needs in the field of health care are not met in a large number of cases**, because the facilities where health care is provided are not physically accessible, health care workers are insufficiently educated when it comes to adults with mental

¹⁵⁶ Only 0.15% of the population has private health insurance, which is why part of the population is covered by other types of voluntary supplementary and additional health insurance.

¹⁵⁷ Law on Contributions for Compulsory Social Insurance (*The Official Gazette of the Republic of Serbia*, Nos. 84/04, 61/05, 62/06, 5/09, 52/11, 101/11, 47/13, 108/13, 57/14, 68/14-as amended, 112/15, 113/17, 95/18, 86/19, 153/20, 44/21, 118/21, 138/22 and 92/23), Article 44.

¹⁵⁸ World Bank, Health Nutrition and Population Statistics <https://databank.worldbank.org/source/health-nutrition-and-population-statistics>

¹⁵⁹ Decree on the Plan of the Network of Health Care Institutions (*The Official Gazette of the Republic of Serbia*, Nos. 5/20, 11/20, 52/20, 88/20, 62/21, 69/21, 74/21 and 95/21)

¹⁶⁰ "Dr. Milan Jovanović - Batut" Institute for Public Health of Serbia, Health and Statistical Yearbook of the Republic of Serbia 2022.

¹⁶¹ This number also includes day care hospitals (2,172 beds), dialysis and Neonatology.

¹⁶² There were 163 privately owned health care institutions in 2021, while the total number of private practices was 6,244. Source: Professional paper entitled "Neki aspekti razvoja zdravstvenog sistema Srbije i Japana"

(Some Aspects of the Development of the Health Care System of Serbia and Japan), V. Radivojević, S. Vesić

¹⁶³ SORS, Household consumption survey <https://publikacije.stat.gov.rs/G2023/Htm/G20231104.html>

¹⁶⁴ <https://www.rfzo.rs/index.php/davaocizdrusluga/ugovaranje-dzu>

¹⁶⁵ https://www.rfzo.rs/index.php/index.php?option=com_content&view=article&layout=edit&id=987

¹⁶⁶ <https://www.rfzo.rs/index.php/mediji2022/medijskin2022>

disabilities¹⁶⁷. In the health care system, the **model of engagement of health care mediators** (85) is continuously applied, who, in 70 local self-government units in the Republic of Serbia, work **in direct contact with the Roma community**, providing assistance in accessing health care and other public services and information on health prevention¹⁶⁸. The status of health care mediators in the health care system has not yet been permanently resolved¹⁶⁹.

For the further progress of the health care system, additional financial resources are invested for the acquisition of the most modern techniques and technology in the field of medical sciences, in order to ensure more **favourable working conditions**. 10 ambulances for eight health care institutions and 11 specialised vehicles for transfusion and safe blood transport, as well as equipment for transfusion and transplantation were procured.

The health care infrastructure is being further improved. The second phase of the construction of the Clinical Centre of Vojvodina in Novi Sad, as well as the Clinical Centre of Serbia in Belgrade, continues; preparatory activities for the construction and reconstruction of the University Clinical Centre Kragujevac have begun; the opening of the new general hospital in Loznica is expected by the end of 2023; a donation agreement was signed for the reconstruction of the building of the City Institute for Emergency Medical Assistance in Belgrade; the design for the "Tiršova 2" University Children's Hospital was completed and approval was obtained for the tender documentation; consultations commenced regarding the subproject of the construction of a diagnostic-research facility with a laboratory of the third level of biological safety (BSL-3) within the "Torlak" Institute for Virology, Vaccines and Serums.

In order to develop and modernise the system of health care documentation and records in health care, a new **Law on Health Documentation and Records in Health Care** (*Official Gazette of the Republic of Serbia*, No. 92/23) was adopted, which more clearly defined the scope and purpose of the e-Medical Records. The given Law established that all medical data of the patient should be chronologically consolidated in one place, which will enable faster diagnosis and increase the quality of the provided health care service. Also, the Register of Genetic and Biomedical Data is being introduced in order to safely store genetic data and reuse it with full control of the data owner, as well as the development of research in the field of Biotechnology, Bioinformatics, Bioeconomy, Genetics and Medicine. The National Integrated Health Care Information System and this (NIHCIS), in addition to e-Medical Records, will include all local information systems, including the NHIF, "Dr. Milan Jovanović Batut" Institute for Public Health, Agency for Medicines and Medical Devices of Serbia and others.

STRUCTURAL REFORM 5: EDUCATION FOR SUSTAINABLE DEVELOPMENT AND WORK READINESS

1. Description of structural reform

The aim of the structural reform is to increase the relevance of the education system through a multidimensional focus on learning connected to practical work, thus providing a more efficient response of the education system to the needs of the economy and employability.

The structural reform comprises two measures:

Measure 1 – Qualifications oriented to the needs of the labour market

The aim of the measure is to harmonise qualifications of the workforce with the needs of the labour market. Dual education at the level of secondary and higher education contributes to strengthening the competitiveness of the economy of the Republic of Serbia and reducing youth unemployment. By investing in education, employers solve the problem of lack of competent personnel in the long term. By learning through work, students and university students have the opportunity to achieve all the

¹⁶⁷ <https://www.minljmpdd.gov.rs/doc/publikacije-ocd/Polozaj-osoba-sa-invaliditetom-u-Srbiji.pdf>

¹⁶⁸

https://socijalnoukljucivanje.gov.rs/wpcontent/uploads/2021/06/Izvestaj_o_sprovođenju_operativnih_zaključaka_sa_seminara_Socijalno_uključivanje_Roma_i_Romkinja_oktobar_2019-oktobar_2021.pdf

¹⁶⁹ <https://www.mpravde.gov.rs/tekst/33945/izvestaji-o-sprovođenju-revidiranog-akcionog-plana-za-poglavlje-23.php>

learning outcomes that are envisaged by the qualification standard. The implementation of dual education will ensure a more effective response of the education system to the needs of the economy and the labour market, technological changes and the need for new competencies. In the coming period, the establishment of training centres, the improvement of career guidance and counselling (CG&C), as well as the improvement and implementation of the Framework for Monitoring and Evaluating Dual Education will continue. The implementation of the National Qualifications Framework in Serbia (NQF) system will provide diversification and improvement of the relevance of the education and training offer, as well as transparency of the NQF system, comparability and recognition of qualifications obtained in the Republic of Serbia with qualifications obtained in other countries.

Measure 2 - Improvement of the conditions for the development of knowledge and skills in the education system

The aim of the measure is to increase students' interest in science, technology, engineering and mathematics, in order to provide a workforce that meets the needs of the ever-evolving labour market through the education system, which involves the application of what has been learned through solving real problems. Improving the standards of the laboratories used in teaching and the learning approach based on experiments that are centred on practical project and laboratory work, is directly related to the increase in the motivation to learn and therefore to the success of the students. The first step in achieving this is equipping the existing laboratories, which will provide practical experience and develop students' inclination towards scientific research and creativity, necessary for future employability. The procurement of laboratory equipment for all primary and secondary schools, in accordance with the precisely identified needs, will enable the performance of all laboratory exercises in Physics, Chemistry and Biology prescribed by the current regulations. Also, in cooperation with university teachers, video materials containing precise instructions and demonstrations of all exercises will be prepared, which will be permanently available to both students and teachers.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	Expanding the network and improving the competencies of CG&C team coordinators in order to improve the quality of CG&C activities in dual education												
2.	Establishment, infrastructural organisation and equipment of regional training centres												
3.	Networking of education levels through social dialogue - "Youth to Younger"												
4.	Connection of the NQFS Register with the European qualifications portal												
5.	Digitalisation of the methodology for the development of sector profiles as an analytical basis for decision-making by institutions and bodies from the NQF system												
6.	Preparation of proposals for the introduction of partial qualifications into the NQF system												
	Measure 2												
7.	Preparation of video materials containing instructions and demonstrations of all laboratory exercises prescribed by the current regulations for the subjects of												

	Physics, Chemistry and Biology for primary and grammar schools												
8.	Procurement of equipment for Physics, Chemistry and Biology classrooms for grammar schools												
9.	Procurement of equipment for Physics, Chemistry and Biology classrooms for primary schools (basic level)												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
Number of established regional training centres	0 (2019)	8 (2024)	12 (2026)
Number of qualifications visible on the European Qualifications Portal	0 (2019)	102 (2024)	130 (2026)
Participation of students enrolled in the first year in the dual education system compared to the total number of students enrolled in the first year of secondary vocational education (%)	5.3 (2019)	9.5 (2024)	12 (2026)
Percentage of produced and published video lessons on video platforms, with instructions for performing all laboratory exercises prescribed by the rulebooks on teaching Physics, Chemistry and Biology for primary and grammar schools (%)	0 (2019)	100 (2024)	100 (2026)
The level of equipment of grammar schools for the performance of prescribed laboratory exercises in the subjects of Physics, Biology and Chemistry (%)	0 (2019)	0 (2024)	100 (2026)
The level of equipment of primary schools for the performance of prescribed laboratory exercises in the subjects of Physics, Biology and Chemistry (%)	0 (2019)	0 (2024)	100 (2026)

4. Expected impact on competitiveness

The structural reform has a direct effect on increasing the competitiveness of the economy of the Republic of Serbia. Dual education contributes to strengthening the competitiveness of the economy and reducing youth unemployment. By investing in education, employers solve the problem of lack of competent personnel in the long term. By learning through work, students and university students have the opportunity to achieve all the learning outcomes that are envisaged by the qualification standard. The implementation of the NQF system contributes to the development of a modern, market-relevant and flexible system of qualifications adapted to the needs of the individual and society as a whole, which aims to quickly respond to the demands of the labour market, i.e. to quickly adapt to them, so that the development of the economy proceeds smoothly. In addition, by investing in future generations of students through the approach of natural sciences and learning to apply what they have learned by solving real problems, a new generation of participants in the labour market is born who will be ready at any moment to respond to all the challenges of the economy in the twenty-first century. In addition to the competitiveness of the economy, this structural reform will also contribute to the attraction of foreign investments due to all of the abovementioned.

5. Estimated costs of activities and sources of financing

The total costs for the implementation of the structural reform amount to 70 million EUR, namely: for the year 2024, 32.9 million EUR, for the year 2025, 37 million EUR and for the year 2026, 6,663 EUR.

The costs of implementation of structural **measure 1- Qualifications oriented to the needs of the labour market** amount to a total of 57,198,986 EUR, namely: 32,794,963 EUR in 2024, 24,397,360

EUR in 2025 and 6,663 EUR in 2026. The structural measure consists of the following activities (activity 1, 2, 3, 3, 4 and 6):

Activity 1 Expansion of the network and improving the competencies of CG&C team coordinators in order to improve the quality of CG&C activities in dual education for which funds from the project have been provided in the amount of 56,716 EUR, namely 14,278 EUR for 2024, 35,775 EUR for 2025, 6,663 EUR for 2026.

Activity 2 Establishment, infrastructural organisation and equipment of regional training centres, which requires 57,001,000 EUR from the loan. Funds for construction and reconstruction were provided in the amount of 24,784,050 EUR for 2024 and 12,479,450 EUR for 2025. Funds for training centres equipment were provided in the amount of 7,926,000 EUR for 2024 and 11,811,500 EUR for 2025.

Activity 3 Networking of the level of education through the "Youth to Younger" social dialogue for which a total of 141,270 EUR need to be allocated from the Republic of Serbia budget, 70,635 EUR for 2024 and 70,635 EUR for 2025. Funds are necessary for goods and services.

To implement **activity 4. Connection of the NQFS Register with the European qualifications portal, activity 5. Digitalisation of the methodology for the development of sector profiles as an analytical basis for decision-making by institutions and bodies from the NQF system and activity 6. Preparation of proposals for the introduction of partial qualifications into the NQF system** no additional costs.

The costs of implementing structural **measure 2 - Improvement of the conditions for the development of knowledge and skills in the education system** amount to a total of 12,630,000 EUR, namely: 30,000 EUR in 2024, and 12,600,000 EUR in 2025. The structural measure consists of the following activities (activity 7, 8 and 9):

Activity 7 Preparation of video materials containing instructions and demonstrations of all laboratory exercises prescribed by the applicable rulebooks for the subjects of Physics, Chemistry and Biology for primary and grammar schools for which 30,000 EUR were provided in the budget of the Republic of Serbia for 2024. Funds are necessary for goods and services.

Activity 8 Procurement of equipment for Physics, Chemistry and Biology classrooms for grammar schools, for which 3.6 million EUR need to be allocated, for the year 2025. Funds are necessary for goods and services, and they will be provided from the budget of the central level of the state and IPA funds.

Activity 9 Procurement of equipment for Physics, Chemistry and Biology classrooms for primary schools (basic level) for which 9 million EUR need to be that allocated in the year 2025. Funds are necessary for goods and services, and they will be provided from the budget of the central level of the state and IPA funds.

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

The structural reform directly affects employment because it enables the acquisition, improvement and development of the competencies of pupils and university students in accordance with the needs of the labour market, facilitates employment after completing education, the development of entrepreneurship, innovation and creativity of each individual, which significantly increases their competitiveness on the labour market and facilitates finding a job. The structural reform has a direct impact on the increase in employment, since it aims for students to find employment in a very short period of time after completing their education, which indirectly contributes to the reduction of poverty. The structural reform is based on the principle of equal opportunities - providing equal conditions for acquiring education without any discrimination, with regard to gender, race, nationality, culture, ethnicity and religion, language, sexual orientation, place of residence, material condition, disability and other personal properties.

7. Expected impact on the environment and climate change

Structural reform is neutral in terms of impact on the environment and climate change.

8. Potential risks

Risk	Risk probability	Planned activities for mitigation of adverse effects of the risk
Difficulty implementing the adopted amendments to the Law on Dual Education due to lack of information on the part of the relevant subjects	Medium	Organising promotional activities in the form of conferences, workshops and round tables to inform relevant actors and potential participants in dual education.
Reluctance of social partners to implement partial qualifications in full	Medium	Organising promotional activities in the form of conferences, workshops and round tables in order to inform relevant social partners and the general public about the benefits of introducing partial qualifications into the NQF system for different target groups (employers, trade unions, SORS, Central Register for Compulsory Social Insurance).

STRUCTURAL REFORM 6: IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET

1. Description of structural reform

The aim of the reform is to improve the status of young people on the labour market, by enabling easier transitions of young people from education to work. Also, the aim is to prevent the transition of young people to NEET status (not employed, not in the process of education or training) by implementing activities to reach out and activate those who are outside the system. The reform is necessary because despite the achieved economic growth and positive trends in the basic indicators of the labour market in the Republic of Serbia, the status of young people in the labour market requires the need for systemic intervention in order to remove the barriers faced by young people in the labour market.

The structural reform comprises two measures:

Measure 1 - Piloting the Youth Guarantee

Piloting of the Youth Guarantee will begin in 2024 and will last until the end of 2026. Piloting will be implemented on the territory of three cities/branches of the National Employment Service (NES): Niš, Kruševac and Sremska Mitrovica. In the first year of piloting, it is necessary to establish a framework for monitoring the Youth Guarantee, which, among other things, entails the introduction of online (pre)registration, as part of the NES IT platform, for the use of Youth Guarantee services. Also, the introduction of statistical profiling of unemployed persons is planned, which should help employment counsellors in the NES to segment the unemployed and determine the necessary support. In the last year of piloting the Youth Guarantee, the online system will be upgraded in terms of application in other branches as well, for the implementation of the Youth Guarantee throughout the territory of the Republic of Serbia. Based on the developed model for reaching and activating NEET youth outside the system, outreach activities will be carried out in pilot branches in partnership with civil society organisations. The current portfolio of services that the NES provides to the unemployed will be further strengthened and expanded by developing additional/complementary employment services. In the previous period, an interdepartmental and expert group was formed for the purposes of establishing and managing the Youth Guarantee, an analytical basis was prepared for the development of the Implementation Plan, and a Youth Guarantee Draft Implementation Plan for the period from 2023 to 2026 was drafted and referred to the adoption procedure.

Measure 2 - Development of integrated services for young people at the local level

The improvement of institutional mechanisms for the implementation of youth policy at the local level is necessary in order to contribute to the economic and social independence of young people. Developing integrated services for young people at the local level implies developing the capacity of

youth policy subjects (youth office, youth associations and associations for youth, youth workers), standardisation of youth work, establishment of safe public (and digital) spaces in which youth work and development will be implemented and standardisation of programmes for non-formal education of young people. Funds for the establishment of youth centres in 2023 were allocated to the cities of Niš, Subotica, Sombor and Novi Pazar.

2. Activities planned by year

No.	Planned activities	2024				2025				2026			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Measure 1												
1.	Introduction of online (pre)registration and statistical profiling in the NES and upgrading of the system												
2.	Piloting the Model for reaching out and activating NEET youth outside the system - implementation of outreach activities by civil society organisations (CSOs)												
3.	Development of additional/complementary employment services in the NES												
	Measure 2												
4.	Development of a system for professional development of youth workers												
5.	Establishment of a quality assurance system for youth work programmes and non-formal youth education												
6.	Establishment of youth spaces that operate in accordance with defined standards												
7.	Improvement of the quality of work of youth offices												

3. Result indicators

Indicator	Baseline value (year)	Intermediate result (year)	Target value (year)
NEET rate 15-29 (%)	18.8 (2021)	13.9 (2025)	12.7 (2026)
Share of unemployed youth in the financial measures of EAP compared to the total number of youth in the unemployment register (%)	18.8 (2022)	20 (2025)	20 (2026)

4. Expected impact on competitiveness

Improving the conditions for greater participation of young people in the labour market, i.e. removing systemic obstacles for better performance of young people in the labour market contributes to improving the quality of the young workforce, which consequently affects their better productivity and GDP growth. Improving knowledge and gaining work experience requires a longer period of time, so the increase in competitiveness will only be visible in the long term.

5. Estimated costs of activities and sources of financing

The total costs for the implementation of the structural reform amount to 7 million EUR, namely: for the year 2024, 2.4 million EUR, for the year 2025, 2.2 million EUR, and for the year 2026, 2.4 million EUR.

The costs of implementing structural **measure 1 - Piloting the Youth Guarantee** are estimated at 1,207,461 EUR in total, namely: 464,817 EUR in 2024, 269,394 EUR in 2025 and 473,250 EUR in 2026. The structural measure consists of the following activities (activity 1, 2 and 3):

Activity 1 The introduction of online (pre)registration and statistical profiling in the NES and the upgrading of the system for which a total of 160,000 EUR need to be allocated, 85,000 EUR in 2024 and another 75,000 EUR in 2026. Funds are necessary for subsidies and transfers, and they will be provided from the budget of the Republic of Serbia and IPA funds. In 2024, 62,050 EUR will be provided from the IPA fund and 22,950 EUR from the central state budget, while in 2026, financing in the amount of 15,000 EUR from the budget of the Republic of Serbia and 60,000 EUR from the IPA fund is planned.

Activity 2 Piloting the Model for reaching out and activating NEET youth outside the system - implementation of outreach activities by civil society organisations (CSOs) for which it is necessary to allocate 130,000 EUR, namely: 30,000 EUR in 2024 and 50,000 EUR in 2025 and 2026 each. Funds are necessary for subsidies and transfers, and they will be provided from the budget of the Republic of Serbia and IPA funds. In 2024, 21,900 EUR will be provided from IPA funds and 8,100 EUR from the budget of the central state level. In 2025 and 2026, it is planned to subsequently provide 50,000 EUR each for the implementation of this activity.

Activity 3 Development of additional/complementary employment services in the NES for which 917,461 EUR need to be allocated, namely: for the year 2024, 349,817 EUR, for the year 2025, 219,394 EUR and for the year 2026, 348,250 EUR. Funds are necessary for subsidies and transfers, and they will be provided from the budget of the Republic of Serbia and IPA funds. In 2024, 164,385 EUR will be provided from IPA funds and 185,432 EUR from the budget of the central state level. In 2025, it is planned that the activity will be financed from the budget of the central state level (124,632 EUR), while the source of financing for the remaining amount (94,762 EUR) will be determined later. In 2026, funding is planned from the central state budget (136,850 EUR) and IPA funds (211,400 EUR).

The costs of implementing structural **measure 2 - Development of integrated services for youth at the local level** amount to 5,821,882 EUR in total, namely: 1,966,797 EUR in 2024, 1,936,017 EUR in 2025 and 1,919,068 EUR in 2026. The structural measure consists of the following activities (activity 4, 5, 6 and 7):

Activity 4 Development of the system of professional development of youth workers, for which financing from the national budget in the amount of 39,830 EUR is planned, namely: for the year 2024, the amount of 16,102 EUR, for the year 2025, the amount of 11,864 EUR and for the year 2026, the amount of 11,864 EUR. Funds are necessary for subsidies and transfers.

Activity 5 Establishing a quality assurance system for youth work programmes and informal youth education, for which financing from the national budget in 2025 in the amount of 16,949 EUR is planned. Funds are necessary for subsidies and transfers.

Activity 6 Establishment of youth spaces that operate in accordance with defined standards for which financing from the national budget in the amount of 4,723,017 EUR is planned, namely: for the year 2024, 1,574,339 EUR, for the year 2025, 1,545,763 EUR and for the year 2026, 1,545,763 EUR. Funds are necessary for subsidies and transfers.

Activity 7 Improvement of the quality of work of youth offices for which financing from the national budget in the amount 1,099,238 EUR is planned, namely: for the year 2024, 376,356 EUR, for the year 2025, 361,441 EUR and for the year 2026, 361,441 EUR. Funds are necessary for subsidies and transfers.

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

Improving the conditions for greater participation of young people in the labour market will facilitate the transition of young people to the labour market and encourage their employment, which will indirectly affect the reduction of poverty. The structural reform will also have a positive effect on gender equality, because by applying gender budgeting within the active employment policy and increased participation of women in the financial measures of the active employment policy (most of

which are offered as part of the Youth Guarantee), the employability and employment of women is encouraged.

7. Expected impact on the environment and climate change

Reform is neutral in terms of the environment and climate change.

8. Potential risks

Risk	Risk probability	Planned activities for mitigation of adverse effects of the risk
Lack of coordination of institutions responsible for the implementation of activities	Medium	Regular dialogue within the established Coordination Body and Expert Group.
Insufficient capacities of institutions and relevant actors for the implementation of activities	Medium	Increasing the number of employees within the Ministry of Labour, Employment of Veterans and Social Affairs and the NSO. Organising training for all actors involved in the implementation of activities.
Insufficient motivation of interested parties for the implementation of activities, both actors responsible for the implementation of activities/measures, as well as local self-government units	Medium	Strengthening the intersectoral cooperation and communication between ministries responsible for the field of youth and local self-government, as well as the local self-government units themselves. Strengthening the capacity of employees in local self-government units to understand and perceive the challenges and problems faced by young people.

5.4. SUMMARY OF STRUCTURAL REFORMS

STRUCTURAL REFORMS BY AREAS		
AREA 1: COMPETITIVENESS		
1.	IMPROVEMENT OF BUSINESS OPERATION CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA	The aim of the structural reform is the diversification and further growth of foreign trade of the Republic of Serbia, both at the regional and global levels, increasing the competitiveness of all actors on the market of the Republic of Serbia, including companies owned by the Republic of Serbia, as well as increasing the legal security of business entities.
2.	IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY	The aim of the structural reform is to create an efficient knowledge-based economy, capable of developing and marketing top innovative products and services that are competitive on the global market. With regard to the achievement of the set goal, work is being done on the construction of the BIO4 Campus, the construction of new science and technology parks and the expansion of existing ones, on the provision of support for the <i>Ložionica</i> , Innovation District and <i>Smart City</i> projects, including the <i>GovTech</i> programme of the Fund for Innovation Activities, as well as the improvement of regulations for autonomous driving in the Republic of Serbia. The described activities are significant from the point of view of improving the functioning of the market economy, which is resource efficient and competitive, especially in the field of providing support for the development of start-ups.
AREA 2: SUSTAINABILITY AND RESILIENCE		
3.	GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY	The aim of the reform is reflected in the transformation of energy production through the transition from fossil fuels to renewable energy sources and the improvement of energy efficiency, in order to contribute to the "green" energy transition of the Serbian economy and society.

4.	GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA	The aim of the structural reform is the complete regulation of the transport services market and the reduction of harmful gas emissions by reducing individual transport (passenger cars) through increasing the mobility of the population, the availability and attractiveness of public transport services for passengers and/or goods in road and rail transport, and in accordance with EU regulations, standards and practice.
AREA 3: HUMAN CAPITAL AND SOCIAL POLICY		
5.	EDUCATION FOR SUSTAINABLE DEVELOPMENT AND READINESS FOR WORK	The aim of the structural reform is to increase the relevance of the education system through a multidimensional focus on learning connected to practical work, thus providing a more efficient response of the education system to the needs of the economy and employability.
6.	IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET	The aim of the reform is to improve the status of young people on the labour market, by enabling easier transitions of young people from education to work. Also, the aim is to prevent the transition of young people to NEET status (not employed, not in the process of education or training) by implementing activities to reach out and activate those who are outside the system. The reform is necessary because despite the achieved economic growth and positive trends in the basic indicators of the labour market in the Republic of Serbia, the status of young people in the labour market requires the need for systemic intervention in order to remove the barriers faced by young people in the labour market.

6. COSTS AND FINANCING OF STRUCTURAL REFORMS

Additional costs of implementing structural reforms in the period 2024-2026 amount to 1,021.9 million EUR compared to the baseline year before the start of each individual reform. By year, the additional costs of implementing structural reforms amount to 246.3 million EUR in 2024, 489.7 million EUR in 2025, and 285.9 million EUR in 2026. In the period 2023-2025, the additional costs of implementing structural reforms amounted to 1,130 million EUR, so that the period 2024-2026 recorded a drop of approximately 10%.

Most of the six structural reforms shown in the ERP 2024-2026, 4 of them, have an administrative character, while the two structural reforms, which require the largest additional financing costs (56% of the total additional costs), are in the category of infrastructure reforms.

In the structure of reform costs in the next three-year period, as in the previous one, capital expenditures dominate with 638.3 million EUR (and a share of 62.4% in total costs), while goods and services with 190.1 million EUR (a share of 18.6%) reduced their share in the cost structure compared to the previous period. Subsidies and transfers with 189.5 million EUR (18.5%) recorded an increase in share compared to the previous period, as well as salaries with 3.9 million EUR (0.4% share).

Observed from the point of view of sources of financing in the period 2024-2026, the source structure remained unchanged compared to the previous period. The key source of additional financing for structural reforms is the funds of project loans with 570.8 million EUR (55.8% share in total sources of financing), followed by the central level budget with 217.4 million EUR (and 21.1% share), IPA funds with 85.5 million EUR (8%) and other donations with 14.7 million EUR (1.4% of all available sources), as well as local budgets with 3.7 million EUR (0.4% of share). Other national sources of financing do not participate in the total additional financing of structural reforms. The share of sources that have yet to be determined for the financing of structural reforms amounts to 129.6 million EUR or 12.6% and refers to the financing of structural reforms in the period 2025-2026.

Financial resources for the implementation of structural reforms in 2024 are planned in accordance with the Law on the Budget of the Republic of Serbia for 2024, budget funds and loans, income from donations or other sources.

Financial resources from the budget of the Republic of Serbia for the implementation of structural reforms in 2025 and 2026 will be planned in accordance with the allocated limits for the holders of the same during the budget procedure. Due to the maintenance of fiscal stability, the provision of

additional financial resources for the implementation of structural reforms in 2025 and 2026 is limited and must be in accordance with the budget's balance possibilities.

The implementation of structural reforms will depend on the provision of financial resources in the annual budget laws.

Information on the additional costs of implementing each individual structural reform to the budget and potential non-budgetary financing is given in Tables 10a and 10b in the addendum.

Please note that **Addendum 3** of the document provides a detailed overview of the costs and financing of activities within the framework of structural reforms.

7. INSTITUTIONAL ISSUES AND INVOLVEMENT OF STAKEHOLDERS

The Republic of Serbia has a developed structure of interdepartmental coordination of the preparation of the Economic Reforms Programme. Deputy Prime Minister and Minister of Finance Siniša Mali was appointed as the national coordinator and head of the Working Group for the development and monitoring of ERP implementation by the decision of the Government of the Republic of Serbia from 28 August 2018, and then by the decision of the Government from 22 December, 2022. By the decision of the Minister of Finance on 5 January 2023, the membership of the **Working Group for the preparation and monitoring of the ERP implementation** was renewed, to which representatives of the following institutions were appointed:

- Ministry of Finance,
- Public Policy Secretariat of the Republic of Serbia,
- General Secretariat of the Government,
- Prime Minister's Office,
- National Bank of Serbia,
- Ministry of Domestic and Foreign Trade,
- Ministry of Foreign Affairs,
- Ministry of Economy,
- Ministry of Construction, Transport and Infrastructure,
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Environmental Protection,
- Ministry of Mining and Energy,
- Ministry of Justice
- Ministry of Education
- Dual Education Offices and the National Qualifications Framework,
- Ministry of Science, Technological Development and Innovation,
- Ministry of Information and Telecommunications,
- Ministry of Public Administration and Local-Self Government,
- Ministry of European Integration,
- Ministry of Labour, Employment, Veteran and Social Affairs,
- Ministry of Tourism and Youth,
- Ministry of Human and Minority Rights and Social Dialogue,
- Office of the minister without portfolio in charge of improving the development of underdeveloped municipalities,
- Geodetic Institute of the Republic of Serbia,
- Offices for Public Procurement,
- Office for IT and e-Government,
- State Aid Control Commission,
- National Employment Service,
- Statistical Office of the Republic of Serbia.

In accordance with already established practice, the first part of the document, which refers to the macro-fiscal framework and relies to the greatest extent on the Fiscal Strategy for 2024 with

projections for 2025 and 2026, was prepared by the Ministry of Finance and the National Bank of Serbia. Other chapters of this document pertaining to structural reforms were prepared by the relevant departments in coordination and cooperation with the Ministry of Finance and the Secretariat for Public Policies of the Republic of Serbia.

The tenth cycle of drafting the ERP for the period 2024-2026 started with the holding of an introductory **online regional meeting on 14 July 2023, organised by the European Commission** and supported by the Centre of Excellence in Finance (CEF, Ljubljana, Slovenia). At the online meeting, the new, amended Guidelines of the European Commission for the preparation of the ERP 2024-2026 were presented and the previous ERP document was analysed primarily to overcome all possible challenges in the next cycle. The Republic of Serbia submitted to the EC a request for additional clarifications of the July 2024 Guidelines.

At the **national introductory meeting** held on 9 August 2023, the results achieved in the previous period, the recommendations of the ECOFIN Council from May 2023, all the novelties from the EC Guidelines for the preparation of the new ERP document and further activities related to the new cycle of document preparation were discussed and participants from competent institutions were invited to formally nominate proposals for structural reforms. Preliminary discussions on structural reforms began in June 2023 pending EC guidelines.

Along with these activities, work continued on the development of the **Fiscal Strategy for 2024** with projections for 2025 and 2026, which was adopted on 8 June, while the Revised Fiscal Strategy with projections for 2025 and 2026 was adopted on 5 October 2023, which represents the basis for the preparation of the corresponding chapters of the ERP.

After the national introductory meeting, activities on the preparation of ERP 2024-2026 intensified: this was followed by activities on nomination and further improvement of the description of structural reforms, development of state diagnostics by area, submission of reports on the implementation of structural reforms, as well as implementation of ECOFIN recommendations.

The novelty in the tenth cycle of ERP development refers to the digitalisation of the preparation process of Chapters 2 and 5, tables 10a, 10b and 11, as well as Addendum 2 through the **ERP portal**, the drafting of which was implemented with the financial and technical support of the governments of Switzerland and Germany, through the German Organisation for International Cooperation (GIZ), with the aim of simplifying and optimising the preparation of this document. Along with the preparation of the ERP, the members of the Working Group for the drafting and monitoring of the implementation of the ERP attended training sessions and prepared the technical prerequisites for the successful use of the ERP portal.

The preliminary list of structural reforms, consisting of six structural reforms, was made available to the public through the website of the Ministry of Finance and the Secretariat for Public Policies of the Republic of Serbia from 1 to 15 September, 2023, with an invitation to interested parties to give their comments and suggestions. Comments on the preliminary list of structural reforms were submitted by the National Convention on the EU.

In this regard, on 23 October 2023, a **gathering of Civil Society Proposals for Structural Reforms** was held in Belgrade, with the aim of deepening the dialogue between civil society and public administration on the Government's structural reforms. In addition to representatives of civil society, members of the Working Group for Drafting and Monitoring the Implementation of the ERP and the EU Delegation in Serbia participated in the event. The discussion was organised in three sessions based on the areas from the new EC Guidelines. The gathering was organised by the CEP (Centre for European Policies) with the support of the Operational Grant for the implementation of the CEP strategic plan for good governance, with the financial support of the EU.

Within the tenth cycle of ERP development, a number of activities were organised with the support of the regional IPA project entitled "Better Integration of Structural Reforms into Fiscal Frameworks - FISR2" implemented by CEF and the Serbian-German development cooperation project entitled "Public Finance Reform and Agenda 2030" implemented by GIZ. **Workshops** were organised covering all key topics and challenges in the current cycle of ERP development. At the "*Integration*

of Structural Reforms for ERP 2024-2026 into Budgets" workshop held on 18-19 September 2023 in Vršac, an analysis of key challenges and structural reforms by area was presented, recommendations and priorities for the preparation of the document were discussed, expert assessments of the proposed structural reforms were presented and guidelines for their further improvement were given, including data entry into the ERP Portal.

The focus of the workshop held on 9-10 November 2023 in Zrenjanin was on the calculation of the costs of structural reforms, as well as on the determination of key performance indicators for monitoring SR, as well as entering data into the ERP Portal. Work on the segment of the document related to the financial effects of ERP 2024-2026 was completed in November, after the Law on the Budget for 2024 was adopted at the end of October 2023.

Draft of Chapters 2 and 5 ERP 2024-2026 which envisages six structural reforms was made available to the public by publication on the website of the Ministry of Finance and the Republic Secretariat for Public Policies and the "e-Consultations" portal from 21 to 30 November 2023. Interested parties were invited to submit their comments and suggestions and thereby contribute to the improvement of the document. During this period, comments were received from representatives of the National Convention on the EU, the Serbian Chamber of Commerce and UNICEF. The publication of the Draft ERP document was accompanied by articles in print and electronic media in the Republic of Serbia.

Final consultations with representatives of civil society, i.e. members of the intersectoral working group of the National Convention on the European Union for ERP monitoring, were held on 1 December 2023 in online format. The National Convention on the EU gathers over 700 civil society organisations and represents a standing body within which a thematically structured debate on the accession of the Republic of Serbia to the European Union is conducted, divided by negotiation chapters and special topics, between non-governmental organisations, experts, business, trade unions and professional associations on the one hand and the representative of the Government, on the other hand, and it has a very important role in this process. Within its structures, the National Convention has created a mechanism for ERP monitoring and evaluation, through a special horizontal Working Group for ERP, and its members actively participate in this process.

Bearing in mind that the ERP is a portable document, and that the preparation is a continuous process, a large number of suggestions and comments of interested parties from the previous cycle are taken into account in the current cycle of drafting the ERP.

After the consultation with the stakeholders and after the completion of the internal procedure, the document is to be adopted by the Government of the Republic of Serbia and submitted to the European Commission within the stipulated time, i.e. by **15 January 2024**. The ERP shall then be further discussed with the representatives of the EU institutions and member states in the European Semester Light process for the Western Balkans and Turkey, and in the mid 2024, the preparation of the next document for the period 2025-2027 is scheduled to begin.

8. ANNEXES

This Programme contains Annexes 1 – 3, which form its integral part. These are:

- 1) Annex 1 – Tables 1-11;
- 2) Annex 2 – Links between reform areas and relevant public policy documents;
- 3) Annex 3 – A detailed overview of costs and financing of activities within the framework of structural reforms.

ANNEX 1: Tables 1-11

Country:	Serbia
Year of submission (deadline)	2024
Pre-year prices (no = 0, yes = 1)	0
BOP-Data: National Currency = 0, EUR = 1	1

Table 1: Macroeconomic framework

1a: Demand side, const. prices (Bn. RSD)	ESA Code	2021	2022	2023	2024	2025	2026
GDP at market prices	B1*g	5,298.7	5,433.8	5,567.0	5,759.6	5,992.6	6,247.4
Private consumption expenditure	P3	3,656.8	3,801.4	3,837.6	4,004.1	4,141.9	4,277.7
Government consumption expenditure	P3	825.5	828.5	817.7	830.0	839.5	854.6
Gross fixed capital formation	P51	1,283.1	1,307.1	1,347.6	1,418.2	1,503.9	1,608.2
Domestic Demand		5,765.4	5,937.0	6,002.9	6,252.3	6,485.2	6,740.5
6, Changes in inventories and net acquisition of valuables	P52+P53	121.7	162.5	58.5	54.6	51.8	47.9
Exports of goods and services	P6	3,157.0	3,681.8	3,792.2	4,099.4	4,529.9	5,050.8
Imports of goods and services	P7	3,745.5	4,347.5	4,286.7	4,646.7	5,074.2	5,591.8
Net exports		-588.5	-665.7	-494.4	-547.3	-544.4	-541.0
1a: Demand side, curr. prices (Bn. RSD)							
GDP at market prices	B1*g	6,272.0	7,097.6	8,103.5	8,773.7	9,461.1	10,148.4
Private consumption expenditure	P3	4,138.3	4,845.8	5,397.6	5,875.1	6,285.5	6,664.4
Government consumption expenditure	P3	1,056.2	1,148.7	1,264.9	1,374.7	1,456.3	1,547.8
Gross fixed capital formation	P51	1,459.4	1,714.5	1,867.7	2,035.5	2,222.8	2,434.8
Domestic Demand		6,653.9	7,708.9	8,530.1	9,285.3	9,964.6	10,646.9
6, Changes in inventories and net acquisition of valuables	P52+P53	119.5	167.3	19.0	-0.2	-7.5	-18.8
Exports of goods and services	P6	3,442.7	4,531.2	4,842.8	5,354.0	6,028.2	6,841.9
Imports of goods and services	P7	3,944.0	5,309.8	5,288.4	5,865.4	6,524.1	7,321.6
Net exports		-501.4	-778.6	-445.6	-511.4	-495.9	-479.8
1a: Exchange rate							
Exchange rate RSD/EUR (Annual average) [1]	RSD/EUR	117.6	117.5	117.3			
Exchange rate RSD/EUR (End year) [2]	RSD/EUR	117.6	117.3	117.2			
Table 1b: Price developments							
1. GDP deflator	Index	118.4	130.6	145.6	152.3	157.9	162.4

2. Private consumption deflator	Index	113.2	127.5	140.7	146.7	151.8	155.8
3. HICP	Index	100.0	111.7	125.4	131.2	135.1	139.2
4. National CPI	Index	100.0	111.9	125.9	131.7	135.6	139.7
5. Public consumption deflator	Index	127.9	138.6	154.7	165.6	173.5	181.1
6. Investment deflator	Index	113.7	131.2	138.6	143.5	147.8	151.4
7. Export price deflator (goods & services)	Index	109.0	123.1	127.7	130.6	133.1	135.5
8. Import price deflator (goods & services)	Index	105.3	122.1	123.4	126.2	128.6	130.9

Table 1c: Labour markets developments

1. Population (thousands)	1000 pers.	6,834	6,664	6,638	6,611	6,585	6,558
3. Working-age population (persons) [3]	1000 pers.	4,387	4,331	4,348	4,350	4,346	4,335
Total labour force	1000 pers.	3,082	3,092	3,130	3,132	3,151	3,156
5. Employment, persons [4]	1000 pers.	2,731	2,791	2,831	2,842	2,870	2,904
6. Employment, hours worked [5]	1000 pers.						
8. Public sector employment (persons)	1000 pers.						
13. Compensation of employees	Bn. RSD						

Table 1d: Sectoral balances

1. Net lending/borrowing vis-à-vis the rest of the world	bn EUR	-2.2	-4.1	-1.7	-2.9	-3.3	-3.7
of which:							
- Balance of goods and services	bn EUR	-4.6	-7.0	-3.9	-4.8	-4.9	-4.9
- Balance of primary incomes and transfers	bn EUR	2.4	2.9	2.1	1.9	1.5	1.2
- Capital account	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

1. Agriculture	const. prices	302.1	277.1	303.1	293.8	293.8	293.8
2. Industry (excluding construction)	const. prices	1,079.1	1,111.5	1,137.5	1,175.5	1,229.0	1,289.8
3. Construction	const. prices	311.2	280.8	306.9	323.9	343.5	369.1
4. Services	const. prices	2,701.4	2,838.4	2,899.0	3,016.1	3,137.9	3,271.0
1. Agriculture	curr. prices	394.7	458.5				
2. Industry (excluding construction)	curr. prices	1,192.1	1,423.0				
3. Construction	curr. prices	376.4	391.9				
4. Services	curr. prices	3,222.8	3,690.2				

Table 1f: External sector developments

2. Export of goods	bn EUR	21.0	26.9	28.0	29.3	31.0	32.9
3. Import of goods	bn EUR	27.0	36.3	34.5	36.9	38.9	40.9
4. Trade balance	bn EUR	-6.0	-9.4	-6.4	-7.6	-7.9	-8.0

5. Export of services	bn EUR	7.8	11.1	12.6	13.6	14.5	15.4
6. Import of services	bn EUR	6.4	8.8	10.1	10.8	11.4	12.3
7. Service balance	bn EUR	1.4	2.3	2.6	2.8	3.0	3.1
8. Net interest payments from abroad	bn EUR	-0.6	-0.7	-1.0	-1.1	-1.3	-1.4
9. Other net factor income from abroad	bn EUR	-1.4	-2.3	-2.6	-2.8	-3.2	-3.5
10. Current transfers	bn EUR	4.4	5.9	5.7	5.9	6.0	6.1
11. Of which from EU	bn EUR	2.7	3.8	3.6	3.8	4.0	4.3
12. Current account balance	bn EUR	-2.3	-4.2	-1.7	-2.9	-3.3	-3.7
13. Capital and financial account	bn EUR	2.1	4.4	1.7	2.8	3.4	3.6
14. Of which: Net Foreign direct investment	bn EUR	3.7	4.3	3.9	3.8	3.9	3.9
14.a Of which: Net-FDI (Equity)	bn EUR	2.5	2.9	2.6	2.5	2.6	2.7
15. Of which: Portefolio investment	bn EUR	1.6	0.0	1.2	1.8	0.0	0.0
15.a Of which: Net-Portefolio investment (Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0	0.0
16. Foreign reserves	bn EUR	16.5	19.4	23.4	25.2	26.3	27.3
17. Net External debt	bn EUR	17.2	19.6	17.9	18.9	19.8	20.6
18. Of which: foreign currency denominated external debt	bn EUR	15.5	18.3	17.0	17.9	18.9	19.7
19. Of which: public net external debt	bn EUR	6.4	5.5	2.4	2.5	2.2	1.8
20. Of which: interest payments	bn EUR	0.5	0.5	0.8	0.9	0.9	0.9
21. Of which: repayments due	bn EUR	4.5	5.2	5.1	5.0	3.4	4.3
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] average January-October 2023

[2] end-October 2023

[3] Age group of 15-64 years

[4] Occupied population, LFS definition

[5] National accounts definition

Table 1g: Sustainability indicators

1g: Sustainability indicators	Dimension	2018	2019	2020	2021	2022	2023
1. Current Account Balance	Bn EUR	-2.1	-3.2	-1.9	-2.3	-4.2	-1.7
2. Net International Investment Position [1]	Bn EUR	-37.6	-40.5	-42.3	-44.3	-49.3	-49.5
3. Export market shares	% of total export market						
4. Real Effective Exchange Rate [2]	Index	123.0	122.8	124.9	127.1	128.4	137.8
5. Nominal Unit Labour Costs	Index						

6. Private sector credit flow [2]	bn RSD	185.1	178.4	219.4	222.9	139.6	38.0
7. Private sector debt [3]	bn RSD	2,089.6	2,268.1	2,487.4	2,710.4	2,850.0	2,888.0
8. General Government Debt	bn RSD				3581.8	3945.8	4319.2
p.m. GDP at current market prices	bn RSD	5,072.9	5,421.9	5,504.4	6,272.0	7,097.6	8,103.5
p.m. Exchange rate (Annual average) [4]	RSD/EUR	118.3	117.9	117.6	117.6	117.5	117.3

[1] January-June 2023

[2] January-September 2023

[3] end-September 2023

[4] average January-October 2023

Table 1a: Macroeconomic prospects

REPUBLIC of SERBIA

Percentages unless otherwise indicated	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	46.3	2.5	2.5	3.5	4.0	4.3
2. Current GDP at market prices	B1*g	60.4	13.2	14.2	8.3	7.8	7.3
Components of real GDP							
3. Private consumption expenditure	P3	32	4.0	1.0	4.3	3.4	3.3
4. Government consumption expenditure	P3	7	0.4	-1.3	1.5	1.1	1.8
5. Gross fixed capital formation	P51	11	1.9	3.1	5.2	6.0	6.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	1	3.0	1.1	0.9	0.9	0.8
7. Exports of goods and services	P6	31	16.6	3.0	8.1	10.5	11.5
8. Imports of goods and services	P7	37	16.1	-1.4	8.4	9.2	10.2
Contribution to real GDP growth							
9. Final domestic demand		50.5	3.2	1.2	4.5	4.0	4.3
10. Change in inventories and net acquisition of valuables	P52+P53	1.4	0.8	-1.9	-0.1	0.0	-0.1
11. External balance of goods/services	B11	-5.7	-1.5	3.2	-1.0	0.1	0.1

Table 1b: Price developments**Republic of Serbia**

Percentage changes, annual averages	ESA Code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
1. GDP deflator		10.4	11.4	4.6	3.6	2.9
2. Private consumption deflator		12.6	10.3	4.3	3.4	2.7
3. HICP		11.7	12.3	4.6	3.0	3.0
4. National CPI change		11.9	12.5	4.6	3.0	3.0
5. Public consumption deflator		8.4	11.6	7.1	4.7	4.4
6. Investment deflator		15.3	5.7	3.6	3.0	2.4
7. Export price deflator (goods & services)		12.9	3.8	2.3	1.9	1.8
8. Import price deflator (goods & services)		16.0	1.0	2.3	1.9	1.8

Table 1c: Labour market developments**Republic of Serbia**

	ESA Code	Year	Year	Year	Year	Year	Year
		2022	2022	2023	2024	2025	2026
		Level	Level/Rate of change				
1. Population (thousands)			6,664	6,638	6,611	6,585	6,558
2. Population (growth rate in %)			-2.5	-0.4	-0.4	-0.4	-0.4
3. Working-age population (persons) [1]			4,331	4,348	4,350	4,346	4,335
4. Participation rate			71.4	72.0	72.0	72.5	72.8
5. Employment, persons [2]			2,791	2,831	2,842	2,870	2,904
6. Employment, hours worked [3]			:	:	:	:	:
7. Employment (growth rate in %)			2.2	1.4	0.4	1.0	1.2
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate [4]			9.7	9.6	9.3	8.9	8.0
11. Labour productivity, persons [5]		1946.6	0.3	1.0	3.0	3.0	3.1
12. Labour productivity, hours worked [6]			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

[1] Age group of 15-64 years

[2] Occupied population, LFS definition

[3] National accounts definition

[4] Harmonised definition, Eurostat; levels

[5] Real GDP per person employed

[6] Real GDP per hour worked

Table 1d: Sectoral balances**Republic of Serbia**

Percentages of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.8	-2.5	-3.8	-4.1	-4.3
<i>of which:</i>						
- <i>Balance of goods and services</i>		-11.7	-5.6	-6.4	-6.1	-5.7
- <i>Balance of primary incomes and transfers</i>		4.9	3.1	2.6	2.0	1.4
- <i>Capital account</i>		0.0	0.0	0.0	0.0	0.0
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-3.6	0.3	-1.6	-2.6	-2.8
3. Net lending/borrowing of general government		-3.2	-2.8	-2.2	-1.5	-1.5
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 2022	Year 2023	Year 2024	Year 2025	Year 2026
GDP and investment						
GDP level at current market prices (bn RSD)	B1g	7,097.6	8,103.5	8,773.7	9,461.1	10,148.4
Investment ratio (% of GDP)		24.2	23.0	23.2	23.5	24.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-8.3	9.4	-3.1	0.0	0.0
2. Industry (excluding construction)		3.0	2.3	3.3	4.5	4.9
3. Construction		-9.8	9.3	5.5	6.0	7.4
4. Services		5.1	2.1	4.0	4.0	4.2

Table 1f: External sector developments

Republic of Serbia

Billion Euro unless otherwise indicated		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Current account balance (% of GDP)	% of GDP	-6.9	-2.5	-3.8	-4.1	-4.3
2. Export of goods	bn EUR	26.9	28.0	29.3	31.0	32.9
3. Import of goods	bn EUR	36.3	34.5	36.9	38.9	40.9
4. Trade balance	bn EUR	-9.4	-6.4	-7.6	-7.9	-8.0
5. Export of services	bn EUR	11.1	12.6	13.6	14.5	15.4
6. Import of services	bn EUR	8.8	10.1	10.8	11.4	12.3
7. Service balance	bn EUR	2.3	2.6	2.8	3.0	3.1
8. Net interest payments from abroad	bn EUR	-0.7	-1.0	-1.1	-1.3	-1.4
9. Other net factor income from abroad	bn EUR	-2.3	-2.6	-2.8	-3.2	-3.5
10. Current transfers	bn EUR	5.9	5.7	5.9	6.0	6.1
11. <i>Of which from EU</i>	bn EUR	3.8	3.6	3.8	4.0	4.3
12. Current account balance	bn EUR	-4.2	-1.7	-2.9	-3.3	-3.7
13. Capital and financial account	bn EUR	4.4	1.7	2.8	3.4	3.6
14. Net foreign direct investment	bn EUR	4.3	3.9	3.8	3.9	3.9
15. Foreign reserves	bn EUR	19.4	23.4	25.2	26.3	27.3
16. Net foreign debt	bn EUR	19.6	17.9	18.9	19.8	20.6
17. <i>Of which: public</i>	bn EUR	5.5	2.4	2.5	2.2	1.8
18. <i>O/w: foreign currency denominated</i>	bn EUR	18.3	17.0	17.9	18.9	19.7
19. <i>O/w: repayments due</i>	bn EUR	5.2	5.1	5.0	3.4	4.3
21. Exchange rate vis-à-vis EUR (annual average) [1]	RSD/EUR	117.5	117.3	:	:	:
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	-0.1	-0.2	:	:	:
20. Exchange rate vis-à-vis EUR (end-year) [2]	RSD/EUR	117.3	117.2	:	:	:
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	%, year-on-year	-0.2	-0.1	:	:	:
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	:	:	:	:	:

[1] average January-October 2023

[2] end-October 2023

Table 1g: Sustainability indicators**Republic of Serbia**

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current Account Balance	% of GDP	-6.9	-4.1	-4.2	-6.9	-2.5
2. Net International Investment Position [1]	% of GDP	-88.0	-90.3	-83.0	-81.6	-71.7
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate [2]	%, yoy	-0.2	1.7	1.8	1.1	7.3
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow [2]	% of GDP	2.5	2.7	2.5	1.5	0.4
7. Private sector debt [3]	% of GDP	41.8	45.2	43.2	40.2	35.6
8. General Government Debt	% of GDP	:	:	57.1	55.6	53.3

[1] January-June 2023

[2] January-September 2023

[3] end-September 2023

Table 2a + 2b: General government budgetary prospects

	bn RSD	2021	2022	2023	2024	2025	2026
Net lending (B9) by sub-sectors							
1. General government	S13	-259.4	-224.8	-227.5	-197.0	-145.0	-155.0
2. Central government	S1311	-285.2	-233.4	-227.5	-197.0	-145.0	-155.0
3. State government	S1312						
4. Local government	S1313	22.5	9.3	0.0	0.0	0.0	0.0
5. Social security funds	S1314	3.4	-0.8	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	2,711.9	3,103.3	3,445.5	3,735.9	4,017.4	4,288.4
7. Total expenditure[1]	TE	2,971.3	3,328.2	3,673.0	3,932.9	4,162.4	4,443.4
8. Net borrowing/lending	EDP.B9	-259.4	-224.8	-227.5	-197.0	-145.0	-155.0
9. Interest expenditure	EDP.D41 incl. FISIM	108.7	107.2	151.1	185.9	205.1	237.1
10. Primary balance[2]		-150.6	-117.6	-76.4	-11.1	60.1	82.1
11. One-off and other temporary measures [3]							
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,558.2	1,807.5	1,990.8	2,140.3	2,294.6	2,432.7
12a. Taxes on production and imports	D2	1,092.0	1,242.4	1,319.7	1,444.3	1,544.6	1,628.0
12b. Current taxes on income and wealth	D5	464.4	563.7	669.5	694.1	747.6	801.7
12c. Capital taxes	D91	1.8	1.3	1.6	1.9	2.4	3.1
13. Social contributions	D61	862.0	952.2	1,053.6	1,190.2	1,305.2	1,426.5
14. Property income	D4	69.9	90.6	99.6	107.5	116.7	127.3
15. Other (15 = 16-(12+13+14)) [4]		221.9	253.1	301.5	297.9	301.0	301.9
16 = 6. Total revenue	TR	2,711.9	3,103.3	3,445.5	3,735.9	4,017.4	4,288.4
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2,420.1	2,759.7	3,044.4	3,330.5	3,599.8	3,859.2
Selected components of expenditures							
17. Collective consumption	P32	1,119.3	1,251.9	1,412.1	1,545.9	1,650.6	1,766.5
18. Total social transfers	D62 + D63	850.0	926.2	1,093.5	1,212.5	1,320.8	1,380.4
18a. Social transfers in kind	P31 = D63						
18b. Social transfers other than in kind	D62	850.0	926.2	1,093.5	1,212.5	1,320.8	1,380.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	108.7	107.2	151.1	185.9	205.1	237.1
20. Subsidies	D3	206.3	160.5	221.9	208.2	209.2	225.7
21. Gross fixed capital formation	P51	466.6	526.1	584.6	593.7	617.2	672.1
22. Other (22 = 23-(17+18+19+20+21)) [6]		220.4	356.2	209.7	186.6	159.5	161.6
23. Total expenditures [7]	TE	2,971.3	3,328.2	3,673.0	3,932.9	4,162.4	4,443.4
p.m. compensation of employees	D1	629.0	694.9	785.0	873.7	941.6	1,009.8

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

[7] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2a: General government budgetary prospects

Republic of Serbia

	ESA code	Year	Year	Year	Year	Year	Year
		2022	2022	2023	2024	2025	2026
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-224.8	-3.2	-2.8	-2.2	-1.5	-1.5
2. Central government	S1311	-233.4	-3.3	-2.8	-2.2	-1.5	-1.5
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	9.3	0.1	0.0	0.0	0.0	0.0
5. Social security funds	S1314	-0.8	0.0	0.0	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	3,103.3	43.7	42.5	42.6	42.5	42.3
7. Total expenditure[1]	TE	3,328.2	46.9	45.3	44.8	44.0	43.8
8. Net borrowing/lending	EDP.B9	-224.8	-3.2	-2.8	-2.2	-1.5	-1.5
9. Interest expenditure	EDP.D41 incl. FISIM	107.2	1.5	1.9	2.1	2.2	2.3
10. Primary balance[2]		-117.6	-1.7	-0.9	-0.1	0.6	0.8
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1,807.5	25.5	24.6	24.4	24.3	24.0
12a. Taxes on production and imports	D2	1,242.4	17.5	16.3	16.5	16.3	16.0
12b. Current taxes on income and wealth	D5	563.7	7.9	8.3	7.9	7.9	7.9
12c. Capital taxes	D91	1.3	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D61	952.2	13.4	13.0	13.6	13.8	14.1
14. Property income	D4	90.6	1.3	1.2	1.2	1.2	1.3
15. Other (15 = 16-(12+13+14)) [4]		253.1	3.6	3.7	3.4	3.2	3.0
16 = 6. Total revenue	TR	3,103.3	43.7	42.5	42.6	42.5	42.3
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2,759.7	38.9	37.6	38.0	38.0	38.0
Selected components of expenditures							
17. Collective consumption	P32	1,251.9	17.6	17.4	17.6	17.4	17.4
18. Total social transfers	D62 + D63	926.2	13.1	13.5	13.8	14.0	13.6
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:

18b. Social transfers other than in kind	D62	926.2	13.1	13.5	13.8	14.0	13.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	107.2	1.5	1.9	2.1	2.2	2.3
20. Subsidies	D3	160.5	2.3	2.7	2.4	2.2	2.2
21. Gross fixed capital formation	P51	526.1	7.4	7.2	6.8	6.5	6.6
22. Other (22 = 23-(17+18+19+20+21)) [6]		356.2	5.0	2.6	2.1	1.7	1.6
23. Total expenditures	TE [1]	3,328.2	46.9	45.3	44.8	44.0	43.8
p.m. compensation of employees	D1	694.9	9.8	9.7	10.0	10.0	10.0

[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.

Table 2b: General government budgetary prospects

Republic of Serbia

	ESA code	Year	Year	Year	Year	Year
		2022	2023	2024	2025	2026
bn RSD						
Net lending (B9) by sub-sectors						
1. General government	S13	-224.8	-227.5	-197.0	-145.0	-155.0
2. Central government	S1311	-233.4	-227.5	-197.0	-145.0	-155.0
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	9.3	0.0	0.0	0.0	0.0
5. Social security funds	S1314	-0.8	0.0	0.0	0.0	0.0
General government (S13)						
6. Total revenue	TR	3,103.3	3,445.5	3,735.9	4,017.4	4,288.4
7. Total expenditure[1]	TE	3,328.2	3,673.0	3,932.9	4,162.4	4,443.4
8. Net borrowing/lending	EDP.B9	-224.8	-227.5	-197.0	-145.0	-155.0
9. Interest expenditure	EDP.D41 incl. FISIM	107.2	151.1	185.9	205.1	237.1
10. Primary balance[2]		-117.6	-76.4	-11.1	60.1	82.1
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1,807.5	1,990.8	2,140.3	2,294.6	2,432.7
12a. Taxes on production and imports	D2	1,242.4	1,319.7	1,444.3	1,544.6	1,628.0
12b. Current taxes on income and wealth	D5	563.7	669.5	694.1	747.6	801.7
12c. Capital taxes	D91	1.3	1.6	1.9	2.4	3.1
13. Social contributions	D61	952.2	1,053.6	1,190.2	1,305.2	1,426.5

14. Property income	D4	90.6	99.6	107.5	116.7	127.3
15. Other (15 = 16-(12+13+14)) [4]		253.1	301.5	297.9	301.0	301.9
16 = 6. Total revenue	TR	3,103.3	3,445.5	3,735.9	4,017.4	4,288.4
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2,759.7	3,044.4	3,330.5	3,599.8	3,859.2
Selected components of expenditures						
17. Collective consumption	P32	1,251.9	1,412.1	1,545.9	1,650.6	1,766.5
18. Total social transfers	D62 + D63	926.2	1,093.5	1,212.5	1,320.8	1,380.4
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	926.2	1,093.5	1,212.5	1,320.8	1,380.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	107.2	151.1	185.9	205.1	237.1
20. Subsidies	D3	160.5	221.9	208.2	209.2	225.7
21. Gross fixed capital formation	P51	526.1	584.6	593.7	617.2	672.1
22. Other (22 = 23-(17+18+19+20+21)) [6]		356.2	209.7	186.6	159.5	161.6
23. Total expenditures	TE [1]	3,328.2	3,673.0	3,932.9	4,162.4	4,443.4
p.m. compensation of employees	D1	694.9	785.0	873.7	941.6	1,009.8

[1] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

[2] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

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

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 2c: Discretionary measures adopted/announced according to the Programme

			2021	2022	2023	2024	2025	2026
Measures	ESA Code (Expenditure / Revenue component)	Date of adoption (yyyy-mm)	Budgetary impact (bn RSD)					
<i>Temporary measures¹</i>								
Direct support to the private sector	D3	2020-04;2021-04	-78.1					
Fiscal stimulus - domestic demand incentive	D7	2020-04; 2021-04	-67.1					
Assistance to pensioners	D62	2020-04;2021-04;2021-11;2023-09	-10	-33.6	-33.6			
Assistance to unemployed	D62	2021-04	-5					
Assistance to young people	D7	2022-02;2022-06;2022-12		-30.6				
Assistance to health, education and science workers in public sector	D1	2022-01;2022-04		-3.15				
Temporary reduction in oil excises	D2	2022-04		-16	-19			
Energy sector subsidies	D3	2022-11		-189	-43	-30		
Assistance to mothers	D7	2023-09			-12			
Assistance to social benefits users	D62	2023-10			-2.5			
	Subtotal		-160.2	-272.35	-110.1	-30	0	0
<i>Non-temporary measures¹</i>								
Decrease of pension contribution and increase of nontaxable census on wages	D5, D61	2019-11;2020-11;2021-11;2022-11	-8	-16.2	-41			
Change in demographic policy	D62	2021-12		-15	-10			
Increase of nontaxable census on wages	D5,D61	2023-10				-14		
	Subtotal		-8	-31.2	-51	-14	0	0
Total			-168.2	-168.2	-303.55	-161.1	-44	0

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond 2022. By contrast, those measures adopted or announced for 2020, 2021 or 2022 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2023 are considered as 'non-temporary' for the purpose of this table.

Table 2c: Discretionary measures adopted/announced according to the Programme

Measures		ESA Code (Expenditure / Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)					
				2021	2022	2023	2024	2025	2026
<i>Temporary measures</i> ¹	Direct support to the private sector	D3	:	1.2	:	:	:	:	:
	Fiscal stimulus - domestic demand incentive	D7	:	0.2	:	:	:	:	:
	Assistance to pensioners	D62	:	0.1	-0.3	0.1	:	:	:
	Assistance to unemployed	D62	:	-0.1	:	:	:	:	:
	Assistance to young people	D7	:	:	-0.4	:	:	:	:
	Assistance to health, education and science workers in public sector	D1	:	:	0.0	:	:	:	:
	Temporary reduction in oil excises	D2	:	:	-0.2	0.0	:	:	:
	Energy sector subsidies	D3	:	:	-2.7	2.1	0.2	:	:
	Assistance to mothers	D7	:	:	:	-0.1	:	:	:
	Assistance to social benefits users	D62	:	:	:	0.0	:	:	:
Subtotal				1.4	-3.7	2.0	0.2	0.0	0.0
<i>Non-temporary measures</i> ¹	Decrease of pension contribution and increase of nontaxable census on wages	D5, D61	:	0.1	-0.1	-0.3	:	:	:
	Change in demographic policy	D62	:	:	-0.2	0.1	:	:	:
	Increase of nontaxable census on wages	D5,D61	:	:	:	:	-0.2	:	:
Subtotal				0.1	-0.3	-0.2	-0.2	0.0	0.0
Total				1.5	-4.0	1.8	0.0	0.0	0.0

[1] For the purpose of this table, temporary measures refer to those discretionary measures that have no budgetary impact beyond the year of submission. By contrast, those measures adopted or announced for 2023 that continue to have a fiscal effect of 0.1% of GDP or greater until at least 2025 are considered as 'non-temporary' for the purpose of this table.

Table 3: General government expenditure by function (bn RSD)

Table 3: General government expenditure by function (bn RSD)	COFOG Code	2021	2022	2023	2024	2025	2026
1. General public services	1	423.909	611.080	560.379	585.827	586.588	608.904
2. Defence	2	155.128	137.340	163.741	159.036	170.300	192.820
3. Public order and safety	3	167.544	174.249	194.149	198.238	217.605	243.562
4. Economic affairs	4	562.278	576.613	652.144	660.095	681.199	710.388
5. Environmental protection	5	28.580	34.789	39.378	44.134	47.306	50.742
6. Housing and community amenities	6	56.108	64.694	71.795	75.022	85.150	101.484
7. Health	7	438.904	495.966	542.115	575.150	614.972	669.794
8. Recreation, culture and religion	8	63.315	67.667	77.235	78.815	85.150	101.484
9. Education	9	243.150	259.150	290.732	347.789	359.522	385.639
10. Social protection	10	832.4	906.628	1,081.332	1,208.794	1,314.620	1,378.559
Other relevant variables							
11. Total expenditure (item 7 = 23 in Table 2)	TE	2,971.3	3,328.2	3,673.0	3,932.9	4,162.4	4,443.4

Table 3: General government expenditure by function**Republic of Serbia**

% of GDP	COFOG Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. General public services	1	8.6	6.9	6.7	6.2	6.0
2. Defence	2	1.9	2.0	1.8	1.8	1.9
3. Public order and safety	3	2.5	2.4	2.3	2.3	2.4
4. Economic affairs	4	8.1	8.0	7.5	7.2	7.0
5. Environmental protection	5	0.5	0.5	0.5	0.5	0.5
6. Housing and community amenities	6	0.9	0.9	0.9	0.9	1.0
7. Health	7	7.0	6.7	6.6	6.5	6.6
8. Recreation, culture and religion	8	1.0	1.0	0.9	0.9	1.0
9. Education	9	3.7	3.6	4.0	3.8	3.8
10. Social protection	10	12.8	13.3	13.8	13.9	13.6
11. Total expenditure (item 7 = 23 in Table 2)	TE	46.9	45.3	44.8	44.0	43.8

Table 4: General government debt developments

		2021	2022	2023	2024	2025	2026
1. Gross debt [1]	bn RSD	3,581.8	3,945.8	4,319.2	4,536.0	4,796.8	5,074.2
Contributions to change in gross debt							
5. Stock-flow adjustment	bn RSD		139.2	145.9	19.8	115.8	122.4
<i>of which:</i>							
- Differences between cash and accruals[4]	bn RSD						
- Net accumulation of financial assets[5]	bn RSD						
<i>of which:</i>							
- Privatisation proceeds	bn RSD						
- Valuation effects and other[6]	bn RSD						
Other relevant variables							
6. Liquid financial assets[8]	bn RSD						

[1] As defined in Regulation 3605/93 (not an ESA concept).

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 4: General government debt developments
Republic of Serbia

% of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Gross debt [1]		55.6	53.3	51.7	50.7	50.0
2. Change in gross debt ratio		-1.5	-2.3	-1.6	-1.0	-0.7
Contributions to change in gross debt						
3. Primary balance [2]		1.7	0.9	0.1	-0.6	-0.8
4. Interest expenditure [3]	EDP D.41	1.5	1.9	2.1	2.2	2.3
5. Real growth effect		-1.3	-1.2	-1.7	-1.9	-2.0
6. Inflation effect		-5.2	-5.6	-2.3	-1.7	-1.4
7. Stock-flow adjustment		1.8	1.7	0.1	1.2	1.1
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3.0	3.8	4.3	4.5	4.9

Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

		2022	2023	2024	2025	2026
4. One-off and other temporary measures [1]	% of GDP	-3.4	-0.6	0.0	0.0	0.0
5. Potential GDP growth	%, yoy	3.4	3.4	3.6	3.8	4.0
Contributions:						
- labour		0.7	0.9	1.0	0.9	0.8
- capital		1.5	1.4	1.4	1.5	1.6
- total factor productivity		1.2	1.1	1.2	1.4	1.6
6. Output gap	% of GDP	0.5	-0.4	-0.5	-0.3	0.1
7. Cyclical budgetary component	% of GDP	0.2	-0.1	-0.2	-0.1	0.0

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

Table 5: Cyclical developments

Republic of Serbia

% of GDP	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Real GDP growth (% , yoy)	B1g	2.5	2.5	3.5	4.0	4.3
2. Net lending of general government	EDP.B.9	-3.2	-2.8	-2.2	-1.5	-1.5
3. Interest expenditure	EDP.D.41	1.5	1.9	2.1	2.2	2.3
4. One-off and other temporary measures [1]		-3.4	-0.6	0.0	0.0	0.0
5. Potential GDP growth (% , yoy)		3.4	3.4	3.6	3.8	4.0
Contributions:						
- labour		0.7	0.9	1.0	0.9	0.8
- capital		1.5	1.4	1.4	1.5	1.6
- total factor productivity		1.2	1.1	1.2	1.4	1.6

6. Output gap		0.5	-0.4	-0.5	-0.3	0.1
7. Cyclical budgetary component		0.2	-0.1	-0.2	-0.1	0.0
8. Cyclically-adjusted balance (2-7)		-3.4	-2.7	-2.0	-1.4	-1.5
9. Cyclically-adjusted primary balance (8+3)		-1.9	-0.8	0.1	0.7	0.8
10. Structural balance (8-4)		0.0	-2.1	-2.0	-1.4	-1.5

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

Table 6: Divergence from previous programme

		2022	2023	2024	2025	2026
1. GDP growth	% , yoy, previous programme	2.5	2.5	3.5	4.0	
2. General government net lending	% of GDP, previous programme	-3.8	-3.3	-2.2	-1.4	
3. General government gross debt	% of GDP, previous programme	56.9	56.1	55.1	54.0	

Table 6: Divergence from previous programme

Republic of Serbia

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP growth (% , yoy)					
Previous programme	2.5	2.5	3.5	4.0	:
Latest update	2.5	2.5	3.5	4.0	4.3
Difference (percentage points)	0.0	0.0	0.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-3.8	-3.3	-2.2	-1.4	:
Latest update	-3.2	-2.8	-2.2	-1.5	-1.5
Difference	0.6	0.5	0.0	-0.1	:
3. General government gross debt (% of GDP)					
Previous programme	56.9	56.1	55.1	54.0	:
Latest update	55.6	53.3	51.7	50.7	50.0
Difference	-1.3	-2.8	-3.4	-3.3	:

Table 7: Long-term sustainability of public finances (% GDP)

	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which:							
- Age-related expenditures							
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
<i>of which:</i> property income							
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7: Long-term sustainability of public finances

Republic of Serbia

% БДП	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	:	:	:	:	:	:
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	:	:	:	:	:	:	:
<i>of which: property income</i>	:	:	:	:	:	:	:
<i>of which: from pensions contributions (or social contributions, if appropriate)</i>	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	:	:	:	:	:	:
Real GDP growth	:	:	:	:	:	:	:
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	:	:	:	:	:	:	:

Табела 7а: Stock of General Government guarantees adopted/announced at [year-month] according to the Programme

Measures		Date of adoption	Maximum amount of contingent liabilities ¹	Estimated
In response to COVID-19			2023	2023
	Bn RSD			
	Bn RSD			
	Bn RSD			
	Subtotal			
Others			2023-09	2023-09
Srbijagas			110.1	83.6
Elektroprivreda Srbije			118.4	56.3
Putevi Srbije			44.7	23.0
Local government			32.3	17.9
Srbija Voz			18.2	11.8
Železnice Srbije			32.9	7.9
Infrastruktura železnice Srbije			14.9	5.6
Elektromreža Srbije			20.0	3.8
Srbija Kargo			12.5	2.5
Skijališta Srbije			3.2	2.2
Jugoimport - SDPR			4.9	1.1
Elektrodistribucija Srbije	Bn RSD		10.5	0.4
Emisiona tehnika i veze	Bn RSD		2.1	0.3
	Subtotal		424.8	216.5
	Total		424.8	216.5

¹ Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP

Table 7a: Stock of General

Republic of Serbia

Measures		Date of adoption	Maximum amount of contingent liabilities ¹ (% of GDP)	Estimated take-up (% of GDP)
			2023	2023
In response to COVID-19	:	:	:	:
	:	:	:	:
	Subtotal	% of GDP	0.0	0.0
Others	Srbijagas	:	1.4	1.0
	Elektroprivreda Srbije	:	1.5	0.7
	Putevi Srbije	:	0.6	0.3
	Local government	:	0.4	0.2
	Srbija Voz	:	0.2	0.1
	Železnice Srbije	:	0.4	0.1
	Infrastruktura železnice Srbije	:	0.2	0.1
	Elektromreža Srbije	:	0.2	0.0
	Srbija Kargo	:	0.2	0.0
	Skijališta Srbije	:	0.0	0.0
	Jugoimport - SDPR	:	0.1	0.0
	Elektrodistribucija Srbije	:	0.1	0.0
	Subtotal	% of GDP	4.6	2.5
	Total	% of GDP	4.6	2.5

¹ Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP

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

	Dimension	2022	2023	2024	2025	2026
Short-term interest rate [1]	Annual average					
Long-term interest rate	Annual average					
USD/EUR exchange rate	Annual average					
Nominal effective exchange rate	Annual average					
Exchange rate vis-à-vis the EUR	Annual average					
Global GDP growth, excluding EU	Annual average					
EU GDP growth	Annual average					
Growth of relevant foreign markets	Annual average					
World import volumes, excluding EU	Annual average					
Oil prices (Brent, USD/barrel)	Annual average					

[1] If necessary, purely technical assumption.

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

Republic of Serbia

	Dimension	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange rate	Annual average	:	:	:	:	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	:	:	:	:	:
EU GDP growth	Annual average	:	:	:	:	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	:	:	:	:	:

[1] If necessary, purely technical assumption.

Table 9a: Social scoreboard indicators

	Data source	2019	2020	2021	2022	2023
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	EUROSTAT	4.3	3.7	4.8	5.2	
2. Share of early leavers from education and training, age 18-24	EUROSTAT	6.6	5.6	6.3	5.0	
3. Share of population with basic overall digital skills or above, age 16-74	EUROSTAT	46		41		
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	EUROSTAT	19.3	20.3	18.8	15.1	15.8 (Q3)
5. Gender gap in employment rate, age 20-64	EUROSTAT	14.6	14.6	14.9	13.9	13 (Q3)
6. Income quintile share ratio - S80/S20	EUROSTAT	6.5	6.1	5.9	5.5	
Working conditions						
7. Employment rate, age 20-64	EUROSTAT	63.6	64.3	66.7	69.3	70.4 (Q3)
8. Unemployment rate, age 15-74	EUROSTAT	11.3	9.8	11.1	9.4	9.0 (Q3)
9. Long-term unemployment rate, age 15-74	EUROSTAT	5.5	4.5	4.9	3.8	3.8 (Q3)
10. Gross disposable income of households in real terms, per capita	EUROSTAT	:	:	:	:	
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EUROSTAT	31.1	29.8	28.4	28.1	
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EUROSTAT	34.5	30.6	27.5	27.1	
13. Impact of social transfers (other than pensions) on poverty reduction	EUROSTAT	18.02	18.73	28.14		
14. Disability employment gap, age 20-64	EUROSTAT	36	34.8	38.3		
15. Housing cost overburden rate	EUROSTAT	21.6	17.8	15.1		
16. Children aged less than 3 years in formal childcare	EUROSTAT	17.2	18.1	18.0		
17. Self-reported unmet needs for medical care	EUROSTAT	4.8	3.8	5.3		

*(:)- Data not available

Table 9b: Other selected indicators

	Data source	2018	2019	2020	2021	2022
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP						
2. Public healthcare expenditure in % of GDP	WB	8.5	8.7	8.7		
3. Household out-of-pocket payments as a % of total health expenditure	WB	38.3	37.1	35.9		
4. Percentage of population not covered by health insurance						
5. Ratio of doctors per 1000 inhabitants	RSO	3.1	2.9	2.91	2.95	3.09
6. Ratio of nurses per 1000 inhabitants	RSO	6.6	5.96	6.2	6.32	6.58
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	RSO	11.1	11	10.3	9.8	
8. Greenhouse gas emissions per capita		8.82	8.94	9.1		
9. Generation of waste excluding major mineral wastes, kg per capita	EUROSTAT	1,704		1,763		

Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	EUROSTAT	72.9	80.1	81.0	81.5	83.2
11. Share of total population using internet	EUROSTAT	74.6	78.5	80.1	84.4	84.4
Energy						
12. Energy imports dependency (%)	EUROSTAT	34.6	35.6	30.0	34.7	:
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	EUROSTAT	427.8	407.1	425.2	402.2	:
14. Share of renewable energy sources (RES) in final energy consumption (%)	EUROSTAT	20.3	21.4	25.3	25.3	:
Transport						
15. Railway Network Density (meters of line per km ² of land area)	UNECE	42.5	42.5	38	:	:
16. Motorization rate (Passenger cars per 1000 inhabitants)	OECD	286	300	315	:	344
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	EUROSTAT	7.7	7.2	7.6	7.6	7.7
18. Share of employment (Agriculture, Forestry and Fishing)	WB	15.9	15.6	14.6	13.9	
19. Utilised agricultural area (% of total land area)		39.6	39.5	41.4	41.4	
Industry (except construction)						
20. Share of gross value added	EUROSTAT	25.4	24.0	23.4	23.0	23.9
21. Contribution to employment (% of total employment)	WB	26.9	27.4	27.9	28.9	
Services						
22. Share of gross value added	EUROSTAT	61.5	61.9	62.4		
23. Contribution to employment (% of total employment)	WB	57.2	57.0	57.5	57.1	:
Business Environment						
24. Rank in Global Competitiveness Index	World Economic Forum	65	72	NA	NA	NA
25. Estimated share of informal economy in GDP (as % of GDP)						
Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	EUROSTAT	0.92	0.89	0.91	0.99	0.97
27. R&D expenditure – EUR per inhabitant	EUROSTAT	56.3	58.6	61.2	77.2	85.9
Trade						
28. Export of goods and services (as % of GDP)	EUROSTAT	50.4	51.0	48.2	54.9	63.8
29. Import of goods and services (as % of GDP)	EUROSTAT	59.1	60.9	56.5	62.9	74.8
30. Trade balance (as % of GDP)	EUROSTAT	-8.6	-9.9	-8.3	-8.0	-11.0

*(:) – Data not available

Table 10: The effects of structural reforms on the budget**Table 10 a: Costing of structural reforms for the period 2024-2026 in EUR**

1. IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	1,216,616	1,271,698	17,157,835	2,673,368	22,319,517
2025	1,470,853	2,301,025	53,595,276	2,074,576	59,441,730
2026	1,216,616	905,193	54,848,445	2,144,000	59,114,254
2. IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	1,832,000	1,000,000	111,601,696	114,433,696
2025	0	51,368,000	2,000,000	157,519,491	210,887,491
2026	0	50,568,000	2,000,000	82,813,559	135,381,559
3. GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	2,195,000	0	0	2,195,000
2025	0	41,525,000	0	0	41,525,000
2026	0	24,000,000	0	0	24,000,000
4. GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	822,000	18,583,333	52,683,333	72,088,666
2025	0	137,000	20,833,333	117,633,333	138,603,666
2026	0	411,000	12,500,000	52,183,333	65,094,333
5. EDUCATION FOR SUSTAINABLE DEVELOPMENT AND WORK READINESS					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	114,913	0	32,710,050	32,824,963
2025	0	12,706,410	0	24,290,950	36,997,360
2026	0	6,663	0	0	6,663
6. IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	2,431,614	0	2,431,614
2025	0	0	2,205,411	0	2,205,411
2026	0	0	2,392,318	0	2,392,318
TOTAL	3,904,085	190,163,902	189,547,565	638,327,689	1,021,943,241

Table 10 b: Financing of structural reforms for the period 2024-2026 in EUR

1. IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	18,542,148	1,235,208	0	1,759,661	15,000	767,500	0	22,319,517
2025	20,095,716	1,235,208	0	36,889,660	0	142,333	1,078,813	59,441,730
2026	21,821,233	1,235,208	0	35,829,000	0	0	228,813	59,114,254
2. IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	27,183,696	0	0	0	0	87,250,000	0	114,433,696
2025	37,169,491	0	0	0	0	123,650,000	50,068,000	210,887,491
2026	30,813,559	0	0	0	0	54,500,000	50,068,000	135,381,559
3. GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	2,195,000	0	0	2,195,000
2025	0	0	0	0	8,025,000	32,000,000	1,500,000	41,525,000
2026	0	0	0	0	4,500,000	18,000,000	1,500,000	24,000,000
4. GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	19,405,333	0	0	0	0	52,683,333	0	72,088,666
2025	20,970,333	0	0	0	0	105,133,333	12,500,000	138,603,666

2026	12,911,000	0	0	0	0	39,683,333	12,500,000	65,094,333
5. EDUCATION FOR SUSTAINABLE DEVELOPMENT AND WORK READINESS								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	100,635	0	0	0	14,278	32,710,050	0	32,824,963
2025	2,170,635	0	0	10,500,000	35,775	24,290,950	0	36,997,360
2026	0	0	0	0	6,663	0	0	6,663
6. IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	2,183,279	0	0	248,335	0	0	0	2,431,614
2025	2,060,649	0	0	0	0	0	144,762	2,205,411
2026	2,070,918	0	0	271,400	0	0	50,000	2,392,318
TOTAL	217,498,625	3,705,624	0	85,498,056	14,791,716	570,810,832	129,638,388	1,021,943,241

Table 11: Report on the Implementation of Structural Reforms from the Economic and Reform Plan (ERP) for the period 2023-2025

	SHORT DESCRIPTION OF THE ACTIVITIES PLANNED FOR THE YEAR OF 2022 <i>(activities from the Gant Chart)</i>	HAVE THE ACTIVITIES PLANNED FOR THE YEAR OF 2023 BEEN IMPLEMENTED?	IN CASE THE ACTIVITY HAS NOT BEEN FULLY IMPLEMENTED, GIVE A BRIEF OVERVIEW <i>(steps undertaken, dynamics of the implemented activities, difficulties and delays in the implementation)</i>	IN CASE THE ACTIVITY IS NOT BEING IMPLEMENTED, GIVE AN EXPLANATION AS TO WHY	OTHER ACTIVITIES <i>(unplanned, but activities realised in other to implement the SR)</i>
SR 1: ESTABLISHMENT OF A FRAMEWORK FOR THE INTRODUCTION OF THE YOUTH GUARANTEE IN THE REPUBLIC OF SERBIA					
1.	Preparation and the adoption of the Implementation plan	progress in implementation	A draft implementation plan for the Youth Guarantee has been developed, which was aligned with the members of the Coordination Body and the Expert Group, along with comments from the European Commission incorporated into the document. This draft plan was forwarded to the European Commission for approval on August 18, 2023. On September 11, 2023, the European Commission granted approval for the proposed implementation plan, which was presented to the Coordination Body on November 15, 2023, and forwarded for the adoption procedure on November 23, 2023.		
2.	Implementation of preparatory actions for the introduction of the Youth Guarantee in accordance with the Implementation Plan	progress in implementation	In accordance with the developed Implementation Plan for the Youth Guarantee, preparatory activities have been initiated, focusing on strengthening administrative capacities, creating a platform for the registration of young people, and more. Financial resources have been secured to pilot the Youth Guarantee in three branches of the National Employment Service (NES) - Nis, Sremska Mitrovica, and Kruševac through IPA 2020 contracts: a direct grant to NES and technical assistance from the Ministry of Labor, Employment, Veterans, and Social Affairs (MRZBSP) and		

			NES for the preparation of institutions for piloting the Youth Guarantee.		
		80%			
SR 2: THE YOUNG TALENT FUND REFORM					
1.	Analysis of the existing Programmem and the Fund reform proposal	implementation ongoing with some initial results	Under the "Talents in the Public Sector" program, scholarship recipients for the academic year 2022/2023 have a contractual obligation to undertake professional practice in the public sector. Currently, more than 300 scholarship recipients are participating in the practice. The competition for the academic year 2023/2024 is ongoing, announced on November 1, and applications are accepted until December 15, 2023. Scholarships will be awarded to up to 1151 students in their final year of undergraduate and integrated studies and up to 500 students in their final year of master's studies. The competition for scholarships for students pursuing second and third-degree studies at leading world universities has ended and 266 scholarship holders will be financed. The competition for awarding prizes to high school students has ended as well and the number of winners is 1296.		
2.	Development of the digital platform	implementation ongoing with some initial results	Office for Information Technologies and e-Government, the second phase is in progress.		
3.	Announcement of the Programme and awarding scholarships according to the Programme for scholarship of talents for studying in RS	fully implemented			

4.	Establishing the Young Talent Fund as a legal entity	in preparation			
		60%			
SR 3: QUALIFICATIONS ORIENTED TO THE NEEDS OF THE LABOUR MARKET					
1.	Creating a digital dual promotional platform	fully implemented	A digital dual promotional platform has been created for key participants in the dual education system (students, employers, parents, teachers). The campaign focused on the video format to effectively convey key messages and present the campaign concept, visuals for social media.		
2.	Establishment, infrastructural arrangement and equipping of regional training centres	implementation ongoing with some initial results	Four training centers have been established.		
3.	Implementation of the Monitoring and Evaluation System of the National Model of Dual Education and Dual Education Profiles	implementation ongoing with some initial results	In the upcoming period, the improvement of the Framework and tools will continue based on obtained facts. In the previous period, training for implementing the Framework was developed and conducted for representatives of the education system who deal with ensuring the quality of work in vocational high schools through external evaluation, as well as for school representatives engaged in self-evaluation.		
4.	Improving the methodology for the development of qualification standards in the part related to qualifications in the higher education system and piloting of methodology	initial steps have been taken	An initial analysis of the regulations and methodological framework for the development of qualification standards has been prepared and the elements that need to be improved have been mapped. Also, an agreement was concluded on the realization of the project in cooperation with the Swiss Agency for Development and Cooperation (SDC), which will provide experts for the implementation of the mentioned activities.		

5.	Connecting the NQFS Register with the European qualifications portal	progress in implementation	To link the NOKS registry with the European qualifications portal, IT experts have been engaged, and by the end of 2023, they will connect the NOKS registry with the European qualifications portal. A series of consultative meetings with experts and relevant social partners have been held to analyze data from both registries, assess their compatibility, and determine the next steps regarding the linking of the two registries.		
6.	Digitization of the process of accreditation of non-formal education Programmes and creation of qualification standards, as well as the visualization of data from UEIS (Uniform Education Information System) for the purposes of improving the transparency of the education and qualification system	in preparation			
		60%			
SR 4: IMPROVEMENT OF THE ENVIRONMENT FOR ENCOURAGING, SUPPORTING AND MONITORING CIRCULAR AND ECONOMIC MIGRATION					
1.	Preparation of analyses and proposals for measures and activities foreseen in the Action Plan, as well as implementation of activities for the promotion of the return of the highly qualified Serbian diaspora and its inclusion in the Programmes	implementation ongoing with some initial results	The Action Plan includes the development of two Analyses, one of which has already been completed. Expert support has been secured for the preparation of the second analysis, focusing on problem identification and undertaking activities planned for the 4th quarter of 2023. A report on the results for the year 2023 will be compiled upon completion, making the outcomes visible at that point.		
2.	Identification and amendment of regulations aimed at facilitating the process of returning to the Republic of Serbia and attracting foreign citizens to live and work in the Republic of Serbia.	no implementation			

3.	Development of communication, advisory and promotional activities aimed at the integration of returnees and foreign citizens, as well as the organization of the conference “Talent Meet-Up” and other conferences and events with the aim of building the trust with the diaspora.	no implementation			
4.	Organization of events in the diaspora and presentation of support Programmes for diaspora return.	implementation ongoing with some initial results	According to the report from the Ministry of Foreign Affairs, in the fourth quarter of 2022, funds were allocated for the development of a new portal, which became publicly accessible at the beginning of 2023. The portal is intended for Serbs and citizens of the Republic of Serbia abroad.		
5.	Improvement of the administrative framework in order to encourage the arrival of domestic and foreign citizens.	no implementation			
6.	Analysis of labour market and workforce needs in the context of migration management.	fully implemented			
7.	Building the capacity of institutions responsible for monitoring migration trends, as well as the Point of Return organization for providing direct and mentoring support to the diaspora during their return and/or cooperation with the institutions of the Republic of Serbia.	implementation ongoing with some initial results	Multiple workshops, training sessions, and meetings have been conducted in order to strengthen the institutional capacities of relevant authorities. Their maintenance is planned throughout the entire duration of the action plan.		
		40%			
SR 5: IMPROVEMENT OF THE QUALITY OF PUBLIC SERVICES THROUGH OPTIMIZATION AND DIGITALIZATION OF ADMINISTRATIVE PROCEDURES – e-PAPER					

1.	Listing of administrative procedures for citizens at the level of local self-government units	initial steps have been taken	For the purposes of listing administrative procedures within the original jurisdiction of local self-government units (LSUs), three modules for listing have been prepared within the Register of Administrative Procedures. These modules align with the models of administrative organization at the level of LSUs. Training sessions for the listing have been conducted, and administrative procedures have been identified for the city of Užice, with the listing currently underway within this LSU. Other LSUs have received invitations to join the listing by determining individuals who will assume the necessary user roles, while online training for representatives of LSUs is also planned. Activities will be implemented in collaboration with the Standing Conference of Towns and Municipalities (SKGO).		
2.	Optimization of administrative procedures for the economy and citizens	progress in implementation	This is an activity that is implemented continuously. In May 2023, the Administrative Procedures Simplification and e-PAPER Regulatory Program for the period 2023-2025 was adopted. This program includes recommendations for optimizing 599 administrative procedures and recommendations for digitizing 831 administrative procedures. A report on the implemented recommendations will be received in the first quarter of 2024, after collecting the necessary information on the program's implementation.		
3.	Digitization of administrative procedures for the economy and citizens and creating digital business episodes	implementation ongoing with some initial results	In 2023, 22 public administration services were digitized within the e-PAPER 2023-2025 program. This includes 5 services in the field of agriculture, 12 services under the jurisdiction of the Ministry of Internal Affairs (in the areas of private security, event		

			<p>organization, fire protection, border crossing detention), and 5 services in the field of passenger transport.</p> <p>Regarding the preparation of business episodes, 2 business episodes have been prepared in the field of domestic and international freight transport in domestic road traffic, and currently, business episodes are being prepared in the hospitality industry - accommodation and food and beverages.</p>		
4.	Listing and optimization of administrative requirements (business conditions)	progress in implementation	<p>Listing of nearly 2,400 administrative requests is currently underway. Methodology for optimizing requests has been prepared, along with a handbook for implementing the optimization of administrative requests, as well as initial proposals for optimization of administrative requests, that are covered by business episodes in the field of domestic and international freight transport in domestic road traffic.</p>		
5.	Improving the Register of Administrative Procedures and its portal	fully implemented	<p>Within the Administrative Procedure Register (RAP) and the publicly accessible RAP Portal, a publicly available model for procedures related to citizens has been created and made available on the RAP Portal since March 2023. Additionally, three model forms for the listing procedures within the local self-government units (JLS) have been created, along with two forms for the listing requests (documentation and other business conditions - objects, spaces, equipment, personnel, etc.). Integration with the eID system has also been implemented.</p>		
6.	Establishing an online monitoring tool for searching measures and activities of importance for the business environment	implementation ongoing with some initial results	<p>Within the Unified Information System for Public Policy Documents (UIS), a filter has been created to select measures, activities of specific objectives, and indicators based on the "business environment" criterion. A</p>		

			methodology for using the filter is currently being prepared.		
		70%			
SR 6: SUSTAINABLE AND EFFICIENT MANAGEMENT OF BUSINESS ENTITIES OWNED BY THE REPUBLIC OF SERBIA					
1.	Implementation of the new legal framework, which applies to all EERS	in preparation	During 2023, activities were undertaken to enact the Law on the Management of Economic Entities owned by the Republic of Serbia. The mentioned law came into force in September 2023 and will be applied starting from September 2024. Before the implementation of the law begins, the adoption of sublegal acts is planned, along with the implementation of established solutions.		
2.	Digitization of EERS monitoring and reporting processes	implementation ongoing with some initial results	Software monitoring of the operations of public enterprises has been applied for some time through the Ministry of Economy's platform. With the implementation of the Law on the Management of Economic Entities owned by the Republic of Serbia, the coverage of economic entities will be expanded. Based on the experience gained in monitoring the operations of public enterprises so far, the platform will be further improved.		
3.	Analysis of the situation for the establishment of a unified system of corporate governance in EERS	implementation ongoing with some initial results	To assess the current level of corporate governance in economic entities owned by the Republic of Serbia, a questionnaire has been delivered to these companies. Data processing is currently underway, which continues the analysis of the situation to establish a corporate governance system.		
		47%			
SR 7: DEVELOPMENT OF THE DOMESTIC CAPITAL MARKET AND THE PROVISION OF A GREATER LEVEL OF INVESTOR PROTECTION					

1.	Adoption of the Law on Takeover of Joint Stock Companies	in preparation	Currently, work is underway on the draft law on the takeover of joint-stock companies in collaboration with relevant authorities. Due to the complexity of the legislative process and the number of participants in drafting the law, the implementation of activities is expected in the fourth quarter of 2024.		
2.	Strengthening the institutional capacity to perform normative tasks in the field of capital markets	in preparation	The employment of two civil servants who will perform regulatory tasks in the field of the capital market is planned within the Ministry of Finance, in the Financial System Department - Securities and Capital Market Group, by the end of 2024.		
		20%			
SR 8: IMPROVEMENT OF CONDITIONS FOR ENHANCING ENERGY EFFICIENCY THROUGH CREATING CONDITIONS FOR APPLICATION OF ENERGY LABELLING AND ECO-DESIGN, AS WELL AS THROUGH THE INCENTIVES FOR ENHANCING ENERGY EFFICIENCY					
1.	Adoption of technical regulations in the field of energy labelling of products and eco-design	progress in implementation	Technical regulations are continuously being enacted. In order to implement them, consultations with the economy are conducted to ensure that the solutions in the regulations are most effectively applied in practice.		
2.	Strengthening the capacity of the state administration and conformity assessment bodies for the implementation of technical regulations in the field of energy labelling of products and eco-design I and the implementation of pilot testing of products on the market	progress in implementation	The IPA 2016 project was successfully implemented in the previous period and completed in May 2022. Four laboratories have been equipped to test some of the products. The Ministry responsible for trade, through market inspection, has been enabled to implement market surveillance of products covered by energy labeling, and this activity is now being continuously carried out in collaboration with testing laboratories. The continuation of the IPA 2016 project aims to ensure the recognition and enablement of other market surveillance authorities for monitoring industrial devices put into use (not freely circulated). No new pilot testing		

			has been approved as part of the continuation. The EU delegation has evaluated the tender for Technical Assistance to continue activities to improve the areas of energy labeling and ecodesign, and the signing of the contract is expected in December 2023.		
3.	Improvement of procedures and mechanisms for awarding incentives of the EE Administration and implemented pilot activities with new mechanisms	in preparation	At the beginning of June 2023, the implementation of the technical assistance project to the Office for Financing and Promotion of Energy Efficiency started with funds provided from IPA funds. Preparatory activities are currently underway, which will be realized through this project.		
		60%			
SR 9: INTEGRATION OF RENEWABLE SOURCES OF ELECTRICAL ENERGY THROUGH THE PROJECT "BeoGrid 2025"					
1.	Preparation of the necessary urban-planning and project-technical documentation for the construction of buildings	implementation ongoing with some initial results	In 2022, the company "Elektromreža Srbije" in Belgrade initiated a project by examining technical solutions and creating urban projects with conceptual solutions for technical specifications, unraveling cables, and a 400 k transmission line, in accordance with the Government's Conclusion and Article 15a) of the Energy Law. This documentation was completed and submitted for approval, but it was rejected due to the necessity of creating planning documents. At the beginning of 2023, "Elektromreža Srbije" submitted an initiative for the development of a Special Purpose Area Plan to the competent Ministry of Construction, Transport, and Infrastructure for this infrastructure. On July 6, 2023, the government made a decision to develop a Spatial Plan for the Special Purpose Area (PPPN) for the BeoGrid 2025 project. The early public review within the PPPN framework took		

			place from August 7 to August 21, 2023. Drafting of the PPPN is currently in progress. Conceptual solutions have been developed, and the issuance of location conditions is pending. Location conditions have been obtained for all above-ground lines and the TS Belgrade 50. The procurement process for selecting a consultant is being initiated.		
2.	Obtaining permits	in preparation	In the upcoming period, efforts will be directed towards developing project-technical documentation necessary for obtaining permits, with the planned completion by the end of 2024.		
		40%			
SR 10: ENERGY MARKET DEVELOPMENT COUPLED WITH ENERGY INFRASTRUCTURE CONSTRUCTION					
1.	Preparation of tender documentation with technical specifications for the pre-qualification phase and the final phase of contractor selection (section III)	progress in implementation	The prequalification documentation for the selection of contractors has been approved by KfW Bank. The tender for the prequalification process has been published, with the deadline for submitting offers in October 2023. The opening of bids for Lot 1 and Lot 2 took place on October 12, 2023. Evaluation reports (for Lot 1 and Lot 2) are currently under review by the team from “Elektromreža Srbije” AD Belgrade.		
2.	Implementation of the tender procedure for the selection of consultants (section IV)	initial steps have been taken	The tender for the selection of consultants was announced on June 5, 2023, and the evaluation of received offers in the prequalification process has been completed. The preparation of tender documentation for the selection of consultants is currently underway. Additional documentation has been sent to potential bidders for ESHS, and for the works supervision consultant, the revision of tender documentation by KfW is awaited.		

		60%			
SR 11: TAX ADMINISTRATION TRANSFORMATION					
1.	Business process reengineering in tax issues, including training of trainers for the introduction of the new functions in the operational units of the TARS	progress in implementation	A series of training sessions on "Process Redesign and Subproject Recognition" were conducted for approximately 100 employees. Additionally, a training session on "Activity Planning and Risk Management, Practical and Theoretical Training" was held for members of the special group from various organizational units of the Tax Administration. The consultant delivered a report on the "Plan for Introduction of the New Business Model for the Tax Administration with an Action Plan." The report was presented at the 50th session of the Transformation Committee and distributed to all functions of the Tax Administration for feedback. After receiving comments, suggestions, and incorporating changes into the document, the Plan for introducing the new business model with the action plan was adopted at the 52nd session of the Implementation Committee of the Transformation Program held on September 15, 2023.		
2.	Implementation the TAMP Procurement Plan (TARS Modernization Project)	progress in implementation	A public procurement process for hardware and network infrastructure for COTS has been conducted, and after positively evaluating the best offers, the goods are in the procurement process, with an expected delivery date in December 2023. A contract has been signed for the subscription to the transfer pricing database until October 2024, and the database is used in the daily work of the LTO (Office for Large Taxpayers) and the Department for Strategic Risks. The environmental and social management specialist successfully completed the audit		

			report in February 2023. The engagement of subject matter consultants has been extended until the end of the TAMP project, i.e., until October 31, 2024.		
3.	Analysis and introduction of a modern record management system through a comprehensive information management model	fully implemented	The analysis of the legal framework in the field of archiving by the Tax Administration, along with recommendations for improvement, has been prepared. The remaining activities related to record management will be implemented in 2024.		
4.	Procurement of systems for the new ICT platform	progress in implementation	After adopting the Introductory report for the preparation of the Request for Proposal, work on creating the "Request for Proposal" document intensified with active participation from the Tax Administration, Central Fiduciary Unit, Change Management Unit, as well as advisory participation from representatives of the World Bank and the International Monetary Fund. The process of preparing the Request for Proposal has been completed, and after obtaining approval from the World Bank, it has officially been sent to potential suppliers from the shortlist compiled during the pre-selection process. The pre-selection process of potential suppliers of a ready-made commercial solution has been completed, and a list of four providers who participated in the pre-selection has been compiled. Approval from the World Bank on the correctness of the conducted procedure has been obtained, and notifications about the results have been sent to pre-selection participants. The procurement procedure for a ready-made commercial solution, following the rules prescribed by the World Bank, has been initiated by sending Requests for Proposal to the shortlisted suppliers identified during the pre-selection process. Three offers have been		

			received from potential suppliers of a ready-made commercial solution. The Evaluation Commission has started the evaluation of the received offers. An Evaluation Report on the technical assessment of the offers has been prepared and submitted to the World Bank. After receiving approval from the World Bank on November 22, 2023, information about the technical assessment of the offers has been provided to each individual bidder.		
5.	Institutional development of the human resources function - through the implementation of activities that include the reengineering of the business processes of the human resources function, the development of policies and management practices	implementation ongoing with some initial results	A presentation on "Best International Practices in Human Resource Management" and an analysis of the gap between the existing and desired organizational state of the Tax Administration have been prepared. A workshop on "Strategic Management" for the management of the Tax Administration was conducted to cover topics related to strategic management and leadership. The conclusions from the workshop will serve as the starting point for the development of the future Human Resources Strategy. Work on drafting the Human Resources Strategy has commenced, and meetings have been held to align the elements of the Human Resources Strategy. A draft of the Human Resources Strategy has been prepared. The Human Resources Strategy was adopted at the 53rd meeting of the Committee for the Implementation of the Transformation Program, while the document on the Business Process Reengineering of the Human Resources function was adopted on December 8, 2023.		
6.	Improvement of the existing centralized information system for human resources management to complete centralization and	initial steps have been taken	After reviewing the delivered list of functionalities for the Human Resources Management Information System (HRMIS) within the delivery – Technical Specification of HRMIS with consolidated comments of		

	automation of the human resources management process		the Working Group, it was determined that the existing information system for human resources management still does not provide a sufficient level of automation for procedures in the Human Resources Sector. Further development of the existing HR management software solution is planned, using new Web-Based technology, which should enable the establishment of an adequate user interface for all employees in the Tax Administration, as well as improved Document Management capabilities, enhanced management of employee status, annual leave, etc. The Technical Specification of HRMIS has been prepared, and the next step will be to announce a tender for the implementation of the component related to improving the functionality of the existing HRMIS.		
7.	Improvement of the special professional training of tax officials, with the support of an appropriate organizational form for building the capacity of tax officials.	initial steps have been taken	Defining activities for the upcoming period, assessing training needs, and developing the training program for the Tax Administration are currently in progress. A questionnaire to assess training needs in the field of human resources management has been sent to around 80 email addresses. The Training of Trainers program has been delivered, outlining the topics that will be covered. After completing such a program, a number of new trainers within the Tax Administration will be equipped to independently conduct training sessions. The following training sessions are planned: Trainer Training; Communication; Conflict Management; Ethics, Anti-corruption, and Employee Well-being; Human Resources Management; Development of Leadership Skills through Mentoring and Teamwork; Change Management and Strategic Thinking.		

		69%			
SR 12: IMPLEMENTATION OF THE CIRCULAR ECONOMY IN CREATING FAVOURABLE ENVIRONMENT FOR THE GREEN TRANSITION					
1.	Support for business entities in the transition to business models based on circular economy principles	progress in implementation	Analyses have been conducted for selected economic entities, and action plans for transitioning to a circular economy model are currently being developed.		Workshops were held for businesses that participated in the Circular Communities and Green Agenda project.
2.	Support to local self-governments in the creation of local roadmaps for the circular economy	initial steps have been taken	The development of local roadmaps has commenced for the following municipalities: Sombor, Pančevo, Medveđa, and Bujanovac. The expected completion date is by the end of 2023.		
3.	Improving cooperation between business and the scientific-research sector through the allocation of circular vouchers for technological innovations that contribute to the application of the concept of circular economy	fully implemented	In 2023, 13 circular vouchers were awarded, each amounting to 10,000 USD, for innovative ideas contributing to the circular economy.		Workshops were held for the scientific-research sector and business entities that participated in the call for circular vouchers.
4.	Support for the application of green public procurement	fully implemented	Six guides for green public procurement have been created for selected types of services and goods. These guides have been posted on the website of the Ministry of Environmental Protection.		
		80%			
SR 13: DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL INFORMATION AND COMMUNICATION INFRASTRUCTURE					
1.	Connecting educational and cultural institutions to Academic Network of the Republic of Serbia (hereinafter AMRES network (improvement of quality and speed))	progress in implementation	During 2023, improvements were made to the AMRES school network based on the signed new framework agreement from 2022. This included upgrading individual links of the AMRES school network (120 locations) and completing the connection of remote classrooms in primary and secondary schools to the AMRES infrastructure. Additionally, through the implementation of the project		

			<p>"Project for the Joint Construction of Broadband Communication Infrastructure in Rural Areas of the Republic of Serbia" by the Ministry of Information and Telecommunications, there was further enhancement of the AMRES link capacities to specific school locations covered by this project, starting in 2023.</p> <p>Improvements were implemented to enhance the capacity and reliability of all systems related to maintaining the operability of the AMRES school network and the network of cultural institutions at the central location (e.g., maintaining and improving the capacity of web traffic filtering services, implementing solutions for traffic balancing, etc.).</p>		
2.	Activities on the improvement of IC infrastructure in primary and secondary schools in the Republic of Serbia - "Connected schools" – phase 3	fully implemented	In June 2023, Phase 3 of the project related to the construction of LAN and wireless networks in schools was completed. A total of 1,843 schools have had the network infrastructure built as part of this initiative.		
3.	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia – phases 1 and 2	progress in implementation	<p>The first phase of the program includes the construction of approximately 4,700 km of optical routes (4,775 km) solely by the state and will cover around 700 rural settlements, close to 120,000 households (118,934), and approximately 730 schools (728 schools). In this phase of the project, the state's investment pertains to the construction of the backbone of the optical network (mid-mile routes), while telecommunication operators will invest in building the access network (last-mile).</p> <p>Phase 1A: 600 km of mid-mile optics in 123 clusters within 142 settlements. Works started at the end of November. 55 settlements have been completed, and 9 settlements are in progress.</p>		

			<p>Phase 1B: 900 km of mid-mile optics in 165 clusters or 229 settlements. Works began on April 3, 2023. 49 settlements have been completed, and 83 settlements are in progress.</p> <p>Phase 1C: ~3,200 km of mid-mile optics in 335 settlements. The tender was announced on the EBRD website in September 2023 and is currently in the prequalification phase. The planned start date for construction is mid-2024, with the completion of these clusters expected by the end of 2025.</p>		
4.	Preparation and construction of optical broadband network in rural areas of the Republic of Serbia - phase 3	initial steps have been taken	Negotiations have commenced for the third phase of financing, which will cover the construction phase 2B of the project.		
		75%			
SR 14: SETTING THE INFRASTRUCTURE AND ENVIRONMENT FOR THE CREATION AND APPLICATION OF INNOVATIVE IT SOLUTIONS					
1.	Conducting Public Call for towns/LSGs for participation in the Smart City project, in partnership with the economy and the academic community, on an annual basis	in preparation	<p>In 2023, the activities were focused on coordinating and consolidating activities related to Smart Cities initiatives in various cities. Particularly productive collaboration was initiated with Novi Sad, which completed a Feasibility Study for an Integrated Control Center for Smart City. Work is ongoing to choose the best approach for establishing Smart Cities in Serbia, considering the need for quick results and the limited capacities of local self-governments. There is consideration for establishing a central, unified system for data collection, while each city would have its own platform/control center to develop according to its specific needs.</p>		<p>Several meetings were held with partners from Korea who, through the Knowledge Sharing Program (KSP), implemented various projects in Serbia on the topic of Smart City. These projects involved analyzing the state of Smart Cities in Serbia, developing concepts, and proposing activities for the implementation of Smart City solutions.</p>

2.	Phase 3 Innovation District - Design and construction of the facility 3 of the DSC	in preparation	The project is currently in the phase of developing project documentation and technical documentation. Activities related to obtaining necessary permits are underway.		
		20%			
SR 15: SUPPORT TO THE DEVELOPMENT OF TALENTS AND CREATIVE INDUSTRIES BY ESTABLISHING THE MULTIFUNCTIONAL INNOVATIVE-CREATIVE CENTER LOŽIONICA					
1.	Reconstruction of the Ložionica facility with the water tower and the construction of the annex office building	implementation ongoing with some initial results	Construction works are currently in progress. The project is advancing according to the planned schedule.		Construction of a supporting wall in collaboration with Belgrade Waterfront, aimed at developing road infrastructure.
		60%			
SR 16: DEVELOPMENT OF THE STARTUP ECOSYSTEM					
1.	Establishment of the Register of Subjects of the National Innovation System	progress in implementation	A system has been developed, tested, and preparations for production are currently underway. It is expected to be released to the public (GoLive) in the upcoming period.		
2.	Preparation and implementation of training for civil servants in work with start-ups	progress in implementation	Identified needs of officials, and a training program has been created in collaboration with the National Academy for Public Administration (NAPA), and the training program has been included in the training plan of NAJU. The accreditation of instructors is currently in progress.		
3.	Implementation of GovTech Programme	initial steps have been taken	In 2023, the Fund designed the GovTech program and issued a public call for collecting challenges in the public sector (first phase). The deadline for submitting challenges was November 15, 2023. In mid-December 2023, the announcement of a public call for the second phase, for submitting solutions to selected challenges, is expected.		
4.	Connecting domestic start-up ecosystem actors with international	progress in implementation	The startups from the Republic of Serbia are now part of the international platform		

	ecosystems, with a special focus on mentors and investors		Dealroom.co. This platform enhances the visibility of the Serbian startup ecosystem globally, contributing to greater exposure to potential investors.		
5.	Strengthening start-ups to attract investment through inclusion in the acceleration Programme of the Innovation Fund (SAIGE project)	progress in implementation	The Catapult Program has seen success, with 16 out of 18 startups from the first cohort successfully raising investments totaling \$14.8 million USD. The Fund has approved \$4.4 million USD in grants for this amount. Startups from the second cohort have completed the three-month mentoring part of the program and are currently in the process of raising investments. Six out of 20 startups have already closed investments totaling \$4.4 million USD, for which the Fund has approved \$1 million USD in grants for these four startups, while two are still in progress. The third cohort is in the evaluation phase, with 114 project proposals submitted, of which 104 are eligible.		
6.	Development of the ecosystem for start-ups in the area of biotechnology	progress in implementation	By the decision of the Government 05 Number: 02-5674/2023-1, dated June 29, 2023, an economic company, BIO4 LLC, has been established with the task of managing the "BIO4 CAMPUS" project, which is a project of national importance. It will serve as a unique center in the broader region in terms of multidisciplinary, will include the most competent scientific research institutes and innovative organizations relevant to the overall economic and industrial development of society. The conceptual solution for the BIO4 Campus has been developed. In order to meet the needs of BIO4 LLC, a separate budget line has been opened within the budget of the Ministry of Science, Technological Development, and Innovation.		
		73%			

SR 17: CREATION OF CONDITIONS FOR THE DEVELOPMENT OF BIO SCIENCE AND BIOECONOMY THROUGH THE CONSTRUCTION OF BIO4 CAMPUS					
1.	Preparation of project documentation for construction of BIO4 Campus and providing sources for construction financing	progress in implementation	The Law approving the Framework Agreement on Loan LD 2147 (2023) between the Bank for Development of the Council of Europe and the Republic of Serbia, specifically for the Project Loan for the construction of the BIO4 Campus, has been ratified.		
2.	Construction of BIO4 Campus, including the preparation of specification and procurement of the necessary equipment	implementation ongoing with some initial results	The preparatory works will start by the end of 2023. Currently, the project documentation for all construction segments is nearing completion. Equipment specifications have been made, and construction projects are adapted to the technology and equipment that will be used in that space.		
3.	Connecting BIO4 Campus users with international scientific and corporate partners	progress in implementation	We have signed a significant number of Memoranda of Understanding with global players in relevant fields. Some of the partners include: Takeda, Roche, MSD, AstraZeneca, Pfizer, Ginko, etc.		
4.	Implementation of transformation plans of scientific research institutes (BIO4 Campus members)	progress in implementation	The institutes have successfully completed the first year of implementing transformation plans. Based on the Memorandum of Understanding and the Agreement on Financial Support in the process of institutional transformation, the institutes are strengthening their capacities, improving management practices, institutional policies and processes, and connecting with domestic, regional, and global networks and leading actors in development and innovation. The institutes are currently in the second year of implementing transformation plans.		

5.	Preparation and adoption of the Action Plan for the Smart Specialization Strategy for the period 2023-2025	in preparation	The draft action plan for the period 2023-2025 for the implementation of the Smart Specialization Strategy for the period 2020-2027 has completed the consultation and public discussion phase. In order to adopt the Action Plan, a Decision on changing the Smart Specialization Strategy was adopted at the session held on October 30, 2023. The draft action plan is currently in the phase of collecting opinions from relevant institutions.		
		64%			
SR 18: IMPROVEMENTS OF CONDITIONS AND REMOVAL OF THE BARRIERS TO TRADE					
1.	WTO accession negotiations - bilateral negotiations, adoption of regulations harmonized with WTO rules and principles	progress in implementation	When it comes to the bilateral aspect of the WTO accession process, contacts with the Ukrainian side have been renewed during 2023, and steps have been taken to resume negotiations. In line with the provisions outlined in the National Program for the Adoption of the Acquis of the European Union (NPAEA) for the period 2022-2025, the Law on Genetically Modified Organisms is scheduled for adoption in the fourth quarter of 2024. Afterward, an acceleration of the WTO accession process is expected.		
2.	AP CRM - CEFTA - Implementation of Additional Protocol 5 on Trade Facilitation	progress in implementation	Currently, the LIS in Pristina have blocked the adoption of decisions at the Joint Committee of CEFTA. Decisions agreed upon at the expert level include: Decision on recognizing the status of authorized economic operators for the Republic of Serbia, the Republic of Moldova, the Republic of North Macedonia, and the Republic of Albania (AEOs); Decision on facilitating electronic commerce; Decision on preventing unjustified geoblocking; Decision on the delivery of shipments.		

3.	AP CRM - CEFTA: Implementation of Additional Protocol 6 on Trade in Services	progress in implementation	Several decisions have been agreed upon at the technical level, and their adoption is expected at the Joint Committee once the adoption process is unblocked.		
4.	AP CRM – CEFTA: Adoption and implementation of Additional Protocol 7 on Dispute Settlement	implementation ongoing with some initial results	The intense negotiation dynamics have continued during 2023. Up to now, 10 rounds of negotiations on Additional Protocol 7 have been held.		
5.	Implementation of activities defined in Action Plans for 2022 and 2023 within NTFB and the adoption of NTFB Action Plans for 2024 and 2025 and their implementation	progress in implementation	During the year, a session of the National Customs and Trade Facilitation Committee (NCTFC) was held. Business associations positively assessed the implementation of Action Plan. It is expected that, by the end of the year, with close collaboration with business associations, new AP for the period 2024-2025 will be defined and adopted.		
		76%			
SR 19: IMPROVEMENT OF EFFICIENCY AND SAFETY IN THE RAILWAY TRAFFIC					
1.	Application of the new Methodology for calculating the price of access to railway infrastructure	in preparation	The process of preparing the Draft Regulation on the methodology for determining the prices of access to the railway infrastructure and the prices of basic, additional, and ancillary services has been initiated. This is in line with the proposal developed by KPMG consultants as part of the Technical Assistance Project to the Ministry of Construction, Transport, and Infrastructure (MCTI) and state-owned railway companies in Serbia - Comprehensive Railway Reform. The plan is for "Railway Infrastructure of Serbia" to complete the previously started process of simulating the new methodology by the end of 2023. This will allow further analysis of the impact on the operations of railway companies, assessing how the new access		

			charges will affect the revenue of infrastructure managers and the costs of railway carriers in terms of competitiveness and the market. Subsequently, adjustments and the introduction of specific coefficients in the new methodology will be made based on these assessments.		
2.	Increasing safety in railway crossings	implementation ongoing with some initial results	The reform is closely tied to the implementation of infrastructure projects in the railway sector. Completed projects have yielded results, but further progress is anticipated alongside the ongoing development of infrastructure. To enhance safety in railway traffic, funding has been secured through the Trade and Transport Facilitation Project in the Western Balkans, financed by a World Bank loan totaling 10.9 million euros. Additionally, the EBRD has approved the reallocation of remaining funds from an existing loan (around 10 million euros) to finance works on improving safety at railway crossings. The contract for the execution of the works was signed in April 2022, and the implementation of contractual obligations is underway, with improvement works initiated at 14 out of the contracted 35 level crossings. Furthermore, loan agreements have been signed with the World Bank and the French Development Agency for the Modernization of the Railway Sector Project in Serbia – the first phase, which includes a component for upgrading the safety of level crossings amounting to 22 million euros.		
3.	Creating the conditions for the improvement of the efficiency of passenger railway traffic	progress in implementation	With the modernization and completion of new railway lines, an increase in the efficiency of passenger traffic is expected in the coming period.		

			In March 2022, the high-speed rail line between Belgrade Center and Novi Sad was introduced into commercial operation. To date, this route has transported over 5,000,000 passengers. In the next period, the continuation of the implementation of other projects and additional activities aimed at further improving the efficiency of railway traffic are anticipated.		
		53%			
SR 20: IMPROVEMENTS OF THE AGRICULTURE COMPETITIVENESS					
1.	Adoption of laws and by-laws in the areas of organic production, quality schemes for agricultural and food products; adoption of by-laws based on the Act on Regulation of the Agricultural Products Market	in preparation	Activities are underway, funded with the assistance of the EU, through the IPA Twinning project "Strengthening and Aligning Administrative Capacities for Establishing the Agricultural Products Market Framework." Working groups have been formed for the development of laws and sub-legal acts.	Following the publication of the new implementation legal framework for the Common Agricultural Policy of the EU, it was necessary to update the draft laws and regulations. Considering the need to align them with EU regulations, the enactment of new laws and regulations has been postponed until 2024. According to the Law on Ministries, the authority to regulate geographical indications, including those of agricultural and food products, belongs to the Intellectual Property Office. Therefore, the Ministry of Agriculture, Forestry,	

				and Water Management does not have the competence to enact laws on quality schemes for agricultural and food products. It is necessary to amend the Law on Ministries to allocate the responsibility to the Ministry of Agriculture, Forestry, and Water Management, thereby creating conditions for the adoption of the aforementioned law.	
2.	Implementation of the public call for the national measure Improvement of rural infrastructure (year 2023) and adoption of by-laws (year 2024), publication and implementation of the public call for the IPARD measure Investments in rural public infrastructure (year 2025)	initial steps have been taken	An amount of 300,000,000 dinars has been allocated for the national measure to improve rural infrastructure in 2023 through the Regulation on the Distribution of Incentives in Agriculture and Rural Development. The public call for submitting applications to claim incentives for investments in the improvement and development of rural infrastructure for the year 2023 is currently ongoing.		
3.	Preparation and adoption of the Law on Land Consolidation and the Law on Agricultural Land; adoption of by-laws in the field of land consolidation and the exercise of expert supervision in the land consolidation procedures, as well as the implementation of pilot land consolidations	in preparation	The working group, comprised of relevant institutions such as the Ministry of Agriculture, Forestry, and Water Management (MAFWM), the Republic Geodetic Authority (RGA), the Ministry of Finance (MF), the National Land Development Agency (NALED), the Standing Conference of Towns and Municipalities (SKGO), and other participants, held a meeting to discuss the drafting of the Law on Land Consolidation.		

			The aim is to expedite the land consolidation process based on established foundations for the adoption of the Law on Land Consolidation. Simultaneously, foundational elements were defined for drafting the Law on Agricultural Land, along with an analysis of its effects.		
4.	Implementation of information system to support the implementation of professional supervision in the implementation of land consolidation - control module and integration module for connection with the information system of real estate cadastre and training of employees in the implementation of professional supervision	no implementation		The precondition for implementing the information system to support the supervision of land consolidation - the control module and the integration module for connecting to the information system of the real estate cadastre is the adoption of the Land Consolidation Law. However, the Land Consolidation Law has not been adopted.	
5.	Capacity building and training of employees in the Directorate for Agrarian Payments	implementation ongoing with some initial results	As of December 29, 2023, the total number of employees and those engaged in the Directorate for Agrarian Payments (DAP) is 320, including 193 permanent employees and 127 on fixed-term contracts (73 engaged based on temporary and occasional work contracts, 53 employed on fixed-term contracts, and 1 based on temporary relocation). The recruitment process for filling 17 positions with 32 appointees (the positions were advertised on May 17, 2023) has been completed. The 20 newly hired individuals		

			<p>are expected to start working on 01.01.2024., while for several positions, the competition was unsuccessful as candidates did not meet the competency verification criteria.</p> <p>Regarding training, in the third quarter, seven training sessions were conducted on topics such as Communication Skills, Spreadsheet Calculations, Administrative Procedure, "Application of the General Administrative Procedure Act in Practice," Basic Concepts of Irregularities, and Electronic Office Operations.</p> <p>As part of the training plan for the month of September, the National Academy for Public Administration also organized training on IPARD for new employees at UAP, in cooperation with an accredited training provider from the DAP.</p> <p>In addition to the aforementioned trainings, a workshop on risk management was also held. The total percentage of implementation of the Training Plan for 2023, ending with the third quarter, is 50%.</p> <p>In the fourth quarter, until November 29, 2023, 11 training sessions were conducted on topics such as Basic Concepts of Irregularities, Assertive Communication, Personal Data Protection, Application of Ethical Guidelines for the Development, Implementation, and Use of Reliable and Responsible Artificial Intelligence, Conflict of Interest Prevention, Property and Income Verification of Officials, Registers, and Lobbying in the Republic of Serbia, Presentation and Implementation of IPARD III Measures, Basics of Financial Management and Control, Work in the Central Information System for Salary Calculation - ISKRA, Performance</p>		
--	--	--	---	--	--

			Appraisal, Using Pivot Tables in Excel, and Financial Management in the IPARD Context. The overall completion rate for the 2023 training plan, as of November 29, 2023, is 60%.		
6.	Development of software for the RAH database and LPIS database, connection with the Animal Register and development of the remaining parts of the IACS database	progress in implementation	The software for the RAH has been developed, along with a module for linking the RAH with the Livestock Registry and Land Cadastre. The development of the Land Parcel Identification System (LPIS) software is currently in progress.	The development of the remaining elements of the Integrated Administration and Control System (IACS) is planned for the upcoming years (2024-2027).	
		37%			
SR 21: IMPROVEMENT OF THE STRATEGIC FRAMEWORK OF QUALITY INFRASTRUCTURE AND INTEGRATION INTO A SINGLE EU MARKET					
1.	Preliminary analysis and development of the new IC Strategy 2024-2030	implementation ongoing with some initial results	As part of the IPA 19 EU4BE - Sub-project proposal for the Flexible business environment technical assistance of the project: "EU for Better Business Environment", the Ministry of Economy, in collaboration with representatives from the World Bank, is implementing the project: Infrastructure Quality, focusing on the development factors of competitiveness and preparatory activities for improving the strategic and legislative framework. Throughout 2023, regular working group meetings on standardization, accreditation, and metrology have been conducted under this project. These sessions involve analyzing the current state of each of these areas. Analyses in the fields of standardization and accreditation have been completed. Additionally, an Annex to the contract has been prepared to expand the project's		

			activities. This project will support the development of the Quality Infrastructure Development Strategy for the period 2024-2030. Once all three analyses are completed, the obtained results and recommendations, along with information on industry needs in the field of quality infrastructure, will serve as the basis for drafting the mentioned Strategy.		
2.	Development of an Action Plan for the implementation of the QI Strategy 2024-2030 for 2024 and 2025	in preparation	The analyses conducted within the above mentioned project, supported by World Bank experts, will serve as the basis for the development of an Action Plan to implement the Quality Infrastructure Strategy for the years 2024 and 2025.		
		40%			
SR 22: IMPROVING THE EFFICIENCY OF THE HEALTH SYSTEM THROUGH DIGITIZATION OF THE PROCESS					
1.	Establishing an Electronic Medical Record (EMR)				
2.	Establishment of a central platform for connecting state and private laboratories (eLab)				
3.	Extension of ePrescription to aids and ampoule drugs at the primary level of health care				
4.	Implementation of a system for checking the interaction of drugs and a support system for making clinical decisions				
5.	Extension of ePrescription hospital drugs (B and C List)				
6.	Application of artificial intelligence in radiology (Breast cancer screening)				
		0%			

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT PUBLIC POLICY DOCUMENTS

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
<p>SR 1. IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA</p>	<p>KSC 2. Creating a more favourable business environment for investment</p>	<p>Industrial Policy Strategy of the Republic of Serbia for the period from 2021 to 2030 and Action Plan for implementation of aforementioned strategy for the period from 2021 to 2023 Program for Combating the Gray Economy 2023-2025. Strategy of State Ownership and Management of Business Entities owned by the Republic of Serbia for the period from 2021 to 2027 and the Action Plan for the implementation of the aforementioned strategy for the</p>	<p>Continue the deployment of the SOE ownership and management strategy 2021-2027 by implementing the remaining steps of the time-bound action plan 2021-2023 and preparing the new time-bound action plan for 2024-2027 to improve the governance of SOEs and reduce related fiscal risks.</p>	<p>Finalize accession to the WTO, among other things, by adopting the Law on Genetically Modified Organisms, which is in line with the WTO, and by ending the remaining bilateral negotiations on market access. Continue with the implementation of the activities defined within the Action Plan for the Common Regional Market 2021-2024 Ensure adoption of CEFTA Additional Protocol 7 on dispute settlement. Improve implementation of IPARD</p>	<p>SDG 2.3 By 2030, double the agricultural productivity and incomes of smallscale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment SDG 2.4 By 2030, ensure sustainable food production systems and</p>	<p>goal 41 of the European Green Deal - Stakeholders identify and correct inconsistent legislation that minimise efficiency in the implementation of the European Green Deal goal of the 13 GAWB - Increase the share of renewable energy sources and provide the necessary investment conditions goal 17 of the GAWB - Support the development of smart transport infrastructure, promote the innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger</p>	<p>Chapter III Importance of Investment Package - Support investments in rural areas through IPARD funding Chapter VI Greening the Western Balkans - investing in the environment and climate - Promotion of sustainable production patterns and systems of food products Chapter VIII Boosting the private sector - Greater market integration and trade within the region and with the EU - Enable investments in sustainable agricultural production to</p>	<p>The first part of measure 2 - Improvement of the strategic framework of quality infrastructure and integration into the EU single market: IPA 2019 - Project "EU4BE - EU for Better Business Environment" which includes the project "Quality infrastructure, factors of competitiveness development - preparatory activities for the improvement of the strategic and legislative framework" - "Quality Infrastructure, Competitiveness Development Factors - Preparatory Activities for Improving the Strategic and</p>

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
		period from 2021 to 2023		funds,ensure the smooth rollover of entrusted IPARD measures to the 2021-2027 period, and prepare new measures for entrustment Achieved progress in the implementation of the Action Plan for alignment with the EU acquis in the field of agriculture and rural development Continue the deployment of the SOE ownership and management strategy for 2021-2027 by implementing the remaining steps of the 2021-2023 action plan and by preparing a new time-bound	implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality SDG 7.3 By 2030, double the global rate of improvement in energy efficiency. SDG 9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and	ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.) goal 26 of the GAWB - Promote preparation and implementation of Sustainable Urban Mobility Plans for urban areas in the Western Balkans goal 27 of the GAWB - Define sustainable mobility solutions at the regional level including plans for deployment of alternative fuels goal 31 of the GAWB - Development of circular economy strategies, taking into account the entire product life cycle goal 42 of the GAWB - Integrating land protection into other policy areas and establishing a	support balanced rural development and strengthen the competitiveness and sustainability of the agri-food sector - Ensure the existence of a functioning market economy Chapter X Regional economic integration and integration with the EU - Market integration and cross-border trade in the region and with the European Union - Removal of technical barriers in trade, while ensuring equal conditions for participation - Cooperation through the Central European Free Trade Agreement (CEFTA) Key initiative 9 – investment in the	Legislative Framework", implemented by the World Bank (around 350,000 euros); IPA 2021 - EU Support for Internal Market (roughly EUR 250,000) Measure 3 - Improving the competitiveness of agriculture - IPA 2018 unallocated funds "Strengthening and harmonization of administrative capacities for the establishment of agricultural products market regulation"; Implementation period: 5/5/2022 – 5/5/2024; Contract value: 1,795,476.45 euros

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
				<p>action plan for 2024-2027</p> <p>Improving economic integration with the single market of the European Union (New growth plan for the Western Balkans)</p>	<p>gross domestic product, in line with national circumstances, and double its share in least developed countries.</p> <p>SDG 11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.</p> <p>SDG 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</p> <p>SDG 12.8 By 2030, ensure that people everywhere have</p>	<p>regional partnership for land protection, in order to facilitate the exchange of knowledge and identify examples of good practice in protecting land from pollution and degradation</p> <p>goal 44 of the GAWB - Align the agri-food and primary production sectors with EU standards on food safety, plant and animal health and well-being and the environment, and address the issues of wastewater, fertilizer and waste management</p> <p>goal 46 of the GAWB - Promoting environmentally friendly (zero pollution) and organic agriculture and reducing the use of synthetic</p>	<p>competitiveness of the private sector</p> <p>- Mobilize aid for sustainable transformation of agri-food systems and rural development</p>	

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					<p>the relevant information and awareness for sustainable development and lifestyles in harmony with nature</p> <p>SDG 16.7 Ensure responsive, inclusive, participatory and representative decision-making at all levels</p> <p>SDG 17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda</p> <p>SDG 17.11 Significantly increase the</p>	<p>chemicals in food production</p> <p>goal 47 of the GAWB - Cooperation with scientific, educational, business and agricultural institutions in order to facilitate the transfer of innovative and ecological technologies and agricultural methods</p> <p>goal 49 of the GAWB - Increasing efforts aimed at sustainable development of rural areas with the implementation of the LEADER programme</p> <p>goal 50 of the GAWB - Support for investments in production and renewable energy technologies, as well as reduction of greenhouse gas emissions and</p>		

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					<p>exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020</p> <p>SDG 17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organization decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access</p>	<p>implementation of adaptation measures to climate change in agriculture</p> <p>goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p>goal 60 of the GAWB - Create programs and take the necessary measures to increase administrative capacities for the implementation of the Green Agenda for the Western Balkans in order to achieve supervision,</p>		

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
						promotion and compliance with environmental obligations and ensure effective mechanisms for public participation, access to information, access to justice in matters of environmental protection, as well as environmental reporting		
SR 2. IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY		Smart Specialization Strategy of the Republic of Serbia for the period from 2020 to 2027 and the Action Plan for the implementation of the aforementioned strategy for the period from 2023 to 2025 Strategy for the of the Startup Ecosystem Development Strategy of the Republic of		Encourage more intensive cooperation between business sector and academia Follow up on the actions of the new European Research Area	SDG 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors SDG 8.3 Promote development-oriented policies that support	goal 17 of the GAWB - Support the development of smart transport infrastructure, promote the innovative technologies (such as paperless transport, artificial intelligence, multimodal passenger ticketing, mobility as a service, applications for cross-border / border crossings, 5G corridors, etc.) goal 35 of the GAWB - Further	Chapter VII Investing in the digital future - Development of regional centers for digital innovations and their connection with Science and Technology Parks - Supporting companies to increase their competitiveness by using digital technologies, especially the use of artificial intelligence in the business sector	

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
		<p>Serbia for the period from 2021 to 2025</p> <p>Scientific and Technological Development Strategy of the Republic of Serbia for the period from 2021 to 2025</p> <p>"The power of knowledge" and the Action Plan for the implementation of the aforementioned strategy for the period from 2021 to 2023</p>			<p>productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services</p> <p>SDG 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value</p> <p>SDG 9.3 Increase the access of small-scale industrial and other enterprises, in particular in</p>	<p>implement Smart Specialisation Strategies, place-based, innovation-led transformation agendas for sustainability</p> <p>goal 59 of the GAWB - Improve intersectoral management and support the integration of green and low-carbon transition, inter alia, through the public administration reform, public finance management, economic reform programme and own resource mobilisation</p> <p>goal 60 of the GAWB - Develop programmes and undertake necessary measures required to increase administrative capacities for the Western Balkan Green Deal implementation in</p>	<p>- Support for digital "startup" and "scale-up" companies and the development of digital skills.</p> <p>Chapter VIII Boosting the private sector</p> <p>- Strengthening the competitiveness of SMEs through investments to support "startup" companies and innovative companies in the growth phase ("scale-up")</p> <p>Innovation agenda for the Western Balkans</p> <p>- Further strengthen technology transfer¹⁶ and will facilitate access to the world's best research infrastructure, knowledge centers, competence centers and online platforms, as well</p>	

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					<p>developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p> <p>SDG 9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending SDG</p>	<p>order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment</p> <p>goal 62 of the GAWB - Develop a plan for specific economic and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms</p>	<p>as access to advanced computer simulations</p> <p>- Promoting open science and state-of-the-art research infrastructure</p>	

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					9.b Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities			
SR 3. GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY	KSC 3. Greening Serbia's energy sector and fully opening the energy market	Incentive System Plan for the use of renewable energy sources for the period 2023-2025 Basic Principles of the Energy Infrastructure Development Plan and Energy Efficiency Measures for the period until 2028 with projections until 2030	Further modernise energy infrastructure and lower carbon emissions to accelerate the green transition also in the light of the upcoming EU Carbon Border Adjustment Mechanism (CBAM).	Accelerate the transition to green energy, reduce CO2 emissions, increase the share of renewable sources and save energy.	Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all SDG 7.1 Provide universal access to economically acceptable, reliable and modern energy services SDG 7.2 By 2030, increase substantially the	goal 9 of the European Green Deal - 'Renovation wave' initiative for the building sector goal 10 of the GAWB - Prioritizing energy efficiency and its improvement in all sectors goal 12 of the GAWB - Support for programmes for the reconstruction of both private and	Chapter V Investing in Clean Energy - Increasing energy efficiency, strengthening the energy market Chapter VI. Greening the Western Balkans - investing in the environment and climate - Transition from fossil fuels to renewable energy Key initiative 4. Renewable energy	"Capacity Development for Energy Planning", IPA 2013 "Further Development of Capacity for Energy Planning", IPA 2017 "Support for the work of the Energy Efficiency Fund", IPA 2021 "Roadmap for Energy Support -

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					<p>share of renewable energy in the global energy mix</p> <p>SDG 7.3 By 2030, double the global rate of improvement in energy efficiency</p> <p>SDG 7.a By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology</p> <p>SDG 7.b By 2030, expand infrastructure and upgrade</p>	<p>public buildings, as well as providing adequate funding</p> <p>goal 13 of the GAWB - Increasing the share of renewable energy sources and creating the necessary investment conditions</p> <p>goal 16 of the GAWB - Development of programmes for solving the problem of energy poverty and financing programmes for the reconstruction of households and ensuring the basic standard of living</p>	<p>- Increased use of renewable sources of energy</p> <p>Key initiative 5. Transition from coal exploitation</p> <p>- Decarbonisation, use of renewable energy sources</p>	<p>Support contract package in Building States Resilience Capacity", IPA 2023 (Sectoral Budget Support)</p>

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support			
SR 4. GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA		Traffic Safety Strategy of the Republic of Serbia for the period from 2023 to 2030 and the Action Plan for implementation of the aforementioned strategy for the period from 2023 to 2025		Align with the EU acquis regarding the provision of public services in the field of road transport. Harmonize railway infrastructure in accordance with technical specifications for interoperability.	SDG 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on	goal 23 of the European Green Deal - Initiatives to increase the capacity of railways and inland waterways and their better management goal 17 of the GAWB - Support the development of smart transport infrastructure, promote fostering of innovative	Chapter IV Investments in sustainable transport - Establishment of fast and efficient traffic connections - Sustainable transport with further investments in railways - Promoting multimodal transport solutions	

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
					<p>affordable and equitable access for all</p> <p>SDG 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons</p> <p>SDG 13.2 Integrate climate change measures into national policies, strategies and planning</p>	<p>technologies (such as paperless transport, artificial intelligence, multimodal passengers ticketing, mobility as a service, border/boundary crossing applications, 5G corridors, etc.)</p> <p>goal 20 of the GAWB - Defining a general strategy for shifting traffic from road to more environmentally friendly modalities</p>	<p>and modal changes</p> <p>- Reduction of pollution from transport sector</p>	
SR 5. EDUCATION FOR SUSTAINABL	KSC 1. Increasing employment, particularly of	Strategy for the Development of Education in the Republic of	Continue facilitating school-to-work transitions by	continue with the operationalisatio n of the National	SDG 4.3 By 2030, ensure equal access for all women and	goal 62 of the GAWB - Develop a plan for specific economic	Chapter IX Investing in human capital	Increased supply and diversification of accredited training in the field

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
E DEVELOPMENT AND WORK READINESS	young people, women and vulnerable groups, and social protection to combat poverty	Serbia by 2030 and the Action Plan for implementation of the aforementioned strategy for the period from 2023 to 2026	stepping up further VET, including dual VET, through revised curricula and the provision of infrastructure, which enables the acquisition of practical skills	Qualifications Framework (NQF) system in the Republic of Serbia Continue work on modernization and improvement of qualification standards in order to improve the relevance of professional education and further develop a national learning model based on dual education, according to needs of the labor market	men to affordable and quality technical, vocational and tertiary education, including university SDG 4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship SDG 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training	and regional awareness-raising activities in all five pillars, including the reflection of the Green Agenda for the Western Balkans in education system reforms	- Development of learning through the work within the vocational education and training - Linkage with the European Qualification Framework Innovation Agenda for the Western Balkans - Promoting Human Capital Development, Stopping Brain Drain and Promoting Brain Circulation	of non-formal education and training providers for adult education - IPA 2020
SR 6. IMPROVED CONDITIONS FOR GREATER SHARE OF	KSC 1. Increasing employment, particularly of young people, women and	Employment Strategy in the Republic of Serbia for the period from 2021 to 2026	Finalise, in co-operation with all relevant ministries, their agencies and stakeholders, a	Ensure adequate financial and institutional resources for employment and social policies	SDG 8.5 By 2030, achieve full and productive employment and decent work for	goal 60 of the GAWB - Develop programmes and undertake necessary measures required	Key initiative 10. Youth Guarantee - Youth Guarantee establishment	IPA 2020 Direct grant "Implementation of innovative measures of active employment policy

Structural reforms (SR) ERP 2024-2026	Key Structural Challenges (KSC) (Evaluation of EC ERP 2023-2025)	Public Policy Documents (PDP) of the Republic of Serbia	ERP Joint Conclusions 2023	Enlargement Package 2023	Sustainable development goals 2030	European Green Deal/Green Agenda for the Western Balkans (GAWB)	European digital agenda / Digital agenda for the Western Balkans	IPA III projects supporting this reform
YOUTH IN THE LABOR MARKET	vulnerable groups, and social protection to combat poverty	and the accompanying action plan for the period from 2021 to 2023 Youth Strategy in the Republic of Serbia for the period from 2023 to 2030 and the Action Plan for the implementation of the said strategy for the period from 2023 to 2025	Youth Guarantee Implementation Plan, adopt it and initiate its implementation.	that would be more systematically focused on youth, women and the long-term unemployed In particular, start piloting the Youth Guarantee in the Republic of Serbia	all women and men, including for young people and persons with disabilities, and equal pay for work of equal value SDG 8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training SDG 8.b By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the ILO	to increase administrative capacities for the Green Agenda for the Western Balkans implementation in order to attain monitoring, promotion and respect for environmental obligations and ensure efficient mechanisms for public participation, access to information, access to judiciary in environmental issues, as well as reporting on the environment	Western Balkans Declaration on ensuring sustainable labour market integration of young people. The measures and activities include the standardization of digital spaces for working with young people (digital clubs, digital volunteering...), as well as the digital education of young people, youth workers and the acquisition of digital skills	and support for the employment of less employable categories", total value of around 5,500,000 euros. Part of the funds from the Technical Assistance project from IPA 2020 with a total value of 1,363,000 euros and from IPA Operational program 2024-2027

ANNEX 3: A DETAILED OVERVIEW OF COSTS AND FINANCING OF ACTIVITIES WITHIN THE FRAMEWORK OF STRUCTURAL REFORMS

Overview of the costs of activities within the framework of structural reforms in the period 2024-2026

STRUCTURAL REFORM 1: IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA					
Activity 1. Accession negotiations with the WTO					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	8,835	8,550	0	0	17,385
2025	8,835	1,050	0	0	9,885
2026	8,835	1,050	0	0	9,885
Activity 2. Implementation of the process of trade facilitation and implementation of CEFTA Additional Protocols 5 and 6, as well as adoption of Additional Protocol 7 on the resolution of disputes					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	8,835	8,550	0	0	17,385
2025	8,835	1,050	0	0	9,885
2026	8,835	1,050	0	0	9,885
Activity 3. Development and adoption of the IC Strategy 2024-2030 with the Action Plan 2024-2025					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	350,000	0	0	350,000
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 4. Creation of conditions for a full integration of the Republic of Serbia into the EU single market for three groups of industrial products (electric and electronic products, machines and PPE) and signing of the ACAA for these groups of products					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	50,000	0	0	50,000
2025	0	100,000	0	0	100,000
2026	0	100,000	0	0	100,000
Activity 5. Efficient implementation of market surveillance activities					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	228,813	0	0	228,813
2025	0	228,813	0	0	228,813
2026	0	228,813	0	0	228,813
Activity 6. Preparation and adoption of laws and by-laws for the purpose of implementation and improvement of rural infrastructure					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	19,000	4,445,971	0	4,464,971
2025	0	0	50,247,047	0	50,247,047
2026	0	0	51,500,225	0	51,500,225
Activity 7. Adoption of laws and by-laws concerning organic production, quality schemes for agricultural products and foodstuffs; adoption of by-laws on the basis of the Law on Managing Agricultural Market					

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	180,000	12,711,864	146,250	13,038,114
2025	0	0	3,348,229	0	3,348,229
2026	0	0	3,348,220	0	3,348,220
Activity 8. The preparation and adoption of laws on land consolidation and laws on agricultural land; adoption of by-laws concerning land consolidation and implementation of expert surveillance in land consolidation procedures and implementation of the piloting of land consolidations					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	20,904	0	0	0	20,904
2025	20,904	250,000	0	600,000	870,904
2026	20,904	50,000	0	1,850,000	1,920,904
Activity 9. Digitalisation and development of a radio system for management and control of incentives for the purpose of preparations for the EU Common Agricultural Policy (linking the Register of Agricultural Holdings with the Register of Animals and the Land Parcel Identification System, development of a Geo-Spatial Application (GSA) and other elements of the IACS, other than the Area Monitoring System (AMS))					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	1,178,042	426,785	0	2,527,118	4,131,945
2025	1,178,042	1,420,112	0	1,474,576	4,072,730
2026	1,178,042	524,280	0	294,000	1,996,322
Activity 10. Adoption of by-laws for the application of the Law on the Management of Enterprises Owned by the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	127,119	300,000	0	0	427,119
2026	0	0	0	0	0
Activity 11. Digitalisation of the system of corporate governance of state-owned enterprises					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	127,118	0	0	0	127,118
2026	0	0	0	0	0
Activity 12. Amending the Law on Misdemeanours					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 13. Implementation of trainings of misdemeanour judges for misdemeanour proceedings concerning grey economy					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

Total costs of structural reform 1					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	1,216,616	1,271,698	17,157,835	2,673,368	22,319,517
2025	1,470,853	2,301,025	53,595,276	2,074,576	59,441,730
2026	1,216,616	905,193	54,848,445	2,144,000	59,114,254
TOTAL	3,904,085	4,477,916	125,601,556	6,891,944	140,875,501

STRUCTURAL REFORM 2: IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY					
Activity 1. Construction and international visibility of BIO4 Campus					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	50,000,000	50,000,000
2025	0	50,000,000	0	100,000,000	150,000,000
2026	0	50,000,000	0	46,000,000	96,000,000
Activity 2. Expansion and improvement of infrastructure of STP Niš, STP Čačak and STP Belgrade and RTP Kruševac					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	1,750,000	0	35,500,000	37,250,000
2025	0	1,300,000	0	22,350,000	23,650,000
2026	0	500,000	0	8,000,000	8,500,000
Activity 3. Implementation of the GovTech programme, along with the empowerment of startups for attraction of investments					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	1,000,000	0	1,000,000
2025	0	0	2,000,000	0	2,000,000
2026	0	0	2,000,000	0	2,000,000
Activity 4. Reconstruction of the Ložionica facility along with the development of different support programmes					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	21,610,170	21,610,170
2025	0	0	0	20,338,983	20,338,983
2026	0	0	0	5,932,203	5,932,203
Activity 5. Construction of the Innovation District in Kragujevac					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	1,949,153	1,949,153
2025	0	0	0	8,474,576	8,474,576
2026	0	0	0	16,525,424	16,525,424
Activity 6. Implementation of the Smart City Project					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	2,542,373	2,542,373
2025	0	0	0	6,355,932	6,355,932

2026	0	0	0	6,355,932	6,355,932
Activity 7. Creating the regulatory framework for autonomous driving					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	82,000	0	0	82,000
2025	0	68,000	0	0	68,000
2026	0	68,000	0	0	68,000

Total costs of structural reform 2					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	1,832,000	1,000,000	111,601,695	114,433,695
2025	0	51,368,000	2,000,000	157,519,492	210,887,492
2026	0	50,568,000	2,000,000	82,813,559	135,381,559
TOTAL	0	103,768,000	5,000,000	351,934,746	460,702,746

STRUCTURAL REFORM 3: GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY					
Activity 1. Allocation of incentives for new RES capacities through the auction procedure for wind power plants and solar power plants					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 2. Optimisation and digitalisation of administrative procedures/services in the area of the green agenda/renewable energy sources					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	170,000		0	170,000
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 3. Technical assistance for the implementation of tender procedures in the field of energy efficiency					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	25,000	0	0	25,000
2025	0	25,000	0	0	25,000
2026	0	0	0	0	0
Activity 4. Development of a technical, economic and legal study with energy efficiency surveys					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	2,000,000	0	0	2,000,000
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 5. Investment implementation - contracting, construction works in selected residential communities, monitoring and supervision of works					

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	41,500,000	0	0	41,500,000
2026	0	24,000,000	0	0	24,000,000

Total costs of structural reform 3					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	2,195,000	0	0	2,195,000
2025	0	41,525,000	0	0	41,525,000
2026	0	24,000,000	0	0	24,000,000
TOTAL	0	67,720,000	0	0	67,720,000

STRUCTURAL REFORM 4: GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA

Activity 1. A detailed analysis of the current state of play of the IPT system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	822,000	0	0	822,000
2025	0	0	0	0	0
2026	0	0	0	0	0

Activity 2. Harmonisation of national legislation regarding passenger transport in IPT in accordance with EC 1370/2007					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	137,000	0	0	137,000
2026	0	0	0	0	0

Activity 3. Application of the new Methodology for Accessing the IPT Market - Digitalisation					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	411,000	0	0	411,000

Activity 4. Increasing the number of kilometres of electrified railways in the Republic of Serbia					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	6,083,333	36,333,333	42,416,666
2025	0	0	20,833,333	83,333,333	104,166,666
2026	0	0	12,500,000	23,333,333	35,833,333

Activity 5. Procurement of new electric traction compositions					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	12,500,000	16,350,000	28,850,000
2025	0	0	0	34,300,000	34,300,000

2026	0	0	0	28,850,000	28,850,000
------	---	---	---	------------	------------

Total costs of structural reform 4					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	822,000	18,583,333	52,683,333	72,088,666
2025	0	137,000	20,833,333	117,633,333	138,603,666
2026	0	411,000	12,500,000	52,183,333	65,094,333
TOTAL	0	1,370,000	51,916,666	222,499,999	275,786,665

STRUCTURAL REFORM 5: EDUCATION FOR SUSTAINABLE DEVELOPMENT AND WORK READINESS					
Activity 1. Expanding the network and improving the competencies of CG&C team coordinators in order to improve the quality of CG&C activities in dual education					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	14,278	0	0	14,278
2025	0	35,775	0	0	35,775
2026	0	6,663	0	0	6,663
Activity 2. Establishment, infrastructural organisation and equipment of regional training centres					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	32,710,050	32,710,050
2025	0	0	0	24,290,950	24,290,950
2026	0	0	0	0	0
Activity 3. Networking of education levels through social dialogue - "Youth to Younger"					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	70,635	0	0	70,635
2025	0	70,635	0	0	70,635
2026	0	0	0	0	0
Activity 4. Connection of the NQFS Register with the European qualifications portal					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 5. Digitalisation of the methodology for the development of sector profiles as an analytical basis for decision-making by institutions and bodies from the NQF system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0
Activity 6. Preparation of proposals for the introduction of partial qualifications into the NQF system					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total

2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

Activity 7. Preparation of video materials containing instructions and demonstrations of all laboratory exercises prescribed by the current regulations for the subjects of Physics, Chemistry and Biology for primary and grammar schools

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	30,000	0	0	30,000
2025	0	0	0	0	0
2026	0	0	0	0	0

Activity 8. Procurement of equipment for Physics, Chemistry and Biology classrooms for grammar schools

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	3,600,000	0	0	3,600,000
2026	0	0	0	0	0

Activity 9. Procurement of equipment for Physics, Chemistry and Biology classrooms for primary schools (basic level)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	9,000,000	0	0	9,000,000
2026	0	0	0	0	0

Total costs of structural reform 5

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	114,913	0	32,710,050	32,824,963
2025	0	12,706,410	0	24,290,950	36,997,360
2026	0	6,663	0	0	6,663
TOTAL	0	12,827,986	0	57,001,000	69,828,986

STRUCTURAL REFORM 6: IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET

Activity 1. Introduction of online (pre)registration and statistical profiling in the NES and upgrading of the system

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	85,000	0	85,000
2025	0	0	0	0	0
2026	0	0	75,000	0	75,000

Activity 2. Piloting the Model for reaching out and activating NEET youth outside the system - implementation of outreach activities by civil society organisations (CSOs)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	30,000	0	30,000
2025	0	0	50,000	0	50,000

2026	0	0	50,000	0	50,000
Activity 3. Development of additional/complementary employment services in the NES					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	349,817	0	349,817
2025	0	0	219,394	0	219,394
2026	0	0	348,250	0	348,250
Activity 4. Development of a system for professional development of youth workers					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	16,102	0	16,102
2025	0	0	11,864	0	11,864
2026	0	0	11,864	0	11,864
Activity 5. Establishment of a quality assurance system for youth work programmes and non-formal youth education					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	16,949	0	16,949
2026	0	0	0	0	0
Activity 6. Establishment of youth spaces that operate in accordance with defined standards					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	1,574,339	0	1,574,339
2025	0	0	1,545,763	0	1,545,763
2026	0	0	1,545,763	0	1,545,763
Activity 7. Improvement of the quality of work of youth offices					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	376,356	0	376,356
2025	0	0	361,441	0	361,441
2026	0	0	361,441	0	361,441
Total costs of structural reform 6					
Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
2024	0	0	2,431,614	0	2,431,614
2025	0	0	2,205,411	0	2,205,411
2026	0	0	2,392,318	0	2,392,318
TOTAL	0	0	7,029,343	0	7,029,343

Overview of the financing of activities within the framework of structural reforms in the period 2024-2026

STRUCTURAL REFORM 1: IMPROVEMENT OF BUSINESS CONDITIONS, BUSINESS ENVIRONMENT AND THE MARKET OF INDUSTRIAL AND AGRICULTURAL PRODUCTS OF THE REPUBLIC OF SERBIA								
Activity 1. Accession negotiations with the WTO								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	9,885	0	0	0	7,500	0	0	17,385
2025	9,885	0	0	0	0	0	0	9,885
2026	9,885	0	0	0	0	0	0	9,885
Activity 2. Implementation of the process of trade facilitation and implementation of CEFTA Additional Protocols 5 and 6, as well as adoption of Additional Protocol 7 on the resolution of disputes								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	9,885	0	0	0	7,500	0	0	17,385
2025	9,885	0	0	0	0	0	0	9,885
2026	9,885	0	0	0	0	0	0	9,885
Activity 3. Development and adoption of the IC Strategy 2024-2030 with the Action Plan 2024-2025								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	350,000	0	0	0	350,000
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 4. Creation of conditions for a full integration of the Republic of Serbia into the EU single market for three groups of industrial products (electric and electronic products, machines and PPE) and signing of the ACAA for these groups of products								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	50,000	0	0	0	50,000
2025	0	0	0	100,000	0	0	0	100,000
2026	0	0	0	100,000	0	0	0	100,000
Activity 5. Efficient implementation of market surveillance activities								

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	228,813	0	0	0	0	0	0	228,813
2025	0	0	0	0	0	0	228,813	228,813
2026	0	0	0	0	0	0	228,813	228,813
Activity 6. Preparation and adoption of laws and by-laws for the purpose of implementation and improvement of rural infrastructure								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	3,229,763	1,235,208	0	0	0	0	0	4,464,971
2025	14,901,839	1,235,208	0	34,110,000	0	0	0	50,247,047
2026	15,480,017	1,235,208	0	34,785,000	0	0	0	51,500,225
Activity 7. Adoption of laws and by-laws concerning organic production, quality schemes for agricultural products and foodstuffs; adoption of by-laws on the basis of the Law on Managing Agricultural Market								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	12,858,114	0	0	180,000	0	0	0	13,038,114
2025	3,348,229	0	0	0	0	0	0	3,348,229
2026	3,348,220	0	0	0	0	0	0	3,348,220
Activity 8. The preparation and adoption of laws on land consolidation and laws on agricultural land; adoption of by-laws concerning land consolidation and implementation of expert surveillance in land consolidation procedures and implementation of the piloting of land consolidations								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	20,904	0	0	0	0	0	0	20,904
2025	20,904	0	0	0	0	0	850,000	870,904
2026	1,270,904	0	0	650,000	0	0	0	1,920,904
Activity 9. Digitalisation and development of a radio system for management and control of incentives for the purpose of preparations for the EU Common Agricultural Policy (linking the Register of Agricultural Holdings with the Register of Animals and the Land Parcel Identification System, development of a Geo-Spatial Application (GSA) and other elements of the IACS, other than the Area Monitoring System (AMS))								

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	2,184,784	0	0	1,179,661	0	767,500	0	4,131,945
2025	1,550,737	0	0	2,379,660	0	142,333	0	4,072,730
2026	1,702,322	0	0	294,000	0	0	0	1,996,322
Activity 10. Adoption of by-laws for the application of the Law on the Management of Enterprises Owned by the Republic of Serbia								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	127,119	0	0	300,000	0	0	0	427,119
2026	0	0	0	0	0	0	0	0
Activity 11. Digitalisation of the system of corporate governance of state-owned enterprises								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	127,118	0	0	0	0	0	0	127,118
2026	0	0	0	0	0	0	0	0
Activity 12. Amending the Law on Misdemeanours								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 13. Implementation of trainings of misdemeanour judges for misdemeanour proceedings concerning grey economy								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0

2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

Total costs of structural reform 1								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	18,542,148	1,235,208	0	1,759,661	15,000	767,500	0	22,319,517
2025	20,095,716	1,235,208	0	36,889,660	0	142,333	1,078,813	59,441,730
2026	21,821,233	1,235,208	0	35,829,000	0	0	228,813	59,114,254
TOTAL	60,459,097	3,705,624	0	74,478,321	15,000	909,833	1,307,626	140,875,501

STRUCTURAL REFORM 2: IMPROVEMENT OF THE REGULATORY FRAMEWORK AND INFRASTRUCTURE FOR THE DEVELOPMENT OF THE KNOWLEDGE-BASED ECONOMY

Activity 1. Construction and international visibility of BIO4 Campus

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	50,000,000	0	50,000,000
2025	0	0	0	0	0	100,000,000	50,000,000	150,000,000
2026	0	0	0	0	0	46,000,000	50,000,000	96,000,000

Activity 2. Expansion and improvement of infrastructure of STP Niš, STP Čačak and STP Belgrade and RITP Kruševac

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	37,250,000	0	37,250,000
2025	0	0	0	0	0	23,650,000	0	23,650,000
2026	0	0	0	0	0	8,500,000	0	8,500,000

Activity 3. Implementation of the GovTech programme, along with the empowerment of startups for attraction of investments

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	1,000,000	0	0	0	0	0	0	1,000,000
2025	2,000,000	0	0	0	0	0	0	2,000,000
2026	2,000,000	0	0	0	0	0	0	2,000,000
Activity 4. Reconstruction of the Ložionica facility along with the development of different support programmes								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	21,610,170	0	0	0	0	0	0	21,610,170
2025	20,338,983	0	0	0	0	0	0	20,338,983
2026	5,932,203	0	0	0	0	0	0	5,932,203
Activity 5. Construction of the Innovation District in Kragujevac								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	1,949,153	0	0	0	0	0	0	1,949,153
2025	8,474,576	0	0	0	0	0	0	8,474,576
2026	16,525,424	0	0	0	0	0	0	16,525,424
Activity 6. Implementation of the Smart City Project								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	2,542,373	0	0	0	0	0	0	2,542,373
2025	6,355,932	0	0	0	0	0	0	6,355,932
2026	6,355,932	0	0	0	0	0	0	6,355,932
Activity 7. Creating the regulatory framework for autonomous driving								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	82,000	0	0	0	0	0	0	82,000
2025	0	0	0	0	0	0	68,000	68,000

2026	0	0	0	0	0	0	68,000	68,000
------	---	---	---	---	---	---	--------	--------

Total costs of structural reform 2								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	27,183,696	0	0	0	0	87,250,000	0	114,433,696
2025	37,169,491	0	0	0	0	123,650,000	50,068,000	210,887,491
2026	30,813,559	0	0	0	0	54,500,000	50,068,000	135,381,559
TOTAL	95,166,746	0	0	0	0	265,400,000	100,136,000	460,702,746

STRUCTURAL REFORM 3: GREENING THE ENERGY SECTOR THROUGH INCREASING ENERGY PRODUCTION FROM RENEWABLE SOURCES AND IMPROVING ENERGY EFFICIENCY

Activity 1. Allocation of incentives for new RES capacities through the auction procedure for wind power plants and solar power plants

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

Activity 2. Optimisation and digitalisation of administrative procedures/services in the area of the green agenda/renewable energy sources

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	170,000	0	0	170,000
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

Activity 3. Technical assistance for the implementation of tender procedures in the field of energy efficiency

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total

2024	0	0	0	0	25,000	0	0	25,000
2025	0	0	0	0	25,000	0	0	25,000
2026	0	0	0	0	0	0	0	0

Activity 4. Development of a technical, economic and legal study with energy efficiency surveys

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	2,000,000	0	0	2,000,000
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

Activity 5. Investment implementation - contracting, construction works in selected residential communities, monitoring and supervision of works

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	8,000,000	32,000,000	1,500,000	41,500,000
2026	0	0	0	0	4,500,000	18,000,000	1,500,000	24,000,000

Total costs of structural reform 3

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	2,195,000	0	0	2,195,000
2025	0	0	0	0	8,025,000	32,000,000	1,500,000	41,525,000
2026	0	0	0	0	4,500,000	18,000,000	1,500,000	24,000,000
TOTAL	0	0	0	0	14,720,000	50,000,000	3,000,000	67,720,000

STRUCTURAL REFORM 4: GREENING OF THE ROAD AND RAIL TRANSPORT IN THE REPUBLIC OF SERBIA

Activity 1. A detailed analysis of the current state of play of the IPT system

Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	822,000	0	0	0	0	0	0	822,000
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 2. Harmonisation of national legislation regarding passenger transport in IPT in accordance with EC 1370/2007								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	137,000	0	0	0	0	0	0	137,000
2026	0	0	0	0	0	0	0	0
Activity 3. Application of the new Methodology for Accessing the IPT Market - Digitalisation								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	411,000	0	0	0	0	0	0	411,000
Activity 4. Increasing the number of kilometres of electrified railways in the Republic of Serbia								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	6,083,333	0	0	0	0	36,333,333	0	42,416,666
2025	20,833,333	0	0	0	0	83,333,333	0	104,166,666
2026	12,500,000	0	0	0	0	23,333,333	0	35,833,333
Activity 5. Procurement of new electric traction compositions								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	12,500,000	0	0	0	0	16,350,000	0	28,850,000

2025	0	0	0	0	0	21,800,000	12,500,000	34,300,000
2026	0	0	0	0	0	16,350,000	12,500,000	28,850,000

Total costs of structural reform 4								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	19,405,333	0	0	0	0	52,683,333	0	72,088,666
2025	20,970,333	0	0	0	0	105,133,333	12,500,000	138,603,666
2026	12,911,000	0	0	0	0	39,683,333	12,500,000	65,094,333
TOTAL	53,286,666	0	0	0	0	197,499,999	25,000,000	275,786,665

STRUCTURAL REFORM 5: EDUCATION FOR SUSTAINABLE DEVELOPMENT AND READINESS FOR WORK								
Activity 1. Expanding the network and improving the competencies of CG&C team coordinators in order to improve the quality of CG&C activities in dual education								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	14,278	0	0	14,278
2025	0	0	0	0	35,775	0	0	35,775
2026	0	0	0	0	6,663	0	0	6,663
Activity 2. Establishment, infrastructural organisation and equipment of regional training centres								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	32,710,050	0	32,710,050
2025	0	0	0	0	0	24,290,950	0	24,290,950
2026	0	0	0	0	0	0	0	0

Activity 3. Networking of education levels through social dialogue - "Youth to Younger"								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	70,635	0	0	0	0	0	0	70,635
2025	70,635	0	0	0	0	0	0	70,635
2026	0	0	0	0	0	0	0	0
Activity 4. Connection of the NQFS Register with the European qualifications portal								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 5. Digitalisation of the methodology for the development of sector profiles as an analytical basis for decision-making by institutions and bodies from the NQF system								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 6. Preparation of proposals for the introduction of partial qualifications into the NQF system								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 7. Preparation of video materials containing instructions and demonstrations of all laboratory exercises prescribed by the current regulations for the subjects of Physics, Chemistry and Biology for primary and grammar schools								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total

2024	30,000	0	0	0	0	0	0	30,000
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0
Activity 8. Procurement of equipment for Physics, Chemistry and Biology classrooms for grammar schools								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	600,000	0	0	3,000,000	0	0	0	3,600,000
2026	0	0	0	0	0	0	0	0
Activity 9. Procurement of equipment for Physics, Chemistry and Biology classrooms for primary schools (basic level)								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0
2025	1,500,000	0	0	7,500,000	0	0	0	9,000,000
2026	0	0	0	0	0	0	0	0

Total costs of structural reform 5								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	100,635	0	0	0	14,278	32,710,050	0	32,824,963
2025	2,170,635	0	0	10,500,000	35,775	24,290,950	0	36,997,360
2026	0	0	0	0	6,663	0	0	6,663
TOTAL	2,271,270	0	0	10,500,000	56,716	57,001,000	0	69,828,986

STRUCTURAL REFORM 6: IMPROVED CONDITIONS FOR GREATER SHARE OF YOUTH IN THE LABOUR MARKET								
Activity 1. Introduction of online (pre)registration and statistical profiling in the NES and upgrading of the system								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	22,950	0	0	62,050	0	0	0	85,000
2025	0	0	0	0	0	0	0	0
2026	15,000	0	0	60,000	0	0	0	75,000
Activity 2. Piloting the Model for reaching out and activating NEET youth outside the system - implementation of outreach activities by civil society organisations (CSOs)								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	8,100	0	0	21,900	0	0	0	30,000
2025	0	0	0	0	0	0	50,000	50,000
2026	0	0	0	0	0	0	50,000	50,000
Activity 3. Development of additional/complementary employment services in the NES								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	185,432	0	0	164,385	0	0	0	349,817
2025	124,632	0	0	0	0	0	94,762	219,394
2026	136,850	0	0	211,400	0	0	0	348,250
Activity 4. Development of a system for professional development of youth workers								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	16,102	0	0	0	0	0	0	16,102
2025	11,864	0	0	0	0	0	0	11,864
2026	11,864	0	0	0	0	0	0	11,864
Activity 5. Establishment of a quality assurance system for youth work programmes and non-formal youth education								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	0	0	0	0	0	0	0	0

2025	16,949	0	0	0	0	0	0	16,949
2026	0	0	0	0	0	0	0	0
Activity 6. Establishment of youth spaces that operate in accordance with defined standards								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	1,574,339	0	0	0	0	0	0	1,574,339
2025	1,545,763	0	0	0	0	0	0	1,545,763
2026	1,545,763	0	0	0	0	0	0	1,545,763
Activity 7. Improvement of the quality of work of youth offices								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	376,356	0	0	0	0	0	0	376,356
2025	361,441	0	0	0	0	0	0	361,441
2026	361,441	0	0	0	0	0	0	361,441

Total costs of structural reform 6								
Year	Central budget	Local budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	2,183,279	0	0	248,335	0	0	0	2,431,614
2025	2,060,649	0	0	0	0	0	144,762	2,205,411
2026	2,070,918	0	0	271,400	0	0	50,000	2,392,318
TOTAL	6,314,846	0	0	519,735	0	0	194,762	7,029,343