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Serbia 2019 Report

Accompanying the document

**Communication from the Commission to the European Parliament, the Council, the
European Economic and Social Committee and the Committee of the Regions**

2019 Communication on EU Enlargement Policy

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Table of Contents

1.	Introduction	3
1.1	Context	3
1.2	Summary of the report	3
2.	Fundamentals first: political criteria and rule of law chapters	5
2.1.	Functioning of democratic institutions and Public Administration Reform	5
2.1.1	Democracy	5
2.1.2.	Public administration reform	9
2.2.	Rule of law and fundamental rights	13
2.2.1.	Chapter 23: Judiciary and fundamental rights	13
2.2.2	Chapter 24: Justice, freedom and security	30
3.	Fundamentals first: economic development and competitiveness	43
3.1.	The existence of a functioning market economy	43
3.2.	The capacity to cope with competitive pressure and market forces within the EU	48
4.	Good neighbourly relations and regional cooperation	51
5.	Normalisation of relations between Serbia and Kosovo	53
6.	Ability to assume the obligations of membership	55
6.1.	Chapter 1: Free movement of goods	55
6.2.	Chapter 2: Freedom of movement for workers	56
6.3.	Chapter 3: Right of establishment and freedom to provide services	57
6.4.	Chapter 4: Free movement of capital	58
6.5.	Chapter 5: Public procurement	59
6.6.	Chapter 6: Company law	61
6.7.	Chapter 7: Intellectual property law	62
6.8.	Chapter 8: Competition policy	63
6.9.	Chapter 9: Financial services	65
6.10.	Chapter 10: Information society and media	65
6.11.	Chapter 11: Agriculture and rural development	67
6.12.	Chapter 12: Food safety, veterinary and phytosanitary policy	68
6.13.	Chapter 13: Fisheries	69
6.14.	Chapter 14: Transport	69
6.15.	Chapter 15: Energy	71
6.16.	Chapter 16: Taxation	74
6.17.	Chapter 17: Economic and monetary policy	75
6.18.	Chapter 18: Statistics	76

6.19.	Chapter 19: Social Policy and employment	77
6.20.	Chapter 20: Enterprise and industrial policy	79
6.21.	Chapter 21: Trans-European networks	80
6.22.	Chapter 22: Regional policy and coordination of structural instruments	81
6.25.	Chapter 25: Science and research	82
6.26.	Chapter 26: Education and culture	83
6.28.	Chapter 28: Consumer and health protection	87
6.29.	Chapter 29: Customs union	89
6.30.	Chapter 30: External relations	90
6.32.	Chapter 32: Financial control	93
6.33.	Chapter 33: Financial and budgetary provisions	95
	Annex I – Relations between the EU and Serbia	97
	Annex II– Statistical Annex	99

1. INTRODUCTION

1.1 Context

The European Council granted Serbia the status of candidate country in 2012. The Stabilisation and Association Agreement (SAA) between Serbia and the EU entered into force in September 2013. Meetings of the joint bodies under the agreement took place at regular intervals. Serbia continued to implement the SAA, although a number of compliance issues remain.

Since the opening of Serbia's accession negotiations in January 2014, 16 out of 35 chapters have been opened, two of which were provisionally closed. Four chapters were opened during the reporting period. The overall pace of negotiations will continue to depend in particular on a more intense pace of reforms on rule of law and in the normalisation of its relations with Kosovo* as per the requirements of the Negotiating Framework.

1.2 Summary of the report¹

As regards the **political criteria**, there is an urgent need to create more space for genuine cross-party debate, in order to forge a broad pro-European consensus which is vital for the country's progress on its EU path. Several opposition parties started boycotting the parliament in early 2019. The ruling coalition's parliamentary practices led to a deterioration of legislative debate and scrutiny, and undermined the parliament's oversight of the executive.

Weekly anti-government protests started in Belgrade in December 2018 in reaction to an attack on an opposition party leader. The overall peaceful protests, demanding freedom of the media and free and fair elections, grew over time. Several opposition parties have announced their intention to boycott parliamentary elections, unless demands for free and fair elections are met. Serbia needs to fully address all recommendations on the elections, identified by international observers, as a matter of priority.

Serbia is moderately prepared in the area of **public administration** reform. Some progress was made in the area of service delivery and with the adoption of several new laws. Political influence on senior managerial appointments remains an issue of serious concern, especially regarding an excessive number of acting positions. Serbia's ability to attract and retain qualified staff in the administration dealing with EU issues is crucial. A coordinated monitoring and reporting system of the public administration reform strategy and public financial management reform programme is yet to be established.

Serbia's **judicial system** has some level of preparation. Some progress was achieved during the reporting period. Last year's recommendations have only been partially addressed. Some progress was achieved in the reduction of old enforcement cases and following up on measures to harmonise court practice. The constitutional reform process, intended to align the constitution with European standards for the judiciary, is ongoing. Further to the adoption of the constitutional amendments, the system for the appointment and evaluation of judges and prosecutors needs to be revised to allow for fully merit-based judicial recruitments and careers. Currently, the scope for political influence remains of concern.

Serbia has some level of preparation in the **fight against corruption**. Limited progress has been made. There is no measureable impact of corruption-prevention reforms. A revised Law

¹ This report covers the period from March 2018 to March 2019. It is based on input from a variety of sources, including contributions from the government of Serbia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

on the prevention of corruption (also known as law on the Anti-Corruption Agency) was adopted in May 2019. As regards the repression of corruption, the Law on organisation and jurisdiction of government authorities in suppression of organised crime, terrorism and corruption, which entered into force in March 2018, is being implemented but it is too early to fully assess its impact. Law enforcement and judicial authorities still need to establish a credible track record of operationally independent prosecutions and of finalised high-level corruption cases. Overall, corruption is prevalent in many areas and remains an issue of concern.

Serbia has some level of preparation in the **fight against organised crime**. Some progress was made over the reporting period. Serbia started to implement the new economic chapter of the criminal code and the Law on organisation and jurisdiction of state authorities in the fight against organised crime, terrorism and corruption and adopted a cybercrime strategy for 2019-2023. At the same time, no progress was made in fulfilling the recommendations of the previous report. Serbia has yet to establish a convincing track record of effective investigations, prosecutions and final convictions in organised crime cases, including financial investigations leading to a track record of freezing and confiscating criminal assets. The number of convictions for organised crime (notably in the fight against trafficking in human beings) remains low.

The legislative and institutional framework for upholding **fundamental rights** is broadly in place. Amendments improving the legislative framework related to national minorities were adopted. Consistent and efficient implementation of legislation and policies needs to be ensured. While Serbia has some level of preparation, no progress was made on **freedom of expression**. This lack of progress is now a matter of serious concern. A new media strategy was drafted in a transparent and inclusive manner; it needs to be adopted and implemented. Serbia needs to step up measures to protect the rights of persons facing discrimination, including LGBTI persons, persons with disabilities, persons with HIV/AIDS and other vulnerable individuals.

As regards the **economic criteria**, Serbia has made some progress and is moderately prepared in developing a functioning market economy. External imbalances are on the rise, although their financing remained healthy. Price pressures remained subdued and inflation contained. Major fiscal adjustments over previous years have significantly improved debt sustainability. Financial sector stability was preserved and labour market performance has improved with the exception of the youth activity rate, which declined. Major structural reforms of public administration, the tax authority, and state-owned enterprises advanced slowly, prolonging long-standing inefficiencies. The authorities are addressing weaknesses in the budgetary framework and its governance at a slow pace. The state retains a strong footprint in the economy and the private sector is underdeveloped and hampered by weaknesses in the rule of law and in the enforcement of fair competition.

Serbia has made some progress and is moderately prepared to cope with competitive pressure and market forces within the Union. The structure of the economy improved further and economic integration with the EU remained high. However, despite some progress, the quality, equity and relevance of education and training does not fully meet labour market needs. Investment increased but remains insufficient, after years of underinvestment, to address infrastructure gaps. Although the cost of small and medium enterprises borrowing has declined recently, they still face a number of challenges, including a volatile business environment and unfair competition.

Serbia overall remained committed to bilateral relations with other enlargement countries and neighbouring EU Member States and an active participant in **regional cooperation**. In the

context of being granted the seat of the Transport Community Treaty Secretariat, Serbia should now provide further support to ensure the conditions are in place for it to take up operations swiftly.

Regarding the **normalisation of relations with Kosovo**, Serbia has remained engaged in the dialogue and showed restraint in its response to the introduction of the customs tariffs. However, Serbia needs to make substantial efforts, in particular in its international relations, to establish a conducive environment to the conclusion of a legally binding agreement with Kosovo. Such an agreement is urgent and crucial so that Serbia and Kosovo can advance on their respective European paths.

As regards its **ability to assume the obligations of membership**, Serbia has continued to work towards aligning its legislation with the EU *acquis* across the board. Adequate financial and human resources and sound strategic frameworks will be crucial for the pace of reforms. Serbia has a good level of preparation in some areas such as company law, intellectual property, transport policy, science and research, education and culture, and customs. Serbia improved the linking of its investment planning to budget execution but has yet to develop a single mechanism for prioritising all investments regardless of the source of funding in accordance with the government's public finance management reform programme. In areas such as public procurement, statistics, external relations, social policy and employment, monetary policy and financial services, Serbia is moderately prepared. Serbia continued to make good progress in agriculture and in aligning with the EU transport *acquis* while limited progress was noted in the area of energy. The policy areas of environment and climate change have yet to receive adequate attention.

Serbia needs to address, as a matter of priority, issues of non-compliance with the SAA, regarding in particular state aid control, fiscal discrimination on imported spirits, and restriction to competition in the card-based payment system. Serbia needs to progressively align its foreign and security policy with the European Union's common foreign and security policy in the period up to accession.

Serbia continued to manage the effects of the **mixed migratory flows** towards the EU, which have stabilised throughout 2018. It made some progress in implementing the integrated border management strategy. The European Border and Coast Guard Status Agreement with the EU was initialled. The strategy and action plan to counter irregular migration have been adopted. Serbia needs to respect the obligation of readmission of third country nationals under the EU Serbia Readmission Agreement. Serbia furthermore should refrain from further diverging from the EU visa policy.

2. FUNDAMENTALS FIRST: POLITICAL CRITERIA AND RULE OF LAW CHAPTERS

2.1. Functioning of democratic institutions and Public Administration Reform

2.1.1 Democracy

The reporting period was increasingly marked by a polarised political scene. This has a negative impact on the work of democratic institutions, in particular the parliament. There is an urgent need to create space for genuine cross-party debate and conditions for meaningful participation by the opposition in the parliament.

A new opposition group, the Alliance for Serbia, was established in September 2018. As of February 2019, several opposition parties, including those in the Alliance for Serbia, started boycotting parliamentary sessions. The same parties have announced their intention to boycott parliamentary elections under the present conditions.

Weekly anti-government protests started in Belgrade in December 2018 in reaction to an attack on the leader of an opposition party. The protests grew over time, encompassing broader demands and spreading to other towns across Serbia. The demonstrations were overall peaceful. Protestors demand, in particular, freedom of the media and conditions that ensure free and fair elections. The protests have not lined up behind any political party, though the Alliance for Serbia has played a more visible role in recent weeks.

Elections

Serbia has not made sufficient use of the interval between elections to address persistent shortcomings. These include the lack of transparency of party and campaign financing, the blurred distinction between party and state activities, and the unbalanced media coverage. Serbia still needs to address all priority recommendations of the Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR).

Almost all of the OSCE/ODIHR recommendations stemming from the previous elections have yet to be addressed. This includes the need for a comprehensive and inclusive review of the legal framework on elections, in order to regulate all essential aspects and address gaps and loopholes. Independent regulatory bodies need to be empowered to exercise their monitoring and oversight role proactively and effectively. The unbalanced media coverage reported during previous elections needs to be urgently tackled. These reforms should be undertaken in an inclusive and transparent manner, and as a matter of priority ahead of the next elections.

A limited number of recommendations have been partially implemented, such as those regarding candidate registration, secret balloting, standardised training of polling board members, and the publication of election results. The digitalisation of the voter list is a positive step. A new law on the central registry was adopted in March 2019.

Several local elections took place, in which irregularities were reported by domestic observers. These cannot be evaluated independently, but the institutional response to reported irregularities has been limited. Credible allegations of pressure being put on voters and public employees need to be investigated and those responsible brought to justice.

In reaction to the anti-government protests, the ruling coalition raised the possibility of early parliamentary elections. This *de facto* pre-election mode deepened the political divide rather than contributing to cross-party consensus. The Alliance for Serbia and other opposition parties have announced that they will boycott elections, unless demands for free and fair elections are met.

Parliament

The ruling coalition's parliamentary practices led to a deterioration in legislative debate and scrutiny, and significantly undermined the parliament's oversight of the executive. There is an urgent need to create space for genuine cross-party debate and conditions for the opposition to participate meaningfully in the parliament. The role of independent bodies needs to be urgently guaranteed and supported.

Practices of the ruling coalition often prevented the parliament from properly exercising its **legislative function**. These included merging unrelated laws under one discussion point, and proposing hundreds of amendments irrelevant to the content of legislation. These practices, which aim to use up the allocated time for debate in the plenary, have been employed systematically since December 2017. In addition, the use of urgent procedures remains high at around 44% from February 2018 to February 2019. As a result of the above, the parliamentary

opposition in most cases was not able to participate effectively in the legislative debate and to present its draft amendments, including on key legislative pieces such as the 2019 budget.

As of March 2019, several opposition parties, including those in the Alliance for Serbia, started **boycotting** parliamentary sessions, also at provincial and local self-government level. Some opposition members continue to participate in the parliamentary committees. In the current polarised environment, it is crucial that cross-party debate and meaningful participation in the parliament are restored as a matter of priority. Existing mediation and dialogue mechanisms, such as those by the European Parliament, should be utilised. The meeting of the parliamentary collegium in April should be followed up on with a view to improving law-making procedures. In this regard, the rules of procedure should be amended and a code of conduct adopted with EU expertise.

The parliament's **oversight of the executive** remains weak. As in previous years, the parliament failed to support the role of independent institutions. Since 2014, the parliament has not discussed any of the annual reports by independent bodies in its plenary sessions, exemplifying its lack of willingness to ensure effective oversight over the government. The holding of regular question and answer sessions with the executive has increased and five such sessions were held in 2018. Only one public hearing was held in 2018. The lack of annual work plans and the *ad hoc* nature of agenda setting leads to uncertainty. Non-majority representatives head only two parliamentary committees.

The parliament continued to hold debates on Serbia's negotiating positions for EU accession chapters as well as exchanges with the core negotiating team and with the National Convention on the European Union (*see under Civil society*).

93 of 250 members of parliament are **women**. There is also a women's parliamentary network.

In line with OSCE/ODIHR and the Council of Europe's Group of States against Corruption (GRECO) recommendations, financing for **political parties** and electoral campaigns need to be made more transparent (*see under fight against corruption*).

Governance

EU membership continued to be the Serbian government's strategic goal. However, human and financial resources on EU accession need to increase and the government should put more emphasis on domestic communication on the EU. Inclusiveness and transparency on EU-related reforms need to be improved as a matter of priority.

The Serbian administration and negotiating team continued to demonstrate preparedness and professionalism in the accession negotiations process. However, adequate human and financial resources will need to be allocated across all of the institutions involved to meet Serbia's objectives on EU accession negotiations.

Consultations continued with relevant stakeholders, including civil society organisations, through the National Convention on the EU. However, the inclusiveness and transparency of the reform process, in particular on EU accession-related issues, need to be improved as a matter of priority and public consultations on policies and legislation to be more than just a formality. In the context of constitutional reform, stakeholder consultations took place in an acrimonious environment.

The role of independent bodies needs to be fully acknowledged and their recommendations followed up appropriately. Monitoring of the implementation and impact of the reform processes needs to be further improved. Authorities should put more emphasis on objective communication about the EU, which is Serbia's main political and economic partner. Serbia's

strategic choice of EU accession needs to be more actively and unambiguously communicated in the public debate. Further efforts are needed to promote EU values in Serbian public debate and in education, including readiness for reconciliation.

Regarding local self-government, the law on Vojvodina's financing resources still needs to be adopted as provided for under the Constitution. Local administrative capacity remains weak and significant disparities between municipalities persist. Responsibilities continue to be borne at local level without proper analysis of the capacity and human/financial resources required. Consultation with local authorities on new legislative proposals with local implications improved. In November 2018 the Council of Europe's Congress of Regional and Local Authorities organised a specific session to discuss reports related to political pressures exercised by ruling party authorities on opposition-run local governments.

Constitutional changes are still needed in some areas to address issues relevant to the accession negotiations.

Civil society

No progress was made towards establishing an enabling environment for the development and financing of civil society. Further efforts are needed to ensure systematic cooperation between the government and civil society.

Civil society organisations (CSOs) and human rights defenders continued to raise awareness about civil and political rights. This takes place in an environment not open to criticism, with the authorities making negative statements, echoed by the media, on civil society in general and on funding of certain associations in particular. Harsh criticism against human rights defenders has continued in tabloid newspapers.

The National Convention on the EU (composed of representatives of governmental bodies, political parties, non-governmental organisations, experts, trade unions, private sector and representatives of professional organisations), whose goal is to contribute to a structured debate on Serbia's accession to the EU, has continued to monitor and assess the progress of accession negotiations. The authorities should use its expertise more systematically, in order to benefit from the full potential of the Convention and its working groups.

Amendments to the Law on state administration, Law on local self-government and the Law on the planning system introduced specific provisions aimed at improving public participation in policy development. However, the relationship between the government and CSOs is still marked by fragmented cooperation. The continued frequent use of the urgent procedure for the adoption of laws limits the effective inclusion of civil society in the law-making process. A number of CSOs have reported that periods for public consultations are sometimes too short, or that their comments on draft laws were not given sufficient consideration and follow-up. A national strategy and action plan to contribute to an enabling environment for civil society have still not been adopted. A council for civil society cooperation still needs to be set up. Criteria for public financial support for CSOs need to be better defined and implemented to ensure overall transparency, especially at local level.

Civilian oversight of the security sector

Parliament continues to be responsible for the oversight of the security sector. The parliamentary committee responsible for this task continued to review the activities of the security-information, military and defence services. In May 2018, amendments to the law on the Security-Information Agency were adopted. A law on access to state security files still needs to be adopted.

2.1.2. Public administration reform

Serbia is **moderately prepared** with the reform of its public administration. **Some progress** was made in the area of service delivery and with the adoption of new laws regulating policy planning, public consultations, e-government, and salary system in the public sector. However, the Commission's recommendations made over the last few years have not been fully addressed, especially regarding de-politicisation and professionalisation of public service, and therefore remain valid. In particular, political influence on senior managerial appointments remains an issue of serious concern. It was not sufficiently addressed in the 2018 amendments to the Law on civil servants.

In the coming year, Serbia should in particular:

- start recruiting senior civil servants effectively through a merit-based procedure and reduce the excessive number of acting positions;
- issue practical guidance to line institutions on strategic planning, monitoring and reporting and ensure a strong quality control role for the Public Policy Secretariat to allow for the effective implementation of the new Law on the planning system;
- develop a single mechanism for prioritising all investments regardless of the source of financing and ensure integration of capital investment planning and project appraisal in the budget process.

Strategic framework for public administration reform

Serbia is implementing its **public administration reform strategy** and action plan as well as the **public financial management reform programme**, which is undergoing revision. These umbrella strategies are supported by a number of specific strategic documents. The government ensures regular monitoring and reporting on implementation of reforms, but a coordinated monitoring and reporting system is yet to be established, also covering managerial accountability (*see Chapter 32 – Financial Control*). Civil society takes part in the monitoring of reforms. **Political support** for public administration reform continues through the Public Administration Reform Council, chaired by the Prime Minister. **Financial sustainability** remains a concern due to reliance on donor funding. There are also inconsistencies between costing of strategies, appropriations in the budget, and the medium-term expenditure framework.

Policy development and coordination

Institutions are in place for a central government **policy-making system**, including for the European integration process, but there are weaknesses due to the continuing focus on formal and procedural issues. The strategic planning system was improved with a new Law on the planning system, which was adopted in April and entered into force in October 2018, and secondary legislation adopted in February 2019. This legislation sets out clear rules for developing, monitoring and reporting on sector strategies. The Public Policy Secretariat needs to start ensuring strong quality control, including on the costing of strategies and their linkages to medium-term fiscal planning. The national plan for the adoption of the *acquis* (NPAA) and the government annual work programme need to be better synchronised.

The capacity for **inclusive and evidence-based policy and legislative development**, including when aligning with the *acquis*, needs strengthening. Administrative data collection and its systematic use for policy and law-making needs to improve across the administration. Secondary legislation adopted in early 2019 provides for a detailed methodology on impact assessments and for an obligation of line institutions to consider the opinion of the Public Policy Secretariat prior to submitting documents to the government. Regulatory impact

assessments should be systematically submitted to the parliament together with legislative proposals. Better coordination between the Ministry of Finance and the Public Policy Secretariat has yet to be established to ensure that there are no discrepancies between financial impact assessments, which the Ministry of Finance coordinates, and financial information in the regulatory impact assessments. With regard to inter-ministerial consultations, no official high-level mechanisms exist for resolving possible conflicts between services. The regulatory framework for **public consultations** was improved with amendments to the laws on state administration and on local government and the Law on the planning system, requiring that public consultations are organised early in the policy-making process. The impact of these regulations has yet to be assessed in practice.

As regards **public scrutiny of government work**, the new Law on the planning system requires the government and ministries to prepare and publish monitoring reports on implementation of strategic documents. They should start measuring achievements against stated objectives rather than report on implemented activities. Quarterly reports on the implementation of the NPAA are now regularly published. The government's website was revised in October 2018, but it still does not provide easy access to the government's main public policy documents, such as annual government work plans or action plans for the implementation of the government programme.

Public financial management

The 2016-2020 public financial management (PFM) reform programme is being implemented albeit with delays. The ongoing revision needs to ensure more realistic planning, costing, sequencing, and increased focus on performance indicators and results.

The government's main achievement in PFM has been to keep the public finances on a sustainable path, maintaining the improved quality of in-year financial reporting and more realistically planned revenue and expenditure projections. The capital budget execution level has further increased. The tax administration has focused on boosting tax compliance, improving efficiency of revenue collection and reducing the tax collection administrative burden. All budget beneficiaries are obliged to report on the performance of the budget programme. The State Audit Institution has continued to increase both the coverage and quality of their audits of public funds.

The key outstanding issues concern the budget calendar, which is not being complied with, resulting in insufficient time allocated to proper preparation, assessment and debate among the stakeholders. Although the budget is structured by programmes, the link between the government programme and sector strategies and operational plans of budget beneficiaries is still weak. Serbia still needs to develop a single mechanism for prioritising all investments regardless of the source of financing and to ensure that procedures are in place to guarantee the integration of capital projects' planning and appraisal in the budget process. Furthermore, the government's investment planning and management capacity needs to be improved, including the capacity to control public assets funded by loans from third countries (*see Chapters 5, 16, 29 and 32*).

Serbia is committed to improving **budget transparency**. A 'citizens' budget is published. The executive's budget proposal and the year-end report should be more comprehensive. A transparency roadmap, a pre-budget statement, and a mid-year report are still to be produced and published. The Ministry of Finance does not publish the budget execution profile at the beginning of the year, preventing an analysis of deviations from targets. Budget execution reports contain the basic elements but do not break down expenditure figures for individual budget organisations. Public participation in the budget process continues to be weak and

budget oversight by the legislature needs to be improved. The 2019 budget was adopted by the parliament without substantive debate (*see under Parliament*).

Public service and human resources management

The civil service legislation defines **merit-based recruitment and dismissal procedures**. Amendments were introduced in the Law on civil servants in December 2018 and new secondary legislation was adopted in January 2019. While the amendments introduce criteria for the organisation of the selection tests based on competency assessments, the heads of institutions still have too much discretion in setting up selection committees. Obligatory recruitment procedures have been introduced for certain categories of temporary staff, which make up around 10% of the civil service. The possibility to convert certain categories of temporary contracts into permanent civil service contracts should be carefully considered. With regard to the risk of abuse of the dismissal process, the revised performance appraisal procedure introduces a longer timeframe for improving performance, including the possibility to attend professional training following a negative assessment, at both expert and management level. Performance appraisal grades remain inflated. The amendments also introduced a new performance assessment system reflecting the policy priorities of institutions.

Political influence over recruitments to **senior civil service positions** continues to be an issue of serious concern. The merit-based recruitment procedure, as prescribed in law, has not always been complied with. Rather, the provision in the law that allows appointments to ‘acting positions’ for six months (with a maximum extension of three months) has been often misused. This has resulted in high staff turnover and loss of institutional memory in some cases and in violation of the legal time limit in other cases. As of March 2019, 63% of filled senior positions are held on an acting basis. The amendments to the Law on civil servants did not address these shortcomings, apart from restricting the appointments to already existing civil servants as of 1 July 2019. The phasing out of the current acting positions needs to be effectively monitored by the competent institutions.

A competency-based **human resources management** system was introduced with the amendments to the Law on civil servants. Its effectiveness has yet to be assessed in practice. The Human Resources Management Service under the Ministry of Public Administration and Local Self-Government needs to strengthen its capacity to coordinate and harmonise the work of line institutions’ human resources units. The human resources management information system remains underdeveloped and does not interact with other national databases such as the treasury payroll registry. There have not yet been improvements regarding **remuneration** of civil servants. The implementation of the 2016 Law on the salary system in the public sector, which introduces the principle of equal pay for equal work for all public sector employees, has been postponed to 2020.

Progress has been made with **professional development**, following the establishment of the National Training Academy for Public Administration in 2018. The academy has a mandate to provide training for all public officials, including at the local level. Specific training modules target senior managers.

A code of ethics for civil servants aims to ensure **integrity in public service**. Further efforts are needed to ensure full implementation of the existing integrity plans in the judiciary and in the public administration and to address corruption in local administration through adoption of local action plans. The impact of the implementation of these integrity plans has yet to be assessed.

Accountability of the administration

Following the government's rightsizing efforts and decrease of public administration staff by over 45,000, the structure of the public administration still needs to be streamlined. The **lines of accountability** between agencies and their parent institutions are blurred, contributing to overlapping functions, fragmentation, and unclear reporting lines. Political commitment to managerial accountability and systematic delegation of responsibilities is still needed. Institutions continue to have a bureaucratic and process-oriented approach to planning, budgeting and the reporting of their activities (*see Chapter 32 — Financial control*).

The Ombudsman has a key role to play in ensuring **citizens' right to good administration**, and public authorities are obliged to report on the implementation of his recommendations. However, for the fourth consecutive year, the parliament did not discuss in the plenary the Ombudsman's annual report and hence, no conclusions were made for the government's review (*see under Governance*). **Citizens' right to access public information** is regulated in the Law on access to information of public importance, which is under revision. Administrative silence, whereby public authorities fail to properly act on the citizens' information requests, continues to be a major issue. Enforcement of the decisions taken by the Commissioner for free access to information of public importance needs to be ensured (*see Chapter 23 – Fight against corruption*).

With regard to **citizens' right to administrative justice**, the administrative court operates with an insufficient number of judges while coping with broadening responsibilities, especially over labour disputes including at local self-government level, which affects its efficiency. A new Law on free legal aid was adopted in November 2018, and it includes a regulatory framework for legal aid in administrative cases. While the **citizens' right to seek compensation** is regulated, no statistical data is collected to monitor implementation.

Service delivery to citizens and businesses

The government continues to be committed to creating a more **user-oriented administration**. Progress was made with the development of further e-services, such as e-payments, and the adoption of an e-government law in April 2018. Secondary legislation and a new e-government strategy for 2019-2021 are being developed. There is strong co-ordination and leadership in this area from the e-government office and the Prime Minister's Delivery Unit. Digital signatures are being used, but only around 5% of the population avail of this service. A more modern e-government portal is currently being designed. While electronic service delivery continues to advance, there is still no central policy ensuring citizens' access to services.

The legal framework for **simplification of administrative procedures** has been in place since the 2016 Law on general administrative procedures. However, there continues to be regulatory uncertainty for citizens and businesses due to considerable delays with aligning sector legislation with this law. Citizens are often not aware of their improved rights, allowing the administration to apply old cumbersome procedures. The capacities of the Ministry of Public Administration and Local Self-Government to exercise an efficient oversight of the implementation of this law are limited, and there are overlaps in coordination with the Public Policy Secretariat.

2.2. Rule of law and fundamental rights

2.2.1. Chapter 23: Judiciary and fundamental rights

The EU's founding values include the rule of law and respect for human rights. A properly functioning judicial system and an effective fight against corruption are of paramount importance, as is respect of fundamental rights in law and in practice.

Serbia has **some level of preparation** to apply the *acquis* and European standards in this area. Serbia made **limited progress**. In April 2018, Serbia submitted to the Venice Commission the draft constitutional provisions aimed at strengthening the independence of the judiciary. The latter submitted its Opinion in June 2018 with a number of recommendations on changes required for the draft provisions to meet European standards. The revised draft sponsored by the government follows these recommendations. The constitutional reform process continues through parliamentary procedures, initiated in November 2018. Corruption is prevalent in many areas and remains an issue of concern. The legal framework on fundamental rights is broadly in place but its implementation is inconsistent. There was no progress made as regards freedom of expression. The overall environment is still not conducive to the exercise of this right. The role of independent and regulatory bodies needs to be recognised, their capacities strengthened, including their budgets and skilled staff, and their functional independence must be guaranteed in practice.

Serbia is implementing an action plan which was adopted prior to the opening of the accession negotiations on this chapter in July 2016. Serbia is in the process of revising its action plan with measures oriented towards meeting the interim benchmarks of the EU common position.

Functioning of the judiciary

Serbia has **some level of preparation** in the area of judiciary. It made **some progress** during the reporting period: while last year's recommendations have only been partially addressed, progress was made in reducing old enforcement cases and in following up on measures to harmonise court practice. Some changes to the rules for judicial appointments and for evaluating the work of judges and prosecutors were adopted, but the system needs to be thoroughly revised following the adoption of the constitutional amendments to allow for merit-based judicial recruitments and careers. Currently, the scope for political influence remains a concern. The constitutional reform is ongoing.

In the coming year, Serbia needs in particular to make significant progress on:

- strengthening the independence of the judiciary and the autonomy of the prosecution, including through amendments to constitutional and legislative provisions related to the appointment, career management and disciplinary proceedings of judges and prosecutors;
- ensuring both in law (in the context of the ongoing constitutional reform) and in practice that the High Judicial Council and the State Prosecutorial Council can fully assume their role and achieve an independent and efficient judicial administration in line with European standards, including regarding the execution of the judicial budget;
- adopting and implementing a human resources strategy for the entire judiciary and establishing a uniform and centralised case management system, which in combination should lead to a measurable improvement in efficiency and effectiveness of the justice system.

Strategic documents

Serbia's main strategic document, together with the action plan on Chapter 23, was the national judicial reform strategy (2013-2018). Its renewal is ongoing. A draft assessment of the previous strategy was presented in November 2018. Furthermore, the World Bank is carrying out a follow-up review to its court functional review, and has completed a prosecution functional review. These reviews are aimed at informing the renewal of the national judicial reform strategy and the revision of the action plan for Chapter 23. The new strategic documents should include clearly defined activities and performance indicators.

Management bodies

The High Judicial Council (HJC) and the State Prosecutorial Council (SPC) are responsible for the appointments, evaluation, transfers and dismissals of judges and prosecutors, and related budgetary issues. The 2019 budget of the HJC is EUR 2.02 million (EUR 2.75 million in 2018). The 2019 budget of the SPC is EUR 1.04 million (2018: EUR 1.02 million).

As regards the budget for the judiciary and the prosecution, responsibilities continue to be divided between the Ministry of Justice and the two councils. This also has an adverse impact on the efficiency of budgetary planning, in terms of resource allocation, and execution. The action plan for Chapter 23 envisaged the transfer of residual budgetary responsibilities from the Ministry of Justice to the councils by early 2017. This is delayed: while the current legislative framework provides for this transfer to the HJC, it has been further postponed (for the fourth time) to 2020. The Law on public prosecution was still not amended to allow for the same transfer to the SPC.

Both councils should further improve the transparency of their work, including by making the reasoning of their decisions on appointment, promotions, transfers and disciplinary proceedings available to the public. The councils' professional and administrative capacities need to be further strengthened. Training is being provided in an *ad hoc* manner, mostly by external providers. A more systematic approach towards the professional improvement and long-term training plans for judicial and prosecutorial staff as well as the councils' own staff are needed for the better overall operation of the judicial system.

Independence and impartiality

The current constitutional and legislative framework continues to leave room for undue political influence over the judiciary. Future legislative changes (required to finalise the constitutional changes) will need to enhance the safeguards for judicial independence. A fully objective, transparent and merit-based system for appointing, transferring and promoting judges and prosecutors in line with European standards will need to be put in place also to promote professionalism and improve quality. In addition, the current broad discretionary powers of court presidents and heads of prosecution offices over the work of individual judges and deputy prosecutors respectively should not have an adverse impact on the quality of the adjudication of cases. They also need to respect the safeguards for independence and autonomy in this field, in particular in relation to instructions to individual prosecutors.

The constitutional reform process continued throughout 2018 in an acrimonious environment and there was no consensus reached during stakeholder consultations. In April 2018, following a few public roundtables, the draft provisions were submitted to the Venice Commission. The Venice Commission adopted its Opinion in June 2018, providing recommendations on the provisions so they can meet European standards. On a number of issues, several possible options were recommended. The Venice Commission also noted that the budget for the judiciary had not been addressed. In October 2018, the Ministry of Justice finalised the text after the Venice Commission Secretariat stated that the recommendations of

the June Opinion had been followed. In late November 2018, the government submitted to parliament an initiative to change the constitution, a step necessary to begin the parliamentary procedure.

It is important for the constitutional reform to be finalised at the level of implementing legislation, in particular on the jurisdiction and organisation of courts and prosecution offices, the role and effective functioning of the councils and the Judicial Academy. Serbia is encouraged to consult the Venice Commission in this legislative reform process.

Pressure on the judiciary remains high. Public comments continue to be made by government officials, some at the highest level, on ongoing investigations or court proceedings, and on individual judges and prosecutors. The HJC issued several statements in response to public comments and in reaction to complaints received by judges on intimidation and threats. The SPC's Commissioner for Autonomy reviewed over 40 cases of alleged inappropriate political influence, and issued several advisory opinions. The draft rulebook and instructions on the work of the Commissioner were finalised, but not yet adopted.

Accountability

Disciplinary procedures are in place for both judges and prosecutors. In 2018, the SPC disciplinary prosecutor processed 152 disciplinary reports received and initiated a procedure in five cases. The Disciplinary Commission issued the following sanctions: public warnings, prohibition of career advancement, decrease in salary, and a dismissal in one case. During the same period, the HJC's Disciplinary Commission had 30 cases in process, 25 of which were new cases proposed by the disciplinary prosecutor in 2018. The Disciplinary Commission issued a public warning and imposed several salary reductions. Judges and prosecutors have an obligation to **declare their assets** on an annual basis and to report possible **conflicts of interest**.

Both councils have **codes of ethics** and ethical boards in place. Following the adoption of new rules of procedure, their members need to be re-appointed.

A revision of the disciplinary rules is needed in order to better define the offences, streamline the procedures and strengthen the capacity of the disciplinary bodies. In addition, the codes of ethics need revision in order to, among other things, clarify which provisions in the codes should entail disciplinary liability for their non-compliance. The SPC started reviewing the disciplinary rules for prosecutors.

Professionalism and competence

In 2018, the HJC elected 51 judges to permanent positions, and promoted 42 judges to higher-level courts. It also proposed to parliament 187 first-time judges. The SPC elected 110 deputy prosecutors and promoted 28 deputy prosecutors.

In the context of the constitutional amendments, there is a need to revise the current system of recruitment, transfer and promotion of judges and prosecutors, in order to ensure that their careers are fully based on merit, with a clear link between **performance evaluation** and career advancement. The methodology for the evaluation of the professional performance of judges should include participation in training initiatives. At present, Serbia has two categories of eligible candidates for the judicial professions: alumni of the Judicial Academy, and judicial and prosecutorial assistants. Thus far, mainly candidates from the latter group are being appointed. In light of the Venice Commission Opinion, having a national judicial academy as the sole entry point to the judicial profession at basic court level is 'well founded with the aspiration and commitment to strengthen the calibre and professionalism of judicial

and prosecutorial training, but it would be advisable to protect the Academy from possible undue influence’.

Quality of justice

The quality of initial and continuous **training programmes** provided by the Judicial Academy needs to be improved. Training should better respond to real needs by, for example, focusing on judicial skills and ethical values, including the role of a judge in a democratic society. Continuous training activities, which also require coordination efforts in order to avoid overlapping, are still highly dependent on different donors. The cooperation between the Judicial Academy and the HJC should be strengthened. Some strategic internal documents such as manuals and guidelines for evaluating mentors and rules for evaluating continuous training were prepared. A new database allows for easier access to the European Court of Human Rights case-law related to Serbia. A multi-annual work programme on judicial training still needs to be adopted. A quality control mechanism, which regularly and effectively assesses the impact of the training provided, is yet to be put in place. Overall, there is no systematic approach to the professional improvement through training of the judiciary staff. Further improvement of internal capacity and organisation of the Judicial Academy is pending.

Further steps were taken to improve the consistency of jurisprudence: non-binding guidelines by the Supreme Court of Cassation on improving consistency in the interpretation of the law are in place in all four appellate courts. The Supreme Court of Cassation established a specialised department to analyse divergences in court decisions. It also adopted a new list of key words for a more precise search in the electronic case law database, and it adopted instructions for the selection, listing and archiving of relevant court decisions in this database. Efforts in this regard need to continue, as a functional judicial database plays a central role in effectively improving consistency of case-law.

There is a need to revise the Civil Procedure and the Criminal Procedure Codes in a number of areas including document management and the recording of hearings, in order to bring them in line with European standards and best practices.

The 2019 budget for the judiciary (courts and prosecution offices) is EUR 299 million. There is limited provision in the budget to meet infrastructure needs.

In 2018, there were 2,418 full-time judges effectively working (2017: 2 586) i.e. 37.4 judges per 100,000 inhabitants. The trend towards fewer active judges thus continues. The average age of judges in Serbia is 54. There were 769 holders of the public prosecutor function effectively working in 2018 (2017: 628) i.e. 10.98 per 100 000 inhabitants (2017: 10). The European average is 21 judges and 11 prosecutors per 100 000 inhabitants. In the absence of a comprehensive human resource strategy, there is a mismatch between the number of judges per court and the size of the court administration.

The Serbian judiciary continues to rely on several different case management applications that are not interconnected. Furthermore, there is only one centralised statistical tool (generating only one type of report) that does not cater for the different systems. This hampers data collection and exchange. The earlier adopted general information and communication technology (ICT) guidelines have not yet led to an overall strategic vision and plan for ICT solutions, which are urgently needed. A comprehensive **countrywide system to process and manage cases across the judicial and prosecutorial networks**, including to provide comprehensive and reliable statistical data in line with European standards, is still to be put in place.

An automatic case allocation system with some technological support is in place in all the courts. It is based on objective and pre-determined criteria, on the normative principle of the ‘natural judge’ and on the requirement to assign cases randomly. This is an essential tool to support judicial independence and impartiality. In 20 pilot courts, both basic and higher, the tool has been improved with the introduction of a case weighting formula.

In spite of increasing numbers compared to previous years, the services of **public notaries** are still not available throughout Serbia. Eight districts do not yet have public notaries. Secondary legislation was adopted to better regulate the management of documents, including land register registration, the electronic issuance of certificates and on filing property tax applications.

Still little progress is being made in introducing **alternative dispute resolution** mechanisms such as mediation. Info-desks for the public and court users were established. The Law on court fees was amended. As of January 2019, the law should provide for an additional incentive to parties by waiving court fees for successful mediation in civil cases, before or at the first hearing. The new provisions on peaceful labour dispute resolution provide for specialised mediation in collective labour disputes. The impact of these measures has yet to be seen.

Efficiency

The implementation of the national **backlog** reduction programme (for 2016-20) continued to be supervised by the Supreme Court of Cassation. It has a positive impact on the courts’ efficiency with the backlog of old enforcement cases shrinking. In 2018 the number of enforcement cases decreased by 78,135 cases. However, the overall high number of pending backlog cases still remains a concern (781 137 cases at the end of 2018). The highest number of backlog cases (86.6% of the total) are in basic courts. From 2016 to 2017, the overall clearance rate dropped from 139.87% to 106.04%, but in 2018 it increased again to 110.03%. Thus for the third year in a row, the Serbian judicial system was able to process more cases than it received, even with fewer active judges than in 2017.

There are still significant differences in workload across the country. Lengthy proceedings, the lack of a free legal aid system – until the new law is implemented in October 2019 – and the failure in processing indemnity claims continue to hamper the quality of justice and citizens’ access to justice (*see under Procedural rights*).

The amended Law on enforcement and security from 2016 that extended the authority of the **public enforcement agents** has accelerated procedures and has enabled the ‘utility bill’ cases to be reduced more efficiently. During the second half of 2018, enforcement agents have solved 163,812 cases, compared to 116,120 during the first half of 2018.

As the backlog results to some extent also from malfunctioning corporate governance within the mostly government-controlled utility companies, the government is also responsible for addressing it.

Domestic handling of war crimes cases

Serbia needs to fully cooperate with the International Residual Mechanism for Criminal Tribunals (IRMCT), including by fully accepting and implementing its rulings and decisions. There have been public and repeated challenges by Serbia, including from the highest levels, of the judgments of the International Criminal Tribunal for the former Yugoslavia (ICTY). Serbia’s state of non-cooperation in relation to the arrest of people indicted for contempt of court had not been resolved by the time the IRMCT assumed the jurisdiction, rights and

obligations of the ICTY. The final decision as to whether this case will be adjudicated by the IRMCT or in Serbia is pending.

Regarding judicial cooperation issues, the existing bilateral protocols on cooperation related to war crimes, crimes against humanity and genocide between the Prosecutor's Office of Serbia and its counterparts in Bosnia and Herzegovina, Croatia and Montenegro have contributed to improving relations and reducing judicial impunity for war crimes. In 2018, the cooperation with Bosnia and Herzegovina has led to indictments being issued in Serbia. Cooperation with Croatia faced a number of impediments and has not led to tangible results. Mutual legal cooperation between Kosovo and Serbia is extremely limited in war crimes cases.

The implementation of the 2016 national strategy for investigation and prosecution of war crimes has continued at a slow pace. A monitoring mechanism for overseeing its implementation is in place. It has issued five reports.

The prosecutorial strategy 2018-2023 was adopted in April 2018. It did not include clear criteria for prioritising war crimes cases as envisaged in the Serbian action plan for Chapter 23. In order to support the implementation of this strategy, additional posts were planned for the Office of the War Crimes Prosecutor (OWCP), including additional deputy prosecutors and a psychologist to support victims and witnesses. Eight deputy prosecutors have been appointed: five new posts and three as replacements for retired colleagues. There has been a further delay in assessing the confidentiality rules (disclosure of confidential information during investigations and/or tampering of evidence).

In December 2018, the OWCP released its own report on criminal complaints filed nationally since 2003. According to this report, there were - out of a total of 76 cases - 13 against the mid-ranking perpetrators and none against high-ranking officers.

In 2018, 10 indictments were filed by the OWCP (compared to 3 in 2017) of which 7 cases were transferred from Bosnia and Herzegovina. Seven have been confirmed. These indictments concern cases not involving high-ranking suspects. Currently, there are 16 **cases ongoing** at first instance, and 1 case at appeal level. Most of the ongoing cases are against low-ranking defendants. Most cases have seen significant delays on various (including medical and procedural) grounds. Significant court hearing delays experienced in 2017 also continue, for instance in the 'Srebrenica' case. Moreover, there have been reported instances of intimidation of witnesses and observers.

Serbia currently has 2 382 cases at the pre-investigation stage.

Some administrative steps were taken to improve the efficiency of investigations through the adoption in early 2018 of joint internal operating rules between the OWCP and the War Crimes Investigation Service. The latter moved to more suitable premises for keeping records of war crimes in order to prepare a database to investigate those crimes. This should help prioritise investigations and prosecutions.

Overall, Serbia needs to demonstrate a firmer commitment to the domestic processing of war crimes at all levels. In addition, meaningful regional cooperation and good neighbourly relations are needed to overcome the legacies of the past, and to constructively foster mutual trust, dialogue and tolerance in the region, avoiding actions and statements that go against this goal. This should also imply honouring the victims of the past. There have been several instances in which the state authorities have provided public space and took part in promoting activities of ICTY-convicted war criminals. This is not creating an environment conducive for an impartial and effective adjudication of war crimes cases.

Fight against corruption

Serbia has **some level of preparation** in the fight against corruption. **Limited progress** has been made. There is no measureable impact of corruption prevention reforms. The revised Law on the prevention of corruption (previously known as law on the Anti-Corruption Agency) was adopted on 21 May 2019. The law needs to comply with the *acquis*, international agreements and GRECO recommendations. As regards the repression of corruption, the Law on organisation and jurisdiction of government authorities in suppression of organised crime, terrorism and corruption, which entered into force in March 2018, is being implemented but it is too early to fully assess its impact. Law enforcement and judicial authorities still need to establish a credible track record of operationally independent prosecutions and finalised high-level corruption cases. Overall, corruption is prevalent in many areas and remains an issue of concern. There is a need for strong political will to effectively address corruption issues, as well as a robust criminal justice response to high-level corruption. Serbia should in particular:

- improve its track record on investigations, indictments and final convictions in high-level corruption cases, including the seizure and confiscation of criminal assets;
- implement legislation on the Anti-Corruption Agency that needs to be compliant with the *acquis*, international agreements and GRECO recommendations, in order to strengthen the Agency's role as a key institution in a more effective fight against corruption;
- conduct an impact assessment on its anti-corruption policy with a view to adopting a new ambitious strategy and action plan.

Track record

As regards Serbia's track record of investigating, prosecuting and trying corruption cases, there were criminal charges filed against 9,095 individuals with the special departments for combating corruption in the Higher Prosecutors' Offices. They filed indictments against 547 individuals. Courts convicted 332 individuals based on indictments by these special departments, out of which there were court-accepted plea agreements for 294 defendants. Courts also convicted 41 individuals in relation to high-level corruption offences (based on indictments by the Prosecutor's Office for Organised Crime) in 2018 (compared to 50 in 2017). Of these, 13 were based on plea agreements. Confiscation of assets was imposed in two of these cases. The Prosecutor's Office for Organised Crime indicted 21 individuals. Overall, for all types of corruption cases, there were first instance convictions against 1 952 individuals in 2018 (compared to 2 140 in 2017). Serbia needs to demonstrate a convincing track record on the final confiscation of assets.

Serbia urgently needs to improve its results in detecting and prosecuting corruption crimes, based on increased technical expertise, and better coordination and data exchange between all institutions involved. Serbia also needs to step up the application of the concept of financial investigations.

The Anti-Corruption Agency issued 77 opinions related to requests on **conflicts of interest** in 2018 (2017: 41). It filed 31 requests for misdemeanour proceedings (2017: 20). The Agency initiated 151 procedures (37 based on complaints and 114 *ex officio*) (203 for 2017: 37 based on complaints and 166 *ex officio*) on grounds related to accumulation of functions without prior approval of the Agency, and 166 procedures for other situations related to conflict of interest or nepotism (145 based on complaints and 21 *ex officio*) (170 for 2017: 101 based on complaints and 69 *ex officio*). In 2018, the misdemeanour courts had still not issued any first instance judgments, filed by the Agency in 2018.

The Agency submitted 45 requests related to **income and asset declarations** for misdemeanour proceedings in 2018 (2017: 86) of which 43 were related to a failure to submit asset declarations on time. Based on the Agency's work in previous years, misdemeanour courts issued 49 convictions in 2018 (2017: 63). The Agency filed 16 **criminal charges** in 2018 (2017: 15) due to reasonable suspicion that a public official had not reported assets or had given false information about assets with the intention of concealing the facts. Based on the Agency's previous work, 2 final judgements were issued with a conditional sentence of imprisonment, 14 cases were finalised with the deferral of criminal prosecution, in 14 cases criminal charges were dismissed and in 3 cases acquittals were issued. Proceedings are underway in 17 cases. Overall, the number of cases dealt with by the Agency is decreasing. In general, the measures that the Agency can impose do not have a deterrent effect, and more stringent rules on the accountability of officials in cases involving conflicts of interest are needed. The ongoing process of drafting the new law on the Anti-Corruption Agency provides a good opportunity to ensure that the Agency gets a more robust and ambitious mandate when it comes to identifying and preventing corruption.

The Agency also performs checks on the **funding of political activities and of elections**, and submitted 90 requests for misdemeanour proceedings for violations of the Law on political activities financing in 2018 (against 273 in 2017). In the same period, courts rendered 113 final verdicts. As most of them impose low sentences, they do not have the desired deterrent effect. Based on final sentences, in 2018, the Agency published 33 decisions on the loss of the right of political entities to use public funds for their regular work during 2019 (against four in 2017). The law on misdemeanours provides for misdemeanour plea agreements as a new mechanism, which was implemented by the Agency in May 2018 for the first time. The Agency signed four such agreements in 2018. Overall, the system for controlling of political activities and electoral campaign financing needs to become more transparent and effective through improving legislation and applying the recommendations of the OSCE/ODIHR and the Council of Europe Group of States against Corruption (GRECO).

A comprehensive and evidence-based assessment of **access to information** is not possible, as the majority of public authorities do not comply with the obligation to provide data to the Commissioner for Access to Information of Public Importance regarding citizens' requests for information. The Commissioner established that 87% (2017: 86%) of citizens' complaints – most of them concerning administrative silence – were well-founded, meaning that the information requested by citizens should have been provided by the authorities according to the Law on access to information of public importance. In 55% (2017: 62%) of these well-founded cases, the authorities reported that they acted upon the Commissioner's request to provide the information to the complainants even before a decision was made on the appeal, which would indicate that there was no reason not to disclose the requested information in the first place.

During 2018, courts in Serbia received 122 new cases based on the law on **whistle-blower** protection (2017: 149) and out of the total caseload of 193 cases, 124 cases were finalised (2017: 158).

Institutional framework

Prevention of corruption

Serbia's institutions for **preventing corruption** broadly meet international standards. As regards the revision of the law on the **Anti-Corruption Agency**, enabling it to better assume its role as the key institution in this area, a first draft was prepared by a Ministry of Justice working group in July 2018. This draft did not fully comply with the GRECO recommendations. A second draft was published on the Ministry's website in February 2019

further to consultations with a GRECO-affiliated expert. The government submitted a draft to parliament in early May 2019 under urgent procedure (*see under Parliament on the use of urgent procedures*). Parliament adopted the law on 21 May 2019. The law needs to comply with the *acquis*, international agreements and GRECO recommendations. Efforts are needed to empower the Agency to step up data collection in an accountable manner and its data analysis, including access to relevant databases. The Anti-Corruption Agency's budget has increased for 2019, and the new 'staff systematisation' allows for 123 workplaces, as well as the contracting of 157 employees (compared to 92 workplaces and 139 employees previously). The Agency currently has only 80 employees on a permanent basis. Priority should be given to adequately resourcing the Agency in order for it to be a leading player in preventing corruption and monitoring progress in this regard, and to work in an independent and transparent manner. Serbia's institutions need to cooperate with and respond to the Agency's reports and instructions as provided for under the law.

Public procurement, infrastructure projects, healthcare, education, construction and spatial planning, and public companies remain **particularly vulnerable to corruption**. No tangible improvements took place in relation to verifications and procedural transparency in these fields. Serbia's public procurement legislation is largely in line with the *acquis*. A draft law aimed at further alignment including on e-procurement was prepared. The public procurement office still lacks staff and technical capacity. It needs to step up efforts in supervising other institutions and monitoring, partly by setting up a centralised database. The anti-corruption action plan focusing on higher education has yet not yielded concrete results.

In order to fight corruption at local level, the Anti-Corruption Agency had provided the local authorities with a model anti-corruption action plan. Only six local authorities set up a body to monitor the implementation of plans drawn up that were based on this model (76 plans out of 145 required had been adopted). The Law on civil servants was amended in 2018 to include provisions concerning conflicts of interest in public administration and disciplinary procedures; however, the amendments did not sufficiently address shortcomings in transparent and merit-based recruitment.

The **Anti-Corruption Council**, in its advisory role to the government, remained active in exposing and analysing cases of systemic corruption. However, the government still refuses to systematically follow up on its recommendations, and the Council is yet to be systematically included in procedures for adopting legislation that has a potential bearing on corruption. The authorities should establish a more constructive relationship with the Council.

Law enforcement

The new **Law on the organisation and jurisdiction of government authorities in suppression of organised crime, terrorism and corruption**, which entered into force in March 2018, provides for specialised authorities to investigate and prosecute corruption cases. Adequate training has been organised. In the special departments for combating corruption in the Higher Prosecutors' Offices in Kraljevo, Niš, Novi Sad and Belgrade a total of 44 deputy public prosecutors have taken up work. Also, five task forces were established in these departments, which include representatives of the police, the tax administration and the administration for the prevention of money laundering. A department for the fight against corruption is operating within the Criminal Police Directorate, and dedicated bodies have been established in the same cities. Coordination meetings between the police and the prosecution are organised regularly, and liaison officers have been appointed. Of the five **financial forensic experts** envisaged, only two have been employed. They are yet to be hired in the new special departments for combating corruption in Kraljevo, Niš and Novi Sad.

While the impact of these new structures has yet to be fully assessed, so far the institutional and technical capacity of police, prosecutors and judges remains insufficient overall and needs improvement. Financial investigations are being launched more proactively, but their impact on a substantially increased number of final convictions is yet to be demonstrated.

Internal control departments in line ministries continue to lack **equipment, resources and human capacity**. The State Audit Institution audited 200 statements from public funds beneficiaries in 2018. For 117, it concluded that the internal control system did not provide reasonable assurance that the goals concerning compliance with regulations and procedures were achieved. Some 76.5% of the audited entities were found not to have appropriately established the internal audit function.

Legal framework

Serbia is a party to all international anti-corruption conventions, including the United Nations Convention against Corruption. The **legal framework for the fight against corruption is broadly in place**. Parliament adopted amendments to the **law on the Anti-Corruption Agency**. This law needs to comply with the *acquis*, international agreements and GRECO recommendations.

The **Law on free access to information of public importance** still needs to be further amended to ensure its effective implementation including through an appropriate access to information. Amendments are being prepared (*see under Public administration reform*). The legal framework on whistle-blower protection still needs to be aligned with the new EU *acquis* on this issue.

There is a further delay in amending the Law on **financing of political activities**. This is needed, among other things, to increase transparency in financing political entities and electoral campaigns including the use of public resources, to introduce more efficient sanctions, and to clarify the duties between the relevant state authorities. The State Audit Institution has performed financial statement audits and compliance audits on five political entities in 2018.

In its latest evaluation round in March 2019, GRECO noted that 10 recommendations on the prevention of corruption in respect of members of parliament, judges and prosecutors were partially implemented and 3 not implemented (instead of 7 partially implemented and 6 not implemented in 2018). It concluded for the second year in a row that Serbia had not implemented satisfactorily or dealt with in a satisfactory manner any of the 13 recommendations. Following one of these recommendations, a new law on lobbying was adopted in November 2018. GRECO also concluded that the overall level of compliance with the recommendations is no longer ‘globally unsatisfactory’ and that Serbia was no longer subject to the non-compliance procedure.

Strategic framework

The Anti-corruption Agency monitored the implementation of Serbia’s **anti-corruption strategy and action plan for 2013-2018**. Out of 177 measures to be completed by the end of 2017, the Agency found that 26% were implemented in accordance with the indicators, while 61% were deemed not implemented at all (while the remaining measures were deemed to be partially implemented). A number of steps to effectively implement and monitor this strategy and its follow-up strategy, as well as the relevant sections in the action plan for Chapter 23, have been seriously delayed.

Fundamental rights

The legislative and institutional framework for upholding human rights is broadly in place. Amendments improving the legislative framework related to national minorities were adopted in June 2018. However, consistent and efficient implementation of legislation and policies needs to be ensured. In addition to making substantial efforts to uphold freedom of expression, Serbia needs to address shortcomings already identified in the 2018 report. In particular, Serbia needs to:

- strengthen human rights institutions, guarantee their independence, including via the allocation of the necessary financial and human resources, and follow up on their recommendations;
- step up measures to protect the rights of persons facing discrimination, including lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, persons with disabilities, persons with HIV/AIDS and other vulnerable individuals; actively pursue investigation and convictions for hate-motivated crimes; and adopt a new anti-discrimination strategy;
- ensure a consistent implementation of legislation regarding national minorities, including Roma², leading to a tangible improvement in the effective exercise of their rights across the country.

Serbia has ratified eight of the nine **international human rights instruments**. It has yet to become a party to the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Overall, the implementation of international human rights instruments still needs to be improved. By decision of the Stabilisation and Association Council, Serbia was granted observer status in the European Agency of Fundamental Rights. The participation of Serbia as observer in the work of this agency is an important step towards its gradual alignment with Union law in the area of fundamental rights. In particular, it will contribute to the exchanges of best practices facilitating the advancements on concrete fundamental right issues in line with applicable EU standards.

In 2018, the **European Court of Human Rights** delivered 13 (2017: 26) judgments concerning Serbia and found that it violated the European Convention for the Protection of Human Rights and Fundamental Freedoms in 12 (2017: 25) cases. Four violations related to the right to a fair trial, six to the length of proceedings, one to non-enforcement, and one to the protection of property. There are currently 69 (2017: 66) cases against Serbia in the enhanced monitoring procedure before the Committee of Ministers of the Council of Europe.

As regards **promotion and enforcement of human rights**, the number of citizens' complaints submitted to the Ombudsman decreased by 19% (2017: 4 060; 2018: 3 282), while the number of recommendations from the Ombudsman addressed to the authorities remained stable (2017: 799; 2018: 793). For the fourth consecutive year, the parliament failed to discuss in the plenary the annual reports of the Ombudsman and of other independent bodies; therefore no conclusions for the government's review were made. According to the Ombudsman, the percentage of his recommendations followed up by the authorities remains high (2017: 90.6%; 2018: 93.2%), although certain recommendations related to "public interest" have still not been addressed. There has been a serious delay in amending the law on the Ombudsman.

In the field of **prevention of torture and ill-treatment**, the Ombudsman, in his capacity as the national preventive mechanism, made fewer visits to relevant sites, namely police stations, prisons, social welfare institutions, psychiatric hospitals, and visits to oversee the treatment of

² In line with the terminology of European institutions, the umbrella term 'Roma' is used here to refer to a number of different groups, without denying the specificities of these groups.

refugees and migrants (2017: 61; 2018: 44). NGOs participating in the national preventive mechanism deem that cooperation from the Ombudsman's office has decreased. As a large number of recommendations by the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) had not been implemented, the CPT issued a report in June 2018 following its *ad hoc* visit to Serbia, stating that ill-treatment is an accepted practice within the current police culture. The Public Prosecutor's Office and the Ministry of the Interior conducted training on the official methodology for investigations into allegations of torture and other forms of ill-treatment. A new commission for the implementation of standards in police conduct related to investigating cases of torture has been established but there has been no impact yet. Secondary legislation needed for the appropriate implementation of the law on the police, which should regulate the treatment of individuals detained in police custody, is delayed. A law for the prevention of ill-treatment and abuse in social institutions has yet to be adopted. The government submitted draft amendments to the criminal code to parliament in early May 2019, under urgent procedure, introducing life imprisonment without the possibility of conditional release for a number of crimes. Parliament adopted the amendments on 21 May 2019. There are relevant provisions of the European Convention of Human Rights and the case law of the European Court of Human Rights. The amended law will have to be assessed on this basis.

Regarding the **prison system**, the renovation and modernisation of several prisons, including the prison hospital in Belgrade, continued in line with the strategy for reducing overcrowding in penal institutions. A new prison was built in Pančevo and is operational. A decision on reorganising the service for treatment programmes and alternative sanctions was adopted in May 2018 but has yet to be implemented. The revision and improvement of treatment programmes in prisons and prison medical facilities is ongoing, in line with CPT recommendations. The more restrictive use of incarceration measures and increased application of alternative sanctions contributed to a stable prison population. Amendments to the Law on execution of extrajudicial sanctions and measures were adopted in November 2018 to improve the use of alternative sanctions. However, shortcomings remain in accommodation conditions and in the provision of legal aid and health care.

A new Law on **personal data protection** was adopted in November 2018, aiming at aligning with the new *acquis*, i.e. the General Data Protection Regulation and Law Enforcement Directive. It will enter into application in August 2019. The mandate of the previous Commissioner for access to information of public importance and personal data protection ended in December 2018. A new Commissioner needs to be appointed in a transparent manner, taking into account relevant professional experience. The Commissioner's office remains understaffed and underfunded. It needs adequate resources to perform its tasks, especially given the increased responsibilities under the new law. Serbia has not signed or ratified the 2018 Protocol amending the Convention for the Protection of Individuals with regards to Automatic Processing of Personal Data.

Freedom of thought, conscience and religion is constitutionally guaranteed and generally respected. However, the lack of transparency and consistency in the process for registering religious communities continues to be one of the main obstacles preventing some religious groups from exercising their rights. The law on churches and religious communities has yet to be aligned with international standards.

Freedom of expression

Serbia has **some level of preparation** concerning freedom of expression. However, there was **no progress** made over the reporting period. This lack of progress is now a matter of serious

concern. A working group composed of both media associations and public officials submitted a draft strategy for the development of a public information system (the media strategy) to the government in December 2018; a consultation process has so far been conducted in a transparent and inclusive manner. With regard to the Commission's recommendations in the 2018 report, the overall environment is still not conducive to the exercise of freedom of expression. Cases of threats, intimidation and violence against journalists are still a concern. While several cases have been solved and some criminal charges filed, investigations and final convictions remain rare overall. The first ever sentence in a case involving the murder of a journalist was pronounced, in first instance, in April 2019. The Serbian authorities need to react promptly to and publicly condemn hate speech and threats against journalists. Legislation on the media sector still needs to be fully implemented. Serbia's legal framework needs to provide for more stringent criteria regarding transparency of ownership and funding of media outlets. Co-financing of media content to meet public interest obligations needs to be implemented in line with the legislative framework. This requires transparent and fair procedures without interference by the state administration, especially at local level.

In addressing the shortcomings outlined here, Serbia should in particular:

- create an enabling environment in which freedom of expression can be exercised without hindrance and ensure that threats, physical assaults, the instigation of violence, and cases of invasion of privacy against journalists and bloggers are properly and swiftly followed up by law enforcement and the judicial authorities, as well as publicly condemned by government officials;
- ensure the full implementation of media laws, and strengthen the independence of the Regulatory Body for Electronic Media and boost its capacity to work proactively;
- adopt and implement a new media strategy, in a transparent and inclusive manner;
- ensure suitable funding of public broadcasting services, transparent and equitable co-funding for media content serving the public interest, and increased transparency in media ownership and advertising.

A working group composed of both media associations and public officials submitted a draft media strategy to the government in December 2018; a consultation process has so far been conducted in a transparent and inclusive manner. Results have yet to be achieved on the thirteen most pressing issues for media freedom identified by media associations gathered in the 'Team for Dialogue'.

Intimidation of journalists

Seven physical attacks and attacks against the property of journalists were recorded by the Serbian authorities during the reporting period. Some media associations reported that political, economic, and other pressures on journalists increased. In this respect, Serbia needs to categorise these crimes as criminal or as other types of offences and ensure appropriate investigation and adjudication. While several cases have been solved and some criminal charges filed, convictions remain rare overall. Serious efforts are needed to identify and prosecute those suspected of violating internet freedoms, as well as those using social media to intimidate and threaten journalists. The 2016 memorandum of understanding between journalists' organisations, the Prosecutor's Office and the Ministry of the Interior has yet to lead to more efficient legal treatment of cases and to ensure access to justice. Media associations suspended their participation in the standing working group on the safety of journalists for seven months due to the perceived lack of results; the working group resumed

its activities in October 2018. The commission tasked with looking into three cases involving the murder of journalists from 1999 and 2001 has made progress in completing an investigation into one of these cases, for which the indictment is still pending. In another case, in April 2019, progress was also made with the pronouncing, at first instance, of the first ever sentence in a case involving the murder of a journalist. The third case is still being investigated by that commission.

Implementation of legislation / institutions

The independence of the Regulatory Body for Electronic Media needs to be strengthened to enable it to safeguard media pluralism. This would also allow it to carry out its tasks in reacting to programme changes eroding editorial content and programme composition, as stipulated in the frequency licences, by giving it the power to issue commensurate fines. Hate speech and discriminatory terminology are often used and tolerated in the media and are rarely tackled by regulatory authorities or prosecutors. The authorities need to promptly react to and publicly condemn hate speech and threats against independent bodies, human rights defenders and independent journalists. The Press Council continued to record an increase of breaches of the journalistic code of professional conduct in print media. Statements by high-ranking state officials on the daily and investigative work of journalists are preventing the creation of an environment where freedom of expression can be exercised without hindrance. The frequent refusal by public bodies to disclose information, or their administrative silence, following requests submitted under the Law on free access to information of public importance hinders the work of journalists.

Public service broadcaster

Funding available for the two public service broadcasters is insufficient. The temporary nature of the funding model – a combination of subscription fees, budget subsidies and commercial contributions – leaves them vulnerable to political influence. Public service broadcasters should more actively engage in opening their programmes to a plurality of views and promoting public dialogue. Public broadcasting services in minority languages need to be strengthened, especially as regards Radio Television of Serbia.

Economic factors

Political and economic influence over the media continues to be a source of concern. Lack of transparency in ownership structures and financing from state resources, especially at local level, continue to be a feature of the media environment since the privatisation of the state media. The reporting period was characterised by several acquisitions of media companies. The media register needs to be improved and monitored. The information contained in the register is limited, difficult to browse through, and does not provide the possibility of efficiently detecting who is able to influence the media, directly or indirectly. Claims have been made that fiscal inspections have been used disproportionately to exert economic pressure on certain media outlets. The Serbian authorities should ensure that informal pressure on editorial policy is not exerted through the distribution of advertising funds, including from public companies and in an overall context of decreasing advertising revenues, or through project co-funding from local budgets. Co-funding of media content serving public interest should be brought into line with existing legislation and criteria, and implemented in a fair and transparent way that is not detrimental to market equality, especially at local level. This includes setting reasonable deadlines for the calls for proposals, selecting members of evaluation commissions in a transparent manner, taking due account of previous breaches of the journalists code of ethics when evaluating applicants, and monitoring the effective implementation of the awarded grants. Administrative courts have decided in favour of the plaintiffs in several cases involving irregularities in these calls.

Professional organisations and working conditions

Journalists have little job security and the editorial environment, which favours ‘tabloidism’, is not conducive to improving journalistic standards. Journalists’ job security should be strengthened and press associations need to strengthen their role in trade union and employment matters.

(See also Chapter 10 - Information society and media)

Freedom of assembly and association are guaranteed by the Constitution and are generally respected. Legislation is generally in line with European standards, but has yet to be aligned with the Guidelines on Freedom of Peaceful Assembly of ODIHR. Secondary legislation necessary for full implementation of the law on freedom of assembly has yet to be adopted.

Issues of labour and trade union rights are further covered in Chapter 19 - Social policy and employment.

Regarding **property rights**, the Agency for Restitution continued with restitutions in kind, having adopted a total of about 54,400 opinions and first instance decisions on return of confiscated properties, corresponding to around 73% of the 74,000 submitted claims since the Agency was established in 2012. As regards compensation, when restitution in kind is not possible, amendments to the law on property restitution and compensation were adopted in December 2018, extending the deadline for the repayment of financial bonds by three years to December 2021. The implementation of the law on the restitution of heirless Jewish property continued and the number of restituted properties increased.

In the field of **non-discrimination**, legislation is broadly in line with European standards, although it needs to be further aligned with the *acquis*. The European Commission’s new recommendation on standards for equality bodies, adopted on 22 June 2018, will need to be taken into account. The Commissioner for the Protection of Equality continued to participate in the work of the European Network of Equality Bodies. Her office introduced an annual award for a municipality with the best practice in promoting tolerance and creating equal opportunities. A rulebook on the conduct of educational institutions in cases of suspected or established discriminatory behaviour and defamation was adopted in August 2018. The anti-discrimination strategy expired in January 2018 and a new one has yet to be adopted. The 2016 amendments to the criminal code related to prohibition and punishment of criminal racial acts and other acts of discrimination have yet to be fully aligned with the *acquis*. According to the Equality Commissioner’s annual report, the largest number of complaints relate to discrimination on grounds of disability, age and gender-based discrimination. Human rights defenders, together with LGBTI persons, often face hate speech, threats and violence. These abuses should be promptly and properly investigated and penalised.

Concerning **equality between women and men**, the adoption of a new Law on gender equality has been seriously delayed. The division of responsibilities between the sector for anti-discrimination policy and improvement of gender equality within the Ministry of Labour, Employment, Veterans and Social Affairs and the coordination body for gender equality still needs to be clarified and an efficient institutional set-up with adequate resources needs to be ensured. A new EU Index of Gender Equality for Serbia was published in December 2018, indicating that the largest amount of progress made in gender equality was in the area of politics, due to the increased participation of women in the parliament, government, and local assemblies. Older, rural and Roma women, as well as women with disabilities continued to be among the most discriminated against in society. The role of the media in perpetuating gender stereotypes and minimising gender-based violence remains a concern.

On **violence against women and domestic violence**, adoption of the related strategy and action plan has been seriously delayed. The coordination body for gender equality submitted a first national report on the implementation of the Istanbul Convention on violence against women to the Council of Europe in July 2018. Since the adoption of a new law against domestic violence, a high number of cases of violence have been reported; police and social workers need to be further trained to implement the law efficiently. A new SOS hotline for female victims of violence was set up. Serbia adopted a national programme for safeguarding and improving sexual and reproductive health in order to align its priorities with the global strategy for women's, children's and adolescents' health (2016-2030) and the related World Health Organisation's action plan. Additional funding is needed to ensure implementation of this programme in terms of improving access to quality services.

An integrated national framework to ensure proper implementation of the **rights of the child** has yet to be established. The National Council for Child Rights set up a working group for the drafting of the action plan for children, as the previous plan had expired in 2015. A working group on early development of the child was also set up within the National Council. Statistical data on vulnerable groups is still not disaggregated, particularly on Roma children and children with disabilities. Violence against children remains a concern. A draft strategy (2018-2022) on child protection and preventing violence against children was prepared and needs to be adopted. The Juvenile Justice Council was re-established in April 2018. Adoption of amendments to the Law on juvenile offenders and protection of minors in criminal proceedings has been further delayed. Better protection should be ensured for child victims who testify in criminal proceedings. There are still serious concerns over child rights violations taking place in state institutions for children. In particular, there are concerns over violations of the rights of children with disabilities, who also face challenges regarding access to inclusive education. Integrated, community-based services should be further expanded.

No progress has been made on the **rights of persons with disabilities**. Serbia is party to the UN Convention on the Rights of Persons with Disabilities. There is a lack of funding for the development of community-based services, licensed service providers and social services. The adoption of a strategic framework on disability is still pending. Placement and treatment in social institutions of people with psychosocial and intellectual disabilities is still not regulated in accordance with international standards. Serbia is still lacking a comprehensive strategy on deinstitutionalisation (*see Chapter 19 — Social policy and employment*).

As regards the **rights of LGBTI persons**, two pride parades, in June and September 2018, took place without any incidents, the latter attended by the Prime Minister and several high-level officials. There was a noticeably smaller police presence than in previous years. The first LGBTI community centre in Serbia was opened in Novi Sad in April 2018, primarily targeting LGBTI youth and their families. There was also some progress made in education, as six out of eight textbooks with discriminatory content were changed. Amendments to the law on birth registry now enable the entering of data on gender change into the registry. However, the overall situation in Serbia remains broadly the same as in previous years, with low implementation of activities under the expired anti-discrimination strategy. Implementation of the hate crime legislation, including on grounds of sexual orientation, remains inadequate. While centralised official data on hate crimes is still lacking, civil society organisations reported a slight increase in violence and attacks on LGBTI persons, including from within their families. In November 2018, six years after the introduction of the concept of hate crime in the Criminal Code, the first hate crime decision was delivered in a case of domestic violence, motivated by the fact that the victim was an LGBTI person. Transgender persons are particularly vulnerable to violence, abuse and discrimination. Intersex persons remain invisible both socially and legally.

Concerning **procedural rights**, the legal framework remains only partially aligned with the *acquis*. Regarding **access to justice**, a new Law on free legal aid was adopted in November 2018 and is to be implemented as of October 2019; an issue to be followed is the accessibility of free legal aid to the most vulnerable groups. There is no nationwide institutionalised support for victims and witnesses of crimes. A national strategy is being prepared as a first step to improve the protection of victims and witnesses and increase their access to justice. With respect to the **support provided to and the protection of witnesses**, there is a delay in adopting amendments related to the implementation of urgent measures for witness protection. Steps already taken to increase the capacity of the Witness Protection Unit within the Ministry of the Interior, along with new rules and procedure for selecting staff, are expected to improve its work. There is a further delay in implementing most of the recommendations of the analysis of the Witness Protection Unit carried out in 2016.

The legal framework for respect for and protection of **minorities** and cultural rights is in place and generally upheld, in line with the Council of Europe Framework Convention on National Minorities. The implementation of Serbia's action plan for the realisation of the rights of national minorities and relevant legislation needs to lead to a tangible improvement in the effective exercise of national minorities' rights throughout the country. Some progress was made with amendments to the legal framework in June 2018. Elections for the National Minority Councils were held in November 2018. The Fund for the National Minorities was further increased. In June 2018, amendments to the Law on local self-government strengthened to some extent the Councils for Interethnic Relations, but their role, mandate, composition and work still need to be clarified. Those councils have still not been established and made operational in all the municipalities where this is required by law. Despite the legal obligation to take into account the ethnic composition of the population, national minorities remain underrepresented in the public administration.

There has been further progress in the area of education. A new law on textbooks, simplifying the procedure for import and approval of textbooks in national minority languages, was adopted in April 2018. The process of preparing and printing textbooks for national minorities continued and has produced positive results. Another five textbooks were provided in the Albanian language but more work is needed to complete this task. The process of preparing textbooks for secondary schools has not yet started. Access to religious worship in minority languages should be enabled throughout Serbia. Public broadcasting in minority languages has still not been sufficiently extended outside of Vojvodina. Following the media privatisation process, the broadcasting of programmes in minority languages remains fragile and dependent on funding.

Regarding **Roma inclusion**, a working group for the preparation of an action plan for the implementation of the strategy for social inclusion of Roma for 2019-2020 was established. The coordination body for monitoring the implementation of the strategy chaired by a Deputy Prime Minister met twice during the reporting period. The institutional structure dealing with Roma integration remains ineffective and complicated, without a clear distribution of tasks. Coordination between the national and local authorities and budgeting at local level still need to be reinforced. Job descriptions for local Roma coordinators, pedagogical assistants and health mediators, should be uniform throughout Serbia and institutionalised. Most Roma in Serbia have civil documentation; however, the procedure for registering the birth of children whose parents lack personal documents needs to be monitored, and related secondary legislation needs to be amended. There was an increase in Roma students benefiting from scholarships. However, only 9% of Roma children attend kindergartens, compared with 28% of non-Roma children living in the vicinity. The drop-out rate remains high, especially for Roma girls, and only 67% of Roma youth complete compulsory education, compared with

96% of the non-Roma population. The percentage of those completing tertiary education remains extremely low, namely 1% compared with 16% of the non-Roma population. Segregation in education needs to be addressed. The unemployment rate for Roma is 36% (45% for Roma women) compared with 16% of the non-Roma population. Informal employment is decreasing but continues to be high among the Roma population and the informality gap is the highest in the Western Balkans region. In addition, Roma are still underrepresented in the public administration.

A working group for drafting a national housing strategy has been established. Many Roma households have no access to electricity, drinking water or connection to the sewage system. New provisions of the Law on financial support to families with children include the condition that the right to parental allowance depends on the children being vaccinated. However only 12.7% of Roma children have received all recommended vaccines, compared to 70.5% of non-Roma children in the country. Although child marriage is not common in the general population, almost 60% of girls from Roma settlements are married at an early age. Domestic violence is also often unreported.

As of March 2019, there were 199,584 **internally displaced persons** (IDPs) in Serbia, of whom 68,514 remain vulnerable and with displacement-related needs. All collective centres but one are closed. The government has taken some measures and adopted a strategy to solve the problems of refugees and IDPs. However, solutions remain slow and limited, with a need for increased funding. Roma IDPs remain the most marginalised and vulnerable. Serbia is engaged in the regional dialogue on durable solutions for displaced persons from Kosovo (the ‘Skopje process’).

2.2.2 Chapter 24: Justice, freedom and security

The EU has common rules for border control, visas, external migration and asylum. Schengen cooperation entails the lifting of border controls inside the EU. There is also cooperation in the fight against organised crime and terrorism, and judicial, police and customs cooperation.

Serbia has **some level of preparation** to implement the *acquis* on justice, freedom and security. **Some progress** was made through strengthening the legal framework to address money laundering and fulfilling most of last year’s recommendations. The Financial Action Task Force (FATF) in February 2019 tentatively concluded that Serbia adopted all measures included in the action plan it had agreed with the FATF and that this warranted an onsite visit assessment, planned for end May 2019, to verify implementation. Serbia continued to significantly contribute, as a transit country, to the management of the mixed migration flows towards the EU by playing an active and constructive role and cooperating effectively with its neighbours and EU Member States. It made some progress in implementing the integrated border management strategy and its action plan. The strategy and the action plan to counter irregular migration have been adopted.

Serbia needs to produce a convincing track record, particularly in the fight against high-level corruption and organised crime, including money laundering. It also needs to consolidate its efforts in putting in place an asylum system compliant with the *acquis* and European standards.

In the coming period, Serbia should in particular:

→ refrain from further diverging from the EU visa policy and take concrete steps to fully align with it, starting with those nationalities that are heavily prone to irregular migration to the EU;

- adopt a new strategy and action plan for the control of light and small-calibre weapons;
- provide training to judges and prosecutors on freezing, seizing and confiscating proceeds of crime, in particular on the concept of extended confiscation.

Serbia is implementing an action plan which was adopted prior to the opening of the accession negotiations on this chapter in July 2016. Serbia is in the process of revising its action plan with measures oriented towards meeting the interim benchmarks of the EU Common Position.

Fight against organised crime

Serbia has **some level of preparation** in the fight against organised crime. **Some progress** was made over the reporting period. Serbia started to implement the new economic chapter of the criminal code and the Law on organisation and jurisdiction of state authorities in the fight against organised crime, terrorism and corruption and adopted a cybercrime strategy for 2019-2023. Serbia has yet to establish a convincing track record of effective investigations, prosecutions and final convictions in organised crime cases, including financial investigations leading to a track record of freezing and confiscating criminal assets. The number of convictions for organised crime (notably in the fight against trafficking in human beings) remains low.

As no progress was made in fulfilling last year's recommendations, they remain valid. Serbia should increase its efforts in addressing the shortcomings, and in particular:

- establish a convincing track record of investigation, prosecution, and convictions in organised crime cases, including money laundering, based on proactive investigations (including systematic tracking of money flows and their confiscation as well as the efficient use of special investigative measures to collect relevant evidence);
- secure the operational autonomy of the police from the Ministry of the Interior during the pre-investigation and investigation phase;
- further strengthen the independence and capacity of the internal control sector of the police.

Institutional set-up and legal alignment

The total number of police officers is 30 565. There are 425 police officers per 100 000 inhabitants, compared with the EU average of 318 in 2016 according to Eurostat. The total number of prosecutors is 780. When the prosecution-led investigation system was introduced in 2013, the number of prosecutors was not significantly increased. The Prosecutor's Office for Organised Crime is understaffed with only 20 prosecutors in charge of investigating complex crimes countrywide.

As regards the main **institutions** to combat organised crime, the Law on organisation and jurisdiction of state authorities in the fight against organised crime, terrorism and corruption has incorporated some provisions of the expired financial investigation strategy. In line with the law, special departments were established to investigate corruption offences and economic crime and to carry out asset seizures. Furthermore, a financial forensic service and task forces were established and liaison officers were hired (*see Chapter 23 – Judiciary and Fundamental Rights*).

Concerning human resource management, a rulebook on internal organisation and systematisation was adopted. The latest amendments to the Law on police raise concerns as regards the transparency of recruitment procedures that give broader discretionary powers to

the Minister of the Interior than a previous version of the law. In August 2018, several top police officials were suddenly transferred to different positions by the Minister without the proper procedure being followed or without explanations to the public being provided. To further guide the work of the Sector for **Internal Control** of the Ministry of the Interior (MoI), rulebooks on conducting the integrity test, on performing internal controls and on records of asset declarations have been adopted. The MoI also adopted a methodology for conducting risk analysis within the Ministry. While the continuous professional development of members of the internal control sector is ensured, it needs to be further strengthened through the employment of more permanent staff and better allocation of resources. The number of systematised job positions increased by 42, bringing the total number to 127. The sector's functional independence has improved but is not yet fully guaranteed.

The MoI's Financial Investigation Unit has 65 staff after further reinforcement in 2018. It also intends to operate as the Serbian **Asset Recovery Office**, which is in the process of becoming operational. The secure communication channel SIENA has been established. The Directorate for the Administration of Seized Assets in the Ministry of Justice is responsible for asset management in Serbia.

Despite further amendments to the Law on police, the **legal framework** is still insufficient to guarantee the operational independence of the police from the MoI. Thus the police continues to also report to the MoI and not just to the prosecution office during the pre-investigation and investigation phase. Media relations, including press releases on ongoing operations, are still managed mainly by the MoI and not by the prosecution and/or the police.

Amendments to the **Criminal Code**, including on economic crimes, entered into force in March 2018. The new provision on money laundering ensures autonomy of the offence of money laundering from a predicate crime. This should significantly facilitate prosecution and adjudication of this crime.

Following the **Financial Action Task Force** (FATF) inclusion of Serbia in February 2018 in its list of countries having strategic deficiencies in anti-money laundering (AML) and in countering the financing of terrorism (CFT), Serbia has engaged in intensive legislative activity; in June 2018 Serbia finalised a national risk assessment. To reflect this progress, in December 2018 MONEYVAL - the Council of Europe's Committee of experts on the evaluation of anti-money laundering measures and financing of terrorism – has re-rated Serbia as 'largely compliant' with some relevant FATF recommendations. The FATF tentatively concluded in February 2019 that Serbia adopted all measures included in its action plan and that this warranted an onsite visit assessment to verify implementation. If the FATF onsite visit in Serbia planned for May 2019 confirms this positive assessment, then Serbia could be removed in 2019 from the FATF's compliance document of countries with strategic deficiencies in their AML/CFT system (*see Chapter 4 – Free movement of capital*).

The **strategic framework** for fighting organised crime includes a 2018 update of the serious and organised crime threat assessment with nine priorities identified, prepared by the Service for Crime Analysis. The capacities of this service need to be strengthened. Serbia is implementing its strategy for the prevention and suppression of trafficking in human beings 2017-2022, in particular for women and children, while an action plan for 2019-2020 is under development. The strategy for social inclusion of Roma men and women in Serbia 2016-2025 also includes measures aimed at the prevention of trafficking in human beings, as well as protection, support and reintegration of victims.

Serbia has **adopted its cybercrime strategy for 2019-2023**. It aims, among other things, at strengthening Serbia's institutional capacity, and thus envisages the creation of specialised

units within the Security Information Agency, the military police and the customs office, as well as the reinforcement of existing units with the MoI.

Implementation and enforcement capacity

As regards the **track record**, there has been little progress made in dismantling criminal networks and in establishing a track record of proactive investigations, prosecutions and convictions in the fight against organised crime. New investigations into organised criminal groups were initiated in 2018 against 146 individuals (compared with 191 in 2017). Indictments were filed against 152 individuals. The number of convictions in organised crime cases remains low compared with the estimated value of the criminal market in the region: Convictions in 2018 were rendered against 155 individuals (out of which 105 were plea agreements approved by the courts) compared with 110 in 2017. Amendments to the Agreement on operational and strategic cooperation with Europol, which are necessary due to the extension of Europol's extended mandate to include criminal offences against EU financial interests, and financial market manipulations, are being prepared. An agreement on seconding a Europol liaison officer to Serbia is still pending.

A working arrangement between the MoI of Serbia and the European Union Agency for Law Enforcement Training was ratified and entered into force in April 2018. It provides a basis for mutual support in training activities for law enforcement officials and the exchange of best practices in cooperation mechanisms, and should help boost notably the effectiveness of fighting cross-border crime.

As regards operational arrangements for special investigative measures, the police's dependency on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations continues to go against good practice and should be addressed.

The level of inter-agency cooperation, information flow and exchange further improved with the implementation of the aforementioned law on organisation. Inter-agency task forces have already been established in 3 out of 4 special prosecution departments and 13 institutions appointed liaison officers to cooperate with the law enforcement authorities and the prosecution services. The prosecution services have continued to develop IT solutions with the aim of conducting investigations in a more efficient way. The operational connection between the investigative intelligence tool (SIDDA/SIDNA) and the prosecution case management system software was established, allowing for an automatic data transfer. In addition, there have been further developments in the setting up of a central criminal intelligence system. The finalisation of the development of these tools and their effective use in criminal investigations is yet to be achieved. The platforms need to be secure to allow for communication between the institutions and to provide effective access to the data needed for investigations.

Serbia participates in seven Operational Action Plans of the EU Policy Cycle for serious international and organised crime (2018-2021/European Multidisciplinary Platform Against Criminal Threats, EMPACT). This includes among others action plans on 'cannabis, cocaine and heroine', 'firearms trafficking', 'organised crime property crime', 'facilitated illegal immigration' and 'trafficking in human beings'.

For instance, under the EMPACT priority on facilitation of illegal migration crime priority, Serbia took part in the annual planning of operational actions. It committed to participate in five operational actions together with EU Member States to combat migrant smuggling in 2019. Serbia's law enforcement authorities should make use of regional initiatives, such as the Joint Operational Office in Vienna, and the Task Force Western Balkans, which serve as

regional operational platforms for international investigations into migrant-smuggling organised crime groups. Under the EMPACT priority on firearms, Serbia also took part in the annual planning of operational actions. It committed to participate in 16 operational actions together with EU Member States to combat firearms trafficking in 2019, ranging from the development of a global intelligence picture, to operational activities and training.

As regards the **fight against money laundering**, the number of convictions over the reporting period remains low. This number increased in the first quarter of 2019. In 2018, there were convictions against six individuals. All convictions were stand-alone money laundering cases without a previous conviction for a predicate criminal offence and were followed by the confiscation of significant criminal assets. Four out of the six convictions included third party money laundering. The police and prosecution services intensified their efforts to identify and prosecute money laundering. Based on the newly introduced approach of ‘follow the money’, orders for investigation were issued against 149 individuals and indictments were filed against 44 individuals, focusing more on cases of stand-alone money laundering (professional launderers). Some 17 individuals were indicted for third party money laundering. Criminal judges will need to adjust to this increased activity and new approach, improve their level of technical understanding, and build up relevant jurisprudence. More generally, Serbia’s law enforcement institutions should analyse the reasons for the low number of convictions.

Law enforcement agencies and prosecution services still do not have direct access to relevant databases related to taxes, the land register, and vehicles’ registration, among others. The database of money laundering cases was updated as a follow-up to the agreement concluded between the Administration for Prevention of Money Laundering (APML) and the Republic Public Prosecutor as well as the latter’s mandatory instruction to act proactively upon receiving information from the APML. In line with the FATF recommendations, the prosecution offices started to submit feedback to the AMPL on their suspicious transactions reports. Serbia still needs to ensure that also the judiciary has an appropriate level of technical understanding, and builds up relevant case law on the admissible evidence in court in accordance with the applicable law.

The quantity and quality of **seizure and confiscation of assets** (in particular permanent confiscation) remains low despite a more proactive approach in carrying out financial investigations. There is a lack of consolidated jurisprudence in this field. The impact of the 2016 Law on seizure and confiscation of the proceeds of crime has yet to be seen. Extended confiscation is not implemented and judges and prosecutors would benefit from more training on the concept of confiscation in general and on extended confiscation in particular. Indirect or circumstantial evidence, especially in cases of inexplicable wealth, is rarely gathered or accepted by the courts. The capacity to carry out complex financial investigations alongside criminal investigations was stepped up with the aforementioned implementation of the law on organisation. Confiscation of criminal assets still has to become a strategic priority in the fight against organised crime, terrorism and high-level corruption in Serbia.

The number of convictions on **trafficking in human beings** is low (23 individuals were convicted, while no individuals were convicted of having committed the offence within the context of organised crime). However, in 2018 Serbia applied the ‘especially sensitive victims’ provision to 18 victims (compared with 10 in 2017), thereby ensuring a better protection of victims and a higher quality of the investigation.

The revision of the standard operating procedures, i.e. the document that defines roles and responsibilities of all key anti-trafficking stakeholders in identification, support and case processing, is underway. Serbia is starting to be more proactive in terms of detection, identification and protection of victims of trafficking in human beings. Specialised

investigation teams were established in 27 criminal police units throughout Serbia. Capacity building of Serbian authorities on prevention and identification of victims of trafficking in human beings for the purpose of labour exploitation is ongoing. The capacity of the Centre for Human Trafficking Victims' Protection still needs to be strengthened. A victims' shelter was opened in February 2019. Efforts should be stepped up to further enhance protection and support for victims of trafficking in human beings (notably children), to avoid re-victimisation during investigation and trial, and to facilitate the victims' reintegration into society. Although the legal framework provides grounds for it, compensation is rarely granted. There is no fund or scheme for compensation.

On **trafficking in weapons**, the number of convictions is low within the context of organised crime (a conviction against one individual). There were 868 individuals convicted for illegal production, possession, carrying or trade in weapons or explosives. Significant progress was made in improving the conditions for physical security and stockpile management of weapons and ammunition. One storage and two evidence rooms have been upgraded. At the same time, there was no progress with the input of data on lost and stolen firearms into the i-arms database administered by Interpol. There was no destruction of weapons during 2018. In 2018, a total of 1 898 firearms of different types and 49 380 pieces of ammunition of different calibre were seized. A new strategy for the control of light and small-calibre weapons for 2018-2023 has been drafted but not yet adopted.

On **cybercrime**, convictions were rendered against 49 individuals; investigation / evidentiary actions were initiated against 349 individuals. Furthermore, both the Special Prosecutor Office for High-Tech Crime and the Police Department for High-Tech Crime actively participated in three large international operations. An increase in cybercrime has been observed, with the most common types including online fraud and forgery, abuse of payment cards and unauthorised access to computers and networks. Serbia needs to continue to ensure that its capacity meets the increasing challenges in detecting and prosecuting cyber criminals.

Proactively fighting organised crime and corruption remains critical to countering criminal infiltration of the political, legal and economic systems.

Cooperation in the field of drugs

Institutional set-up and legal alignment

A Law on the psychoactive controlled substances was adopted in July 2018 incorporating the definition of psychoactive substance according to the *acquis*. The National Monitoring Centre for Drugs, hosted in the Ministry of Health, manages the National Early Warning System on new psychoactive substances, and collects, manages and shares information as stipulated by the law. Serbia already has a relatively well-established warning system, the associated risk assessment procedure and the subsequent control mechanism for adding new psychoactive substances to its drug control legislation. It is taking the necessary steps in order for this system to be connected to the European Early Warning System, and is working to align its data collection, analysis and reporting on drug seizures with European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) requirements.

The position of the Office for Combatting Drugs, an inter-ministerial coordination office, still needs to be strengthened by a clarification of responsibilities between this office, the National Monitoring Centre for Drugs and a Government Commission for the Control of Destruction of Psychoactive Controlled Substances.

Implementation and enforcement capacity

In 2018, 1080 individuals were convicted of illegal prosecution and trafficking of narcotics, 29 of whom had committed the offence within the context of organised crime. Although still suffering from a lack of staff and equipment, the Service for Drug Addiction Prevention and Drug Trafficking Suppression in the Criminal Police Directorate achieved good results in recent years. It is now being reinforced with additional staff (55 compared with 15 officers in 2016). Two major investigations led to a number of arrests (48 in total) in Serbia, Spain and Germany and to the seizure of a large quantity of drugs (1.5 tons of marijuana and 300 kg of cocaine). An investigation was also supported by a joint investigation team, where Serbian Police acted in close cooperation with the German Bundeskriminalamt.

The scope of data exchange with Europol increased significantly. A special mailbox for the Narcotics Prevention and Narcotics Control Service was opened in the Secure Information Exchange Network Application in July 2018. Some 110 analytical files related to drug cooperation with Interpol were opened. During the second half of 2018, a total of over 2.6 tons of various substances (mainly cannabis, accounting for 2.4 tons) were confiscated compared to the first half of 2018, when 1.3 tons were confiscated.

Serbia's cooperation with the EMCDDA runs smoothly and is managed through its National Monitoring Centre for Drugs. In 2018, Serbia reported one first-time detection of a new psychoactive substance on its territory to the EMCDDA.

The lack of secure storage for drugs and drug precursors prior to destruction remains a concern. According to current legislation, it is not possible to keep only a small sample as material evidence for court proceedings instead of the entire seized quantity. An appropriate process for the destruction of drugs and drug precursors has yet to be set up. Although progress was made in preparing legislative amendments and destruction programmes, overall this policy area would benefit from a more proactive and holistic approach.

Fight against terrorism

Institutional set-up and legal alignment

Serbia's legal and policy framework is largely aligned with the *acquis* and international instruments on anti-terrorism. A national coordination body for the prevention and combating of terrorism was established and a national coordinator appointed in April 2019.

In order to set up a single national database and exchange mechanism for terrorism-related information, the required legislative changes have been prepared. Prior to their adoption, adequate resources have to be provided and training needs addressed.

The amendment to the Law on freezing of assets with the aim of preventing terrorism and proliferation of weapons of mass destruction was adopted in May 2018 in order to meet one of the FATF recommendations. Serbia now has a framework and mechanism for implementing the UN system on targeted financial sanctions for terrorism; updates to the UN list are transposed automatically. This includes the possible freezing of assets of the person concerned immediately after their identification. Serbia also has the possibility to propose individuals to be included on the system's list, and to create its own list. It has adopted such a list of individuals in 2018, whose assets were frozen within 24 hours of the adoption of the government decision.

A national counter-terrorism strategy (2017-2021) is in place. In October 2018, Serbia signed the joint EU-Western Balkans action plan on counter-terrorism, which sets out concrete steps for enhanced cooperation in countering terrorism and preventing radicalisation over the next 2 years.

Implementation and enforcement capacity

In 2018, convictions for terrorist associations were rendered against 7 individuals out of whom 4 have also been convicted of financing of terrorism. Six persons were convicted of recruiting and training for committing terrorist acts and one of public inciting to commission of terrorist offences.

Cooperation between the Police Service for Combating Terrorism and Extremism and Europol has further intensified. There is progress with prevention and anti-radicalisation activities including through the preparation of manuals, involving local religious leaders, local authorities and civil society through targeted activities with the OSCE and USAID. On the financing of terrorism, the APML has created a new organisational unit to deal specifically with combatting terrorism financing and its monitoring. Serbia is actively participating in the implementation of the Western Balkan counter terrorism initiative.

The new national money laundering and terrorist financing risks assessment identifies the growing threat posed by cybercrime in connection with money laundering, especially through a type of online fraud which consists of e-mail account ‘hijackings’ and/or fraudulent account changes (sent by mail). Companies in various industries have been targeted, resulting in substantial fraudulent money transfers to foreign accounts. In these cases, criminal money flows are difficult to trace as they are converted into cryptocurrencies.

Serbia, in cooperation with international partners, undertook efforts to address the threat of Islamic extremism. While this is a rather limited phenomenon in Serbia, other forms of violent extremism should be addressed. Violence in sport is a subject of concern and the role of the National Council for Preventing Negative Incidents in Sport should be clarified. Attention should also be paid to exploring possible connections between right-wing extremism and football hooliganism.

Legal and irregular migration

Institutional set-up and legal alignment

Responsibilities for migration management are shared between the MoI, the Commissariat for Refugees and Migration, the Ministries of Foreign Affairs, of Justice, of Defence and others in the fields of education, health and social affairs. Coordination among all these state **institutions** as well as with international and national organisations active in the field still needs to be strengthened. At an operational level, information exchange and *ad hoc* coordination among institutions are in place. The Department for the prevention of trans-border crime, irregular migration and trafficking in human beings within the Border Police Directorate deals with irregular migration.

With the adoption of the laws on state border control, on foreigners and on asylum and temporary protection in March 2018, Serbia improved its **alignment in the area of migration** management with the *acquis*. The new Law on foreigners has introduced provisions in relation to temporary stays on humanitarian grounds, which can contribute to better legal protection for migrants in irregular situations. Furthermore, the rights of migrants in proceedings before state authorities as well as their rights pending repatriation have been defined, and the return mechanisms improved. Secondary legislation was adopted. The rulebook on the procedures for issuing (temporary) ID cards for foreigners still needs to be adopted.

The EU-Serbia **readmission agreement**, in force since January 2008, is facilitated by implementing protocols concluded with 21 EU Member States. Serbia has 11 bilateral

readmission agreements, including with Bosnia and Herzegovina, North Macedonia and Montenegro.

A **strategy and action plan** to counter irregular migration have been adopted. The government's response plans to cope with mixed migration flows for 2018 and 2019 were not published.

Implementation and enforcement capacity

Most of the irregular migrants currently in Serbia do not have a legal status and stay in temporary accommodation facilities. The number of asylum-seekers, migrants and refugees is stable at around 4,400 people, with the biggest groups coming from Afghanistan, Pakistan and Iran. Exit and entry numbers suggest a significant fluctuation in the migrant population.

In 2018, the number of people intercepted at the border was 3,648, mainly from Afghanistan, Pakistan and Iran. In the same period, criminal charges were filed against 162 perpetrators of people smuggling. Some 67 individuals were convicted of illegal crossing of state borders and smuggling. Migrant smuggling networks originating from and operating in Western Balkan countries remain active in and around migration centres and continue to smuggle irregular migrants. In May 2018, a memorandum of cooperation was signed between the MoI, the Republic Public Prosecutor's Office and the Commissariat for Refugees and Migration. This memorandum regulates the cooperation between these institutions in the field of combating smuggling. Measures in this regard are taken on an irregular basis, and long-term effects have not been observed, although facilitators of smuggling are regularly apprehended. Successful investigations against organised smuggling networks remained an exception. Efforts to overcome deficiencies in this regard need to be stepped up. A multi-disciplinary task force on people smuggling, which was a model to other countries and had improved its capacity and cooperation with international partners, was dissolved in March 2019.

As regards **accommodation** for migrants, considerable efforts to ensure basic living conditions and services for all migrants staying in the country continued. Education was provided to children through their inclusion in the Serbian education system. Serbia is providing a considerable amount of health services to migrants through its regular health service. On average, between 80% and 90% of the migrants are accommodated in state centres. Others are sleeping rough in the areas close to the Hungarian and Croatian borders and in Belgrade's city centre. The long-term accommodation capacity in Serbia is about 6,000 places. The Commissariat for Refugees and Migration is regularly reviewing its contingency plan.

The overall **staffing situation** in the area of migration is dependent on international funding. The extension of the detention centre in Padinska Skela is ongoing. Mobile centres for registration and very short-term accommodation for irregular migrants were established at the Bulgarian and Romanian borders. They are not yet operational.

Serbia benefits from a programme for assisted voluntary **return** run by the International Organisation for Migration. Through this assistance, 278 migrants were returned to their country of origin in 2018. The MoI is in charge of forced return. In 2018, it returned 46 migrants to their country of origin. The return of the vast majority of migrants present in Serbia remains difficult, due to the lack of readmission agreements with the four main countries of origin i.e. Afghanistan, Pakistan, Iraq and Iran.

The **EU-Serbia readmission agreement** is being implemented satisfactorily as far as the return of Serbia's own nationals is concerned. The readmission of third country nationals has been unsatisfactory. Serbia repeatedly disrespected this obligation under the EU Readmission Agreement. Following the Joint Readmission Committee held in October 2018, the

readmission of third country nationals from Romania to Serbia is being managed with the European Commission's involvement.

Asylum

Institutional set-up and legal alignment

Serbia has the necessary institutions to handle asylum applications. The Asylum Office, the authority determining asylum, is a separate unit in the MoI's Border Police Directorate. Appeals against its decisions can be submitted to the Asylum Commission and subsequently to the Administrative Court of Appeal as a final instance.

The Commissariat for Refugees and Migration is the state authority responsible for the reception and accommodation of asylum seekers, management of asylum centres and integration of people who were granted international protection.

The new Law on asylum and temporary protection, adopted in March 2018 and in force since June, represents a significant improvement compared with previous asylum legislation. At the same time, harmonisation needs to continue in order to achieve an asylum system fully in line with EU standards. The new law introduces new deadlines which should contribute to improving the efficiency of the asylum process. However, it also introduced a fairly short deadline for the filing of asylum applications; in order for this time limit to be complied with, additional coordinated efforts by all concerned institutions are needed to ensure that asylum seekers have access to the procedure. Secondary legislation linked to the registration and asylum procedure was adopted.

Implementation and enforcement capacity

In 2018, the number of asylum seekers until the end of September remained in the same range as in 2017. In 2018, out of 8 380 individuals who expressed an intention to seek asylum (2017: 6 195), 341 lodged an application (2017: 235). In 2018, 199 decisions were made for a total of 272 individuals. Some 10 individuals received refugee status, 14 received subsidiary protection and 25 received a negative decision. Some 45 individuals had their asylum request rejected (i.e. declared inadmissible). In 128 cases concerning 178 individuals, the procedure was discontinued because the applicant absconded.

The Asylum Office increased its staff to 23 (out of the 29 planned) with new case managers. Its capacity to handle cases and assess the merits of applications has improved, including the analysis of country of origin information, while further advanced training is needed. Translation is still provided through international organisations.

With the new Law on asylum and temporary protection there is now a single biometric database used by the police for identifying and registering asylum seekers. An electronic database with personal information of asylum seekers and information on the stage of the asylum proceedings is managed by the Asylum Office. Preparations for the connecting to the EU asylum fingerprint database (Eurodac) are in their initial phase and plans have been made to improve the interconnection of these databases in order to speed up the process of verification of identities. While faced with increased mixed migratory movements and sizeable arrivals, Serbia continued to make substantial efforts to meet the essential needs of migrants passing through or remaining on its territory. There are 16 fully-functioning state reception facilities (asylum centres, reception and transit centres) and 3 which have been temporarily put on stand-by. There is capacity for around 6 000 long-term accommodation stays (hard shelter/collective rooms) and around 1 000 short-term accommodation stays in temporary shelters. The national authorities assess and track development of these capacities against EU and international standards.

The number of unaccompanied minors, accommodated in asylum, reception and transit centres increased to 500 by the end of 2018. There are, however, only three centres dedicated to hosting unaccompanied minors with a capacity of 30 beds within the social welfare system. More suitable accommodation for unaccompanied children together with individualised care is needed.

Programmes for social integration, access to accommodation, language learning and access to the labour market are in place. In 2018, 15 individuals with asylum status received support for housing, and 25 individuals attended language classes. Eight individuals with asylum status attended a programme on Serbian culture, history and the constitution.

Serbia has signed the UN migration compact. The MoI and the Commissariat for Refugees and Migration cooperate with the European Asylum Support Office (EASO) on the basis of a comprehensive roadmap. Serbia was granted observer status in the reception network organised by EASO. A European migration liaison officer, responsible for the entire region, is operational from Belgrade.

Visa policy

The visa regime is only partially in line with the EU list of third countries whose nationals are visa exempt or visa required. By granting visa freedom to a number of countries on the EU's negative list between September 2017 and July 2018, including Azerbaijan (2018), India (2017), Indonesia (2017), Iran (2017, in the meantime revoked), Guinea-Bissau (2017), Suriname (2018), and Burundi (2018), Serbia veered away from aligning its visa policy. Visa freedom for citizens of Iran resulted in a surge of irregular migrants arriving by air to Belgrade. Visa freedom for Iranian nationals was abolished on 17 October 2018. A similar trend, but to a lesser extent, is noticeable with Indian nationals, who since July 2018 became significantly more prominent in the statistics of illegal border-crossings in the Western Balkan region. These detections can be linked to the abolition of visa requirements for Indian nationals by Serbia in September 2017.

Serbia needs to refrain from further diverging from the EU common visa policy and take concrete steps to fully align with it, starting with those nationalities that are heavily prone to irregular migration to the EU.

The visa issuing system is partially in line with the EU Visa Code. While interconnection of the integrated Serbian Visa Information System with all diplomatic and consular missions and other relevant databases is almost complete. It is operational in 90 diplomatic/consular missions out of 91. It is not currently operating in Tehran (Iran) due to technical problems. The number of visas issued at borders remained low throughout 2018 and were available only in exceptional humanitarian circumstances.

Serbia continued to implement the relevant measures to prevent the abuse of the visa-free regime with the EU under the post-visa-liberalisation process.

Increased attention is required to successfully reintegrate returnees, especially the most vulnerable such as the Roma that represent a large number of returns. Enhanced communication and coordination is needed between respective governments, between governments and local authorities and with international organisations and NGOs active in the reintegration of returnees.

Schengen and external borders

Institutional set-up and legal alignment

Since the new Law on state border control entered into force in spring 2018, 11 pieces of secondary legislation have been adopted. The new law assigns the responsibility for the management of border crossing points to the Directorate for Property and thus clarifies a longstanding issue on responsibilities for planning, maintenance, and construction of border crossing points. A document on standardisation and management of border crossing points as well as staffing needs has been prepared but still needs to be adopted.

The Border police is a specialised civilian body and part of the General Police Directorate under the MoI. Serbia still needs to create a single coordination centre for exchanging police information and start preparations for setting up a SIRENE (Supplementary Information Request at the National Entries) office.

Serbia also needs to step up efforts in preparing a Schengen action plan.

Implementation and enforcement capacity.

Some progress has been observed in the implementation of the integrated border management (IBM) strategy 2017-2020 and the related action plan. Inter-agency cooperation for border management (border police, customs, phytosanitary and veterinary inspections) has gained momentum with the establishment of an IBM coordination mechanism. A new agreement of all IBM agencies on joint risk analysis and an early warning system is being prepared.

Instructions on information exchange between the Operational Centre of the Border Police Department and the Command Centre of the Customs Administration were adopted in October 2018. An electronic information exchange platform to be used by all IBM agencies needs to be developed.

The MoI adopted standard operating procedures for profiling, checking and registering irregular migrants as well as a training plan for their implementation. Border police and customs officers participated in a variety of training courses to strengthen their capacities for combatting irregular migration as well as on measures for identifying victims of human trafficking and people smuggling.

A status agreement with the EU for the deployment of the European Border and Coast Guard teams with executive powers has been initialled in September 2018. A working arrangement between the European Border and Coast Guard Agency (EBCGA) and Serbia is in place. An EBCGA liaison officer, responsible for the entire region, operates from Belgrade. Continuous activities with EBCGA covered participation in joint return flights, statistical reporting, risk analysis, operational activities, development of a list of experts and equipment available for joint operations, as well as the strengthening of cooperation via the EBCGA contact point in Mali Zvornik. Serbia actively participated in the Western Balkan Risk Analysis Network. International cooperation was further strengthened and joint patrols are now operating along the borders with Montenegro, Bulgaria, North Macedonia, Hungary, Bosnia and Herzegovina and Romania. Operational procedures for joint patrols with Hungary, Bulgaria and Romania were developed. Although training courses for joint patrols with border police from Croatia already took place, the start of joint patrols with Croatia is still pending. There is regular cooperation and information exchange in joint contact centres. As regards unauthorised border crossing points, all locations/roads accessible for illegal crossing of the border with Bosnia and Herzegovina have been blocked. At the border with Montenegro, there was no tangible progress.

Interim IBM common crossing points with Kosovo continue to be operational. There has been limited progress in establishing the six permanent IBM common crossing points between Serbia and Kosovo as stipulated in the IBM agreement in the context of the EU-facilitated Belgrade-Pristina Dialogue (*see under Normalisation of relations between Serbia and Kosovo*). Additional measures need to be taken to prevent illegal crossings and criminal activities, including corruption.

Judicial cooperation in civil and criminal matters

On normative alignment with the *acquis* in the field of judicial cooperation in **civil matters**, the relevant analysis, based on a preceding study of December 2017, was finalised. Work on a needs assessment for the budget, financial cost, human resources, training and statistics is ongoing. In civil matters, the most intensive cooperation between Serbian and foreign courts is with Austria, Bosnia and Herzegovina, Croatia, Germany, Montenegro and Switzerland. The 2007 Hague Convention on Child Support has not yet been ratified.

Serbia needs to prepare and adopt a new law on cooperation in **criminal matters** with the EU Member States, together with a number of related laws, with a view to *acquis* alignment. Work on a needs assessment for the budget, financial cost, human resources, training and statistics is ongoing. In criminal matters, the most intensive bilateral cooperation between Serbian courts and prosecution offices has been established with Austria, Bosnia and Herzegovina, Croatia, Germany, Hungary, Italy, Montenegro and Switzerland. In the case of the former President of the State Union of Serbia and Montenegro who was convicted in Montenegro and is currently staying in Serbia, it needs to be ensured that the judgment is being enforced.

During the second half of 2018, Serbia (at the level of the Ministry of Justice) had 2,839 new incoming requests for judicial cooperation (both civil and criminal) and sent out a total of 1 680 requests. By comparison, during the first half of 2018, Serbia had a total of 3 201 new incoming requests, and sent a total of 1 812 requests.

According to the Serbian authorities, Serbia handled 12 135 incoming judicial cooperation requests (both civil and criminal) during the second half of 2018, compared to 14 729 requests during the first half of 2018. Among those that Serbia dealt with, it replied positively to 9 223, and refused 2 912. At the end of December 2018 the pending cases (both incoming and outgoing requests) remained at 7 518 (compared to 13 297 at the end of June 2018), signalling a further reduction.

The process of signing an operational type agreement with Eurojust was initiated in December 2018 and negotiations are at an advanced stage. Regular cooperation with Eurojust continued through contact points in the Ministry of Justice and the Republic Public Prosecutor's Office. Serbia is the most requested country in the region, and overall, the second most requested third country in Eurojust's casework. Serbia was involved in 34 cases in 2018 (compared with 28 in 2017, and 15 in 2016) related to swindling and fraud, drug trafficking and money laundering. Serbia also actively cooperated in one joint investigation team.

All aspects of customs cooperation are now covered under Chapter 29 – Customs Union.

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT AND COMPETITIVENESS

Serbia: Key economic figures	2010-15 average	2016	2017	2018
GDP per capita (% of EU-28 in PPS)	36.8	37.0	36.0	:
Real GDP growth	0.9	3.3	2.0	4.3
Economic activity rate of the population aged 15-64 (%), total	:	65.6	66.7	67.8
<i>female</i>	:	58.1	59.6	60.6
<i>male</i>	:	73.1	73.8	75.1
Unemployment rate (%), total	:	15.9	14.1	13.3
<i>female</i>	:	16.7	14.8	14.2
<i>male</i>	:	15.3	13.5	12.5
Employment (annual growth %)	:	5.6	2.8	1.4
Nominal wages (annual growth %)	5.7	3.8	3.9	6.0
Consumer price index (annual growth %)	5.8	1.6	3.0	2.0
Exchange rate against EUR	111.6	123.1	121.3	118.3
Current account balance (% of GDP)	-7.1	-2.9	-5.2	-5.1
Net foreign direct investment, FDI (% of GDP)	4.5	5.2	6.2	7.5
General government balance (% of GDP)	-5.0	-1.2	1.1	0.6
General government debt (% of GDP)	54.5	68.8	58.7	54.6

Source: Eurostat and national sources

In line with the conclusions of the European Council in Copenhagen in June 1993, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

Economic governance has become even more central in the enlargement process in recent years. The Commission's monitoring takes place in two processes: the Economic Reform Programme exercise and the below assessment of compliance with the economic criteria for accession. Each enlargement country prepares an Economic Reform Programme (ERP) annually, setting out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy guidance jointly adopted by the EU and the Western Balkans and Turkey at ministerial level in May each year.

3.1. The existence of a functioning market economy

Serbia has made **some progress** and is **moderately prepared** in developing a functioning market economy. External imbalances are on the rise, although their financing remained healthy. Price pressures remained subdued and inflation expectations contained. Major fiscal adjustment over previous years has significantly improved debt sustainability. Financial sector stability was preserved and labour market performance has improved with the exception of the activity rates of women and young people, which declined.

However, major structural reforms of public administration, the tax authority, and state-owned enterprises (SOEs) advanced slowly, prolonging long-standing inefficiencies. The authorities are only slowly addressing weaknesses in the budgetary framework and its governance. The state retains a strong footprint in the economy and the private sector is underdeveloped and hampered by weaknesses in the rule of law, in particular corruption and judicial inefficiency, and in the enforcement of fair competition.

In order to improve the functioning of the market economy, Serbia should in particular:

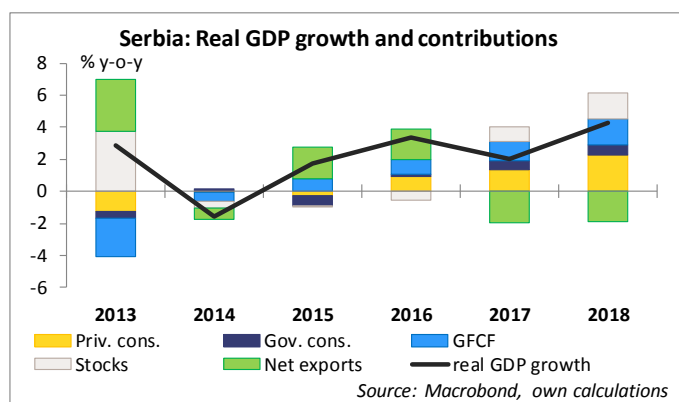
→ maintain the identified medium-term budgetary objective close to balance;

- strengthen fiscal rules by making them more binding and capable of anchoring fiscal policy;
- finalise the privatisation and restructuring process of the remaining state-owned banks;
- significantly increase funding and the implementation of active labour market measures adjusted to the needs of the unemployed.

Economic governance

The authorities remained committed to macroeconomic stability and continuing economic reforms, although some reforms have stalled. In July, after successfully completing a three-year Stand-By Arrangement with the International Monetary Fund, Serbia agreed to a new non-disbursing programme supported by a 30-month policy coordination instrument. The policy guidance jointly agreed at the May 2018 Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has been partially implemented. The macroeconomic policy mix was appropriate and macroeconomic and fiscal indicators improved. However, the implementation record of structural reform has remained mixed. The efficiency and predictability of the institutional environment is not yet ensured and does not sufficiently support long-term growth. Weaknesses remain in the fiscal governance framework, the business environment, the public administration and the tax administration, and in the way the state intervenes and manages its presence in the economy.

Macroeconomic stability



The economy has shifted up a gear. Economic growth accelerated in 2018, to over 4% from 2% in 2017, boosted by robust domestic demand and base effects. Investment activity, in particular, was very strong, benefiting from a number of factors: the low interest rate environment, higher growth expectations, past improvements in the business environment, increased capital spending by the government, and a stream of foreign direct investments.

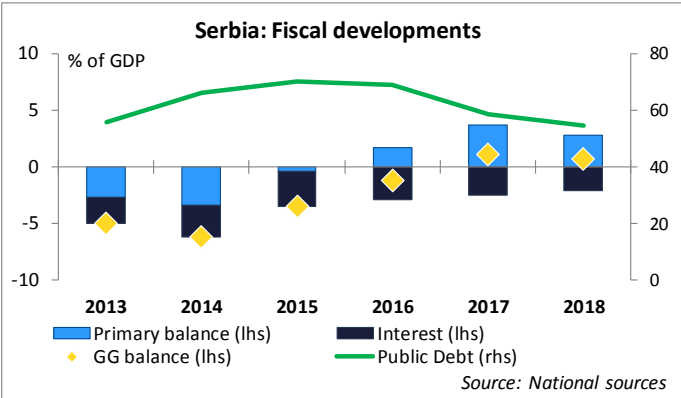
Rising domestic demand led to a strong growth in imports and the contribution of net exports to growth turned negative as from 2017. After years of decline or marginal growth, household consumption has expanded steadily since the end of 2017. Prospects for consumption growth remain strong as the economic cycle matures and labour market conditions improve further. The income gap with the EU, however, remained broadly unchanged over the last decade — per capita GDP in purchasing power terms stood at 37% of the EU average in 2017.

External imbalances are on the rise but their financing remains healthy. Driven by a widening merchandise trade deficit, the current account deficit has nearly doubled since 2016, staying above 5% of GDP in both 2017 and 2018. The growing economy triggered a double-digit growth in imports of goods. Most of this increase, however, was in intermediate goods and energy, reflecting higher energy prices and expanding investment and exports. Export performance, a key indicator of international competitiveness, remained robust in 2018. Exports of manufacturing goods, which constitute the bulk of all exports, continued to expand. Exports increased across all sectors, except for food products due to a bad agricultural season in the previous year. The current account deficit was fully covered by large and broad-based net inflows of foreign direct investment. The official foreign exchange

reserves remained adequate, covering more than twice the short-term external debt and around 5 months' worth of imports of goods and services.

Price pressures remained subdued and inflation expectations contained. Despite strong economic growth, inflation remained low in 2018, below the mid-point of the central bank's tolerance band of 3% ±1.5 pps. Price stability was supported by a continuously strong dinar exchange rate and steady fiscal performance. Although energy prices went up in the second half of the year, lower food prices helped contain inflationary dynamics. Contrary to previous years, the administered household electricity prices remained unchanged. The low and stable core inflation, which hovered around 1% for most of 2018, also attested the absence of inflationary pressures. Monetary policy has cautiously supported economic activity: the key policy rate of the central bank was cut twice by 25 basis points in March and April 2018 to 3.0%. In April 2018, the central bank also narrowed the interest rate corridor around its key rate from ±1.5 pps to ±1.25 pps. The central bank continued its frequent interventions on the foreign exchange market, buying a net EUR1.6 billion in 2018.

Major fiscal adjustment over previous years has significantly improved debt sustainability. In 2018, the general government budget ended in surplus for a second consecutive year, while the 2019 budget envisages a small deficit of 0.5% of GDP. The good fiscal performance has created room to unwind the crisis era pension cuts, increase capital spending and reduce, albeit only marginally, labour taxation. However, expenditure composition remained poor: the share of economically productive capital expenditure is low in comparison to public infrastructure needs, in particular in environmental infrastructure,



while discretionary current spending increased further from an already elevated level. The track record of prudent fiscal policy has played a major role in increasing confidence in the economy, supporting economic growth, and significantly reducing government debt. Government debt fell from a peak above 70% of GDP in 2015 to around 55% of GDP in 2018.

Delays in public sector reforms have prolonged long-standing inefficiencies and fiscal governance challenges. While revenue collection met and even surpassed expectations recently, the implementation of the tax administration reform remains crucial to sustain revenue performance and provide better service to taxpayers. The authorities are only slowly addressing weaknesses in budget planning and implementation. The extension of the problematic public employment freeze by another year undermines the quality of public service. Selective wage increases in 2019 and the postponement of the wage system reform have widened wage disparities across the public sector as well as pay gaps with the private sector. Envisaged improvements in the capital management process and in particular the establishment of a single mechanism for national investment prioritisation and planning are still pending. In addition, EU-funded projects are excluded from its application. In order to ensure a more efficient use of resources, existing parallel structures need to be merged into a single mechanism for prioritising all investments regardless of the source of financing, in accordance with the public financial management reform programme adopted by the government. The system also needs to expand to cover other government-to-government projects that have been a recurring concern with regard to their transparency, cost efficiency and conformity with EU standards.

The budgetary framework continues to be only partially complied with, pointing at weakness in public finance management. There were no meaningful parliamentary debates on the draft annual budget. External stakeholders were not consulted on it despite legal obligations to include them in the process. The system of fiscal rules is weak as it is not sufficiently binding and relevant for policy-making. The work on their strengthening has stalled, although it remains a short-term government priority. Final annual budget reports are not presented to and adopted by the Parliament.

The macroeconomic policy mix remained appropriate. It helped sustain macroeconomic stability and supported the pick-up in economic activity. The prudent fiscal policy and cautious monetary policy helped contain the growing risks from the external environment, despite widening external imbalances and a marked pick-up in growth of private and public consumption. As in previous years, the continuation of economic reforms and their full implementation remain key to further strengthening the economy's potential and to supporting real convergence with the EU.

Functioning of product markets

Business environment

The business environment has improved somewhat amid a general slowdown in the reform momentum. In the first half of 2018, the number of total registered companies increased by 4.8 %: newly-registered companies went up by 4.2 %, while the number of companies that exited the market fell by 3.7 %. Over the last few years, Serbia has notably improved its standing in various international business rankings. However, the recent delays in the reform process resulted in the country sliding down in some of the latest rankings. Although restitution in kind has progressed, the deadline for issuing financial compensation in the restitution process has been further delayed for another 2 years, until 2021.

The institutional and regulatory environment remains weak. Business-related laws continue to be adopted under urgent procedure without the necessary consultation of interested groups, reducing predictability and quality of legislation. Delays in adopting secondary legislation continue to hamper the implementation of adopted laws. In general, contract enforcement is weak and the courts enforcing property rights remained overburdened. Fair competition is negatively affected by the large informal economy. The control of State aid is weak and its granting non-transparent, as the legislation allows for too many exemptions and the control body does not have all needed competences. The Commission for State aid control (CSAC) remains understaffed and is still not operationally independent. Decisions to grant State aid are not regularly notified ex ante to the CSAC by granting authorities. Granting of State aid seems to favour market incumbents and large investors. As a measure to fight the grey economy, the authorities have amended the Law on inspection supervision to permit supervision of unregistered activities. They also took steps to improve the coordination of inspections and to facilitate a risk-based approach by means of introducing a unified inspection information platform. After Serbia was put on the list of jurisdictions with strategic deficiencies by the Financial Action Task Force on money laundering in early 2018, the Serbian authorities took a number of measures to address the identified shortcomings.

State influence on product markets

State ownership in the economy has gradually declined over recent years, but indirect state presence in the economy remains large amid persistent governance weaknesses. The financial performance of SOEs improved, helped also by a cyclical economic upswing. Governance of these enterprises remains under strong political influence, including through

the appointment of acting managers, instead of using the prescribed nomination process. Although the general trend sees the state continuing to withdraw from direct involvement in the economy, in some product market segments, like cable television operators, the majority state-owned telecom operator has actually expanded its presence after several acquisitions. The share of administered prices remained broadly unchanged, at around 20% of the consumer basket.

Privatisation and restructuring

Privatisation of SOEs advanced, while restructurings progressed slowly. Since 2015, when the new privatisation law was adopted, more than 310 companies, mostly with zero or a small number of employees, have been put into bankruptcy. Other companies were privatised and non-EU investors acquired some of the largest firms in mining, metallurgy, and agriculture. Nonetheless, around 90 companies employing some 40,000 persons have yet to be resolved through either bankruptcy or privatisation.

Restructuring of key utility companies is still incomplete. The financial performance of key utility companies, particularly in the energy sector, has improved over the recent years, but their restructuring has advanced rather slowly. The state-owned power utility Elektroprivreda Srbije has to fully address its corporate governance issues and finalise the unbundling of electricity transmission and distribution operators in terms of organisation and decision-making. While long overdue, a change in the legal status to a joint stock company is envisaged in 2020. The company also needs to invest in securing new production capacities and refurbishing old ones. The financial consolidation of Srbijagas remains a key aspect of its reorganisation plan. Government support for servicing Srbijagas debt is planned to stop by the end of 2020. Serbia did not fully implement the third energy package and failed to unbundle Srbijagas and provide non-discriminatory third-party access to its transmission system.

Functioning of the financial market

Financial stability

Financial stability was preserved and the financial sector's performance improved. Supported by rising economic activity, the profitability of commercial banks remained high. Other indicators also show that the performance of the banking system was strong. Capital adequacy was high, well above the minimum set by the national bank and the implementation of the resolution strategy for non-performing loans (NPLs) supported their further reduction to 5.7% of total gross loans by the end of 2018. Liquidity, although declining, also remained high. With the view to addressing the persistently high degree of euroisation, the central bank and the government have revised their dinarisation strategy. A new NPL resolution strategy is envisaged as well, focusing on limiting the rise of new NPLs. The authorities have taken steps to start addressing the legacy NPLs in the portfolio of the Deposit Insurance Agency. The implementation of the strategy for banks in which the state has ownership continued, albeit with delays, and the state remains in control of key entities in both the banking and insurance sectors. The privatisation of Komercijalna banka (the third largest bank by assets) has been postponed to 2019.

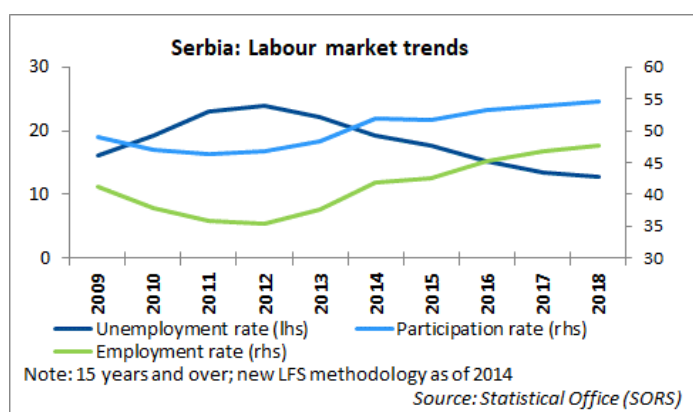
Access to finance

Access to finance improved. Foreign-owned banks continued dominating the financial system, holding around three quarters of banking system assets. Favourable financing conditions and higher economic activity have supported growth in lending. Credit expanded by double-digits for both corporates and households, excluding effects from exchange rate changes and NPL sales and write-offs. Despite the vigorous credit activity, the central bank estimated that the overall credit-to-GDP ratio is below its long-term trend and, therefore, has

kept the countercyclical capital buffer unchanged at 0%. However, as vulnerabilities increased in some segments of the market, such as cash loans for households with long maturities, the central bank introduced new measures to curb risks from excessive loan growth in these segments. It has also introduced a requirement for commercial banks to inform their clients about the possible risks of floating interest rates. There was no progress in establishing the legal framework for microfinance institutions. The ad-hoc and urgent adoption of a special law on converting mortgages denominated in Swiss francs into euros undermines the functioning of the financial market and came at significant cost for the budget.

Functioning of the labour market

The labour market has seen marked improvements over recent years, but structural problems and demographic challenges still need to be tackled. In 2018, on the back of



stronger economic growth, labour market indicators achieved their best performance since the start of the (revised) labour force survey in 2014. Activity and employment rates were at their highest, while unemployment (15 years and over) went down to 12.7%. Although long-term unemployment and female and young people unemployment continued their downward trend, the activity rate for young people has declined. The

proportion of young people in the age group 15-24 not in employment, education, or training fell further to 16.5% in 2018. The share of informal employment, two-thirds of which was in agriculture, fell to around 20% of the total. However, the labour force likely peaked as the declining working age population is taking its toll on labour supply. A steady population decline by 0.5% every year, along with emigration and the brain drain, especially of educated young people, remain key medium-to-long-term economic challenges. In addition, persistent skills mismatches and large regional disparities have continued to be a major labour market issue resulting in high structural unemployment.

Real wages have increased. The revival of economic activity and tighter labour conditions have pushed up real wages, although in 2018 their growth still remained moderate at around 4%. Although the authorities abolished the unemployment contribution paid by employers (0.75% of gross salary), the tax wedge remained disproportionately high for people with low salaries. In line with expectations for a rise in wages in the economy, the government increased the minimum hourly wage by 8.6% in 2019.

3.2. The capacity to cope with competitive pressure and market forces within the EU

Serbia has made **some progress** and is **moderately prepared** to cope with competitive pressure and market forces within the EU. The structure of the economy improved further and economic integration with the EU remained high. However, despite some progress, the quality, equity and relevance of education and training does not fully meet labour market needs. Investment increased but, after years of underinvestment, remains insufficient to address infrastructure gaps. Although the cost of borrowing for small and medium-sized enterprises (SMEs) has declined recently, they still face a number of challenges, including a volatile business environment and unfair competition.

In order to improve competitiveness and long-term growth, Serbia should in particular:

- develop a single mechanism for prioritising and monitoring all investment regardless of the source of financing;
- unbundle Srbijagas and provide third-party access to gas infrastructure.

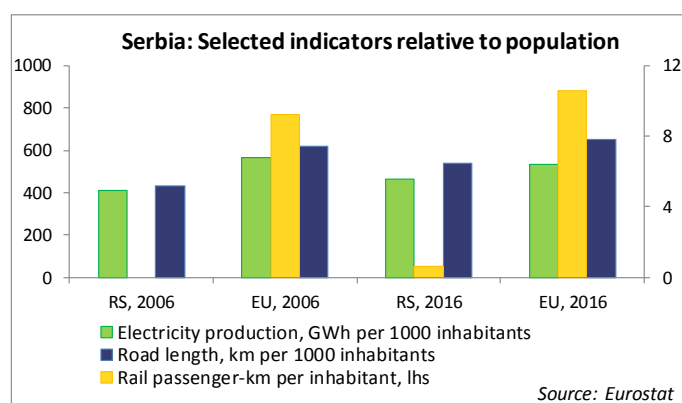
Education and innovation

Despite some progress, the quality, equity and relevance of education and training do not fully meet labour market needs. Public spending on education stood at around 3.1% of GDP in 2018, which is below the EU average of around 5% of GDP. Enrolment rates remained high in general in primary and lower secondary education, at close to 100%, and at around 90% in upper secondary level. Pre-primary enrolment lagged at some 60%, despite having increased in 2017. The gross enrolment ratio in tertiary education also increased over recent years to nearly two thirds. However, employers and recent graduates believe that the country's education institutions do not equip students with key transversal skills, such as problem solving and decision making. In line with national strategic documents and recently adopted legislation, the authorities are progressively updating curricula in all 12 years of general education. Teacher training is needed to support the implementation of new curricula and the development of students' key competencies. The introduction of the national dual education model is increasing in scope and aims to improve the relevance of vocational education. The institutional framework for implementing the recently adopted Law on national qualifications framework is being established. This framework is part of a progressive reform of the education system at all levels, including non-formal and informal learning.

The level of spending on research and development increased over recent years, although it remains low at 0.9% of GDP. The increase in expenditure came almost entirely from the private sector, while funding from the government budget was broadly stable at around 0.4% of GDP, providing less than half of total R&D financing in 2017. The number of scientific-research organisations stood broadly unchanged. However, the number of employees in research and development activity declined slightly, representing only 0.8% of total employment in 2017. In order to support innovation, Serbia introduced specialised instruments — collaborative grants for joint business-academia projects to promote and support business-academia collaboration and innovation vouchers. Following the establishment of a science and innovation park in Belgrade, three more are under construction in other cities.

Physical capital and quality of infrastructure

Investment increased but after years of underinvestment its level remains insufficient to address infrastructure gaps. Both public and private investment have been rising in the last couple of years. The economy continues to attract significant foreign direct investment, which



have been instrumental for the shift towards tradable sectors and higher exports. However, the share of total investment in the economy is still relatively low, under 20% of GDP, and the quality and quantity of physical infrastructure needs further upgrading. Despite recent increases, particularly in roads and railways, the level of government investment still does not correspond to the needs of the

economy. In addition, the available fiscal space has been used mostly for current spending and non-productive capital expenditure, instead of for more growth-friendly spending on infrastructure and basic public services.

The institutional framework supporting new investment is weak. Soft measures, like improving traffic management, maintenance and safety in all transport modes, and increasing energy efficiency and diversification could potentially improve the performance of the transport and energy sectors. The users-pay principle is not sufficiently applied when it comes to maintaining existing infrastructure and implementing new infrastructure investment plans. Transparency, assessment and prioritisation of investment needs are still weak. Public procurement rules are not always fully complied with, nor are they always fully compatible with EU standards, particularly in big infrastructure projects financed or implemented by non-EU companies.

The authorities have made digitalisation one of their top priorities. A new law on e-government was adopted in April 2018, which aims to enable simpler, more transparent and efficient functioning of electronic public services and to facilitate communication with the administration. The strategy for developing e-government for 2019-2021 has not yet been adopted. The application of the law is hampered by the lack of a fully developed legislative framework and the necessary secondary legislation. The information and communication sector continued expanding, increasing its share in the economy and in total exports. The share of households that have a computer and access to a broadband internet connection increased further to more than 72% in 2018. The share of individuals using e-commerce also steadily increased to some 55% in 2018, while the shares of those who have never used a computer or the internet halved over the last decade to less than 25%.

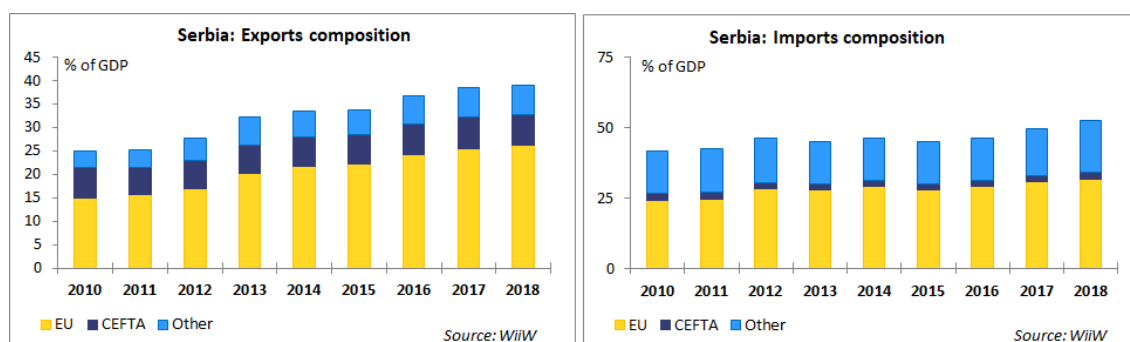
Sectoral and enterprise structure

Construction and some services have increased their weight in the economy. Services are by far dominating the economy, providing more than 60% of total value added. Sectors like transportation, retail trade, and information and communication, benefited from the revival of economic activity and the steady expansion of international trade to increase their economic weight. Reflecting the new investment cycle, construction, which reached its lowest point in 2013, has recovered to above 4% of GDP. The performance of the agricultural sector remained volatile, mainly because of its very high dependency on weather conditions. Although it rebounded strongly in 2018, after a slump in the previous year, it has been on a downward trend over the last 5 years. The weight of industry levelled off or even declined largely because of a drop in mining and quarrying activity and in the energy sector. The employment structure has changed as well: there was a steady fall in agricultural employment, which fell from nearly 20% in 2014 to some 15% in 2018, while there were increases in the share of employment in the industry and service sectors.

SMEs are the backbone of the economy. They provide 60% of total employment and turnover in the economy, and nearly half of the value added. SMEs are particularly active in construction, accommodation and food service, retail, and real estate. The authorities are implementing several programmes to support SME development, focusing on facilitating innovation, finance, and internationalisation. SMEs receive around 60% of new corporate loans. Their cost of borrowing has declined recently, although it remained above the cost for large companies. SMEs still face a number of challenges, including a volatile business environment and lack of non-bank financing. The Law on charges, adopted in December 2018, aims to reduce some of this uncertainty by consolidating all parafiscal charges and removing or merging some of them.

Economic integration with the EU and price competitiveness

Economic integration with the EU remained high. Serbia's financial system is dominated by commercial banks, and banks with majority ownership from EU countries hold more than 70% of all banking system assets. The EU is also by far Serbia's biggest trading and investment partner, accounting for almost two thirds of total trade and three quarters of net foreign direct investment inflows. It is followed by trade with the signatories of the Central European Free Trade Agreement (CEFTA) (excluding Kosovo), which represented slightly less than a fifth of total exports and around 4% of total imports in 2018. The imposition of a 100% tariff by Kosovo in late 2018 on imports from Serbia and Bosnia and Herzegovina affected Serbia's export of goods of around 1.1% of GDP per year. Serbia's national infrastructure for checking standards has improved over the last year, but it still does not fully support trading operators and there are non-tariff barriers impeding intra-regional trade as well as trade with the EU.



In 2018, trade openness rose further, above 110% of GDP from some 90% 5 years earlier as both imports and exports maintained strong growth. After a strong appreciation in the previous year, the dinar nominal and real effective exchange rate remained broadly stable in 2018.

4. GOOD NEIGHBOURLY RELATIONS AND REGIONAL COOPERATION

Good neighbourly relations and regional cooperation form an essential part of Serbia's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. Serbia maintained its engagement in a number of regional cooperation initiatives, such as the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement (CEFTA), the Adriatic-Ionian Initiative, the European Union Macro-Regional Strategies for the Danube Region, the Adriatic and Ionian Region, the Coalition the Commission Tasked with Establishing the Facts about All Victims of War Crimes and Other Serious Human Rights Violations Committed on the Territory of the Former Yugoslavia for Reconciliation Commission (RECOM), the Regional School of Public Administration (ReSPA) and the Brdo-Brijuni process. Serbia took part in the implementation of the Multiannual Action Plan (MAP) for the development of a Regional Economic Area in the Western Balkans, although more attention is needed to secure timely adoption of the incurred measures as well as streamlining regional commitments into national policies.

Building on the results of previous summits, the July 2018 London Summit brought a renewed commitment to the connectivity agenda. Dialogue with the Western Balkans continued in Skopje on the implementation of the Digital Agenda, to which all leaders of the region had committed through a statement of support. More particularly concerning the negotiations on roaming fees, a regional agreement was signed at the Western Balkans Digital Summit in Belgrade in April 2019 enabling Roam like at Home (RLAH) as of July 2021. Serbia participated in the European Commission's regional conference on media (Media

Days) in Skopje. Member States and the Western Balkan partners signed the Joint Action Plan on Counter Terrorism for the Western Balkans at the Justice Home Affairs Ministerial in Tirana in October 2018. Serbia contributed to the work of the Regional Youth Cooperation Office (RYCO). However, Serbia delayed the adoption of decisions necessary for the functioning of RYCO by dismissing the youth representative to RYCO's board ahead of its planned meeting on 13-14 March 2019 in Pristina. In the context of being granted the seat of the Transport Community Treaty Secretariat, Serbia should now provide further support to ensure the conditions are in place for it to take up operations swiftly. In February 2019, at the Ministerial Meeting on Clean Energy Transition held in Podgorica, the Ministers of Energy and Environment of the Western Balkans committed to adopting concrete measures aiming at the implementation of the Paris Agreement and the Energy Community obligations based on the EU Clean Energy for All Europeans Package.

There are no outstanding issues concerning Serbia's respect for the **Dayton/Paris Peace Agreement**. Serbia continues to support Bosnia and Herzegovina's territorial integrity and its path to joining the EU. As envisaged by the Dayton agreement, Serbia continues to preserve special relations with Republika Srpska, with whom joint governmental sessions were held in August 2018 and February 2019. Attendance by Serbian officials of the Republika Srpska National Day on 9 January 2019 stirred controversies in Bosnia and Herzegovina.

Along with Bosnia and Herzegovina, Croatia and Montenegro, Serbia has continued to cooperate closely in the implementation of the regional housing programme under the **Sarajevo Declaration Process** which aims to find sustainable solutions for some 74 000 people who became refugees or displaced persons as a result of the armed conflicts in the former Yugoslavia in the 1990s. Amongst them, there are still persons who are potentially entitled to receive pensions. In Serbia, over 6 000 housing units are set to be provided by 2021, funded by the EU (80%), Serbia, and another 15 donors. 1 600 housing units are under construction across the country.

The unresolved fate of **missing persons** who disappeared during the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. As of February 2019, a total of 10 247 individuals are still missing as a result of the conflicts in the region. Regional cooperation on missing persons continued within the scope of the various bilateral arrangements. A new inter-institutional expert group was established in spring 2018 to improve the exchange of data relevant for investigating the fate of missing persons. In June 2018, a Memorandum of Cooperation was signed between the Serbian Office of the War Crimes Prosecutor and the Serbian Commission on Missing Persons. The latter also held a meeting with its Croatian counterpart in May 2018. In November 2018, Bosnia and Herzegovina, Croatia, Kosovo, Montenegro and Serbia signed a framework plan to promote regional cooperation in addressing the issue of persons missing from conflicts in the former Yugoslavia.

Three International Committee of the Red Cross-chaired meetings of the Belgrade-Pristina Working Group on Missing Persons were held during 2018. Serbia acted upon all requests from Pristina and undertook four field assessments in search of alleged grave sites in the Raška municipality in August and October 2018 but no human remains were found. An official meeting on missing persons between Serbia and Croatia was held in May 2018 and two technical meetings took place in February and July 2018. Despite these contacts, only 7 cases of missing persons related to Kosovo and 39 related to Croatia were resolved in 2018. The seemingly improved communication needs to be further strengthened in order to achieve tangible progress. The appointment of a Serbian special envoy for missing persons in Croatia is a positive development. Serbia needs to cooperate constructively with its neighbours in tracing and identifying the fate of missing persons or their remains, including through swift

exchange of information. The families of missing persons need more comprehensive support than currently available to help them overcome the psychological and psychosocial impact of the disappearance of a relative and to help them exercise their legal and administrative rights. The capacity of the state mechanism for searching missing persons should be further strengthened.

Serbia remained committed to **bilateral relations** with other enlargement countries and neighbouring EU Member States. Bilateral conventions on regional cooperation are in force with Montenegro and North Macedonia. The convention with Bosnia and Herzegovina was signed in January 2018 but has not yet been ratified. Serbia initiated the process of concluding a convention with Albania.

Relations with *Albania* have remained stable. Regular exchanges took place between civil society, youth and media organisations. In May 2018, the two countries signed an agreement on tourism cooperation. Leaders of both countries regularly met at regional and international events. Serbia also cooperates with Albania under the Albania-Serbia-Italy trilateral meetings of Foreign Affairs Ministers.

Relations with *Bosnia and Herzegovina* have remained good. Progress needs to be made in concluding the negotiations over the border demarcation and proceeding with the ratification.

Relations with *Montenegro* have been stable and high-level visits have taken place. There were no developments on issues related to citizenship rights between the two countries. The demarcation of borders is still pending. Bilateral political consultations between the two Foreign Affairs Ministries were held in May 2018. Several agreements on road and railway border crossings were signed during the reporting period, including the opening of the Cemerno-Granice border crossing in August 2018.

Relations with *North Macedonia* have been stable. In May 2018, the Speaker of the Parliament of North Macedonia visited Belgrade. In September 2018, the Serbian President and Prime Minister Zaev met at the Presevo-Tabanovci border crossing to announce the launch of an integrated border management project. The Serbian President attended the inauguration of President Pendarovski in May 2019.

Relations with *Turkey* further deepened. The Serbian President made several visits to Turkey. He attended the inauguration of the Turkish President in July 2018. Serbia signed an agreement on the TurkStream pipeline in Istanbul in October.

Relations with the neighbouring *EU Member States of Hungary, Romania, and Bulgaria* have remained good. The President of Bulgaria and the Hungarian Prime Minister visited Serbia in June and September 2018 respectively. The Serbian President took part in meetings with the Bulgarian, Greek and Romanian Prime Ministers in November 2018 in Varna and in March 2019 in Bucharest. Relations with *Croatia* continued to be mixed. The Speaker of the Croatian Parliament visited Serbia in April 2018 but the visit was interrupted due to an incident instigated by the far-right in the Serbian parliament.

5. NORMALISATION OF RELATIONS BETWEEN SERBIA AND KOSOVO

In the framework of the **EU-facilitated dialogue**, work continued with a number of high-level meetings led by High Representative/Vice President Mogherini with Presidents Vučić and Thaçi. This new phase aims to conclude a fully comprehensive and legally binding agreement between Serbia and Kosovo, in line with international law and EU *acquis* and acceptable to EU Member States and the region. This work was interrupted in November 2018 following the decision by the Kosovo government to impose customs tariffs of 100% on imported goods from Serbia and Bosnia and Herzegovina, on political and economic grounds.

On the implementation of past agreements, further consolidation has been made on the implementation of the **April 2013 ‘First agreement of principles governing the normalisation of relations’** with the full implementation of the **justice** agreement which has enabled the newly integrated judicial personnel to address the judicial backlog with their judicial colleagues.

Implementation of the **25 August 2015 Agreements** has overall remained slow. No progress has been made on the **Association/Community of Serb majority municipalities** and Kosovo has yet to engage constructively in its establishment. The **energy** agreement between Serbia and Kosovo must be implemented without further delay in order to avoid this longstanding dispute from having further consequences for energy stability and security in Serbia, Kosovo and countries across Europe. Following the completion of the registration of Elektrosever, Serbia needs to file for the licensing process in Kosovo as a matter of urgency. The works on the **Mitrovica bridge** are completed and the bridge should be opened to vehicle traffic without further delay or obstructions. The full implementation of the **telecoms** agreement has enabled the introduction of the new dialling code.

As regards the **Technical Dialogue Agreements (2011-12)**, some are not or only partially being implemented. Both sides need to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. The issues of **cadastre** and **university diplomas** recognition are yet to be solved as are the **licence plate** related elements of the agreement on freedom of movement. Serbia has yet to address the issue of re-located Serbian administrative **customs** structures with Kosovo denomination that operate from within Serbia, and to cease the issuance of documentation or affixing of stamps with denomination that contravenes the related agreement. On **IBM**, the interim common crossing points with Kosovo continue to be operational. There has been limited progress in establishing the six permanent IBM common crossing points between Serbia and Kosovo as stipulated in the IBM agreement. Serbia did not engage constructively in starting the establishment of these crossing points on the Serbian side (in Jarinje, Mucibabe, and Konculj). This led to a suspension of EU funds in July 2018. Of those hosted by Kosovo (in Tabavije/Bërnjak, Mutivodë/Mutivode and Merdarë/Merdare), the construction at Tabavije/Bërnjak has not yet started due to the failure of Belgrade to relocate the electricity pylons to allow for construction to commence. At Mutivodë/Mutivode, all cooperation by Serbian technical representatives has stopped since March 2018. Finally the refusal of Serbian authorities to vacate the provisional premises of the Merdarë/Merdare crossing point and move into the new ones significantly delays the traffic and puts at risk the implementation of EU-funded projects. There has also been no progress in establishing the additional interim common crossing points in Kapi/Kapija Vrapce and Rajetici/Izvor. Additional measures need to be taken by Serbia to close illegal crossings.

Requests for **mutual legal assistance** are in principle being processed. In some instances, cooperation by Serbia in high-level investigations has not been forthcoming. Mutual legal cooperation is extremely limited in war crimes cases.

Overall, Serbia has remained engaged in the dialogue and showed restraint in its response to the introduction of the customs tariffs. However, Serbia needs to make further substantial efforts and contribute, in particular in its international relations, to the establishment of a conducive environment to the conclusion of a legally binding agreement with Kosovo. Such an agreement is urgent and crucial so that Serbia and Kosovo can advance on their respective European paths.

6. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

6.1. Chapter 1: Free movement of goods

The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these creating unjustified barriers to trade.

Serbia is **moderately prepared** in the area of free movement of goods. **Limited progress** was made with the adoption of sectoral legislation in the harmonised area designed to be aligned with the EU *acquis*. However, recommendations of the previous report have still not been met.

In the coming year, Serbia should in particular:

- adopt an action plan to ensure compliance with Articles 34-36 of the Treaty on the Functioning of the European Union and adopt a strategy and action plan for implementing the EU *acquis* in this chapter for both the sectoral ('New Approach' and 'Old Approach') and horizontal legislation and relevant organisations;
- remove transitional provisions from legal texts regarding the Serbian conformity mark;
- provide adequate administrative capacities for market surveillance, metrology, and the Agency for the homologation of vehicles, as well as for the implementation of the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

General principles

Regarding **general principles**, a strategy and an action plan for implementing the *acquis* in this chapter for both the sectoral ('New Approach' and 'Old Approach') and horizontal legislation and relevant organisations have yet to be adopted. The European Commission noted that during the reporting period, it came to light that Serbian legislation includes 'transitional provisions' regarding the Serbian conformity mark. These provisions have been inserted by Serbia on a horizontal basis and need to be removed. Serbia's legal framework for product safety is partly aligned to the EU *acquis* (see Chapter 28 – Consumer and health protection).

Non-harmonised area

On **horizontal measures**, the Product Contact Point has been established, while a detailed procedure for its functioning remains to be designed. An action plan to ensure **compliance with Articles 34-36** of the Treaty on the Functioning on the EU remains to be adopted.

Harmonised area: Quality infrastructure

Administrative structures dealing with the legal bases for, and implementation of, technical regulations, accreditation, metrology and conformity assessment were upgraded but nevertheless require further strengthening.

On **standardisation**, the Serbian Institute for Standardisation is a full member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). According to the 2018 fourth quarter data, the rate of adopted CEN European standards was 99.95% and CENELEC European standards was 98.11%. The Serbian Institute for Standardisation adopted 76.18% of the European Telecommunications Standards Institute's standards.

The number of **conformity assessment** bodies has increased to a total of 590, out of which 56 are designated conformity assessment bodies.

Although Serbia removed certain provisions on certificates for conformity to allow easier import procedures for a segment of radio and telecommunications terminal equipment related goods, more action is needed to effectively implement the presumption of conformity in relation to imports of goods from the EU in several other sectors.

Concerning **accreditation**, the Accreditation Body of Serbia obtained an extension of the International Accreditation Forum on Multilateral Recognition Arrangement for information security management system, food safety management system and metadata management system sub-scopes.

On **metrology**, the number of internationally recognised standards for calibration and measurement stands at 38.

The administrative and financial capacities for **market surveillance** inspection require further strengthening. In 2018, the market surveillance authorities carried out 5,915 inspections in the area of product compliance and 268 in relation to product safety and ordered 464 corrective measures, while 293,218 non-compliant products were removed from the market. There is no available data on judiciary proceedings that have been initiated and resolved.

Harmonised area: sectoral legislation

In the area of ‘**New and global approach**’ **product legislation**, a law on construction products was adopted. However, this was designed to be aligned with the previous rather than the current EU *acquis*. Implementing technical legislation on non-automatic weighing instruments and measuring instruments was adopted in 2018, designed to ensure alignment with the *acquis*.

In the area of the ‘**Old approach product legislation**’, the legislation on tractors, motor vehicles, and non-road mobile machinery emissions has yet to be aligned with the most recent EU legislation in this area. Legislation providing for adequate implementing capacity designed to ensure the effective implementation of REACH, has yet to be adopted. The administrative and inspection capacity necessary for implementing the REACH and CLP (classification, labelling and packaging) regulations needs to be strengthened, as well as the administrative capacities and IT resources of the traffic safety agency in charge of vehicle homologation.

On **procedural measures**, Serbia implemented a national control list of arms and military equipment aligned with the EU’s Common Military List, and adopted a national control list of **dual-use goods designed to be aligned** with the latest EU *acquis* on exports, transfer, brokering and transit of these items. A law on production and trade in arms and military equipment, and a law on testing, labelling and marking of weapons, devices and ammunition has been adopted and needs to be aligned with the EU *acquis*. Serbian legislation on the return of **cultural objects** unlawfully removed from the territory of an EU Member State has yet to be aligned with the EU *acquis*.

6.2. Chapter 2: Freedom of movement for workers

Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.

Serbia is **moderately prepared** in the area of freedom of movement for workers. **Some progress** was made regarding the Commission’s recommendation from 2018, through the signing of new agreements on electronic exchange of social security data with EU Member

States. Serbia also streamlined the procedure for issuing work permits to third-country nationals.

In the coming year, Serbia should in particular:

- continue to enhance cooperation with EU Member States on coordination of social security systems by improving legislative and technical conditions;
- carry out preparations for joining EURES (the European network of employment services).

Amendments to the legislation on **access to the labour market** adopted in June 2018 shortened the procedure for issuing work permits. Procedures for issuing work permits to EU citizens, who are currently covered by rules for third country nationals, need to be further simplified. EU citizens will have fully free access to the labour market (without a work permit) only from the date of Serbia's accession to the EU.

Regarding preparations for joining **EURES** (the European network of employment services), Serbia upgraded the information system of the National Employment Service.

Regarding the **coordination of social security systems**, an agreement with Romania came into force in April 2018 and with Switzerland in January 2019. An agreement with Greece was signed in 2018. Negotiations of agreements on electronic exchange of social security data are ongoing with Germany and Austria and are planned to take place with Hungary, while initiatives for opening negotiations with Bulgaria and Italy are ongoing. Electronic exchange of social security data is operational with Slovenia, Croatia, North Macedonia and Montenegro. Legislative and technical conditions for social security institutions to cooperate with their counterparts in EU Member States should be further improved.

There has been no progress on the **European Health Insurance Card**.

6.3. Chapter 3: Right of establishment and freedom to provide services

EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.

Serbia remains **moderately prepared** in these areas. **No progress** was made on the right of establishment and freedom to provide services. The Commission recommendations from 2018 were not implemented and remain fully valid.

In the coming year, Serbia should in particular:

- adopt the umbrella law on services, complete harmonisation of sectoral laws with the umbrella law and the *acquis* and establish a point of single contact, as a portal that allow service providers to get information and complete administrative procedures online;
- adopt the law on postal services as well as relevant implementing legislation and increase the capacity of the postal services inspectorate;
- adopt a new law on mutual recognition of professional qualifications.

There were no developments on the **right of establishment**. No point of single contact has been established.

In the area of **freedom to provide cross-border services**, the umbrella law on services, aiming to align with the EU Services Directive, has not been adopted yet. Alignment of sectoral laws with the draft umbrella law and the EU Services Directive is underway, in line with the action plan adopted in December 2016.

The strategy for **postal services** 2017-2020 is being implemented. The law on postal services, aiming to align with the second and third EU Postal Services Directives, has not been adopted yet. Despite some effort to improve the administrative capacity of the postal services inspectorate, staff number in this area remains low.

Since its adoption in November 2017, the strategy for harmonising, transposing and implementing the *acquis* in the field of **mutual recognition of professional qualifications** is being implemented. The law on mutual recognition of professional qualifications has not been adopted yet.

6.4. Chapter 4: Free movement of capital

In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.

Serbia remains **moderately prepared** on free movement of capital. **Good progress** was made in all areas, especially on the fight against money laundering and counter terrorism financing. However, the Commission recommendations from 2018 were only partially met and thus remain valid.

In the coming year, Serbia should in particular:

- liberalise capital movements in line with its obligations under the Stabilisation and Association Agreement (SAA);
- demonstrate through a track record, increasing effectiveness in monitoring, supervision, financial intelligence, investigation and reporting.

As regards **capital movements and payments**, amendments to the law on foreign exchange operations, aimed at lifting the general restriction on loan to non-resident borrowers, were adopted in April 2018. Restrictions remain in certain cases, for reasons of public policy and macro financial stability. These limitations must be justified, targeted and proportionate. The agricultural law still does not guarantee that EU nationals can acquire agricultural land under the same conditions as those for Serbian nationals and, as such, does not comply with the SAA.

On **payment systems**, amendments to the law on payment services were adopted in June 2018, aiming at further alignment with the EU Directive on payment accounts particularly regarding the transparency and comparability of bank account fees and the protection of payment service users' rights to a basic payment account and to switch payment accounts. In December 2018, the National Bank of Serbia (NBS) adopted implementing legislation on payment services, establishing a list of representative services linked to a payment account and defining the form and content of the fee information document and statement of fee to be used by all payment service providers. In October 2018, the NBS enabled a new instant payment system which allows payment service providers to execute instant fund transfers. A law on multilateral interchange fees and special operating rules for card-based payment transactions was adopted in June 2018, bringing further alignment with the EU Regulation on Interchange Fees for Card-based Transactions. This new law, which entered into force in December 2018, introduced a phased reduction of interchange fees for card transactions.

Regarding the **fight against money laundering and terrorism financing** (AML/CFT), several laws were adopted and entered into force in spring 2018 (including the law on factoring, law on accounting, law on auditing, law on games of chance, law on intermediation in the trade and lease of real estate) to implement the action plan agreed in February 2018 with the Financial Action Task Force (FATF) and to address recommendations included in

MONEYVAL's 2016 report. In December 2018, MONEYVAL re-rated positively 10 recommendations for Serbia. An updated national risk assessment was adopted in May 2018 and is being implemented. As a result, the understanding of risks have improved and risks are better mitigated. In December 2018, the NBS adopted amendments to its guidelines on applying the AML/CFT law, taking into account findings of the national risk assessment. A new law on centralised records of beneficial ownerships was adopted in May 2018 and entered into force in June, aiming at further alignment with the *acquis*. On the basis of this new law, a Centralised Record of Beneficial Owners was established in December 2018 within the Serbian Business Registers Agency. Supervision of lawyers, notaries and casinos has substantially improved through the adoption and implementation of dedicated guidelines, training programmes and off-site and on-site controls. On targeted financial sanctions related to terrorism financing, an online application tool was introduced, allowing updates in real time according to the United Nations Security Council lists. FATF tentatively concluded in February 2019 that Serbia adopted all measures included in its action plan and that this warrants an on-site visit assessment to verify implementation. If the FATF onsite visit planned for May 2019 confirms this positive assessment, then Serbia could be removed in 2019 from FATF's compliance document of countries with strategic deficiencies in their AML/CFT system.

In 2018, the Administration for the Prevention of Money Laundering (APML) has substantially increased its capacity. It has recruited four new staff and has now 33 employees. Its budget was doubled and it moved to new premises. In 2018, 2,294 suspicious transactions were reported. The highest number came from payment institutions, with over 1,297 reports on suspicious clients. The APML submitted information on 380 reports to relevant enforcement authorities. 75 reports were submitted to the prosecution services. As a follow up of the agreement with the Republic Public Prosecutor, the database of money laundering cases was updated, and the prosecutor's office provided feedback to APML on their suspicious transactions reports, in line with the FATF recommendations.

6.5. Chapter 5: Public procurement

EU rules ensure that public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.

Serbia remains **moderately prepared** on public procurement. **No progress** was made during the reporting period. Significant efforts are needed to further improve competition, efficiency and transparency in public tenders. The Commission recommendations from 2018 were not implemented and remain fully valid.

In the coming year, Serbia should in particular:

- ensure further alignment with the 2014 EU Directives on public procurement, including on utilities and on concessions, in particular by adopting the new public procurement law and amendments to the law on public-private partnership and concessions;
- ensure that intergovernmental agreements concluded with third countries and their implementation do not unduly restrict competition, comply with the basic principles of public procurement, such as transparency, equal treatment and non-discrimination and are in line with the national legislation and the EU *acquis*;

→ continue to strengthen the capacity of the Public Procurement Office, the Republic Commission for the Protection of Rights in Public Procedures and the administrative courts.

Institutional set-up and legal alignment

The **legal and institutional frameworks** on public procurement are broadly aligned with the *acquis*.

A new law on public procurement, aiming to further alignment with the 2014 EU Directives on public procurement, on utilities and on their remedies is under consultation and is yet to be adopted. The legislation on defence and security procurement still contains too many exemptions that are excessively applied without justification and remain to be aligned with the relevant EU Directive. Intergovernmental agreements concluded with third countries and their implementation do not seem to be systematically in line with the principles of equal treatment, non-discrimination, transparency and competition and neither fully consistent with the relevant EU *acquis* and national legislation. The law on public-private partnerships and concessions is not yet in line with the new Directive on concessions.

The implementation of the **public procurement strategy** and its action plan for 2018 has been delayed as the adoption of new legislation is pending. A new strategic framework is being prepared but has yet to be adopted. This new strategy should be harmonised with the public financial management strategy.

The **Public Procurement Office (PPO)** supervises compliance with the law on public procurement and maintains the public procurement portal. The PPO has worked on the preparation of the new law on public procurement, including on implementing legislation.

Implementation and enforcement capacity

In 2018, Serbia's **public procurement market** represented 8% of the GDP, slightly above the 7.7% share in 2017. The average number of bids per tender fell to 2.5 in 2018, the lowest in the last five years, down from 3 bids in 2017. The share of contracts awarded to foreign bidders remained stable at 3%.

On monitoring of contract award and implementation, the proportion of negotiated procedures without prior notice remained at 3% in 2018. The share of open procedures stood at 91% of the total value of contracts. The share of centralised public procurement contracts stood at 15% of the total annual procurement budget. The use of the most economically advantageous tender criterion remained low at 11%. The increasing use of the lowest price as the selection criterion might ultimately lead to higher product life-cycle costs for Serbian citizens. No progress has been made in the field of e-procurement using e-tools, such as e-submission and e-auctions. A detailed and comprehensive plan for the rollout of e-procurement needs to be prepared. The State Audit Institution found irregularities in 7.4% of inspected procuring entities in 2017, falling from 10% in 2016.

Capacity to manage public procurement processes was somewhat improved through the certification of 485 additional public procurement officials between February 2018 and February 2019. The PPO increased its number of staff to 38 out of which 12 positions remain vacant. With currently a total of 26 staff members and a wide range of responsibilities, the PPO lacks the administrative capacity to carry out many of its tasks. The Commission for Public-Private Partnerships and Concessions also remains understaffed. In 2018, the Commission approved 91 public-private partnership project proposals, including 38 with concessions, mainly in the transport, sanitation and urban planning sectors.

There were no developments in **integrity and handling conflicts of interest**.

Efficient remedy system

The legislation on the **right to legal remedy** is broadly in line with the *acquis* and is enforced by the Republic Commission for the Protection of Rights in Public Procedures, an independent state body.

The Republic Commission took 1,230 decisions on requests for protection of rights between January 2018 and February 2019. Public procurement procedures were partially or fully annulled in 606 cases (51% of all cases). The Republic Commission reviewed the implementation of all its decisions ordering a partial or total annulment of public procurement procedures. The number of contracting authorities not complying remains stable at below 1% of all decisions taken. In the first ten months of 2018, the Republic Commission did not issue fines to contracting authorities for failure to comply with its decisions and orders. It took a number of other decisions in line with its broad mandate, including decisions on complaints about the conclusions of contracting authorities in 156 cases during the given period.

The **implementation capacity** of the Republic Commission remains stable with 58 staff members, eight of which are elected officials. The Republic Commission has not used its power to initiate and conduct misdemeanour procedures in the first instance because of inconsistencies between the procurement and misdemeanour legislation. This impedes the access of contracting parties to judicial review by the Republic Commission in this field.

Administrative courts' capacity to deal with complex and numerous cases remains weak and proceedings are very lengthy.

6.6. Chapter 6: Company law

The EU has common rules on the formation, registration and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.

Serbia has a **good level of preparation** in company law. **Some progress** was made by adopting amendments to the law on companies. The Commission recommendations from 2018 were only partially implemented and remain valid.

Serbia should pay particular attention in the coming year to:

- improve further alignment with the company law *acquis*;
- align the accounting and statutory audit legislation with the *acquis* and ensuring adequate funding and resources for the public audit oversight system.

In June 2018, amendments to the **company law** were adopted, aimed at further alignment with the *acquis* on shareholder rights, on sanctions for non-disclosure of financial statements, and in particular with the provisions on cross-border mergers. They also include provisions on the formation of European Company and European Economic Interest Grouping. Legislation on company takeovers is largely in line with the *acquis*. Serbia's Corporate Governance Code is based on EU best practice and OECD principles. The Serbian Business Registers Agency acts as a one-stop-shop, providing a unique registration and tax identification number to companies and ensuring public access to information. Since October 2018, the Agency offers the possibility to incorporate single-member limited liability companies electronically. The database of companies in the business register should be ready to interconnect with EU Member States' business registers in the future. Further alignment is needed on transparency requirements for listed companies.

Concerning **corporate accounting** and **auditing**, new legislative amendments are being prepared, aimed at further *acquis* alignment in these areas. Statutory audit is mandatory for

annual financial statements of large and medium-sized companies, and penalties for non-publication are in place. There are also specific requirements for the statutory audit of public-interest entities. Reorganisation of the public audit oversight system is underway, the priority is to redefine the role of the supervisory body. Due attention should be paid to requirements for quality assurance, investigations and penalties relating to public-interest entities, as well as ensuring adequate funding and resources. Serbia applies International Financial Reporting Standards (IFRS) and the IFRS for small and medium-sized companies. Mandatory application of International Standards on Auditing also applies.

6.7. Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPR), as well as rules for the legal protection of copyright and related rights. Rules for the legal protection of IPRs cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.

Serbia has a **good level of preparation** on intellectual property rights. There has been **some progress** with the adoption of the amendments to the law on patents and adoption of a new strategic framework for 2018-2022, focusing on enforcement. The Commission recommendations from 2018 were not fully implemented and remain valid.

In the coming year, Serbia should in particular:

- adopt the copyright and related rights law, the law on topographies of semiconductor products and amendments to the law on trademarks;
- strengthen enforcement, by improving capacities and coordination of different stakeholders.

Adoption of the new law on **copyright and related rights** and the law on the protection of topographies of semiconductor products has been further delayed. The process for adopting legislation in this area remains very slow.

On **industrial property rights**, amendments to the law on patents were adopted in December 2018, aiming to align with the EU Patent Directive and the EU Directive on the legal protection of biotechnological inventions. Amendments to the law on trademarks have not been adopted yet. There has been no development as regards alignment with the EU Directive on protection of design and with the trade secret EU Directive. The Intellectual Property Office remains relatively well staffed and efficient in registering trademarks.

Concerning **enforcement**, the capacity of the Market Inspectorate has been stable with 49 market inspectors specialised in the field of intellectual property. In 2018, the number of counterfeit and pirated goods confiscated by the Market Inspectorate increased, as well as the number of requests submitted to it by economic operators. The number of the customs officers specialised in intellectual property protection decreased slightly to 14. The number of items detained by the customs administration decreased while the number of items destroyed increased. In April 2018, the customs administration put into operation the electronic database regarding the protection of IPR at the borders, in accordance with the new customs law. In 2019, the number of inspectors specialised in IPR within the tax administration was reduced to 4, in accordance with the Tax Administration Transformation Program and the relocation of non-core activities. The number of software legality checks performed by the tax administration significantly decreased in 2018. Capacity of the judiciary to handle IPR cases is still low, due to the low level of specialisation of judges in this field.

In October 2018, the government adopted a new strategic framework for intellectual property rights (IPR) for the period 2018-2022, which focuses on enforcement. IPR legislation has yet to be aligned with the EU Directive on the enforcement of intellectual property rights. The permanent coordination body for the enforcement of IPR did not meet in 2018. Its working groups were only active as regards the new strategic framework. They did not carry out any awareness raising activities or information exchange for IPR enforcement. The Intellectual Property Office has continued to operate an education and information centre, which provides training on IPR to SMEs, enforcement institutions, and research and development bodies and was engaged in different awareness raising activities. Coordination among different institutions involved in IPR enforcement requires further strengthening, notably through adequate IT infrastructure.

6.8. Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and include rules on concentrations between companies, which would significantly impede competition. EU rules also set out a system of State aid control. Governments are only allowed to grant State aid if restrictive conditions are met, with a view to preventing distortion of competition.

Serbia has **some level of preparation** / is **moderately prepared** in the area of competition policy. **No progress** has been made in the field of legislative alignment and enforcement of state aid rules. Last year's recommendations were not implemented and remain valid.

In the coming year Serbia should in particular:

- make significant progress in the alignment of its legislation on State aid, in particular repealing the exemption of companies in the process of privatisation from State aid rules, in line with its obligations under the Stabilisation and Association Agreement (SAA); take additional steps to align existing schemes, in particular the fiscal state aid schemes (namely the Law on corporate income tax, the Law on personal income tax and the Law on free zones) with the *acquis*;
- increase substantially the budget of the Commission for State Aid Control (CSAC), as well as its enforcement powers, to ensure its independence and effectiveness;
- align the law on multilateral interchange fees and special operating rules for card-based payment transactions with the *acquis* and SAA obligations.

Antitrust and mergers

The **legislative framework** remains broadly in line with the *acquis* and the relevant provisions of the SAA. The law on protection of competition provides for *ex ante* control of mergers, following the principles of the Merger Regulation. A new competition law has yet to be finalised and adopted.

On the **institutional framework**, the Commission for Protection of Competition (CPC) is the main institution responsible for implementing the legal framework. It is an operationally independent authority.

Regarding **enforcement capacity**, the CPC has 53 employees of which 34 are case-handlers with a good level of expertise. On **implementation**, the number of antitrust cases and the relative size and significance of companies under investigation continued to increase. From January 2018 to February 2019, the CPC adopted seven decisions on restrictive agreements and two on abuse of dominance cases. The level of fines imposed during this period has increased reaching the combined level of fines imposed in the previous 2 years at over

EUR3.8 million. In the given period, the CPC has not prohibited any merger and has imposed remedies in only one case. The CPC's investigations of large private and public companies further contributed to improving its credibility and public image. In 2018, the CPC launched two sector enquiries covering tyre and cement markets. Competition advocacy activities continued to increase. The CPC issued three opinions on draft legislation in the fields of trademarks, road transport of passengers and free access to information. More generally, the CPC should be consulted on all draft laws concerning competition, such as the law on multilateral interchange fees and special operating rules for card-based payment transactions. Article 9 of this new law, adopted in June 2018, is not in line with the *acquis* and not compliant with the SAA. Generally, a preferential treatment favourable to the incumbent operator on the market is not contributing to the achievement of competition policy objectives and to the alignment with the *acquis*. The CPC's decisions have been increasingly upheld by appeal courts; however, the capacity of the judiciary to handle complex competition cases needs to be strengthened significantly by increasing the number of judges with expertise in this field.

State aid

As regards the **legislative framework**, the law on State aid control broadly reflects Articles 107 and 108 of the TFEU and the relevant provisions of the SAA. However, provisions providing exemption from State aid rules for companies undergoing restructuring and privatisation are not compliant with the SAA and not aligned with the *acquis*. Existing aid schemes, including the fiscal State aid schemes part of the law on corporate income tax, the law on personal income tax and the law on free zones need to be aligned with the *acquis*. To comply with the SAA, the CSAC needs to step up its efforts to provide the European Commission with information on a number of individual decisions approving large amounts of State aid to major operators in the economy, in line with its obligation under Article 73(5) of the SAA. The regional aid map has yet to be drafted.

On the **institutional framework**, the CSAC is responsible for implementing the law on state aid control. The five members of the CSAC are mostly appointed by aid-granting ministries and its secretariat is administratively part of the Ministry of Finance. As a result, the CSAC cannot be considered as operationally independent, as required by the SAA.

The **enforcement capacity** of the CSAC remains very weak and insufficient with only four full time employees in its Secretariat. The CSAC's budget needs to be substantially increased to hire additional qualified staff and thus to enable it to perform its mandate. There was no progress made on **implementing** the law on State aid. From January 2018 to February 2019, the CSAC took 64 decisions upon notification and another 15 decisions in *ex post* procedure (illegal aid). However, the CSAC has not yet taken a single decision prohibiting state aid nor a decision in favour of recovery. Monitoring of compliance in this area needs to be significantly strengthened, including compliance with the conditions for 'cumulation' of aid. The CSAC should also closely monitor the implementation of intergovernmental agreements concluded with non-EU countries, which should not provide for exemptions from national legislation, including fiscal legislation and State aid control. Serbia needs to ensure that aid granted to the steel mill Smederevo before its assets were privatised is claimed and recorded when liquidating the company. In January 2019, the commercial court dealing with the case declared the bankruptcy of Železara Smederevo. The claims have yet to be formally recognised by the court. Awareness of State aid rules among stakeholders remains low, especially among the authorities granting aid. This is particularly highlighted by the low number of CSAC decisions that were appealed against. Advocacy activities need to be significantly stepped up in order to increase the number of *ex ante* notifications.

Liberalisation

In 2018, the CPC reached a significant decision relating to abuse of dominant position by one large public company. Enforcement of competition rules on public companies needs to continue. There are no monopolies of a commercial character within the meaning of Article 37 of the TFEU.

6.9. Chapter 9: Financial services

EU rules aim at ensuring fair competition between and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on authorisation, operation and supervision of these institutions.

Serbia remains **moderately prepared** in the area of financial services. **Some progress** was made in this field. Last year's recommendation remains valid. Serbia should, in particular:

→ take additional steps to align with the banking capital requirements framework (CRR/CRD IV and upcoming CRR2/CRD V) and the Solvency II Directive in the field of insurance.

On **banks and financial conglomerates**, in June 2017, the National Bank of Serbia (NBS) introduced the Basel III standards and continues to monitor their implementation by banks. Following the adoption of the amendments to the Decision on Reporting Requirements for banks, the NBS is monitoring the leverage ratio. As a result of the implementation of the non-profitable loans resolution strategy adopted in 2015, non-profitable loans are at a low level of EUR1.2 billion, representing 6.4% of total loans. In order to align with the international Financial Reporting Standard (IFRS) 9, in July 2018 the NBS adopted amendments to the decision on consolidated supervision of a banking group, introducing provisions concerning minority interest and additional tier 1 and tier 2 instruments issued by subsidiaries. Legislation on financial conglomerates has not been adopted yet.

With regard to **insurance and occupational pensions**, the NBS adopted amendments to the strategy for the implementation of the Solvency II Directive in March 2018, increasing the number of quantitative impact studies and modifying the requirements on regulatory reporting according to the Solvency II regime. Human resources capacities have been strengthened in order to implement the strategy. There were no developments on alignment with the Directive on the activities and supervision of institutions for occupational retirement provision in the areas of cross-border activities, investment rules and regulation of technical provisions. There were no developments as regards **financial market infrastructure**.

In the **securities markets and investment services**, amendments to the law on financial collaterals were adopted in June 2018, regulating secured loans, financial derivatives and repo markets. The Ministry of Finance's administrative capacity to regulate securities markets remains weak.

6.10. Chapter 10: Information society and media

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.

Serbia is **moderately prepared** in the field of information society and media. **Some progress** was made in the past year, in particular regarding the Digital Single Market and in the area of information society and e-government. However, the recommendations of the previous report have not been met.

In the coming year, Serbia should in particular:

- harmonise its legislative framework in electronic communications with the 2009 EU regulatory framework;
- ensure financial and operational independence, of the regulators for electronic communication and postal services (RATEL) and for electronic media (REM);
- take measures to ensure implementation of competitive safeguards and facilitate market operator's access to telecommunication infrastructure (ducts, antennas, fibre optics and fixed telephony infrastructure).

In line with EU's **Digital Single Market** objectives, progress was made with the adoption in April 2018 of the next generation networks strategy until 2023, promoting cloud computing and the 'Internet of Things' as well as the development of 5G mobile systems. Serbia's digital economic growth is steady; however a more holistic and coherent approach to digitalisation, and effective coordination of stakeholders are recommended.

In the field of **electronic communications and information technology**, a law on electronic communications to align Serbian legislation with the 2009 EU regulatory framework has yet to be adopted. The financing of the telecom regulatory agency is still not in line with the EU *acquis*. Administrative and inspection capacity of the line ministry backslid, in particular when it comes to inspections. Staff turnover remains a concern. Authorities took part in the preparations of the Regional Roaming Agreement and signed the agreement in April 2019.

The European emergency number 112, along with its financing structure, has yet to be put into operation.

No progress can be reported regarding the strengthening of RATEL's financial and operational independence. Its administrative capacities have slightly improved; however a further increase is needed. Concerning implementation of **competitive safeguards**, RATEL has deregulated five and *ex ante* regulated four relevant markets, designating 'significant market providers' for call termination in fixed telephony, call termination in mobile telephony, broadband access and access to infrastructure. Difficulties with users-operators' access to infrastructure, cables, ducts, antennas and optical fibres persist, as well as restrictions imposed by the legislation in environmental and municipal planning, particularly at a local level. The 900 MHz radio-frequency bandwidth remains unassigned.

In the field of **information society services**, progress was made in strengthening the coordination role of the newly established Office for IT and e-government, which report to the Prime Minister. The Law on e-government was adopted and a new information system linking the six biggest databases in Serbia was established. Progress was made with the further introduction and development of e-services at the national e-government portal, the launching of an Open Data Portal and the enhanced interoperability of public registers providing for easier exchange of data and the upgrading of the data centre. In April 2018, the Law on electronic administration was adopted in order to present an umbrella regulation that governs the use of information technologies by the public administration, both at state and local self-government levels. Full harmonisation of the law on **information security** with the Directive on network and information systems is pending.

No progress was made in **audio-visual policy** in the reporting period. The Law on electronic media regulates media services for both commercial and public service media. The law defines the Regulatory Authority of Electronic Media (REM) as an independent regulatory body authorised to draft a strategy for the development of radio and audio-visual media services, issue licences for providing media services, monitor and penalise media service providers, draft secondary legislation and manage the Register of Media Services and the

Record of On-Demand Media Service Providers. Since 2015, REM has delayed the adoption of a new strategy for the development of radio and audio-visual media services in line with the law. REM is also failing to effectively monitor and penalise broadcasters that do not meet all programme content obligations under the law.

The REM Council takes decisions on all issues related to the regulator's domain and has nine members. However, the Council still operates with only six members for more than 2 years and with an Acting President of the Board for 3 years.

The legislation establishing sources of financing for the public service broadcasters needs to be improved. The amendments to the Law on public media services and the Law on the temporary regulation of the collection of the fee for the public service media, adopted in December 2015 as a temporary solution, are still in place. These are causing further uncertainty over the editorial independence and stable financing of the public broadcasters Radio Television of Serbia and Radio Television of Vojvodina.

In 2018, RTS introduced five minutes of TV news in Albanian, which is a first step in fulfilling its obligation to produce and broadcast programme content intended for national minorities.

The Ministry of Culture and Media has been playing a proactive role in promoting and supporting media literacy initiatives. In an effort to systematically improve this area, the Ministry formed a working group tasked with developing a manual for the promotion and development of media literacy in pre-university education (pre-school, primary and secondary education).

6.11. Chapter 11: Agriculture and rural development

The common agricultural policy supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.

Serbia has **some level of preparation** in the area of agriculture and rural development. **Good progress** was made by adopting the action plan for *acquis* alignment in agriculture and rural development and implementing the Instrument for Pre-accession Assistance for Rural Development programme (IPARD II). In the coming period, Serbia should in particular:

- continue to implement the measures entrusted under the IPARD II programme and seek entrustment with budget implementation tasks for other measures of the programme;
- proceed with implementation of the action plan for *acquis* alignment in agriculture and rural development.

As regards **horizontal issues**, the National Programme for Rural Development for the period 2018-2020 was adopted in July 2018. In October 2018, the government adopted its action plan for transposing, implementing and enforcing the *acquis* in agriculture and rural development. This action plan includes a detailed timetable for the establishment of the Integrated Administration and Control System with steps underway for a pilot Land Parcel Identification Project. Direct support measures will need to be brought in line with the *acquis* decoupling from production and linking payments to cross-compliance standards. The Farm Accountancy Data Network has been established but its sample size needs to be expanded and its overall capacity developed. Serbia has a farm advisory system in place.

In the area of the **common market organisation**, umbrella legislation has been prepared aligning towards the *acquis* across agricultural markets. Legislation providing further

alignment with the *acquis* in the wine sector was adopted and work is underway in the area of marketing standards for the fruit and vegetable sector.

On **rural development**, implementation of the EU pre-accession programme for rural development (IPARD II) continues for two measures: '*Investments in physical assets of agricultural holdings*' and '*Investments in physical assets concerning processing and marketing of agricultural and fishery products*'. Entrustment for two additional measures – '*Farm Diversification and Business Development and Technical Assistance*' – is expected to be submitted mid-2019. The IPARD Agency should continually improve its operational system in order to ensure a timely use of the annual financial allocation from the EU.

Progress is ongoing in the area of **quality policy**. Legislation in the area of agricultural products and foodstuffs and in the wine sector is being aligned with the *acquis*, which will facilitate further policy development in these fields.

As regards **organic farming**, a plan for the development of organic production, defining goals and measures, was adopted as an integral part of the National Programme for Rural Development. However, further alignment with the *acquis* on organic production is needed.

6.12. Chapter 12: Food safety, veterinary and phytosanitary policy

EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.

Serbia is **moderately prepared** in the area of food safety, veterinary and phytosanitary policy. **Some progress** has been made in implementing recommendations of the previous report, in particular with the accreditation of the reference laboratory for milk testing. However, Serbia has not yet implemented all recommendations of last year. In the coming year, Serbia should in particular:

- develop a comprehensive strategy for transposition, implementation and enforcement of the *acquis* on food safety, veterinary and phytosanitary policy;
- substantially strengthen the administrative capacity of the veterinary, phytosanitary and national reference laboratories directorates and retain highly competent staff;
- consistently apply and improve the risk based approach to sanitary control at borders.

In the area of **general food safety**, Serbia still needs to adopt a strategy and action plan for full transposition of the *acquis*. Serbia should increase the effectiveness of official controls, improve the risk-based approach at borders and put in place audit of inspection staff. Integrated multiannual control plans have yet to be drafted.

On **veterinary policy**, annual programmes consisting of animal health protection measures for 2018 were adopted. Serbia has yet to decide on an *acquis*-harmonised approach to combating classical swine fever. The multiannual programme to eradicate rabies in wildlife was successfully implemented in 2018. Some steps have been taken towards improving staffing of the Veterinary Inspectorate through delegation of duties. This should be followed up by further strengthening the Veterinary Directorate, including its policy departments. Animal welfare legislation is yet to be fully harmonised with the EU *acquis*. The enforcement of legislation on animal welfare, in particular at slaughter, needs to improve.

Serbia adopted amendments to the laws on food safety, plant protection products, plant health and plant nutrition products and soil enhancers, all aiming at further aligning with the *acquis*.

In relation to the **placing of food, feed and animal by-products on the market**, Serbia adopted the decree on categorisation and upgrading of establishments, which is yet to be implemented. The strategy for management of animal by-products has yet to be adopted. Although adopted, the national monitoring and control programme for food of animal origin has not been yet implemented.

On **food safety rules** and **specific rules for feed**, the permitted level of aflatoxins in milk has remained five times higher than permitted by the *acquis*. The national reference laboratory for milk testing was accredited in December 2018. Institutional sustainability of the National Reference Laboratories Directorate and its adequate staffing should be ensured as a matter of priority.

In the area of **phytosanitary policy**, the Phytosanitary Directorate is critically understaffed. Annual programmes of plant health measures were adopted. While certain tasks related to evaluation of plant protection products have been delegated, the related framework legislation has yet to be aligned with the *acquis*. A legal framework and a system for control of sustainable use of pesticides and a national action plan to reduce the impact of pesticide use are not yet adopted. There was no progress on adopting the framework legislation on **genetically modified organisms** aligned with the *acquis*.

6.13. Chapter 13: Fisheries

The common fisheries policy lays down rules on fisheries management, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules on markets and aquaculture and support for fisheries and coastal communities.

Serbia is **moderately prepared** in the area of fisheries. **Limited progress** has been made in the reporting period, particularly on statistics collection. Serbia has not yet implemented the recommendation of the previous report.

In the coming year, Serbia should in particular:

→ adopt an action plan that will ensure full compliance with the requirements of the *acquis* by the date of accession, in particular regarding organisation of the markets, aquaculture, data collection and control measures against illegal, unreported and unregulated fishing.

Serbia should in particular start strengthening its policy formulation, implementation, and enforcement capacities. **Structural measures** are not yet in place for small-scale or inland fisheries. Legislation is yet to be adopted on **market support**. Statistical data collection on aquaculture for 2017 was carried out in line with the *acquis*. **Data collection** for fish and fishery products – including in terms of methodology – is largely aligned with the *acquis*, with the exception of the collection of socio-economic data, which still needs to be aligned. Serbia should implement the rulebook on catch certification and bring its legal framework into full alignment with the *acquis* on **illegal, unreported and unregulated fishing** as soon as a solution has been found regarding the fish catch certificate issue.

6.14. Chapter 14: Transport

The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.

Serbia has a **good level of preparation** in this area. **Good progress** was made during the reporting period, particularly in the field of rail reform, which remains a priority.

In the coming year, Serbia should in particular:

- improve road safety by taking measures to reduce fatalities and serious injuries;
- focus on implementing rail reform including market opening, the network statement, infrastructure management and market monitoring, as well as strengthen the capacities of the regulatory body for railways;
- implement connectivity reform measures, in particular advance in intelligent transport systems (define the strategic framework, adopt legislation, and improve capacity for implementation and enforcement); improve maintenance of road and railway infrastructure in line with credible and costed plans; and facilitate border crossing procedures for rail and road transport.

As regards the **general transport *acquis***, key strategic documents for the transport sector are in place. However, there is a need to revise the overall transport sector strategy and the strategy for the transport of dangerous goods; strategies for air and road transport need to be prepared. The General Transport Master Plan 2009-2027 should be updated reflecting new developments. Strategic documents should be based on option analyses and be costed.

Serbia's legislation is fully aligned with the *acquis* on summertime arrangements. In 2018, Serbia achieved a high level of alignment with the *acquis* on public services obligations in the field of rail transport while this has yet to be realised for road transport. The methodology for calculating the compensation and award of the public service contracts should be updated. Amendments to the law on accident investigations for air, rail and waterborne transport from October 2018 provided further alignment with EU legislation on railway safety. Administrative capacity for all modes of transport need to be further strengthened.

On **road transport**, Serbia has a satisfactory level of alignment. In 2018, Serbia further aligned its legislation on transport of dangerous goods, training of professional drivers, certificates of professional competence, driver's qualification cards and working times of vehicle crews engaged in road transport and tachographs. Legislation on road freight and passenger traffic is well aligned with EU law. In early 2019, Serbia further increased its alignment regarding market access for goods, passengers and pricing by adopting new legislation in road freight transport regarding the road haulage market, goods carriage rates and criteria for access to the occupation of national and international road transport operators.

The previously rising trend of fatal road traffic accidents was reversed, with the number of accidents falling since 2016. However, the number of road accidents with injuries increased in 2017 before falling again in 2018. The number of road fatalities is still significantly above the EU average. Further efforts are needed to improve Serbia's road safety records by implementing and enforcing legislation related to the safety of vehicles and to the behaviour of road users, by proper road design and maintenance, including the removal of blackspots, as well as by education and awareness raising. The number of roadside checks slightly declined in 2018. Strengthening the enforcement capacity of inspection officers and implementing penalties for infringements of the Agreement concerning the Work of Crews of Vehicles Engaged in International Road Transport (AETR) remain a priority. In May 2018, Serbia adopted provisions on the framework for the deployment of intelligent transport systems. An overall strategy on this is yet to be adopted and capacities need to be strengthened.

Facilitating border-crossing procedures and improving the road maintenance system continue to be priorities, including the adoption of a multiannual maintenance plan for the core network. Performance-based maintenance contracting should be continued and responsibilities in the area of road maintenance should be further clarified. The issue of road charges potentially discriminating against foreign operators needs to be addressed.

On **rail transport**, Serbia's state railways consist of a holding company and separate subsidiaries for infrastructure management, passenger and freight operations. Work on ensuring the operational and financial sustainability of independent railway service/infrastructure operators is ongoing. Serbia regularly updates its railway network statement. The methodology for track access charges needs to be updated. Further efforts are needed to ensure full compliance with both the *acquis* and Serbia's negotiating framework. Serbia continues to make good progress on rail market opening with five private freight companies operating on the market in early 2019 but further efforts are required to ensure full opening of the rail market, including on the issuance of train drivers licenses and safety certificates for railway undertakings and mutual recognition of the rolling stock.

In May 2018, Serbia adopted new laws on railways, railway safety and railway interoperability achieving a high level of alignment with EU legislation on establishing a single European railway area. Further improvements regarding training capacity, examination methods and licensing procedures are still pending as is the publication of the remaining technical specifications for interoperability. Sustainable and costed railway infrastructure maintenance plans need to be developed. The Railway Directorate in its function as a regulatory body and safety authority needs to be further strengthened and its decisions implemented.

Legislation on **maritime transport** is well aligned with the *acquis*. Serbia's law on maritime navigation complies with the *acquis* on vessel traffic monitoring and information systems. Serbia should continue implementing provisions of the international conventions.

In **inland waterway transport**, Serbia has a high level of alignment. The river information services system is operational and highly interoperable with systems in EU Member States. It was upgraded by installing navigational aid systems along the Danube River. An authority responsible for inland waterways has been set up within the line ministry. Serbia continues to actively participate in the EU strategy for the development of the Danube Region. It has signed the main international agreements on inland waterways and bilateral agreements with neighbouring countries. Serbia needs to strengthen its administrative capacity and make improvements to the river ports network statement.

Serbia has a good level of alignment with the *acquis* on **aviation**. It has progressed considerably with implementing the first and part of the second transitional phase of the European Common Aviation Agreement. On the Single European Sky (SES), Serbia completed transposition and local implementation of SES I and SES II on air traffic. Legislation on aviation safety is being further aligned. Lifting the suspension of articles on the licensing of air carriers and engaging on the normalisation of the lower airspace regime over Kosovo remain important priorities.

There is no specific legislation on **combined transport**. This mode should be covered by the overall transport strategy expected to be adopted in Q4 2019. Stimulation measures to promote combined transport were introduced in 2018.

6.15. Chapter 15: Energy

EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy, nuclear safety and radiation protection.

Serbia is **moderately prepared** in this field. **Limited progress** was made in a number of areas. However, as regards energy market reforms in particular, the shortcomings have not been properly addressed.

In the coming year, Serbia should in particular:

- fully unbundle and certify Srbijagas and Yugorosgaz and develop competition in the gas market as well as implement the conditions requested by the Energy Community Secretariat on the exemption of Gastrans, in particular the measures that increase liquidity on the gas market and ensure third-party access to parts of the new capacity;
- fully implement the connectivity reform measures as committed to under the Connectivity Agenda;
- strengthen human resources capacity and promote investment in energy efficiency including through establishing a sustainable financing system and initiate reforms to introduce cost-reflective electricity tariffs fully taking into account investment needs, climate change commitments and social security implications as well as reform electricity price regulation accordingly.

Serbia has a high level of alignment with the EU *acquis* on **security of supply** including on emergency oil stocks. In 2018, Serbia adopted a long-term plan to establish and maintain emergency oil stocks. Oil stocks increased slightly compared to the previous year, corresponding, at the beginning of 2019, to 19 days of average daily consumption. However, the lack of gas market reforms could affect security of supply in the gas sector. In September 2018, the Serbian parliament approved the removal of the destination clause from the intergovernmental agreement on gas supply between Serbia and Russia in line with EU legislation. The clause stipulated that the gas supplied under the agreement was intended for use in the Serbian market only, thereby restricting the territory to which the Serbian buyer could sell the gas. In December 2018, the ministry adopted a preventive gas action and emergency plan using elements of the new EU regulation on the security of gas supply. Serbia continued with preparatory activities to upgrade the Trans-Balkan electricity corridor. Preparations for building the gas interconnector with Bulgaria continued. Activities need to accelerate in 2019 in order to achieve the commissioning scheduled for May 2022.

In October 2018, the energy regulator AERS granted an exemption for the Serbian part of the 'Turk Stream 2' (Gastrans) project from rules of the third energy package. In February 2019, the Energy Community Secretariat set out conditions to ensure the compliance of this exemption with the third energy package, and in particular that a larger share of the pipeline capacity remain available for the market in Serbia. In March 2019, the regulator issued the final exemption decision which only partly reflects the conditions set and thus does not ensure compliance with the third energy package.

The energy agreement between Serbia and Kosovo must be implemented without further delay in order to avoid this longstanding dispute from having further consequences for energy stability and security in Serbia, Kosovo and countries across Europe. Following the completion of the registration of Elektrosever, Serbia needs to file for the licensing process in Kosovo as a matter of urgency. Serbia needs to set up regionally coordinated auctions with its Western Balkan neighbours.

As regards the **internal energy market**, Serbia's primary legislation is compliant with the third energy package. The wholesale electricity market and day-ahead markets are functional and trading volumes on the organised power exchange market increased in 2018. The electricity balancing market is also functional, although it has only one provider of balancing services. Functional unbundling of the electricity transmission system operator EMS needs to be completed in line with the Energy Community Treaty requirements.

The unbundling of EPS', Serbia's state owned electricity utility's, distribution system operator has been formally completed. However, concerns related to the effective implementation of functional unbundling related to independent decision-making remain. Serbia continues to delay the unbundling of Srbijagas. There is no third-party access to the gas system infrastructure of Srbijagas and Yugarosgaz. The unbundling and certification of Yugarosgaz is not compliant with the requirements of the *acquis* as ruled by the Ministerial Council of the Energy Community.

In the electricity and gas sectors, supply prices are deregulated for all customers, but households and small customers have the right to be supplied under regulated prices. The non-regulated market accounted for 44.4% of total end-user electricity consumption and 73% of total end-user gas consumption in 2017. Some 3.57% of delivered electricity quantities and 0.9% of gas quantities were subject to supplier switching in 2017. There is no timeline for the phase-out of cross-subsidies between network and supply activities of Srbijagas. The recommendations of the energy regulator to adjust electricity tariffs should be implemented. Tariffs also need to reflect the level of investment and maintenance in the electricity sector that is needed for Serbia's energy and climate reforms.

The Serbian Energy Agency is legally and functionally independent from any other public entity; it has yet to establish a track record for enforcing compliance of regulated companies with Serbian and Energy Community law in all cases. Staff levels should increase from the current 41 staff members to 56 by 2020, as foreseen by the IPA technical assistance project, so the Agency can implement all regulatory responsibilities under the third energy package and the new *acquis* upfront.

In **hydrocarbons**, Serbia has yet to align its law with the Hydrocarbon Licensing Directive, especially regarding conditions for granting and using authorisations for prospection, exploration and production.

The **Renewable Energy** Directive is partially transposed into Serbia's law on energy. Adoption of the implementing legislation on bio-fuels is still pending, as well as actual use in the transport sector. Serbia's national renewables target for 2020 is set at 27% of gross final consumption of energy. The latest data for 2017 show renewable sources accounted for a share of 20.6% of energy produced, which is well below the 23.1% trajectory of Serbia's national renewable energy action plan. Wind power projects of 475 MW are currently in the construction phase. Serbia needs to intensify its efforts to switch from feed-in tariffs to feed-in premium support schemes, as well as to ensure transparent procedures for the connection of renewable energy producers to the grid in the framework of an auction-based programme. Any further development of hydropower should be in line with EU environmental legislation.

Serbia achieved some progress in **energy efficiency** through adopting secondary legislation that implements rules on labelling, amendments to the Law on efficient use of energy improving energy audits and energy management, and the implementation of eco-design requirements and secondary legislation implementing this law. Further secondary legislation is necessary to achieve full alignment, in particular with the Directive on Energy Performance of Buildings. In October 2018, Serbia submitted the second annual report under the Energy Efficiency Directive. So far, there has been negligible implementation of consumption-based metering and billing in district heating, except for new buildings. Human resource capacity in the Ministry of Mining and Energy's department for energy efficiency slightly increased but remains insufficient. A new fee on energy efficiency was introduced in December 2018; it should provide urgently needed funding for energy efficiency projects. A more strategic approach and better intergovernmental coordination is required to fully implement the *acquis* and to establish a sustainable financing system.

On **nuclear energy, nuclear security and radiation protection**, Serbia's legislation is partially in line with the *acquis*. A new Law on radiation protection and nuclear safety was adopted in 2019. The Convention on Nuclear Safety and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management entered into force in 2018. Serbia adopted in 2018 a protocol with the International Atomic Energy Agency related to the Treaty on the Non-proliferation of Nuclear Weapons. Serbia's two nuclear research reactors and one abandoned uranium mine are not licensed. An action plan has yet to be drafted for decommissioning the research reactors. The licence for the waste storage facility H3 in Serbia's nuclear site in Vinča was renewed in 2018. Activities for improving the radiological and security situation at the Vinča site have started. The Radiation Protection and Nuclear Safety Agency is not sufficiently staffed to carry out its duties. By February 2019, the number of permanent staff had further decreased to 21. Budget and salary levels appear to be insufficient to ensure the Agency's proper functioning including inspectorate functions.

6.16. Chapter 16: Taxation

EU rules on taxation cover value-added tax and excise duties as well as aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.

Serbia is **moderately prepared** in the area of taxation. **Some progress** was made on legislative alignment, while the reform of the tax administration has slowly moved forward. Last year's recommendations were not implemented and remain valid.

In the coming year, Serbia should in particular:

- remove discrimination in the application of excise duties on imported spirits;
- step up the implementation of the tax administration reform programme in order to streamline the tax administration's activities while ensuring sufficient human and IT resources for this purpose, improve tax collection and combat the informal economy;
- ensure that by the end of 2019 it signs and ratifies the OECD Multilateral Convention on mutual administrative assistance in tax matters.

Legislation on **indirect taxation** was adopted in April 2018 and entered into force in January 2019, introducing value-added tax (VAT) reimbursement to non-established taxable persons. Based on the rulebook on the form, content and method of keeping VAT records, a new system for keeping records was introduced in July 2018. There has been no further legislative alignment with the *acquis* in the area of **direct taxation**. Despite some limited progress, public consultations carried out before the adoption of tax legislation have again been insufficient, not providing the business associations with enough time to comment and thus failing to strengthen predictability.

As regards **administrative cooperation and mutual assistance**, in June 2018 Serbia deposited its instrument of ratification for the Multilateral Convention to implement tax treaty related measures to prevent base erosion and profit shifting, thus underlining its strong commitment to preventing the abuse of tax treaties and base erosion and profit shifting (BEPS) by multinational companies. The Convention entered into force as of 1 October 2018. Serbia has double taxation agreements with 27 EU member States. Serbia still needs to sign and ratify the OECD Multilateral Convention on Mutual Administrative Assistance on Tax Matters (MAC) before the end of 2019.

On **operational capacity and computerisation** of the tax administration, electronic filing of all tax returns has been finalised. Sustained efforts to fight tax evasion, notably on VAT and excise duties, have continued and resulted in increased tax revenues. The tax administration still lacks administrative capacity and the recruitment of new staff in 2018 only partly addressed this issue. Implementation of the 2015-2020 general programme for transformation of the tax administration, and revised 2018-2023 action plan for its implementation has started with core and non-core activities being separated. Progress remains slow and the next steps – the reduction of field offices and the improvement of risk management – should be stepped up. A number of training sessions, notably within the framework of the Fiscalis 2020 EU programme, have been organised in 2018. Further efforts are still needed to improve the predictability of tax decisions and services to tax payers. Appeal procedures against tax administration decisions remain lengthy.

6.17. Chapter 17: Economic and monetary policy

EU rules require the independence of central banks and prohibit them from directly financing the public sector. EU Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.

Serbia is **moderately prepared** and has established a good institutional and administrative framework in the area of economic and monetary policy. **Some progress** was made in economic policy coordination, in particular in designing and implementing structural reforms. However, the budgetary procedure has been weak. Not all recommendations of the 2018 report were fully implemented. In the coming year, Serbia should thus take further measures to:

- improve the transparency of the budgetary process by complying with the budget calendar and ensuring a meaningful parliamentary debate on budget issues;
- strengthen fiscal rules by making them more binding and capable of anchoring fiscal policy.

On **monetary policy**, the legal framework for the National Bank of Serbia (NBS) is well developed; however, further efforts are needed to comprehensively ensure the NBS independence, in line with the EU *acquis*.

With regard to **economic policy**, further alignment with the Directive on requirements for budgetary frameworks is needed. The overall institutional environment related to the budget process is still challenging. The budget calendar is not fully complied with, there was no meaningful parliamentary debate on the 2019 budget, and the authorities did not submit the final annual budget execution report to the parliament. The alignment of fiscal reporting with the European System of National and Regional Accounts (ESA 2010) is incomplete and progress in improving it remains slow. The monthly budget execution reports did not provide information about large one-off budgetary items. Programme budgeting needs to be strengthened and administrative and IT capacity reinforced. Fiscal rules are weak, non-binding and unable to anchor fiscal policy. Although the authorities recognise the need to strengthen them, work on that has largely stalled. The Fiscal Council is a respected and independent institution that actively participates in debates over economic and fiscal policy.

The 2019-2021 **Economic Reform Programme** was submitted on time. Its analytical diagnostics are good. The structural reform framework is coherent and sufficiently comprehensive. However, as some reforms continue to lack ambition, further efforts are needed to improve the capacity for economic planning, inter-ministerial coordination, external consultations and timely implementation.

6.18. Chapter 18: Statistics

EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

Serbia is **moderately prepared** in the area of statistics. **Some progress** was made in further aligning some sectoral statistics with the *acquis*. The transmission of statistical data to Eurostat has continued to improve. The Statistical Office needs to retain highly qualified staff and recruit additional staff to meet the obligations of the *acquis*. Parts of the Commission's recommendations from 2018 have not been implemented and remain valid.

In the coming year, Serbia should in particular:

- adopt the new statistical law to increase the independence of the Statistical Office;
- improve compilation of macroeconomic statistics in line with the European System of Accounts (ESA) 2010.

The legal framework for **statistical infrastructure** is largely in line with the European Statistics Code of Practice. The professional independence of the Statistical Office of the Republic of Serbia (SORS) needs to be increased. The law on enhancing the professional independence of the SORS has not been adopted and has been further delayed for a year. The SORS needs to be further strengthened by increasing staff numbers and improving their skills. The SORS has signed memoranda of understanding with a large number of the administrative data providers, but further efforts are needed to broaden and develop this cooperation. Data transmission to Eurostat has further developed, but data coverage needs to be expanded. The main classifications (NACE Rev. 2, ISCO-08) are aligned with the EU *acquis*. Registers are updated regularly.

Concerning **territorial classification**, Serbia has started compiling regional ESA 2010 data. Estimates of regional GDP at NUTS 2 and 3 levels have been published by the SORS and data transmitted to Eurostat.

Regarding **macroeconomic statistics**, the SORS continued to compile quarterly and annual GDP at current and constant prices. Quarterly sector accounts are not yet compiled. Serbia has further advanced work on the compilation of supply-use and input-output tables, however, regular production of these tables needs to be ensured. The SORS transmits good-quality monthly data on international trade in goods in the required breakdown by mandatory partner country. The NBS compiles the monthly and quarterly balance of payments, as well as quarterly international investment position data, in compliance with the Balance of Payments and International Investment Position Manual (BPM6). It transmits annual data on international trade in services in accordance with the Balance of Payments Vademecum. The SORS continues to provide the Commission with notification tables for the excessive deficit procedure (EDP) that are jointly prepared with the Serbian National Bank and the Ministry of Finance. The quality and completeness of the EDP notification data and the government finance statistics need to be further improved. Financial accounts need to be further developed. Continued efforts are needed to produce the complete data required by the ESA 2010 transmission programme.

With regard to structural **business statistics**, data coverage is not yet fully in line with the *acquis* but methods for transmitting data have been established. Most of the data on internal tourism and some data on national tourism is collected. For transport, road and railway data are collected but need to be further harmonised with the *acquis*. Air transport statistics are already broadly compliant. Serbia fully complies with the EU *acquis* in research and

development statistics. The Community innovation survey is conducted every two years and the data are sent to Eurostat. The annual surveys on information and communication technology fully meet EU standards and are carried out regularly for households/individuals and businesses.

Serbia partially complies with the *acquis* on **social statistics**. The survey on income and living conditions is carried out regularly in compliance with EU standards and data sent to Eurostat. Social protection, labour market and labour cost statistics are in line with the *acquis*. Serbia carries out the labour force survey (LFS) according to the regulations and timely transmits good quality data to Eurostat, as well as provide timely and good quality LFS quality reports (annual and quarterly). The LFS data for Serbia have been disseminated regularly since 2018. The next structure of earnings survey is planned for 2019 and the SORS is exploring the possibility of using administrative sources which would further improve the harmonisation with the European statistical system. Work to produce statistics on job vacancies is only progressing slowly. Public health statistics in line with the *acquis* are not yet fully available (causes of death statistics are fully compliant, non-expenditure health care data are highly compliant; expenditure health care statistics as well as European health interview survey data are missing). Statistics on external migration and asylum are collected by the Ministry of Interior, and are only partly harmonised with the relevant EU requirements – the first phase of law harmonisation has been completed, however further harmonisation is needed. Serbia progressed in preparing the methodology and the technical specifications for the next population and housing census in 2020/2021: the management structure for the census has been established and the detailed plan of activities has been drawn up. The SORS has also intensified activities related to the 2019 pilot census project with two new data techniques to be tested.

Regarding **agricultural statistics**, Serbia is highly compliant in producing crop statistics, livestock meat statistics as well as milk and milk products statistics. Serbia has continued to submit aquaculture data to Eurostat and is fully compliant with EU requirements in fisheries statistics. Orchard survey data was sent to Eurostat in September 2018. Further efforts should be made in developing poultry statistics and continuing the development of a vineyard register.

The annual and monthly **energy statistics** are produced for all relevant energy sources: coal, electricity and gas data are regularly transmitted. **Waste and water statistics** have been collected and broadened, and data on waste treatment infrastructure are being submitted as of June 2018. Some **environmental accounts data** are produced.

6.19. Chapter 19: Social Policy and employment

Serbia is **moderately prepared** in the area of social policy and employment. **Some progress** was made in further aligning the legislation with the *acquis*, mainly in the area of working conditions. Regarding last year's Commission recommendations, budget allocations for active labour market policies slightly increased in 2018 albeit with still very limited coverage of training measures for the unemployed.

In the coming period, Serbia should in particular:

- ensure adequate financial and institutional resources for employment and social policies to more systematically target the young, women and long-term unemployed, and improve the adequacy of social benefits for people below the poverty threshold;
- significantly strengthen the bipartite and tripartite social dialogue at all levels;

→ ensure consistent implementation of the labour and social welfare legislation throughout the country.

In the field of **labour law**, the law of 2014 is only partially aligned with the *acquis*. The Law on streamlined employment for seasonal labour in specific economic activities, which aims to regularise for the first time seasonal work in agriculture, was adopted in June 2018 and entered into force in January 2019. The Law on peaceful settlement of labour disputes was amended in June 2018 to extend its coverage and strengthen the role of the related agency. Several draft laws (amending law on strike, new law on private employment agencies) have yet to be adopted. The share of undeclared work remains at around 20% and requires a more comprehensive approach, also for non-agricultural employment. Labour inspections have focused on tackling undeclared work, but the results do not have an impact yet on the level of this type of work.

In the area of **health and safety at work**, a strategy and action plan for 2018-2022 were adopted in December 2018. A number of specific pieces of secondary legislation – on minimum safety and health requirements for the workplace, requirements related to use of work equipment as well as personal protective equipment – were adopted in December 2018 and January 2019. In 2018, the number of fatal injuries stood at 53, the highest number since 2016, with the majority of fatalities occurring in the construction industry; 30% of the victims were non-registered workers.

Social dialogue remains weak, in particular regarding the involvement of social partners in policy developments relevant to them. Adjusting the legal framework and strengthening the capacity of social partners are still needed to foster the use of collective bargaining. The administrative budget of the Economic and Social Council further increased in 2018. Some progress was made in tripartite dialogue, as consultations on the Economic and Reform Programme and on the draft action plan for Chapter 19 took place within the Economic and Social Council. In the second half of 2018, the minimum hourly wage was increased by 8.6% by means of a government decision, as consensus could not be reached within the Economic and Social Council.

On **employment policy**, labour market indicators slightly improved in 2018. The employment rate for 15-64 year olds increased from 57.3% in 2017 to 58.8% in 2018. Unemployment went down from 14.1% in 2017 to 13.3% in 2018, while the activity rate increased from 66.7% in 2017 to 67.8% in 2018. Youth unemployment decreased from 31.9% in 2017 to 29.7% in 2018 but remains high. Long-term unemployed people, redundant workers, women and young people face several challenges integrating into the labour market. Access to the labour market remains particularly difficult for the Roma and persons with disabilities. Budget allocations for active labour market policies slightly increased in 2018, but they are too low to cover the number of jobseekers. Only about one fourth of registered unemployed benefit from a measure, and most measures are one-off activities such as job-search training and job fairs. The 2019 national employment action plan was adopted in late December 2018. The national employment service is participating in the experimentation of a bench learning exercise based on the experience developed by the European Network of Public Employment Services. The release of the first report on the implementation of the employment and social reform programme is still pending.

There were no developments as regards preparations for the **European Social Fund**.

In the area of **social inclusion and protection**, in 2017, 7.2% of the population was considered to be living in absolute poverty (7.3% in 2016). About half a million people in Serbia are not able to meet basic subsistence needs. As in previous years, there is more

poverty in rural areas than in urban ones (10.5% vs. 4.9%), while the regions of south and eastern Serbia are especially hit with poverty. Inequality in income distribution in Serbia is the highest among all European countries conducting surveys on income and living conditions (SILC), standing at 37.8% of Gini coefficient in 2017. The at-risk-of-poverty rate is 25.7%, implying that some 1.8 million people are in poverty. A new strategy for social protection in Serbia for 2019-2025 and amendments to the Law on social welfare are being prepared. The coverage and adequacy of cash benefits to provide for essential needs is insufficient. In addition, the quality of service needs to improve, and oversight and regulatory mechanisms, monitoring and evaluation should be strengthened. No progress was made in local-level social care services or in the de-institutionalisation process. The system of earmarked transfers introduced in 2016 by the social welfare law is still not implemented systematically and transparently. Budgetary allocations are now available annually, but with no multi-annual commitments that would allow for the continuity of service provision at local level and for an evidence-based system of priority setting and monitoring of results. Amendments to the Law on pension and disability insurance were adopted in September 2018.

In the field of **non-discrimination in employment and social policy**, the authorities still need to follow up on the recommendations of the Commissioner for the Protection of Equality on developing an anti-discrimination policy for employers in Serbia ('Equality Code of Practice').

In the area of **equal opportunities between women and men in employment and social policy**, the employment rate for men (15-64 years) is 13.6 percentage points higher and their activity rate 14.5 percentage points higher than those for women. Women's inactivity reflects unpaid work in the household, including taking care of children, sick and/or elderly people, inadequate support to women in reconciling work and family responsibilities, employers' discriminatory treatment of young women, the existing wage gap, lower statutory retirement age, as well as the existence of a statutory minimum base for social insurance contributions, which discourages formal part-time work. The highest number of employed women is found among those who are highly educated.

6.20. Chapter 20: Enterprise and industrial policy

EU enterprise and industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium size enterprises (SMEs).

Serbia is **moderately prepared** on enterprise and industrial policy. **Some progress** was made on extending support measures to SMEs. However, last year's recommendations were not implemented and remain valid.

In the coming year, Serbia should in particular:

- develop a comprehensive industrial policy based on EU principles and on using the findings of the smart specialisation exercise;
- make efforts to improve the predictability of the business environment, with the emphasis on involving business more directly in the process of regulation.

The main tool of **industrial policy** remains the strategy and policy for industrial development 2011-2020 adopted in June 2011. This horizontal and cross-sectorial strategy has been only partially implemented, focusing on restructuring and regional development rather than on competitiveness. The work on the new industrial policy is at initial stage.

Concerning **enterprise policy**, the strategy to support the development of SMEs, entrepreneurship and competitiveness 2015-2020 is being implemented and remains a

relevant policy document in this area. A mid-term evaluation of the strategy took place this year, but the findings are not yet public and discussed. The findings of this evaluation should be used in the preparation of a new strategy.

Serbia needs to increase predictability in the business and administrative environment, notably for SMEs. To this end, the country should develop performance measurements for policy-making activities and put more emphasis on implementing the ‘think small first’ principle. Adoption of the Law on fees for the use of public goods in December 2018 has to a large extent addressed the long-time issue of parafiscal charges by cataloguing all charges under one law and abolishing some minor charges. However, the law also introduced some new charges, the application of which remains unclear. The regulatory impact assessment and the SME test need to be systematically performed when formulating laws and secondary legislation. In general, businesses need to be better informed about regulatory changes and be actively invited to provide input in the process leading up to this regulation.

On **enterprise and industrial instruments**, Serbia continues to use budgetary subsidies for newly-created jobs as an incentive for foreign direct investments. The lack of specialised business-related services limits the modernisation potential in domestic enterprises. Favourable loans and guarantees for SMEs are provided by the Ministry of Economy and Development Fund through joint programmes with commercial banks, including through COSME and IPA. New financial instruments need to be developed to better respond to the needs of companies, particularly the most innovative ones. Payment discipline continues to be weak. In response, Serbia should speed up alignment of its rules on payments, indemnity interest rates, expedited recovery procedures and compensation with the EU Directive in this area.

In **sectoral policies**, the current support for investment prioritises manufacturing. The new industrial strategy should take into account the findings of the smart specialisation pilot project and decide whether some sectors merit more support than others.

6.21. Chapter 21: Trans-European networks

The EU promotes trans-European networks in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.

Serbia is **moderately prepared** for trans-European networks. **Some progress** was made on the 2018 recommendation on the gas interconnector with Bulgaria.

In the coming year, Serbia should in particular:

- revise the transport strategy in line with EU guidelines for the development of trans-European transport networks;
- strengthen administrative capacities for transposing, implementing and enforcing the Trans-European networks *acquis*;
- accelerate preparations for the construction of the gas interconnector with Bulgaria (design, technical documentation, tender documents).

On **transport networks**, Serbia remained an active participant in the Western Balkan 6 connectivity agenda, and has further progressed on implementing the connectivity reform measures. Serbia continues to align its legislation on interoperability. Full alignment with technical specifications for interoperability is still pending. Serbia must ensure that its transport network projects including the railway projects on the Belgrade-Budapest and Belgrade-Bar routes are implemented in line with the TEN-T regulatory framework. Future investments that are made in infrastructure need to fully comply with EU standards on public

procurement, State aid and environmental impact assessments. Projects should be channelled through a single project pipeline, confirming the strategic orientation towards the trans-European networks. Serbia continued to improve its infrastructure for navigation in waterways in 2018, also utilising Connecting Europe Facility funds.

The agreement on establishing the seat of the Transport Community Treaty Secretariat was adopted in February 2019. Serbia should now provide further support to ensure the conditions are in place for it to take up operations swiftly. Implementation of the railway infrastructure programme commenced. Adoption of an updated transport strategy is still pending. Construction of adequate infrastructure on the railway border-crossing between Serbia and North Macedonia should be accelerated. On road infrastructure, works to finalise the upgrading of the Orient East-Med corridor continued, albeit with set-backs. While it was formally announced in September 2018 that works would begin on the Belgrade bypass, financial closure is still pending and project documentation is still being prepared. In view of the deadlines for completing the core and comprehensive networks in the EU – 2030 and 2050 respectively – Serbia should harmonise its plans and prioritise investments in infrastructure accordingly.

On trans-European **energy networks**, administrative capacities for transposition, implementation and enforcement of the *acquis* remain insufficient and need to be improved and energy networks need to be upgraded in line with EU legislation on trans-European networks. Preparations continue to upgrade the Trans-Balkan electricity corridor, the most advanced part being section 2 between Kragujevac and Kraljevo. Some progress was made in preparing the construction of a gas interconnector between Serbia and Bulgaria regarding land expropriation, a geotechnical survey and contracting for design; however, activities need to accelerate.

6.22. Chapter 22: Regional policy and coordination of structural instruments

Regional policy is the EU's main tool for investing in sustainable and inclusive economic growth. Member States bear responsibility for its implementation, which requires adequate administrative capacity and sound financial management of projects' design and execution.

Serbia is **moderately prepared** on regional policy and coordination of structural instruments. **Some progress** has been made in implementing last year's recommendations with the adoption of the action plan for meeting the EU cohesion policy requirements.

In the coming year, Serbia should implement the pending recommendations from 2018, in particular:

- start implementing the adopted action plan in order to meet the requirements of the EU cohesion policy;
- ensure adequate capacity to implement indirect management programmes under EU pre-accession assistance and guarantee that the key positions in the structures are filled on a permanent basis.

Some preparatory work was done to introduce the **legislative framework** for EU cohesion policy into the national system, which is expected to be concluded by 2020. The transposition of key legislation under other chapters (e.g. EU law on environmental impact assessment, anti-discrimination legislation, public procurement, and State aid control) is a prerequisite for using European structural and investment funds. Multi-annual budget planning is regulated through the Law on the budget system. The credibility of the medium-term budgetary framework, which is set out in the fiscal strategy, is hampered because it does not include financial projections at the sector strategy or programme levels. National co-financing for EU

programmes is ensured at project level but a systematic approach to ensure national multi-annual co-financing of cohesion programmes needs to be developed. A comprehensive legislative framework for cohesion policy has yet to be adopted.

The **institutional framework** for the management of the EU's Instrument for Pre-accession Assistance (IPA) has been established. However, the implementation capacities need to be further tested regarding the contracting and management of IPA programmes under indirect management. The institutional framework for cohesion policy has not been decided yet.

Weaknesses in **administrative capacity** in key institutions managing EU funds still need to be addressed. A staff retention policy needs to be developed and implemented in order to reduce staff turnover and to retain experienced staff in the indirect management structures. Key positions in the indirect management structures need to be filled on a permanent basis as constant changes undermine the capacities to manage EU funds.

Capacity building activities for managing EU pre-accession funds and for introducing cohesion policy have continued. The National Academy of Public Administration became operational in March 2018. Its training courses include programmes on 'Management of EU financial assistance' and 'EU cohesion policy'. By the end of 2018, a total of 160 participants from national and sub-national level attended the EU cohesion policy programme.

Some progress has been made in **programming** with the progressive introduction of the sectoral approach under IPA. However, there is a proliferation of strategies in some sectors, which need to be consolidated, costed and properly linked to budget planning. To overcome this problem, the Law on planning system was adopted by the parliament in April 2018. The accompanying secondary legislation still needs to be developed and adopted. In view of the need to allocate resources efficiently and build sector pipelines for future structural funds management, Serbia still needs to develop a single mechanism for prioritising all investments regardless of the source of financing, in accordance with the public financial management reform programme.

On **monitoring and evaluation**, the monitoring committees under indirect management have been set up and meet regularly. The evaluation plan for indirect management of IPA funds has been adopted but implementation has not started yet. A contract for developing a management and information system for IPA is being implemented.

On **financial management, control and audit**, the national systems were further developed to comply with the requirements for indirect management of IPA funds. The capacities of the Audit Authority have been further strengthened.

6.25. Chapter 25: Science and research

The EU provides significant support to research and innovation. All Member States can benefit from the EU's research programmes, the more so where there is specific excellence and solid investment in research.

Serbia is at a **good level of preparation** in the area of science and research. **Some progress** was made as the action plan for the strategy on scientific and technological development was adopted, but last year's recommendation has not fully been addressed.

In the coming period, Serbia should in particular:

- increase the national funding for research;
- stimulate more intense cooperation between industry and academia, in line with the national research strategy.

On **research and innovation policy**, the main priorities of the European Research Area are incorporated in Serbia's strategy on scientific and technological development. Some progress in implementing the strategy was made with the adoption of the action plan in July 2018. A new funding mechanism, the Science Fund, is to be established, introducing a more competitive approach into the national system. National open science and open access initiatives are well underway.

Serbia continues to be active and successful in Horizon 2020 as well as in EUREKA, COST and the NATO science and peace for security programmes. However, the national level of investment in research remains low at 0.93 % of GDP with only one third of this amount coming from the private sector.

On measures for the **Innovation Union**, the Serbian Innovation Fund continues to be active with increased budget contributions from the Ministry of Education, Science and Technological Development. As the private sector continues increasing its investment in research, more decisive steps are needed from the public sector to support cooperation between businesses and academia. In this regard, Serbia should follow up on recommendations of the smart specialisation strategy, which is being developed with support from the European Commission, and adopt it in 2019, following the methodological framework of the Joint Research Centre for smart specialisation in the EU enlargement and neighbourhood countries.

6.26. Chapter 26: Education and culture

The EU supports cooperation in education and culture through funding programmes and the coordination of Member State policy through the open method of coordination. The EU and the Member States must also prevent discrimination and ensure quality education for children of migrant workers, including those from disadvantaged backgrounds.

Serbia is at a **good level of preparation** in the area of education and culture. Overall, **good progress** was made. Some progress was made in improving the curricula, including in early childhood education, and the establishment of the national qualifications framework (NQF) system. Very good progress was made in establishing the Erasmus+ national agency.

In the coming year, Serbia should in particular:

- increase participation in early childhood education and care, in particular of children from disadvantaged backgrounds;
- reference the NQF with the European qualifications framework and make the institutional set-up fully functional;
- use the opportunities offered by Erasmus+ as it now holds the status of Programme Country.

In the area of **education and training**, the education strategy and its action plan are being implemented, albeit with delays. Enrolment and attainment rates in pre-university education are consistently high. However, only half of the children aged 3-5 are attending formal early child care, while only 9% of the children from Roma settlements aged 3-5 are enrolled, compared to 28% of children from the richest households. The rate of early school leavers fell to 6.2% in 2017, from 7.4% in 2015, while lifelong learning remains low at 4.4%, way below the EU 2020 target of 15%. Comprehensive training of teachers should be consistently provided to complement the ongoing outcome-based curricular changes. The training should focus on developing students' key competencies.

The legislation regulating the national work-based learning model in vocational education and training (VET) was complemented and its scope increased. It should focus on setting up quality assurance and monitoring mechanisms before the end of the transition period. Some progress was made in reducing the share of secondary students in VET schools and increasing the take-up of general secondary education, by making the curricula more relevant and increasing the attractiveness of general secondary education. The structure of the NQF's legislative and institutional framework is in place. However, the capacity of the institutional set-up should be built up to make the NQF system fully functional. The current budget to operate the NQF Agency is very low, which will hamper the building up of the NQF's capacity. The system of validation of non-formal and informal learning is yet to be developed.

The institutional framework for quality assurance in higher education was reconstituted leading to the creation of the National Accreditation and Quality Assurance Entity, which is in line with one of the pillars of the Bologna-related reforms. The attainment of tertiary level qualifications for persons aged 30-34 is sluggishly increasing, reaching 31.4% in 2017, which is below the EU target of at least 40%. There is still a significant number of young, skilled people emigrating. Education is still a high risk sector for corruption, especially in higher education.

Some progress was made in increasing the participation of disadvantaged students in all levels of education. Pieces of secondary legislation were adopted to provide for more effective support to students in need of additional support in education. However, the implementation of measures to reduce drop-out rates and segregation has yet to be strengthened. The action plan on inclusive education has not been adopted.

Serbia continued to participate successfully in the Erasmus+ programme with almost 7,000 outgoing mobilities of Serbian students and staff and 4,300 incoming mobilities since 2015. In addition, 38 capacity building projects currently being implemented in the field of higher education. Serbia was awarded the status of Programme Country and is participating in Erasmus+ under the same conditions and opportunities as the EU Member States as of January 2019.

Serbia participated in 2018 PISA testing and will take part in 2019 TIMSS and 2021 PIRLS assessments. To improve monitoring of education quality, Serbia revised its external evaluation framework and conducted national testing of a set of competencies in pre-university education.

In the area of **culture**, Serbia is implementing measures under the UNESCO Convention on the protection and promotion of the diversity of cultural expression and recognised cultural industries as a sector with potentials for economic development and connectivity. The Prime Minister's Office established the Council for creative industries in March 2018, but the real impact of the Council is yet to be seen; this will only occur after the future action plan or work strategy for the Council has been developed.

Serbia is participating successfully in the Creative Europe Programme. In 2018 – the year of European cultural heritage – three cultural heritage projects in Serbia were awarded the EU prize for cultural heritage, the Creative Europe Forum was organised in Belgrade in June, while Novi Sad continued its preparations to become one of the European Capitals of Culture in 2021.

The **youth** strategy action plan 2018-2020 was adopted, following public consultations. The number of youth policy coordination mechanisms at local level has increased but they should be further strengthened. Serbia actively participated, for the first time, in organising the European Week of **Sports**.

6.27. Chapter 27: Environment and climate change

The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.

Serbia has achieved **some level of preparation** in the area of environment and climate change. **Limited progress** was made in further alignment with the *acquis* and on strategic planning.

In the coming year, Serbia should in particular:

- enhance administrative and financial capacity of the public central and local administration authorities including the Environmental Protection Agency, operationalising and adequately resourcing the Green Fund and further improving inter-institutional coordination, in particular between central and local levels;
- intensify implementation and enforcement work, such as closing non-compliant landfills, investing in waste reduction, separation and recycling, reinforcing air quality monitoring, advancing river basin management and preparing for Natura 2000;
- implement the Paris Agreement, including by adopting a comprehensive climate strategy and law, consistent with the EU 2030 framework for climate and energy policies and well integrated into all relevant sectors and develop a National Energy and Climate Plan, in line with Energy Community obligations.

Environment

In the area of **horizontal legislation**, Serbia has achieved a high level of alignment with the *acquis*. Serbia's Green Fund is still not fully operational. Secondary legislation on co-financing was passed but overall progress on environmental financing including on the level of funding is very low. Some steps were taken to strengthen administrative capacity, in particular for planning environmental infrastructure. Serbia needs more capacities to carry out qualitative public consultations, particularly at local level. Legislation on environmental impact assessments needs to be further aligned and its implementation strengthened. Strategic environmental assessments need to be done for plans and programmes from all relevant policy areas, not only environment. In September 2018, Serbia ratified the Bucharest Agreement among the countries of South-Eastern Europe on implementing the Convention on Environmental Impact Assessment in a Transboundary Context. There was no progress made on further transposing and implementing the Liability Directive. It is necessary to further strengthen the capacities of the judiciary and the environmental inspectorate and establish a track record on implementing the Environmental Crime Directive. The Law on National Spatial Data Infrastructure, transposing the INSPIRE Directive, entered into force in 2018.

In the field of **air quality**, Serbia has a good level of alignment with the *acquis*. Monitoring of air quality slightly improved with 36 stations operational but the monitoring network needs to be considerably reinforced. Serbia's annual report on air quality states that eight agglomerations have had air pollution above limits: Belgrade, Subotica, Niš, Pančevo, Užice, Valjevo, Kraljevo and Kragujevac. Air quality management plans are not in place for these cities, except for Pančevo and Belgrade. Air quality plans for Smederevo and Novi Sad were approved in 2018. Further efforts are needed to finish transposition of and to implement the EU Directive on volatile organic compound emissions. Compliance is pending with Energy Community Treaty requirements on the sulphur content of liquid fuels.

Regarding **waste management**, there is a good level of alignment with the *acquis*. Implementation is at an early stage. The national waste management strategy and municipal waste management plans need to be revised to reflect legal provisions on waste minimisation and waste separation at source, and to include quantitative targets for waste recovery and recycling. Additional economic instruments for special waste streams need to be developed. The share of recycled waste in overall waste management has remained at a low level. Increased efforts are needed to close Serbia's non-compliant landfills more quickly and invest in waste reduction, separation and recycling. No progress has been made on medical and hazardous waste. In September 2018, Serbia adopted a law on the Hong Kong International Convention for the safe and environmentally sound recycling of ships.

The level of alignment for **water quality** is moderate. Preparation of an action plan for the implementation of the water management strategy has started. Untreated sewage remains the main source of pollution. Non-compliance remains of high concern in some areas, such as with arsenic. Serbia needs to make significant efforts to further align its legislation with the *acquis*, and to strengthen administrative capacity, in particular for monitoring, enforcement and inter-institutional coordination. Work on a Serbian River Basin Management Plan is progressing slowly. Local governance should be improved, in particular through establishing clear rules on responsibilities for the operation and maintenance of water and wastewater facilities.

The level of alignment with the *acquis* in the field of **nature protection**, in particular the Habitats and Birds Directive, is moderate. In 2018, Serbia adopted the Law on ratification of the Nagoya Protocol on Access to Genetic Resources. Gaps in transposition allowing hunting of non-hunttable birds have not yet been addressed. EU standards on prohibited means of capturing and killing wild animals need to be fully incorporated in all legislation, including legislation on hunting. Work is ongoing for the identification and mapping of habitats types and species and the establishment of a national ecological network that will include Natura 2000 sites. The institutional set-up and national and local administrative capacity need to be substantially strengthened, focusing on improving enforcement. Enforcement capacities are insufficient, especially regarding wildlife trade and the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). Any further development of hydropower should be in line with EU environmental legislation including environmental impact assessments with proper public consultations, nature protection and water management legislation.

As regards **industrial pollution and risk management**, alignment with most of the *acquis* is at an early stage, including on the Industrial Emissions Directive. Persistent administrative capacity constraints hamper progress in implementation across the sector. Law enforcement on industrial pollution needs to be stepped up. Serbia needs to address the *acquis* requirement for either a fully integrated permitting process covering all areas or formal consultation between permitting authorities.

There is a high level of alignment with the *acquis* on **chemicals**. A national poison control centre and sanction regime to ensure compliance are in place. No further progress was made regarding the REACH and CLP Regulations. Alignment is still pending for legislation on animal experiments, asbestos and biocides. As of 2018, metallic mercury is prohibited for professional use. Serbia needs to boost its administrative capacity to implement the legislation in these areas, and ensure proper monitoring of persistent organic pollutants. In August 2018, Serbia submitted its national implementation plan for the implementation of the Stockholm Convention on Persistent Organic Pollutants.

Serbia has a good level of alignment with EU rules on **noise** but implementation is at an early stage. Serbia needs to build administrative capacity for drafting strategic noise maps and action plans.

Serbia is moderately prepared as regards **civil protection**. A strategic framework for civil protection is in place including an action plan on disaster risk management for 2017-2020. In 2018, Serbia adopted a new Law on disaster risk reduction and emergency management. Both the strategic framework and the law are in line with the Sendai framework for disaster risk reduction. Public awareness activities are ongoing. As an active member of the EU Civil Protection Mechanism Serbia needs to further strengthen internal coordination and its capacity for disaster prevention, disaster risk reduction and disaster risk management including flood risk management at national and local level. In 2018, five local emergency protection and rescue plans were approved. In order to access the Common Emergency Communication and Information System, Serbia needs to establish relevant Secure Trans European Services for Telematics between Administrations (sTESTA) connections. Serbia needs to ensure that the Niš Humanitarian Centre does not duplicate the role of the Emergency Response Coordination Centre of the European Commission and does not contradict the conditions for its participation in the Union Civil Protection Mechanism.

Climate change

Serbia has achieved some level of preparation but implementation is at a **very early stage**. A national cross-sectoral strategy on climate change, consistent with the EU 2030 framework for climate and energy policies and addressing adaptation to climate change, is still pending adoption. The National Climate Change Committee should do more to integrate climate action into other sectors.

Public consultations on the draft Law on climate change took place in spring 2018 but adoption is still pending. Legislative alignment during the reporting period included a ban on imports of equipment containing or relying on HCFC gas and rulebooks on fuel quality. Work on improving greenhouse gas inventories continued. Serbia needs to strengthen its administrative and technical capability to fully align with climate *acquis* monitoring and reporting. Legislation on greenhouse gas emissions monitoring, reporting and verification in line with the EU emissions trading system and Effort Sharing Regulation was finalised in 2017 but is not yet adopted. Increasing investments in clean energy and considerable strengthening of administrative capacity is needed, together with awareness-raising activities.

6.28. Chapter 28: Consumer and health protection

EU rules protect consumers' economic interests and in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, patients' rights in cross-border healthcare, and serious cross-border health threats including communicable diseases, as well as medicines for human and veterinary use.

Serbia is **moderately prepared** in consumer and health protection. **Some progress** was made including with the adoption of the Law on the transplantation of cells and tissues and the Law on human organ transplantation. However, the recommendations of the previous report have not been met.

In the coming year, Serbia should in particular:

→ strengthen the administrative capacity of relevant authorities for consumer protection, market surveillance and sanitary inspection;

→ strengthen the overall managerial capacity, human resources and financial sustainability of the public health insurance fund.

With regard to general aspects of **consumer protection**, a law on the protection of financial services users by distance contracting was adopted, designed to align Serbian legislation with the EU *acquis*. The National Council for Consumer Protection has delivered no visible output. There were 31 cases conducted by the line ministry in 2018, based on consumer complaints while the alternative dispute resolution bodies in charge of alternative consumer disputes initiated seven proceedings out of 19 filed complaints but concluded none. There is no available data on the number of complaints filed by consumers which were resolved in court.

Better cooperation mechanisms between the line ministries and consumer organisations need to be established. Similarly, cooperation among consumer protection organisations remains fragmented and requires improvement. The authorities' administrative capacity for consumer protection and the inspection services in charge of consumer protection, product safety and non-safety related issues need further strengthening. The institutional setting and protection of consumer protection rights and interests at the local level require improvement. Unfair commercial practices and contract terms need to be addressed, and vulnerable consumers need to be protected.

Serbia's legislation on general **product safety** is partly aligned with the EU *acquis*. The law on safety items of general use is partly aligned with EU *acquis* on cosmetics. Regarding market surveillance, sanitary inspection's administrative capacities need to be strengthened. Coordination amongst the relevant Product Safety Council stakeholders has improved.

On **non-safety-related issues**, secondary legislation for the law on medical devices was adopted and is designed to be fully aligned with the EU *acquis*. However, there has been no progress on alignment with the *acquis* regarding cooperation between national authorities responsible for enforcing consumer protection laws, multiannual consumer programmes, regulations on package travel, online resolutions of consumer disputes, and alternative resolution of consumer disputes.

In the area of **public health**, legislation on healthcare is partly aligned with the EU *acquis*. The sustainability of the public health fund still needs to be ensured. The national plan for human resources in the health sector has still not been implemented, with an increased number of physicians leaving the country. The EU-funded centralised electronic health record system is still not used and compliance with EU health indicators is not yet ensured.

A new strategy on **tobacco** control was not adopted, and the placing of pictorial warnings and increases in the price of cigarettes have yet to occur. There was a small increase in the percentage of smokers among women and teenagers in the reporting period. Tobacco control legislation is partly aligned with EU *acquis*, but the use of tobacco in public places is not aligned with EU standards.

On **blood, tissues, cells and organs**, laws on the transplantation of cells and tissues, and on human organ transplantation were adopted, both designed to be fully aligned with the EU *acquis*. The implementation of these laws are expected to start in August 2019. EU-level quality, safety standards and inspection services have yet to be developed. The overall administrative and technical capacity of the Directorate for Biomedicine to perform oversight of the sector as the competent authority is still very limited.

On **serious cross-border health threats including communicable diseases**, surveillance and response capacity remains limited and requires modernisation. A centralised health information and communication system has yet to be implemented.

Harmonising Serbian legislation with the Directive on the application of patients' rights in **cross-border healthcare** has yet to be completed. An **e-Health** Unit at the Ministry of Health should be established to coordinate the complex activities involved in setting up a comprehensive health information system at all levels of care.

Regarding **communicable diseases**, attention needs to be given to effective, sustainable financing of disease-specific strategies, including the national HIV/AIDS strategy, and awareness-raising – particularly on the importance of child vaccination. Additional work is needed on surveillance of anti-microbial resistance, quality control, and standardisation of laboratories. The prescription of antibiotics needs to be strictly controlled to strengthen the fight against anti-microbial resistance.

Health promotion regarding **non-communicable diseases** is still not advanced. Cancer screening for colorectal, breast and cervical cancers is slowly progressing but in many regions of the country is still only sporadic and is not performed in a systematic manner. The cancer register is maintained by the National Institute for Radiology and Oncology.

There is still a need to develop community-based **mental health** services and progress needs to be made regarding **nutrition and physical activity**.

There were no developments on **medicines for human and veterinary use**, or on maximum sale price criteria for medicines. On **cosmetics** there was no progress made in the reporting period. There was also no progress made on **drug abuse prevention**. Regarding the prevention of harmful use of alcohol, a national programme to reduce the harmful effects of alcohol and alcohol-induced disorders has been adopted.

On **health inequalities**, access to healthcare services needs to be improved for people with disabilities, people living with HIV, children and adults who use drugs, prisoners, women in prostitution, LGBTI people, internally displaced persons and the Roma.

Serbian legislation on pricing of **medicinal products** has yet to be aligned to the EU *acquis*.

6.29. Chapter 29: Customs union

All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.

Serbia is at a **good level of preparation** in the area of customs union. **Some progress was made with the adoption of the customs law and the law on customs services.**

In the coming year, Serbia should in particular:

- further upgrade the customs processing system by integrating risk management;
- further invest into the IT system of the national customs to enable integration with the EU system.

As regards **customs legislation**, there is a high level of alignment with the *acquis*. A new customs law was adopted in December 2018 to ensure further alignment with the EU Customs Code. A new law on customs service was also adopted in December 2018, aiming to modernise the work of the Serbian customs administration.

Serbia is a party to the Common Transit Convention, applying EU rules on transit movements. Rules on customs enforcement of intellectual property rights are broadly in line with the EU *acquis*. The Regional Convention on Pan-Euro-Mediterranean preferential rules of origin is applied in Serbia. The customs tariff nomenclature was aligned with the 2018 EU Combined Nomenclature in November 2017 and was amended twice in February and July

2018. The customs tariff nomenclature for 2019 was aligned with the EU Combined Nomenclature in November 2018.

However, legislation on duty relief, drug precursors, cultural goods, free zones, and security aspects still needs to be aligned with the *acquis*. Moreover, fees charged on lorries entering customs terminals to discharge customs obligations are not in line with the *acquis*.

The customs administration continued to strengthen its **administrative and operational capacity**. Customs duty collection continued to increase by 10% in the first 9 months of 2018.

The customs administration's IT strategy needs to be updated in line with the new business strategy and the accompanying action plan for 2017-2020. Strategic and modern management techniques, including quality assurance and change management, are lacking. Work on setting up a functional, interconnected IT system progressed, but the IT division continues to lose qualified staff. A system for retaining qualified IT engineers should be established. Significant effort and investment are needed to ensure interconnectivity and interoperability with EU IT systems. This investment needs to be appropriately budgeted over the coming years.

The risk management system needs to be strengthened. Pre-arrival/pre-departure risk analysis should be conducted consistently and across the board and harmonised with the EU Customs Code. Work on strengthening the capacity of the customs laboratory is underway, but the laboratory remains under-equipped.

In terms of fight against tobacco smuggling, Serbia is a party to the Protocol to Eliminate Illicit Trade in Tobacco Products since 2017.

6.30. Chapter 30: External relations

The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.

Serbia is **moderately prepared** in the area of external relations. **Some progress** was made during the reporting period, but the capacity to pursue key challenges in trade policy needs to be strengthened further. Serbia ratified the Central European Free Trade Agreement (CEFTA) Additional Protocol 5 on trade facilitation.

In the coming year, Serbia should in particular:

- complete its World Trade Organisation (WTO) accession by adopting an amended law on genetically modified organisms and complete remaining bilateral market access negotiations;
- strengthen administrative capacity in the Ministry of Trade, Tourism and Telecommunications for dealing with trade with the EU, CEFTA and WTO accession;
- implement actions under the multiannual action plan to develop a Regional Economic Area, in particular implement CEFTA Protocol 5 on Trade Facilitation, adopt and implement the pending CEFTA Protocol 6 on Trade in Services and negotiate and ensure a swift adoption of CEFTA Protocol 7 on Dispute Settlement.

On the **common commercial policy**, no progress was made on Serbia's accession to the WTO. The possibility of Serbia becoming a member of the WTO depends on the adoption of a modified law on genetically modified organisms, and on the completion of market access negotiations with a small number of WTO members.

In May 2018, Serbia removed export restrictions on non-hazardous waste introduced in 2017, which were not in line with the Stabilisation and Association Agreement (SAA). Serbia should refrain from applying such measures unless fully justified.

Administrative and operational capacity has improved with the government's coordination body for trade facilitation that has become operational with four expert working groups. Their respective action plans have generated first results in addressing certain non-tariff barriers with the countries of the region. Overall, the administrative capacity of units in the Ministry of trade, tourism and telecommunications in charge of trade with the EU, CEFTA and WTO accession still remains to be strengthened. The capacity of the administration to collect market statistics also remains to be strengthened through the work of the coordination body.

In March 2018, Serbia aligned its national control list of **dual-use goods** with the 2017 EU regime on exports, transfer, brokering and transit of these items. Serbia also aligned its national control list of arms and military equipment with the Common Military List in May 2018. Serbia's 2009 application to join the Wassenaar Arrangement is still ongoing.

Concerning implementation of the Regional Economic Area (REA) multiannual action plan, Serbia ratified the Additional Protocol 5 on Trade Facilitation to the CEFTA Agreement in September 2018. Serbia appointed its team for negotiations of Additional Protocol 7 on Dispute Settlement. However, the adoption of Additional Protocol 6 on Trade in Service is delayed due to political disputes in the region. It is important that Serbia plays a constructive role within CEFTA to allow for the timely and smooth implementation of the REA Multiannual Action Plan.

With regard to **bilateral agreements with third countries**, Serbia ratified a new bilateral investment treaty with Turkey in September 2018. In March 2019, Serbia announced the completion of its Free Trade Agreement (FTA) negotiations with the Eurasian Economic Union. The text of the FTA will need to comply with Serbia's obligations under the Stabilisation and Association Agreement and will have to include an exit clause, which guarantees that Serbia can denounce the agreement by the date of its accession to the EU. Serbia is also negotiating a free trade agreement with Ukraine. Serbia needs to ensure compatibility of all its agreements on trade, investment and economic cooperation and other relevant agreements with the EU *acquis*.

No progress has been made on **development policy** and **humanitarian aid**. Serbia has still not established a policy or legal frameworks in this area, and development assistance and humanitarian aid is granted on an *ad hoc* basis. Serbia participates in the EU Civil Protection Mechanism.

6.31. Chapter 31: Foreign, security and defence policy

Member States must be able to conduct political dialogue under the foreign, security and defence policy, to align with the EU statements, to take part in the EU actions and to apply agreed sanctions and restrictive measures.

Serbia is **moderately prepared**. **Some progress** was made as the government submitted drafts of new security and defence strategies for consultation and continued preparations to allow participation of civilians in international missions and operations.

In the coming year, Serbia should in particular:

→ improve alignment with EU declarations and Council decisions on common foreign and security policy;

- complete the review of its national security and defence strategies fully reflecting Serbia's EU orientation in these areas;
- continue to apply its law adopting international sanctions, including EU restrictive measures, and monitor its implementation.

The political dialogue between the EU and Serbia on foreign and security policy issues was further strengthened, and the second common foreign and security policy (CFSP)/common security and defence policy (CSDP) informal political dialogue was held in Brussels in October 2018. Drafts of new national security and defence strategies were prepared by the government and submitted for consultation. In adopting and implementing these strategies, Serbia should move towards a policy based on the EU's guiding principles for international action, in line with Serbia's strategic goal of EU membership. Furthermore, a political dialogue between the EU and Serbia on UN issues took place in October 2018.

(See Political criteria — Regional issues and international obligations - for more information on developments in bilateral relations with other enlargement countries and EU Member States.)

The institutional framework enabling Serbia's participation in the CFSP and CSDP is in place.

On the **common foreign and security policy (CFSP)**, Serbia continues endorsing the global strategy for the European Union's foreign and security policy. During the reporting period from beginning of March 2018 until end of February 2019, Serbia aligned, when invited, with 46 out of 87 relevant High Representative declarations on behalf of the EU and Council decisions, representing an alignment rate of around 53%. Serbia continued not to align with the EU restrictive measures related, *inter alia*, to Russia and Venezuela. An inter-ministerial working group is in charge of monitoring the imposition and implementation of restrictive measures, and the Ministry of Foreign Affairs is managing the database of restrictive measures, in line with the Serbian law on the implementation of international sanctions. Serbia continued to declare support for the territorial integrity and sovereignty of Ukraine.

Serbia does not have **bilateral immunity agreements** granting exemption from the jurisdiction of the **International Criminal Court** and complies with the EU common positions on the integrity of the Rome Statute together with the related EU's guiding principles on bilateral immunity agreements.

Serbia continued to develop intense relations and strategic partnerships with a number of countries worldwide. Frequent high-level contacts and regular bilateral visits with Russia were maintained, together with military technical cooperation, including joint military drills, sustained relations with the Collective Security Treaty Organisation and arms trade arrangements. The President of Serbia visited Moscow twice in May and October 2018. President Vladimir Putin visited Belgrade on 17 January 2019. Serbia maintained good relations with the US. Serbia also participated in around 20 military joint drills with the US and NATO in 2018. Serbia continued to further strengthen its political and economic relations with China. The Serbian President visited China in September 2018.

Serbia supported EU measures and documents on conflict prevention.

Serbia continued to participate in some, but not all, international export control arrangements and instruments on non-proliferation. Serbia complied with the Chemical Weapons Convention and had the legislation and administrative structures in place. A small arms and light weapons national registration system and database, together with a stockpiling system, are in place and are being upgraded. The new strategy (2018-2023) and action plan are being

prepared. The process for collecting and destroying illegally possessed weapons and ammunition continued. In July 2018, Serbia ratified the Protocol for the Safeguards Agreement with the International Atomic Energy Agency (application of safeguards in connection with the Treaty on the Non-proliferation of Nuclear Weapons). Serbia's 2009 application to join the Wassenaar Arrangement is still pending.

Serbia continued to engage actively with international organisations. Serbia maintained its policy of military neutrality but cooperation and intense contacts with NATO continued. In October 2018, Serbia hosted a consequence management field exercise, jointly organised by the Euro-Atlantic Disaster Response Coordination Centre and the Serbian Ministry of Interior.

Serbia continued implementing its agreement with the EU on **security procedures** for exchanging and protecting classified information.

Serbia continued to actively participate in **military crisis management missions** under the **common security and defence policy** (CSDP), notably the EU training missions in Mali, Central African Republic and Somalia, and EU NAVFOR Atalanta. Serbia is preparing the national framework for participating in civilian missions under the CSDP. This includes launching training curricula in order to provide for regular training for civilian participants in the EU-led missions. Serbia continued to participate in the roster of the EU Battle Groups. Serbia also participated in UN peacekeeping missions.

6.32. Chapter 32: Financial control

The EU promotes the reform of national governance systems to enhance managerial accountability, sound financial management of income and expenditure and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.

Serbia is **moderately prepared** in this chapter. Some **progress** was made in the area of public internal financial control and external audit. Further efforts are needed to address managerial accountability and to strengthen the functioning of internal control and internal audit. The timely implementation of external audit recommendations needs to be improved. High-level political support will remain instrumental for implementation of public internal financial control reforms at all levels of the administration and in state-owned companies. The Commission's recommendations from 2018 were not implemented and therefore remain largely valid.

In the coming period, Serbia should in particular:

- implement at least three pilot projects on managerial accountability in key institutions including the Ministry of Finance and the Ministry of Public Administration and Local Self-Government;
- start to implement quality reviews on internal control;
- take necessary measures to ensure that the system for detecting irregularities works in practice, both for the EU funds and for the national budget.

Public internal financial control (PIFC)

A **strategic framework** for PIFC is partially in place. Although a PIFC policy paper has been adopted, a more comprehensive policy approach will need to be developed to improve and further guide the implementation of PIFC. The public administration reform action plan addresses a number of enabling conditions for PIFC implementation. The public financial management reform programme and the 2017-2020 PIFC strategy address mainly the development of financial management and control, internal audit and the role of the Central

Harmonisation Unit (CHU). A working group within the Public Administration Reform Council, was formed in December 2018 and aims to coordinate and monitor implementation of the PIFC policy paper. However, this working group has not yet met and a mechanism for effective coordination, monitoring and reporting of reforms in the public administration, public financial management and PIFC is yet to become operational (*see under Public administration reform*).

Serbia has developed guidelines to improve the understanding and implementation of **managerial accountability**. However, further efforts are needed to fully embed this concept into the administrative culture of the public sector. The culture within public institutions is centralised with little delegation of budget authority or decision-making powers to middle management. Managerial accountability is further limited by a primary focus on compliance, rather than on performance. The Law on state administration, Law on civil servants, Law on planning system and the budget system law need to be assessed and if necessary, amended, to ensure that they provide a coherent basis for the implementation of delegated managerial accountability. There are continued weaknesses in accountability lines between (semi) independent bodies and their natural parent institutions (*see under Public administration reform*).

While the legal framework for **internal control** is broadly in line with international standards, its functioning remains generally weak. The financial management and control manual has been updated. Risk management needs to be further developed and better accepted in the administrative culture of the public sector. Detailed guidelines for the detection and acting on information about irregularities still have to be developed. The Ministry of Finance has a centralised budget inspection function.

Internal audit practice is regulated in line with international standards. However, not all institutions that are required to establish an internal audit unit have done so and many internal audit units are not yet sufficiently staffed. Most central institutions carry out audits according to strategic and annual audit plans. The timely implementation of internal audit recommendations needs to be improved.

The CHU has continued shifting its focus from the provision of PIFC training to the development and dissemination of methodological guidance. It has continued to conduct internal audit quality reviews and should start to implement internal control quality reviews in order to improve guidance and annual reporting. The CHU prepares an annual report on the state of PIFC implementation and contains recommendations regarding systemic weaknesses. The CHU follows up on the state of implementation of these conclusions and reports on this in the subsequent annual report.

External audit

Serbia's **constitutional and legal framework** provides for independence of the State Audit Institution (SAI) in line with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI). The SAI's financial independence was adversely affected in 2018 due to delayed adoption of its full operating budget. However, no problems were reported with the 2019 budget approval.

The parliament appointed a new Auditor General in April 2018. The number of staff employed by the SAI has remained constant, however its **institutional capacity** to carry out its core audit tasks is adversely affected by its continued focus on the detection of errors and filing of misdemeanour, economic offence and criminal charges against individuals. The appropriateness of this requirement of the SAI law should be reviewed in the medium term.

The adequacy of the current SAI operating premises should also be reviewed. The SAI has adopted a new strategic development plan for the period 2019-2023.

Regarding the **quality of audit work**, the SAI has a dedicated sector for audit methodology and quality control. The SAI has carried out two performance audits in 2019 and six are planned for 2019.

The SAI has continued to increase the **impact of its audit work** by improving cooperation with stakeholders and by increasing its communication with the media. The SAI follows up on the implementation of its audit recommendations. Whilst the SAI annual audit report is discussed in the relevant parliamentary committee, increased parliamentary scrutiny and follow-up still needs to be ensured.

Protection of the EU's financial interests

While Serbia already has a high degree of **acquis alignment**, full harmonisation with EU Directive on the fight against fraud to the Union's financial interests by means of criminal law still needs to be ensured. Serbia is implementing the 2017-2020 national anti-fraud strategy to protect the EU's financial interests. The **anti-fraud coordination service** (AFCOS) in the Ministry of Finance has six staff, even though the planned number of staff is nine. Since 2018, AFCOS has been conducting administrative checks. It also coordinates the AFCOS network, which has five additional institutions since October 2018. Serbia **cooperates with the European Commission** during investigations and it reports to the Commission on irregularities and suspected fraud cases. Since 2012, Serbia has reported 27 cases via an online Irregularity Management System, including five cases in 2018. Serbia needs to further develop a solid track record on investigations and reporting on irregularities.

Protection of the euro against counterfeiting

Serbia has achieved a high degree of **acquis alignment**. The **technical analysis** is performed by the National Bank. It has started to provide specialised training programmes for licensed entities so that they can authenticate euro coins and process euro denominated banknotes from 1 January 2020 onwards. The National Bank has formal cooperation agreements with the European Commission on coins and with the European Central Bank on banknotes. Cooperation with neighbouring countries is ongoing. Serbia continues to take part in the Pericles 2020 programme.

6.33. Chapter 33: Financial and budgetary provisions

This chapter covers the rules governing the funding of the EU budget ('own resources'). These resources mainly consist of: (i) contributions based on the gross national income of each Member State; (ii) customs duties; and (iii) a resource based on value-added tax. Member States must have the appropriate administrative capacity to adequately coordinate and ensure the correct calculation, collection, payment and control of own resources.

Serbia has **some level of preparation** concerning the specific administrative conditions for own resources, as laid down in the own resources regulations. Serbia completed the own resources questionnaire and the group for the coordination and management of the EU's own resources is operational. **Some progress** was made in the underlying policy areas affecting the correct functioning of the own resources system.

In the coming year, Serbia should, in particular:

- take further steps to boost the administrative capacity of the coordination group and the various institutions involved in the own resources system;
- develop the organisational and procedural links between these institutions;

→ step up preparations to meet the specific administrative conditions for own resources, as laid down in the own resources regulations.

There was some progress in the underlying policy areas indirectly affecting the own resources system (*for progress in these areas, see Chapters 16 – Taxation, 18 – Statistics, 29 – Customs union, and 32 – Financial control*). After formally establishing the coordinating structure, there was some progress towards meeting the specific administrative conditions for own resources.

Regarding **traditional own resources** (TOR, mainly customs duties), a new customs law was adopted in December 2018 in line with the EU Customs Code. Serbia has procedures in place to ensure that cases of fraud and irregularities are reported to the Serbian national authorities and a TOR accounting simulation for the last quarter of 2018 took place. As regards **value added tax (VAT)-based resource**, sufficient data sources are available for the calculation of the Weighted Average Rate, deriving from the Supply and Use Tables that will be published for the first time in 2019. As regards **gross national income-based resource**, Serbia made further efforts to ensure compliance with the European System of Accounts (ESA 2010) and to improve the exhaustiveness of the national accounts and the gross national income calculations. GNI estimates include those of the informal economy. Serbia already allocates financial intermediation services indirectly measured (FISIM) to the user sectors in line with ESA 2010 rules and the Statistical Office continuously improves its methods and data sources. However, the results of tax audits and the VAT fraud are not yet used to improve the exhaustiveness of the national accounts.

Regarding **administrative infrastructure**, the capacity of the institutions in charge in the relevant policy areas needs to be further strengthened. The group for the coordination and management of own resources of the EU tasked with ensuring correct calculation, accounting, forecasting, collection, payment, control and reporting on implementation of the EU's own resources policy and rules needs to be better staffed and supported to fulfil its coordination tasks.

ANNEX I – RELATIONS BETWEEN THE EU AND SERBIA

Within the framework of the **accession negotiations**, sixteen chapters have been opened (5 – public procurement; 6 – company law; 7 – intellectual property law; 13 – fisheries; 17 – economic and monetary policy; 18 – statistics; 20 – enterprise and industrial policy; 23 – judiciary and fundamental rights; 24 – justice, freedom, security; 25 – science and research; 26 – education and culture; 29 – customs union; 30 – external relations; 32 – financial control; 33 – financial and budgetary provisions; 35 – normalisation of relations between Serbia and Kosovo), two of which have been provisionally closed (chapters 25 and 26). Serbia tabled its negotiating positions on chapters 2, 4, 9, and 21. Serbia was also invited to table its negotiating positions on chapters 3, 10, 14, 27 and 28.

Serbia is participating in the **Stabilisation and Association Process**. Serbia continued to build a track record in implementing the obligations of the Stabilisation and Association Agreement (SAA). Some restrictions to free movement of capital were lifted in 2018 (on the possibility to grant loans to non-resident borrowers). In 2018, Serbia also removed the export ban on non-hazardous waste and free trade was restored. Compliance issues remain in the area of state aid and fiscal discrimination on alcohol. Restrictions on the acquisition of real estate also remain. In June 2018, Serbia introduced new restricting rules – regarding the issuance of payment cards by banks – that are not in line with the EU *acquis* and the SAA. Finally, as regards public procurement, inter-governmental agreements concluded with third countries and their implementation should follow the EU principles of equal treatment, transparency, non-discrimination and competition. This has also the effect of preventing EU companies from participating in large-scale infrastructure projects implemented in the country.

Regular political and economic dialogue between the EU and Serbia continued. The Stabilisation and Association Council meeting took place in December 2018. Sub-committee meetings were held, together with a meeting of a special group on public administration reform. The Stabilisation and Association Parliamentary Committee met in June and October 2018, and March 2019. Serbia continues to participate in the multilateral economic dialogue with the Commission and EU Member States to prepare for participation in multilateral surveillance and EU economic policy coordination. As part of the new approach to economic governance, Serbia adopted its fifth economic reform programme and is implementing reforms recommended by the Economic and Financial Affairs Council. Further efforts are needed to improve the capacity for economic planning, inter-ministerial coordination and implementation.

Visa-free travel for citizens of Serbia travelling to the Schengen area has been in force since December 2009. A **readmission** agreement between the European Union and Serbia has been in force since 2008. As part of the visa suspension mechanism report, the Commission is monitoring and reporting on the continuous fulfilment of the visa liberalisation benchmarks. The mechanism enables the EU, under certain conditions, to temporarily suspend visa-free travel for nationals of a certain country in case of a substantial increase of migratory or security risk as well as in case of non-fulfilment of visa liberalisation benchmarks. The second monitoring report under the suspension mechanism was adopted on 19 December 2018.

Under IPA II, Serbia continues to benefit from **pre-accession assistance** with a total indicative allocation of EUR1.5 billion for the period 2014-2020. The revised indicative strategy paper was adopted in August 2018, enhancing the response to new challenges such as migration, terrorism and violent extremism, climate change and economic governance. The IPA National Programme 2018 amounts to EUR 179 million overall, with most of the funding supporting alignment with the EU *acquis*, environment, competitiveness and social inclusion. An additional EUR 30 million have been allocated to the IPA Rural Development programme

(IPARD). The EU has continued to support Serbia in border and migration management following the refugee crisis of 2015-2016. In addition, Serbia is benefiting from the European Instrument for Democracy and Human Rights (EIDHR).

Serbia continues to actively participate in EU programmes, including Horizon 2020; COSME; Customs and Fiscalis 2020; Erasmus+ and Creative Europe; Europe for Citizens; Employment and Social Innovation.

ANNEX II– STATISTICAL ANNEX

STATISTICAL DATA (as of 03.05.2019)

Serbia

Basic data	Note	2006	2013	2014	2015	2016	2017
Population (thousand)		7 425.5	7 181.5b	7 146.8	7 114.4	7 076.4	7 040.3
Total area of the country (km ²)		77 474	77 474	77 474	77 474	77 474s	77 474s

National accounts	Note	2006	2013	2014	2015	2016	2017
Gross domestic product (GDP) (million national currency)		2 181 035	4 121 200	4 160 549	4 312 038	4 521 265	4 754 368
Gross domestic product (GDP) (million euro)		25 931	36 427	35 468	35 716	36 723	39 183
GDP (euro per capita)		3 500	5 100	5 000	5 000	5 200	5 600p
GDP per capita (in purchasing power standards (PPS))		8 400	10 700	10 800	11 200	11 400	11 600
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)		34	40	39	39	39	39
Real GDP growth rate: change on previous year of GDP volume (%)		5.1	2.9	-1.6	1.8	3.3	2.0
Employment growth (national accounts data), relative to the previous year (%)		:	:	:	:	:	:
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)		:	:	:	:	:	:
Unit labour cost growth, relative to the previous year (%)		:	:	:	:	:	:
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)		:	:	:	:	:	:
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)		:	:	:	:	:	:

Gross value added by main sectors							
Agriculture, forestry and fisheries (%)		8.2	8.8	8.4	8.0	8.2	7.3
Industry (%)		29.6	28.2	26.2	26.4	26.3	26.5
Construction (%)		4.9	3.6	3.8	4.5	4.7	5.0
Services (%)		57.3	59.4	61.6	61.1	60.8	61.2
Final consumption expenditure, as a share of GDP (%)		96.3	90.8	91.6	88.4	86.9	87.0
Gross fixed capital formation, as a share of GDP (%)		21.2	16.5	15.9	16.8	16.9	17.7
Changes in inventories, as a share of GDP (%)		0.5	0.9	0.6	1.8	1.0	1.8
Exports of goods and services, relative to GDP (%)		29.4	39.9	42.1	45.3	48.6	50.5
Imports of goods and services, relative to GDP (%)		47.5	48.1	50.2	52.3	53.4	57.1
Gross fixed capital formation by the general government sector, as a percentage of GDP (%)		:	:	:	:	:	:

Business	Note	2006	2013	2014	2015	2016	2017
Industrial production volume index (2010 = 100)		107.3	105.8	98.8	107.1	111.7	115.8
Number of active enterprises (number)		:	:	:	:	:	:
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)	1)	14.8	:	:	:	:	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)	1)	10.7	:	:	:	:	:
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)		:	:	:	:	:	:
Value added by SMEs (in the non-financial business economy) (EUR million)		:	:	:	:	:	:

Total value added (in the non-financial business economy) (EUR million)		:	:	:	:	:	:
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Inflation rate and house prices	Note	2006	2013	2014	2015	2016	2017
Harmonised consumer price index (HICP), change relative to the previous year (%)		:	7.7	2.3	1.5	1.3	3.3
**Annual change in the deflated house price index (2010 = 100)		:	:	:	:	:	:

Balance of payments	Note	2006	2013	2014	2015	2016	2017
Balance of payments: current account total (million euro)	2)	-2 355	-2 098	-1 985	-1 234	-1 075	-2 051
Balance of payments current account: trade balance (million euro)	2)	-4 981	-4 159	-4 111	-3 645	-3 119	-3 997
Balance of payments current account: net services (million euro)	2)	-41	313	465	729	907	966
Balance of payments current account: net balance for primary income (million euro)		:	-1 419	-1 343	-1 658	-2 022	-2 533
Balance of payments current account: net balance for secondary income (million euro)		:	3 166	3 003	3 340	3 159	3 514
Net balance for primary and secondary income: of which government transfers (million euro)	3)	:	43	89	152	79	141
**3 year backward moving average of the current account balance relative to GDP (%)		:	-9.0	-7.4	-4.9	-4.0	-3.9
**Five year change in share of world exports of goods and services (%)	2)	86.3	10.3	13.6	22.8	33.7	47.7
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)		:	1 298.1	1 236.3	1 803.8	1 899.2	2 418.1
Foreign direct investment (FDI) abroad (million euro)		:	249.7	264.2	310.4	227.8	130.0

of which FDI of the reporting economy in the EU-28 countries (million euro)	:	70.7	35.4	49.7	106.0	63.0
Foreign direct investment (FDI) in the reporting economy (million euro)	:	1 547.9	1 500.4	2 114.2	2 126.9	2 548.1
of which FDI of the EU-28 countries in the reporting economy (million euro)	:	1 145.0	1 109.3	1 530.1	1 410.4	1 819.7
**Net international investment position, relative to GDP (%)	:	-84.1	-91.6	-94.9	-94.5	-91.0
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	:	9.9	-5.4	12.8	-4.0	8.6

Public finance

	Note	2006	2013	2014	2015	2016	2017
***General government deficit / surplus, relative to GDP (%)		-1.4	-5.1	-6.2	-3.5	-1.2	1.1
***General government gross debt relative to GDP (%)		38.3	57.5	67.5	71.2	68.8	58.7
Total government revenues, as a percentage of GDP (%)		41.6	37.3	39.0	39.3	40.8	41.5
Total government expenditure, as a percentage of GDP (%)		43.0	42.5	45.2	42.8	41.9	40.4

Financial indicators

	Note	2006	2013	2014	2015	2016	2017
Gross external debt of the whole economy, relative to GDP (%)		55.1	70.4	72.4	73.5	72.1	65.3
Gross external debt of the whole economy, relative to total exports (%)		205.7	184.0	177.7	166.8	152.4	132.5
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	4)	2 533	3 387	3 562	4 148	4 923	5 653
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	5)	3 531	4 776	5 075	5 776	6 546	7 360
Money supply: M3 (M2 plus marketable instruments, million euro)	6)	8 031	14 976	15 280	16 193	17 794	19 206
Total credit by monetary financial institutions to residents (consolidated) (million euro)		8 153	19 261	19 708	20 719	21 632	22 806p
**Annual change in financial sector liabilities (%)	7)	:	1.7p	0.5p	2.8p	6.3p	2.9p

**Private credit flow, consolidated, relative to GDP (%)		:	:	:	:	:	:
**Private debt, consolidated, relative to GDP (%)		:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		11.54	7.04	9.45	2.61	3.04	2.27
Lending interest rate (one year), per annum (%)		17.00	12.00	10.50	6.50	5.50	5.00
Deposit interest rate (one year), per annum (%)		11.00	7.00	5.50	2.50	2.50	2.00
Euro exchange rates: average of period (1 euro = ... national currency)	8)	84.110	113.137	117.306	120.733	123.118	121.337
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)		:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		9 020	11 189	9 907	10 378	10 205	9 962

External trade in goods

	Note	2006	2013	2014	2015	2016	2017
Value of imports: all goods, all partners (million euro)		10 463	13 345	13 512	14 425	15 225	17 559
Value of exports: all goods, all partners (million euro)		4 992	10 413	10 562	11 447	12 742	14 365
Trade balance: all goods, all partners (million euro)		-5 471	-2 933	-2 950	-2 978	-2 483	-3 194
Terms of trade (export price index / import price index * 100) (number)		99	106	106	108	111	108
Share of exports to EU-28 countries in value of total exports (%)		62.1	63.8	65.7	67.0	67.6	67.6
Share of imports from EU-28 countries in value of total imports (%)		57.2	55.7	57.1	57.3	58.7	58.9

Demography

	Note	2006	2013	2014	2015	2016	2017
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		-4.3	-4.8b	-4.9	-5.4	-5.1	-5.5
Infant mortality rate deaths of children under one year of age (per thousand live births)		7.4	6.3	5.7	5.3	5.4	4.7

Life expectancy at birth: male (years)		70.8	72.6b	72.8	72.8	73.2	73.1
Life expectancy at birth: female (years)		76.1	77.9b	78.0	77.9	78.3	78.1

Labour market	Note	2006	2013	2014	2015	2016	2017
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)	9)	67.9	66.1b	68.0b	68.1	70.0	71.2
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)	9)	54.0	51.3b	54.8b	56.0	59.1	61.5
Male employment rate for persons aged 20–64 (%)	9)	64.5	59.6b	62.5b	63.7	66.3	68.5
Female employment rate for persons aged 20–64 (%)	9)	43.8	43.2b	47.2b	48.3	51.9	54.5
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)	9)	32.6	34.3b	36.7b	37.3	42.7	45.5
Employment by main sectors							
Agriculture, forestry and fisheries (%)	9)	:	21.3	19.9b	19.4	18.6	17.2
Industry (%)	9)	:	21.1	20.2b	19.9	20.2	21.2
Construction (%)	9)	:	4.7	4.5b	4.5	4.3	4.1
Services (%)	9)	:	52.8	55.4b	56.1	57.0	57.5
People employed in the public sector as a share of total employment, persons aged 20–64 (%)	9)	:	32.7	31.4b	29.7	28.3	27.8
People employed in the private sector as a share of total employment, persons aged 20–64 (%)	9)	:	67.3	68.6b	70.3	71.7	72.2
Unemployment rate: proportion of the labour force that is unemployed (%)	9)	20.9	22.3b	19.4b	17.8	15.4	13.6
Male unemployment rate (%)	9)	17.9	21.1b	18.5b	16.9	14.8	13.0
Female unemployment rate (%)	9)	24.9	23.9b	20.5b	18.8	16.2	14.4

Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)	9)	47.8	49.4b	47.4b	43.2	34.9	31.9
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)	9)	16.8	17.0b	13.0b	11.4	10.0	8.2
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED levels 0-2) (%)	9)	:	21.2	18.6b	15.8	13.7	12.3
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED levels 5-8) (%)	9)	:	17.2	14.5b	14.4	13.4	11.8

Social cohesion	Note	2006	2013	2014	2015	2016	2017
Average nominal monthly wages and salaries (national currency)	10)	31 745	60 708b	61 426	61 145	63 474	65 976
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)		83.7	99.2	97.5	95.2	97.6	98.5
GINI coefficient		:	38	38	40	40	38
Poverty gap		:	36.6	39.3	37.5	39.4	38.8
*Early leavers from education and training: proportion of the population aged 18–24 with at most lower secondary education who are not in further education or training (%)	9)	12.6	8.9b	8.5b	7.5	7.0	6.2

Standard of living	Note	2006	2013	2014	2015	2016	2017
Number of passenger cars relative to population size (number per thousand population)		203.6	246.5	251.5	257.7	266.8	279.6
Number of mobile phone subscriptions relative to population size (number per thousand population)		894.7	1 284.0	1 317.1	1 293.8	1 291.8	1 231.4
Mobile broadband penetration (per 100 inhabitants)		:	:	:	:	:	:

Fixed broadband penetration (per 100 inhabitants)		:	:	:	:	:	35.4
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Infrastructure	Note	2006	2013	2014	2015	2016	2017
Density of railway network (lines in operation per thousand km ²)	11)	49.2	49.3	49.3	48.6	48.6	48.6
Length of motorways (kilometres)		374	607	607	693	741	963

Innovation and research	Note	2006	2013	2014	2015	2016	2017
Public expenditure on education relative to GDP (%)		3.9	4.1	4.0	3.7	3.6	3.7
*Gross domestic expenditure on R&D relative to GDP (%)		0.44	0.68	0.72	0.81	0.84	0.87
Government budget appropriations or outlays on R&D (GBAORD), as a percentage of GDP (%)		:	0.42	0.43	0.44	0.39	0.40
Percentage of households who have internet access at home (%)		18.5	55.8	62.8	63.8	64.7	68.0

Environment	Note	2006	2013	2014	2015	2016	2017
*Index of greenhouse gas emissions, CO ₂ equivalent (1990 = 100)		86.9	76.0	65.3	73.3	75.9	:
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2010 constant prices)		596.1	454.2	412.7	449.5	453.3	453.3
Electricity generated from renewable sources relative to gross electricity consumption (%)		30.7	27.4	31.0	27.1	29.0	24.5p
Road share of inland freight transport (based on tonne-km) (%)		:	40.4	41.5	41.2	48.7	51.5

Energy	Note	2006	2013	2014	2015	2016	2017
Primary production of all energy products (thousand TOE)		10 512	11 371	9 443	10 762	10 695	10 496
Primary production of crude oil (thousand TOE)		660	1 277	1 216	1 121	1 028	988

Primary production of solid fuels (thousand TOE)		7 819	7 671	5 713	7 201	7 201	7 216
Primary production of gas (thousand TOE)		236	423	444	456	417	389
Net imports of all energy products (thousand TOE)		6 524	3 602	3 736	4 108	4 593	5 330
Gross inland energy consumption (thousand TOE)		17 065	14 940	13 358	14 808	15 432	15 748
Gross electricity generation (GWh)		36 481	39 877	34 060	38 298	39 342	37 045

Agriculture	Note	2006	2013	2014	2015	2016	2017
Agricultural production volume index of goods and services (at producer prices) (2010 = 100)		:	102.8	110.1	103.2	112.3	98.9
Utilised agricultural area (thousand hectares)	12)	3 537	3 495	3 518	3 480	3 456	3 438
Livestock numbers: live bovine animals (thousand heads, end of period)		1 106	913	920	916	893	899
Livestock numbers: live swine (thousand heads, end of period)		3 999	3 144	3 236	3 284	3 021	2 911
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 855	1 841	1 967	1 992	1 865	1 887
Raw milk available on farms (thousand tonnes)		1 692	1 548	1 596	1 611	1 604	1 599
Harvested crop production: cereals (including rice) (thousand tonnes)	12)	8 825	9 091	10 848	8 437	10 869	6 793
Harvested crop production: sugar beet (thousand tonnes)	12)	3 392	3 180	3 507	2 183	2 684	2 513
Harvested crop production: vegetables (thousand tonnes)	12)	1 140	1 062	965	1 108	1 156	1 087

: = not available

b = break in series

p = provisional

* = Europe 2020 indicator

** = Macroeconomic Imbalance Procedure (MIP) indicator

*** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes

- 1) Data might not be reliable due to delays in updating the Serbian statistical business register.
- 2) 2006: based on balance of payments manual edition 5 (BPM5).
- 3) Secondary income only.
- 4) The money supply M1 consists of currency in circulation and funds in giro, current and other accounts belonging to the owners of money balances in banks' liabilities, including money balances in the accounts of local government bodies, in other words accounts from which payments can be made without any restrictions.
- 5) The money supply M2, in addition to M1, includes other dinar deposits, both short-and long-term.
- 6) The money supply M3, in addition to M2, includes short and long-term foreign currency deposits (without the so-called frozen foreign currency savings).
- 7) The total financial sector liabilities are the sum of all liabilities of the financial sector excluding captive financial institutions.
- 8) Arithmetic mean of official middle exchange rates of the dinar against the euro on working days.
- 9) 2014: change of weighting system.
- 10) 2006: wages and salaries paid to employees of legal entities. 2013-2017: wages and salaries paid to employees of legal entities and of unincorporated enterprises.
- 11) Density relative to the total area (including inland waters) rather than the land area.
- 12) In 2014, a new method of data collection including sample surveys was set up. Time series have been revised back to 2007.