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## 1. INTRODUCTION<sup>1</sup>

### 1.1. Context

The European Council granted Serbia the status of candidate country in 2012. Accession negotiations were launched in January 2014. The analytical examination of the EU *acquis* (screening process) was completed in March 2015. The Stabilisation and Association Agreement (SAA) between Serbia and the EU entered into force in September 2013.

Serbia remained committed to its strategic goal of EU accession and continued to build a track record in implementing the obligations of the SAA. It is implementing an ambitious political and economic reform agenda and successfully finalised the action plans required for the opening of the rule of law negotiating chapters. Serbia played a constructive role in the region. It remained committed to the normalisation of its relations with Kosovo\* and came to key agreements with Kosovo within that process. It has also had a very constructive role in managing the migration crisis.

### 1.2. Summary of the report

As regards the **political criteria**, stakeholders, including civil society, were increasingly involved in the accession process. Though co-operation between the authorities and the independent regulatory bodies and the Ombudsman has recently increased, it should be further improved. The use of urgent procedures in parliament should be curtailed. Constitutional reforms will be needed for alignment with EU standards in some areas.

Serbia is moderately prepared in the area of public administration reform. Good progress has been achieved with the adoption of a comprehensive action plan. Serbia needs to remain committed and implement its reform targets. Strong political will remains essential to professionalise and depoliticise the administration and make recruitment and dismissal procedures more transparent, especially for senior management positions.

The judicial system has reached some level of preparation. New rules for evaluating judges and prosecutors were adopted in May. Most Court Presidents have now been appointed on a permanent basis. Further steps are needed to tackle political influence. The quality and efficiency of the judiciary and access to justice are hampered by an uneven distribution of workload, a burdensome case backlog and the lack of a free legal aid system.

Serbia has some level of preparation in preventing and fighting corruption, which remains widespread. The anti-corruption effort has yet to yield significant results. The institutional set-up is not yet functioning as a credible deterrent. A track record of effective investigations, prosecutions and convictions in corruption cases is required, including at high level.

Serbia has some level of preparation as regards the fight against organised crime. New DNA and drug chemistry laboratories became operational. The country is actively contributing to international and regional cooperation. Serbia adopted strategies for the fight against money laundering and terrorism financing as well as a financial investigation strategy but it still lacks an overall strategic picture of the organised crime situation on its territory. A credible track record in the fight against organised crime needs to be established.

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<sup>1</sup> This report covers the period from October 2014 to September 2015. 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. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account.

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence.

The legal and institutional framework for the respect of fundamental rights is in place. Consistent implementation across the country needs to be ensured, including as regards protection of minorities. More needs to be done to ensure conditions for the full exercise of media freedom and the freedom of expression, where Serbia has achieved some level of preparation. Further sustained efforts are needed to improve the situation of Roma and of refugees and displaced persons. The authorities took steps to strengthen the protection of the rights of lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, and again facilitated a pride parade in Belgrade. However, a stronger culture of respect for LGBTI persons is still needed.

Serbia participated constructively in regional initiatives and worked to improve its bilateral relations in a spirit of reconciliation and good neighbourly relations. The Prime Minister's attendance at the Srebrenica genocide commemoration in July sent a positive message.

Regarding the **normalisation of relations with Kosovo**, Serbia remained committed to the implementation of the April 2013 'First agreement of principles governing the normalisation of relations' and other agreements reached in the EU-facilitated dialogue. Key agreements were finalised in August on energy, telecoms, establishment of the Association/Community of Serb majority municipalities as well as the Mitrovica Bridge. The dialogue achieved further concrete results in the fields of justice, civil protection integration, vehicle insurance, customs collection and IBM. There were also constructive discussions to improve cooperation in tackling migratory flows from Kosovo. The steps taken gave fresh momentum to the normalisation of relations and should have a positive and concrete impact on the everyday life of citizens in both Kosovo and Serbia.

As regards the **economic criteria**, Serbia is moderately prepared in developing a functioning market economy. Good progress has been made to address some of the policy weaknesses and the positive momentum for advancing structural reforms needs to be preserved. Serbia's economy is recovering from a recession. Thanks to significant consolidation measures and better tax collection, the budget deficit has fallen sharply. Fiscal consolidation should be sustained and underpinned by implementing reforms as planned. Inflation remains very low, allowing the central bank to reduce interest rates. Unemployment, though very high, has fallen below 20%. Progress has been made with restructuring of publicly owned companies and main utilities, but it needs to advance further. The private sector is underdeveloped and hampered by weaknesses in the rule of law and difficult access to finance. The process of economic reforms needs to continue with particular emphasis on restructuring state owned enterprises and public utilities.

Serbia is moderately prepared in terms of capacity to cope with competitive pressure and market forces within the Union. The education system has remained inefficient, physical infrastructure underdeveloped and the informal sector and state aid are substantial. Serbia needs to improve the quality of the education system, gearing it towards labour market needs, stimulate private investments and speed up the implementation of public infrastructure projects. It needs to better regulate para-fiscal charges and provide a transparent framework of state support to the private sector, redirecting it towards efficient and horizontal objectives, such as support to SMEs and research and development.

As regards its **ability to take on the obligations of membership**, Serbia has continued to align its legislation with the EU *acquis* across the board. Adequate financial and human resources, and sound strategic frameworks will be crucial to maintain the pace of reforms. Serbian legislation is now largely aligned in areas such as intellectual property, anti-trust and mergers, and monetary policy. Serbia set up a National Investment Committee, bringing together national authorities, donors and international financial institutions (IFIs) to

coordinate Serbian investment policy in key sectors of the single project pipeline (energy, transport, environment and business-related infrastructure), which sets an example in the region. In the areas of public procurement, statistics and financial control, Serbia is moderately prepared. Serbia will need to align its foreign and security policy progressively with the European Union's Common Foreign and Security Policy in period up to accession.

Mixed-migration flows increased dramatically, creating a substantial burden on the Serbian asylum and migration framework. Serbia made a substantial effort to ensure that third country nationals transiting through the country received shelter and humanitarian supplies, with EU support as well as the support of others. At the same time, Serbia should continue efforts to address the increase of unfounded asylum applications lodged by Serbian nationals in EU and Schengen countries, with a view to preserving the visa free regime.

**2. POLITICAL CRITERIA**

**2.1. Democracy**

**Elections**

Serbia has not yet addressed all of the recommendations of the OSCE’s Office for Democratic Institutions and Human Rights (OSCE/ODIHR), in particular those on ensuring that campaign financing and the electoral process are transparent. Certain local municipality elections and other local events have been marred by violence and claims of intimidation and irregularities that have not yet been properly investigated. Those responsible should be brought to justice.

**Parliament**

Parliament’s legislative activity was intensive and reflected increased involvement in the accession negotiation process. Consultation and transparency to some extent improved. However, the use of urgent procedures, including on draft legislation linked to the EU accession process, remained extensive. Oversight of the executive needs to be further enhanced. Parliament needs to increase its support for the institutional role of independent regulatory bodies and the Ombudsman's office and promote implementation of their recommendations.

Parliament engaged in intensive legislative activity. Consultation processes improved, in particular through frequent use of public hearings, including on EU accession-related issues, and parliamentary sessions on specific topics held locally. Parliament is increasingly involved by the government in the accession negotiations process. Parliament also has regular meetings and consultations with other stakeholders, including the National Convent on European Integration which brings together civil society organisations involved in the accession negotiations process. Parliament has yet to adopt an annual work plan and a code of ethics. The use of urgent procedures remains extensive, including for major pieces of legislation. This limits the time allowed for scrutiny of draft legislation, and is not always strictly necessary. More democratic and open cross-party political dialogue needs to be promoted.

Parliament remained engaged in its oversight activity through questions and regular debates on government reports. It did not, however, regularly hold monthly sessions or oral questions to the government. Independent regulatory bodies’ reports are discussed but parliament needs to take a more proactive approach to promoting and monitoring the implementation of their findings and recommendations. Parliamentary debates should not be used to undermine independent regulatory bodies and the Ombudsman’s role.

## Governance

The Serbian government remained actively engaged towards its EU accession priority goal. A core negotiating team was formed in September 2015. Involvement of parliament and other stakeholders, including civil society, needs to be further strengthened and streamlined. While recent steps to increase dialogue are welcome, the Serbian government needs to cooperate fully with independent regulatory bodies and the Ombudsman's office and to respect their remit. The legal framework for local self-government still needs to be improved and further implemented. Constitutional changes are needed to address issues of importance for the accession negotiations.

The Serbian **government** improved consistency in implementing its programme of priority reforms. It remained committed to EU integration and to the EU-facilitated dialogue with Kosovo. With political direction from the Minister for EU Integration, leadership by its Chief Negotiator, and effective support from the Serbian European Integration Office, the Serbian administration demonstrated a high level of preparedness and professionalism in the screening process. A core negotiating team was formed in September 2015. The government addressed the findings of the 2014 Progress Report by acting on the National Plan for the Adoption of the Acquis for the period 2014-2018. Further systematic involvement of parliament and civil society in the accession process is needed. Greater coordination of sectoral policies and anticipation of their financial implications remain crucial for the negotiations. Further efforts are needed to communicate more effectively the benefits of joining the EU to Serbian citizens.

**Public consultations** need to be wider and deadlines more realistic to enable all interested parties to provide qualitative input. This is especially needed for draft legislation with major economic and social impacts. More effective monitoring of the implementation of enacted legislation and strategic documents is needed. **Independent regulatory bodies** and the Ombudsman play an essential role in ensuring that the executive is accountable. It is a matter of concern if members of the government act in such a way as to undermine their work. The Prime Minister's initiative to hold regular meetings with them is a welcome step.

As regards **local self-government**, the law on Vojvodina's resources still needs to be adopted as prescribed by the Constitution. Local administrative and management capacity is weak and significant disparities between municipalities persist. Responsibilities continue to be exercised at local level without proper analysis of the capacity and resources required. Transfers earmarked by line ministries need to be allocated in line with the law on municipal finance. Local authorities should be consulted more on new legislation that has local implications.

The **Constitution** has yet to be revised to reflect fully the recommendations of the Venice Commission, particularly on parliament's role in judicial appointments, the political parties' control of parliamentary office, the independence of key institutions and the protection of fundamental rights, including data protection. A parliamentary action team was formed in April for this purpose.

### Civil society

Some progress was made in improving cooperation between the government and civil society organisations (CSOs). However, additional measures should be taken to ensure transparent dialogue between CSOs and other state institutions.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by the state institutions. Civil society organisations and human rights defenders play a key role in raising awareness of civil and political rights in a climate that is often hostile to criticism. Civil society continued to grow, especially at local level.

Since May, the Prime Minister took the initiative to call regular meetings with representatives of leading CSOs. Cooperation between the government and civil society still needs to be improved and a mechanism ensuring transparent dialogue with CSOs is needed. The authorities included civil society organisations in the accession negotiations process. However, civil sector's participation in policy making is still to a large extent ad hoc which prevents the use of the full potential of the sector.

The Office for Cooperation with Civil Society has taken a number of initiatives. The director of the office resigned in March and a successor has not yet been appointed. The 2015-2019 national strategy for an enabling environment for CSOs was drafted with wide participation by civil society. Mechanisms to ensure transparent funding of CSOs need to be put in place. Serbian laws, e.g. tax rules, do not encourage private donations to CSOs. The law on volunteering has not significantly expanded voluntary work and the law on social protection has yet to be fully implemented as regards CSOs providing social services.

### **Civilian oversight of the security forces**

Parliament has continued to perform its oversight role. The remit of the Ombudsman's office in this field needs to be better understood and defended. Serbia's legislative framework needs to be strengthened.

The **parliamentary committee for oversight of the security forces** continued to review the activities and reports on the Security-Information Agency (BIA), the Military Intelligence Services and the Inspector General of the Ministry of Defence on a regular basis. The committee held a debate on the **Ombudsman's** office's investigation into incidents involving military officers during the 2014 Pride parade, and on the Ombudsman's assertions that the Military Security Agency had illegally intercepted communications. The comments made on this occasion denigrating the Ombudsman, who was acting within his prerogative with regard to civilian control of the security forces, hamper effective oversight. The potential for abuse of interception of communications needs to be addressed. A law on access to state security files still needs to be adopted. A new law on the BIA, reviewing the current regulations giving the security services responsibilities for criminal proceedings and the use of special measures, has not yet been adopted.

## **2.2. Public administration reform**

Serbia is **moderately prepared** with the reform of its public administration. **Good progress** has been achieved with the adoption of a comprehensive public administration reform action plan, a law on inspection oversight, a national training strategy for local government, and the law on maximum number of public sector employees. However, Serbia now needs to ensure that the ambitious reform plans and the legal framework are implemented. Strong political will remains essential to professionalise and depoliticise the administration and make recruitment and dismissal procedures more transparent, especially for senior management positions. In the coming year, Serbia should, in particular:

→ streamline the roles and responsibilities of leading institutions in charge of policy making and coordination and develop a consolidated planning and monitoring system;

→ amend the current civil service framework to fully guarantee neutrality and continuity of the public administration and ensure merit-based recruitment, promotion and dismissal procedures by eradicating exceptions and transitional arrangements in appointments;

→ adopt a comprehensive multi-annual public financial management reform programme.



### Public service and human resources management

The legal framework for the central government civil service is in place, but it does not apply to many public employees exercising key state functions. The legal separation of political and public service positions is not clearly enforced. The civil service law provides for **merit-based recruitment, promotion and dismissal procedures**. Several provisions, however, leave space for wide discretionary powers and are regularly used in practise. Turnover of senior civil servants is an area of particular concern. Nearly 60 % of senior civil servants are still appointed on the basis of exceptions or transitional arrangements. Also reorganisation can be used unfairly to dismiss or reassign staff. Disciplinary procedures are in line with civil service principles and an appeals mechanism is in place. A civil service law for local government employees has not yet been adopted.

The Ministry of Public Administration and Local Self-Government is responsible for central coordination of **human resources management**. The Human Resources Management Service (HRMS), not directly accountable to the ministry, is in charge of maintaining the HRM information system. The system is not used to support human resources policy planning and monitoring. Human resources units in public administration bodies are weak and mainly compliance-oriented.

The civil service **remuneration system** is based on standard job classifications, but in practice it does not achieve equal pay for equal work across the public administration. A performance bonus scheme allows some discretionary awards, which are not in line with a transparent and fair salary system. A centralised payroll system is needed.

The civil service professional training strategy has envisaged a new system for **professional development** but it has not been fully implemented. The number of civil servants receiving training, through HRMS, remains low, including those at senior management posts. There are no synergies with training programmes provided for local government civil servants. The design of the performance appraisal system is appropriate but appraisal grades are inflated in practice, entitling staff to advance through salary steps in ways that the current budget cannot support. There is also no link between the performance appraisal system and training. **Integrity in public service** is promoted in line with the anti-corruption strategy; relevant measures to prevent corruption in public service are being implemented.

### Policy development and coordination

The legal basis and institutions for a coherent **policy-making system** including European integration are in place. In practice policy coordination focuses on formal, procedural issues rather than on substance, and a clearer division of responsibilities between the General Secretariat, the Public Policy Secretariat and the new delivery units in the Prime Minister's Office is essential. Policy planning is not systematically linked with medium-term fiscal planning. This jeopardises the sustainability of strategies and reform programmes. The hierarchy among strategies is needed to reduce the number of overlapping strategies.

**Inclusive and evidence-based policy and legislative development** is only partially ensured. The administration has limited number of staff and capacity to develop policy and legislative proposals, including on the *acquis*. This is due to the fact that the administration has large implementation and inspection departments due to traditional focus on ensuring compliance. Public and inter-ministerial consultations on proposals are required but often conducted formalistically and too late in the process. Regulatory impact assessments are usually carried out, but their quality varies considerably. The introduction in March of compulsory financial impact assessments for all legislation is a positive step, but the Ministry of Finance will have to allocate necessary resources.

The government publishes annual monitoring reports on key strategic documents. This enables **public scrutiny of government work**. However, the reports do not measure achievements against objectives. Parliamentary scrutiny is conducted by specialist legislative committees, without assessing the implementation of laws or strategies.

#### Accountability of the administration

The way the state administration is organised does not ensure effective **lines of accountability**. Many agencies decide on public policies and report to the Prime Minister and even to parliament rather than to the minister responsible for their area. Agencies have proliferated, making oversight difficult. Rationalisation is one of the priorities of the public administration reform (PAR) strategy, but the financial resources, capacity and political backing to carry out this process are a concern. Within institutions managerial accountability is not systematic and responsibilities are not delegated to middle management (*see Chapter 32 - Financial control*).

The relevant internal and external oversight mechanisms are in place to enforce the **citizens' right to good administration**. The Ombudsman plays a key role, and the public authorities are obliged to report on implementation of his recommendations (*see under Governance*). The **right to access public information** is governed by the law on free access to information of public importance. The scope of the exemptions allowed does not meet European standards. The Commissioner for Information of Public Importance lacks resources, and this has resulted in a backlog of complaints. The law needs to be further strengthened to ensure the Commissioner's decisions are carried out.

The general administrative procedures law governs the **right to administrative justice**, but a large number of special administrative procedures hinder overall transparency. The continuing backlog in administrative courts has also damaged public confidence. As regards the **right to seek compensation**, there are neither clear rules for compensation in cases of wrongdoing, nor available data on implementation of court cases.

#### Public financial management

Serbia has a medium-term budgetary framework, but strategies are not consistent with it. Programme budgeting has recently been introduced, but managerial accountability is needed to make it effective. Institutional coverage, in-year monitoring and reporting are weak and the budget is less reliable over the medium term. Until now, Serbia has focused on reforming certain parts of its public finance system, without explicitly linking different areas and reform measures. A **public financial management reform programme** for 2015-17 is under finalisation and should address identified weaknesses, link all public finance areas together and sequence reform actions among them. **Budget transparency** is not sufficiently ensured in practice. The 2014 deadline for submitting the budget to parliament was not met.

#### Service delivery to citizens and businesses

The PAR strategy aims at creating a more **user-oriented administration**. However, so far e-government projects and one-stop-shops have only been introduced on a case-by-case basis. Public satisfaction with government services is not measured regularly. There are too many special administrative procedures, which make it difficult to improve the level of service and introduce e-services. The recently adopted law on inspection supervision aims to **simplify administrative procedures**, improve law enforcement, tackle the grey economy and reduce administrative burdens. The new law on administrative procedures has yet to be adopted.

## Strategic framework for public administration reform

Serbia has a **PAR strategy** and an action plan for 2015-2017. It sets clear targets and indicators and a good monitoring framework for measuring progress. Its effectiveness will need to be further assessed. A separate e-government strategy has not yet been adopted. The PAR Council, chaired by the Prime Minister, ensures **political support**. The Ministry of Public Administration and Local Self-Government coordinates implementation, via the inter-ministerial PAR group consisting of relevant state administration bodies, civil society and local government representatives. **Financial sustainability** of the reforms is not yet ensured. PAR measures have been budgeted as specific projects in individual institutions in the 2015 budget. The government will need to ensure funding in the 2016 budget and in the medium-term expenditure framework.

### **2.3. Rule of law**

#### **Functioning of the judiciary**

Serbia's judicial system has **some level of preparation**. **Some progress** has been made in the last year in promoting merit-based requirements for career progression, e.g. by adopting rules for evaluating judges and prosecutors. However, judicial independence is not assured in practice. There is scope for political interference in the recruitment and appointment of judges and prosecutors. Administration of justice is slow, with a significant backlog of cases. Frequent changes of legislation and insufficient training make the legal environment challenging. In addressing the shortcomings outlined below in the coming year, Serbia should in particular:

- establish and implement a fair and transparent merit-based recruitment system and career management to better guarantee the operational independence of the justice system;
- adopt a new law on free legal aid and enable smooth implementation in cooperation with main stakeholders;
- reduce the case backlog and harmonise case law.

#### Strategic documents

In 2013 Serbia adopted a new 5 years **National Judicial Reform strategy** (NJRS) and action plan. The latter will need to be revised so as to reflect the main recommendations of the functional review of the justice system conducted by the World Bank.

#### Management bodies

The **High Judicial Council (HJC)** and the **State Prosecutorial Council (SPC)** submit proposals to parliament on judicial appointments and dismissals. They are chaired by the Supreme Court President and the State Prosecutor respectively. The HJC has 11 members. The SPC has 11 members. Responsibility for court and prosecution budgets is divided between the Councils (which are responsible for the budget for judges/prosecutors and operational costs) and the Ministry of Justice, which is responsible for court/prosecution office staff including judicial/prosecution assistants, infrastructure, IT equipment and capital investments. Efficiency in financial management is hampered by this shared responsibility and accountability.

#### Independence and impartiality

The **independence** of judges and prosecutors is laid down in the Constitution and framework legislation. However, the Constitution and laws allow political influence. Parliament appoints the Supreme Court President and all court presidents, the State Prosecutor and all prosecutors.

The composition and method of election of the HJC and SPC need to be amended to exclude political interference. Both councils have failed to react publicly in protection of judicial independence in cases of political interference in the work of judges and prosecutors. Court rules of procedure provide for **random allocation of cases**, but in practice not all courts use this procedure and exceptions are relatively frequent. There is no corresponding technology for allocating files randomly in prosecution offices. There is a legal framework in place on **preventing judges from being removed** and on **withdrawing cases** from judges. However, Court presidents retain extensive powers to remove judges from cases or reassign cases. Courts are not obliged to inform the HJC of the number of court cases withdrawn from judges.

### Accountability

**Codes of ethics** are in place for judges, prosecutors and lawyers, but there is little training. There is an ethical committee in the SPC, but the HJC does not have such a body. There are no integrity plans in place for the judiciary. Integrity is not a standard criterion in the selection and nomination process. **Disciplinary procedures** are in place for both judges and prosecutors. The HJC and SPC are responsible for launching proceedings and for decisions on disciplinary and ethical matters. Where wrongdoing has been proven, the sanctions applied in disciplinary cases so far have not been deterrent. There are few cases against prosecutors. The HJC faced obstruction in concluding one landmark disciplinary case concerning judicial independence. Judges and prosecutors must **declare their assets** to the Anti-Corruption Agency every year and report possible **conflicts of interest**. A criminal case was filed against one judge, but it was rejected. Fourteen cases were brought against judges who failed to report significant changes in property ownership on time.

### Professionalism and competence

**Appointments, evaluation and dismissals** are in the hands of the HJC and SPC. Both councils have adopted criteria and guidelines on appointments and evaluation. Application of the rules for judges has been delayed. Serbia lacks a comprehensive system of periodic individual **evaluation** of judges and prosecutors. There is a need to set out a systematic approach to career development, including training needs.

### Quality of justice

The Judicial Academy is an independent institution with a mandate for initial and continuous **training** of the judiciary. Its current annual budget is EUR 1.496 million. It has 30 staff. The High Judicial Council and State Prosecutorial Council determine the number of initial trainees each year. Continuous training is voluntary, except where it is required by law or by a council decision. Initial training so far does not guarantee the standards needed by people entering the profession. The offered continuous training is insufficient to help practitioners overcome the serious challenges posed by numerous changes in the law and the poor overall quality of the laws. Judicial and prosecution assistants so far do not receive training.

In 2015, the total **budget** for the judicial system represented EUR 26 per inhabitant. There are 38 judges, 11 prosecutors and 116 practising lawyers per 100 000 inhabitants. There are 209 private bailiffs (enforcement agents). The judicial system is adequately resourced compared to the EU average and in relation to GDP, but resources are not always allocated efficiently. Courts are partly funded by court fees (43 %), but collection rates are low and a further decline is expected as services are transferred to public notaries and private bailiffs. Budget planning and resource allocation are rarely adjusted. Automated information exchange is rare and **information and communication technology** remains largely underdeveloped. Meaningful, accurate and timely statistics are missing. There is not a consistent or easily

accessible body of case law. There is no case-weighting system able to address the issue of significant differences in workload. A new law on **mediation** has been in force since January but awareness of mediation is limited and training among professionals is required. Serbia has observer status in the European Judicial Training Network (EJTN).

### Efficiency

The overall **length of proceedings** and the number of old cases recorded as a **backlog** remain a serious concern. A national backlog reduction programme is in place but the courts did not meet the targets set for 2014, partially owing to a four-month strike by lawyers. The court system remains clogged by bureaucracy and extra-judicial duties, such as certification of documents, and especially by 1.6 million enforcement cases, mostly related to civil claims and utility bills. In 2014, the backlog increased further in the Supreme Court with a **clearance rate**, i.e. ratio of solved cases to newly received cases, of 80.7 %, whereas the basic courts, administrative courts and higher courts had clearance rates of 110 %, 103.74 % and 108.47 % respectively. **Human resources policy** is challenged by the need to manage a relatively high number of judges and the lack of skills among support staff.

### **Fight against corruption**

Serbia has **some level of preparation** in the fight against corruption. **Some progress** has been achieved in the past year, especially in implementing existing legislation and adopting a new law on whistle-blower protection. However, corruption remains widespread and strong political impetus has yet to translate into sustained results. In addressing the shortcomings outlined below in the coming year, Serbia should pay particular attention to:

- establishing a track record on investigations, indictments and final convictions in high-level corruption cases,
- creating a robust system to coordinate and monitor implementation of the national anti-corruption strategy and action plan, ensuring that all key institutions have adequate capacity and resources to fulfil their remits effectively;
- urgently amending and implementing the economic and corruption crimes section of the Criminal Code (in particular Article 234 on abuse of position of a responsible person) with a view to providing a credible and predictable criminal law framework;
- swiftly adopting a new Law on the Anti-Corruption Agency to strengthen its role as a key institution in a more effective fight against corruption.

### Track record

There is some initial track record of **investigation, prosecution and convictions in corruption cases** which are not considered high level. So far there has been no final conviction for **high-level corruption**. Policy-makers should ensure law enforcement bodies are fully empowered to act effectively and impartially when investigating corruption allegations. Healthcare, education, construction and spatial planning, infrastructure projects and the privatisation of public enterprises are particularly vulnerable to corruption. Independent supervision and capacity for early detection of wrongdoing and conflicts of interest in the management of state-owned companies, in privatisation procedures, public-private partnerships and in relation to public procurement procedures, are underdeveloped. There should be greater accountability and transparency in the management of public enterprises. Internal control departments lack equipment, resources and competent staff. **Financial investigations** are not yet being launched systematically in cases of corruption and organised crime. In a few corruption cases, assets have been **confiscated**.

As regards **political influence** on the police, judges and prosecutors, Ministers (and MPs/party members) continue to criticise ongoing corruption investigations and court rulings. Preventing corruption in local administration requires more attention. Repeated leaks to the media about ongoing investigations, in breach of the presumption of innocence, are an issue of serious concern. A number of high-profile cases, including where evidence of alleged wrongdoing has been presented by the media, have not been seriously investigated.

The Anti-Corruption Agency monitors the **funding of political activities**, including the municipal election campaigns in 2014, and issued a report in November. It also files requests for misdemeanour proceedings relating to **asset declarations** and **conflict of interest**. However, there is no track record of judicial follow-up to the Anti-Corruption Agency's work, e.g. through in-depth checks on party funding, conflicts of interest and asset declarations. As regards free **access to information**, an analysis of refused requests for **access to information** shows that they mainly concern privatisation, concessions, public-private partnerships and other related issues that have an impact on the budget.

#### Institutional framework

Serbia's independent Anti-Corruption Agency has had a mandate to collect, analyse and, where necessary, to launch administrative investigations on data related to assets, conflicts of interest, political party financing and electoral campaigns, as a means of **preventing corruption**. However, the Agency lacks adequate financial, material and human resources to play its role effectively. The Anti-Corruption Council analyses cases of systemic corruption and provides the government with policy advice. However, the Council is under-resourced and the government does not follow up and act on its recommendations often enough. Laws on access to information are in place, but they do not ensure that the decisions of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection are followed up. The Commissioner is unable to monitor outcomes.

As regards **law enforcement**, prosecutors, judges and police do not have sufficient means to fight corruption. The prosecution service leads criminal investigations but cooperation with the police suffers from the lack of a common approach. Police and prosecutors are not proactive enough. There is no safe and secure platform for exchanging sensitive information between them, which hampers investigations. Capacity to carry out financial investigations and confiscate assets in corruption cases is limited.

#### Legal framework

The legal framework for the **fight against corruption is broadly in place**. The excessive recourse to the provision on abuse of office in the private sector in the Criminal Code is harmful to the business climate and legal certainty. Amendments to the Criminal Code are still under consideration to provide for a sustainable legal solution to effectively prosecute cases of criminal economic offences. There has been a significant delay in amending the Law on the Anti-Corruption Agency to enhance its role as a key institution in the fight against corruption.

Serbia has ratified all major international instruments against corruption and is party to the **UN Convention against Corruption**, but has chosen not to criminalise illicit enrichment. It has signed and ratified the Council of Europe anti-corruption conventions. Procedures for investigating corruption cases, especially cases of high-level corruption, are often prolonged due to lack of capacity and an inadequate legal framework for financial investigations and asset recovery. Resources are inadequate and the relevant action plan has not been adopted. The law on **access to information** does not ensure adequate enforcement of the decisions of

the Commissioner for Free Access to Information of Public Importance and Personal Data Protection. **Lobbying** is not regulated. Laws on conflict of interest need to be amended.

### Strategic framework

The **anti-corruption strategy and action plan** for 2013-2018 is being implemented but several measures have been delayed. The inter-ministerial group to coordinate action, set up in 2014, has only met once and hence has not had the intended impact.

### **Fight against organised crime**

Serbia has **some level of preparation** in the fight against organised crime. **Some progress** has been made in reorganising the Ministry of Interior and in increasing capacity for border control. However, the number of final convictions remains low. Efforts to investigate wider criminal networks and to process money laundering cases need to be stepped up. Financial investigations and the concept of intelligence-led policing remain underused. Precautionary freezing of assets is rarely applied and the level of assets confiscated is low. Independent and transparent oversight of the police is not in place. In addressing the shortcomings outlined below in the coming year, Serbia should pay particular attention to:

→ stepping up intelligence-led investigations with a view to developing a sustainable track record of final convictions and dismantling networks involved in organised crime, money laundering, people smuggling and trafficking in human beings;

→ establishing a secure platform to exchange intelligence between law enforcement agencies, devoting more attention to sharing data on cases with prosecutors and with the asset recovery directorate;

→ adopting a new law on the organisation of the police, and reinforcing the functions and independence of the internal control sector of the police.

### Track record

The number of final convictions for organised crime remains low compared to the estimated value of the criminal market of the region. Very few cases have been brought for **trafficking in human beings**, despite Serbia being a source, transit and destination country for human trafficking. Labour exploitation of men, mainly Serbian nationals abroad, is increasing. There is a need to better identify victims, particularly asylum seekers and unaccompanied foreign minors.

Serbia established good international and regional cooperation in the field of **drugs**, in particular with the 2014 seizure of 168 kg of marijuana jointly with the former Yugoslav Republic of Macedonia. In many cases there has been no serious effort to investigate wider criminal networks. This also applies to **money laundering** cases (6 indictments in 2014). Effective implementation of anti-money laundering legislation by all relevant institutions, including banks, is still needed. Criminal investigations are often narrow in scope and companies or organisations are very rarely investigated. There is no policy of systematically running serious **financial investigations**. The concept of financial investigation does not go beyond the seizure and confiscation of criminal assets of individuals. Serbia is not yet in a position to run complex financial investigations alongside criminal investigations. Precautionary **freezing of assets** is rarely applied early in the investigation. So assets often disappear, which results in a poor track record of confiscating criminal assets on final conviction. **Sanctions** applied by judges are not sufficiently deterrent. There are frequent leaks to the press, violating the secrecy of the investigation.

### Institutional and operational capacity

Serbia has 33 387 police officers, or 464 per 100 000 inhabitants. In October 2014, the Ministry of Interior started reforming human resources departments to create a centralised service. There are no clear criteria for the recruitment, promotion, career path and evaluation of staff in the police, who remain vulnerable to politically motivated decisions. Serbia needs to take steps to exclude any political influence in police work. **Command structures** are complex, with overlapping responsibilities. The Ministry of Interior currently has three training centres, to be integrated into a new sector for human resources. The police academy is funded by the Ministry of Interior, but not part of it. Negotiations on cooperation with the European Police College (CEPOL) were concluded in April.

**Specialised units** are in place on anti-terrorism, trafficking in human beings, synthetic drugs, cybercrime and financial investigations. All these units are in need of further staffing and specialised training. The general level of equipment varies across the ministry. Independent and transparent oversight of the police is not in place. The internal control section of the police is not independent or able to take special investigative actions without resorting to the intelligence agencies. There is a lack of resources, legal powers and overall political support from government, parliament and police leadership.

**The operational capacity of prosecutors and the police** is weakened by the lack of a secure platform for storing and exchanging information. Getting the various law enforcement agencies such as the police and the tax and customs administrations to work together on operations is hampered by the lack of smooth data exchange. An operational **agreement with Europol** is in place but the ministry has not yet appointed a liaison officer to The Hague. International cooperation is well established. The **witness protection unit** in the ministry lacks adequate staff, equipment and premises. The level of cooperation between the Serbian Witness Protection Unit and prosecutors needs to be improved. As regards crime statistics, a **DNA database** and profiling capacity are in place. A comprehensive, multidisciplinary and victim-oriented approach to human trafficking is needed. Capacity for anti-money laundering action is weak. Delays at the financial investigation stage increase the risk that assets will be taken out of the country. The courts and the Directorate for the **Management of Seized Assets** in the Ministry of Justice are under-equipped to carry out their remit to seize and confiscate property. The secure database of the Serbian police does not allow cases to be classified as international or domestic. It does not provide information from asset recovery activities. There is no standard measure on criminal statistics.

### Legal framework

The law on the confiscation of criminal assets needs to be aligned with EU rules, notably as regards third party confiscation, extended confiscation and precautionary freezing of assets. Alignment is still required as regards the Swedish Initiative<sup>2</sup> and the Prüm Decision, eliminating violence at sports events, protecting public figures and prosecuting motor vehicle crime with trans-border implications. Criminal legislation on issues such as trafficking in human beings, online child pornography and cybercrime needs to be aligned with EU rules. A number of shortcomings in the investigation phase need to be addressed, notably as regards the timeframe and arrangements for using special investigative measures. The police's dependence on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations remains a matter of serious concern. The investigative powers of the border police and customs remain limited.

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<sup>2</sup> The Swedish Initiative provides a common legal framework for effective and speedy exchange of information and intelligence between EU States' law enforcement authorities.



## Strategic framework

Serbia has national strategies on anti-money laundering, financial investigation and terrorism financing. Serbia still needs to establish a strategic picture of the organised crime situation inspired by the EU SOCTA methodology (serious and organised crime threat assessment). Serbia needs to adopt strategies on cybercrime and trafficking of human beings.

### **Fight against terrorism**

Serbia amended its Criminal Code to criminalise the organisation of and participation in war or armed conflict in a foreign country. A coordination group for the fight against terrorism and the prevention of radicalisation and extremism has been set up. Serbia is also actively involved in international and regional police and judicial cooperation. The phenomenon of foreign terrorist fighters needs a tailor-made approach by the intelligence and law enforcement community and a coherent judicial policy on offenders. For developments in these areas, see *Chapter 24 — Justice, freedom and security*

## **2.4. Human rights and the protection of minorities**

### **Overall situation**

The legislation and institutions needed to uphold international human rights law are in place. Legislation to protect minorities and cultural rights is also broadly in place. However, sustained efforts are needed to ensure effective and consistent implementation across the country. Shortcomings particularly affect the following areas:

- Conditions for the full exercise of freedom of expression are still not in place. Full implementation of the new media laws needs to be ensured.
- Promotion and protection of the rights of the most vulnerable and discriminated groups, including the LGBTI persons, persons with disabilities, and persons with HIV/AIDS has yet to be fully ensured. Hate-motivated offences need to be properly investigated, prosecuted and sanctioned.
- Efforts to improve the difficult living conditions of Roma and to combat discrimination need to be strengthened. Government coordination and leadership of Roma integration policy needs to be further improved.

A detailed analysis of freedom of expression follows below. For a detailed analysis of developments on other human rights and the protection of minorities, see *Chapter 23 — Judiciary and fundamental rights*. For developments in trade union rights, anti-discrimination and equal opportunities, see also *Chapter 19 — Social policy and employment*.

### **Freedom of expression**

Serbia has achieved **some level of preparation** concerning the right to freedom of expression. **No progress** has been made overall in the last year. A legislative package aimed at improving the situation in the media and clarifying the legal framework, particularly in relation to state financing and control of the media, is in place. However, conditions for the full exercise of freedom of expression are not in place. The new media laws need to be implemented. It has yet to be seen whether media privatisation will increase transparency of ownership and funding. Threats and violence against journalists remain of concern. Criminal charges and final convictions are rare. The overall environment is not conducive to the full exercise of freedom of expression. In addressing the shortcomings outlined here, in the coming year Serbia should in particular:

- create an enabling environment in which freedom of expression can be exercised without hindrance; threats, physical assaults and cases of incitements to violence against journalists and bloggers should be reacted to and publicly condemned;
- complete the process of privatising state- and municipally owned media;
- strengthen the independence of the Regulatory Body for Electronic Media so as to better support editorial independence in the media;
- ensure adequate funding to public broadcasting service and ensure editorial independence.

### Intimidation of journalists

**Threats and violence** against journalists remain of concern. Some criminal charges have been filed but final convictions are still rare. Prolonged police protection of several journalists, with no tangible action taken to remove the reasons for these security measures, in practice seriously hampered the exercise of their profession. The commission tasked to look into unresolved cases of murdered journalists from 1999 and 2001 has made further progress in its work leading to arrests.

### Legislative environment<sup>3</sup>

The 2014 **media laws** are a step towards clarifying the legal framework, particularly in relation to state financing and control of the media. **Defamation** has not been a criminal offence since December 2012. As regards the **access to information** that state bodies provide for the media, the Commissioner for Access to Information of Public Interest has reported several cases in which state bodies resorted to paying fines rather than disclosing the information requested.

### Implementation of legislation/institutions<sup>4</sup>

As regards the **implementation of the three new media laws**, the privatisation of state and municipally-owned media has started in line with the Law on Public Information and Media, albeit with some delays. The **Regulatory Body for Electronic Media** has further stepped up monitoring of content but its independence needs to be strengthened, in order to actively and properly perform its role. The **Press Council** has been more active in disclosing and analysing breaches of professional journalistic standards and the Journalistic Code. There has been no progress in investigating a series of cases of **actions against websites** that occurred in 2014. Efforts to identify and prosecute those suspected of violating internet freedoms are needed.

### Public service broadcasters<sup>5</sup>

The two public service broadcasters, Radio Television of Serbia (RTS) and Radio Television of Vojvodina (RTV), are financed from direct budget subsidies until 2016. They are also entitled to commercial funding and advertisement time which is lower than that for commercial broadcasters. The funds are insufficient, which has an impact on programme quality and diversity. Public **broadcasting services in minority languages** need to be ensured.

### Economic factors

Opaque ownership, unregulated financing, covert and open political and economic influence on the media and money channelled to favoured media from various state sources continue to be features of the media environment. There have been cases reported of the rescheduling of

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<sup>3</sup> See also chapter 10

<sup>4</sup> See also chapter 10

<sup>5</sup> See also chapter 10

tax debts for certain media outlets. The most common informal pressure on editorial policy is through advertising. Funding of media from state sources at all levels continues to be a problem. It is not yet clear what the effects will be of introducing project-based financing of content of public interest following privatisation and whether this method will be used by all other state actors which fund media.

#### Professional organisation/professional conditions

There are three main professional associations in Serbia. Journalists have little job security and low salaries and are thus prone to pressure and influence from economic and political quarters. There have been a number of cases in which journalists and editors have claimed that their firing or relocation resulted from expressing an opinion. Such circumstances encourage self-censorship. Journalists' job security should be enhanced and press associations need to strengthen their role in trade union and employment matters.

### **2.5. Regional issues and international obligations**

There are no outstanding issues concerning Serbia's respect for the **Dayton/Paris Peace Agreement**. Serbia continues to support the sovereignty and territorial integrity of Bosnia and Herzegovina, while preserving special relations with Republika Srpska, as envisaged by the Dayton Agreement. Serbia also supports Bosnia and Herzegovina's path to joining the EU.

Serbia has continued to cooperate fully with the **ICTY**. Serbia maintained its initiative to the ICTY for Serbian convicts to be allowed to serve sentences in Serbia.

In the area of domestic processing of **war crimes**, cooperation between the special prosecutors of Serbia and Bosnia and Herzegovina continued on an upward course. The first joint investigative team worked successfully in December, leading to the indictment of five suspected perpetrators of war crimes. Cooperation and exchange of information with Croatia and EULEX continued but needs to be stepped up. It is important that these regional cooperation efforts continue to be strengthened.

Some progress has been made on investigating high-profile cases. In March, eight former members of the Special (police) Brigade in the Ministry of Interior of the Republika Srpska suspected of committing war crimes against civilians in Srebrenica were arrested. Despite consistent efforts by the war crimes jurisdictions, the number of investigations against high-level officers has remained low, and courts have continued to pass lenient sentences. To maintain the quality of trials, measures should be put in place to preserve the extensive judicial experience acquired in processing these complex cases. Only a few victims of war crimes have access to effective compensation under the current legal framework. No concrete steps have been taken to address the serious weaknesses in the witness protection system. Political pressure undermining the work of the War Crimes Prosecution Office is an issue of concern. Serbia needs to adopt and implement an overarching national strategy for domestic handling of war crimes, backed by adequate resources. A dedicated prosecution strategy is also needed.

Serbia's policy on the **International Criminal Court** is in line with the EU's guiding principles and EU common positions on the integrity of the Rome Statute. Serbia does not have any bilateral immunity agreements.

Serbia, Bosnia and Herzegovina, Croatia and Montenegro have continued to closely cooperate under the **Sarajevo Declaration Process**, which aims to find sustainable solutions for some 74.000 persons who became refugees and displaced persons as a result of the armed conflicts in the former Yugoslavia during the 1990s. All countries need to further step up efforts to deliver on the implementation of the agreed housing solutions. In Serbia from the 4,153

housing solutions approved thus far worth EUR 71.5 million, the first 123 were delivered. The issue of refugees' pensions between Croatia and Serbia is still unresolved.

The unresolved fate of **missing persons** from the conflicts in the 1990s remains a humanitarian concern in the Western Balkans. As of April, a total of 10 814 persons were still missing, according to the figures of the International Committee of the Red Cross (ICRC). Of these, 7 019 cases are related to the conflict in Bosnia and Herzegovina, 2 125 to the conflict in Croatia and 1 670 to the conflict in Kosovo. The lack of information on new gravesites and difficulties in identifying exhumed human remains continue to be the key obstacles to solving the remaining cases. With regard to the Kosovo conflict, exhumation works in Rudnica-Raska resulted in identification of 52 victims. By end October, the Serbian authorities had handed over to EULEX all human remains recovered at this location. In line with the commitments made in the ICRC-chaired Working Group on Missing Persons, the Serbian authorities organised assessments of two locations suspected as potential gravesites related to the Kosovo conflict and provided the first set of documents requested from its archives in March. Limited progress was made on providing new information on missing persons in relation to the conflict in Croatia. In March, the relevant authorities of Serbia and Croatia met informally and agreed to go ahead with a joint update of the official list of missing persons. Ascertaining the fate of missing persons remains vital to reconciliation and stability in the region. Sustained political commitment and renewed efforts are needed.

**Regional cooperation and good neighbourly relations** form an essential part of Serbia's process of moving towards the EU. Serbia has shown a constructive commitment to good neighbourly relations. Serbia has also continued to participate actively in regional initiatives such as the South-East Europe Cooperation Process, the Brdo process, the Regional Cooperation Council and the Central European Free Trade Agreement. Serbia hosted a '16+1' summit of the states of Central and Eastern Europe (SEE) and China in December, and a Black Sea Economic Cooperation Parliamentary Assembly in March. It continued to actively support the Coalition for Reconciliation Commission (RECOM) and Igman initiatives on regional reconciliation.

A fresh impetus has been given to regional cooperation through the '**Berlin process**' and the Western Balkan six initiative notably regarding the EU's **connectivity agenda**. Serbia hosted a meeting of the foreign affairs and economic ministers in October and constructively participated in the follow-up meeting in Pristina in March. In April, the Western Balkan Six countries reached an agreement on the core transport network and in June 2015 on extending three Trans-European Transport Networks core corridors to the Western Balkans. They also identified the priority projects to be implemented by 2020. The countries agreed to implement before the next summit in Paris a number of 'soft' measures such as aligning and simplifying border crossing procedures, road safety and maintenance schemes.

As regards **bilateral relations with other enlargement countries and neighbouring EU Member States**, Serbia has concluded a bilateral convention on regional cooperation with Montenegro under Article 15 of the Stabilisation and Association Agreement, but not yet with Albania or the former Yugoslav Republic of Macedonia. The demarcation of borders with Bosnia and Herzegovina, Montenegro and Croatia remains pending.

Relations with **Albania** improved overall. In October, an incident during a football match played by both national teams in Belgrade strained bilateral relations. In January a demarche was issued in connection with a flag of 'Greater Albania' displayed at the residence of the Albanian Prime Minister. However the subsequent visit to Serbia by Albania's Prime Minister in November was the first of its kind in 68 years. In March, the Speaker of the Serbian Parliament paid the first such visit to Tirana in decades. The Serbian Prime Minister's visit to

Tirana in May was the first ever. Belgrade hosted the first meeting of the bilateral Joint Commission for Economic Cooperation. Serbian and Albanian Prime Ministers also prepared joint infrastructure projects within the Western Balkans Six initiative. The Serbian and Albanian Ministers of Foreign Affairs took part in a first trilateral meeting with their Italian counterpart in Rome.

Relations with *Bosnia and Herzegovina* remained good. The chair of Bosnia and Herzegovina's Presidency visited Belgrade and the Serbian Prime Minister visited Sarajevo in May. Serbian authorities condemned the terrorist attacks in Zvornik in April. The Serbian Prime Minister's attendance at the commemoration of Srebrenica genocide in July sent a positive message. In the wake of the attack against him on that occasion, he invited the members of Bosnia and Herzegovina Presidency, who travelled to Belgrade in July.

Relations with *the former Yugoslav Republic of Macedonia* were further upgraded. The President of the former Yugoslav Republic of Macedonia visited Belgrade in October. A joint session of the two governments took place in February in Skopje at which several cooperation agreements were signed in the field of economy, culture, the environment, tourism, education, science and technology, together with an agreement on a border-crossing point. The Serbian authorities condemned the attacks in Kumanovo in May.

Relations with *Montenegro* remained good. The Speaker of the Serbian Parliament visited Podgorica in October. The Prime Ministers met at the '16+1' SEE-China summit in Belgrade in December. The Serbian Minister of Foreign Affairs visited Montenegro in February in his capacity as the OSCE Chairperson-in-Office. There were no developments on issues related to citizenship rights in the two countries.

Relations with *Turkey* remained stable. There were sporadic tensions in November after the murder of a Serbian sports fan in Istanbul. The Serbian and Turkish Prime Ministers met at the World Economic Forum in Davos in January. The Speaker of the Serbian Parliament visited Ankara in April. A Protocol on inter-parliamentary cooperation was signed on that occasion.

Relations with *Bulgaria, Romania and Hungary* improved further overall. The Bulgarian President visited Serbia in March. The Bulgarian, Romanian and Serbian Prime Ministers met in April in Craiova to discuss energy and transport infrastructure cooperation and agreed to give these meetings a permanent format as the 'Craiova Group'. Three new border-crossing points between Serbia and Romania were opened in November. The two Prime Ministers met on several occasions. A trilateral China-Hungary-Serbia memorandum on cooperation on the construction of the Belgrade-Budapest railway was signed at the '16+1' SEE-China summit. The two Prime Ministers met again in Subotica in February to discuss energy issues. The two countries developed constructive cooperation on addressing the peak of irregular migrants from Kosovo passing through Serbia early in 2015. A joint session of Serbia and Hungary governments took place in July in Budapest, resulting in the signature of several agreements on education, infrastructure and European integration.

There were ups and downs in relations with *Croatia*. The Serbian Prime Minister attended the inauguration of the new Croatian President in February and the Serbian Foreign Minister visited Zagreb in March. The inter-state commission for the return of cultural heritage to Croatia decided in March on the return of over 500 cultural assets. In June, a Croatian citizen sentenced for war crimes in Serbia was transferred to serve the remainder of his sentence in Croatia. The provisional release of ICTY detainee Vojislav Šešelj and his subsequent public statements prompted sharp reactions in Zagreb. Serbia declared 5<sup>th</sup> August, commemorating the "operation Storm" in Croatia, a day of mourning and protested for hate speech and display of fascist symbols during Croatian commemorations. The decision of Vukovar's local

authorities to remove bilingual signboards prompted acute reactions in Belgrade. Tensions following temporary restrictions of border crossings in September have been overcome.

### 3. NORMALISATION OF RELATIONS BETWEEN SERBIA AND KOSOVO

Serbia and Kosovo have remained engaged in the implementation of the agreements reached in the dialogue, in particular the April 2013 'First agreement of principles governing the normalisation of relations'. Work under the EU-facilitated dialogue has continued at technical level throughout the reporting period. The high-level dialogue resumed in February 2015, and four meetings attended by Prime Ministers Vučić and Mustafa were held in April, June and August.

Key agreements were finalised on 25 August 2015. General principles/main elements on the **establishment of the Association /Community of Serb majority municipalities in Kosovo** through the adoption of its Statute were agreed. The text defines the legal framework of the Association/Community, its objectives, organisational structure, relations with central authorities, legal capacity, budget and financial support. It also provides the modalities/next steps for its establishment. In the field of **Energy**, two new Serbian energy companies (one dealing with import, export and transit; the other with supply and distribution services) were established in Kosovo. These companies are proceeding with their internal organisation before being able to apply for licenses. An action plan detailing the implementation steps of the **Telecoms** arrangement was also approved. Serbia and Kosovo agreed to ask the European Union to revitalise the **Mitrovica bridge** and its surroundings so that it can be reopened to all traffic by summer/not later than June 2016. In line with the same timetable, it was also agreed that the North Mitrovica municipality will revitalise its main street (King Peter Street) by turning it into a pedestrian zone.

Progress has been made in other important areas. Following an agreement in February 2015, the dismantling of the Serbian structures on justice is well-advanced. Serbia facilitated applications of Kosovo Serb judges and prosecutors in the Kosovo judiciary. The proper handling of cases in the Mitrovica Basic Court, where Serbian official statements have at times interfered with the proceedings, requires a dispassionate environment. Integration of Kosovo Serb **police and civil protection** personnel is nearing completion. An agreement on **vehicle insurance** of June 2015, providing for the recognition in each other's jurisdiction of Serbia and Kosovo's respective vehicle insurance is being implemented. On **customs**, agreements were reached on the import of controlled goods into Kosovo, including for medicines. In the context of the **liaison arrangements**, and following an agreement reached in November 2014, all official visits are directly arranged by Liaison Officers. Progress was also reached in the field of **cadastre**: a new archives building was opened in Belgrade, where the scanning of documents pertaining to Kosovo is to be completed by June 2016. Following the Serbian Constitutional Court's rulings adjudicating that the form in which some dialogue agreements have been transposed was unconstitutional, Serbia has adjusted its regulatory framework related to these agreements, with the exception of freedom of movement. The Constitutional Court's rulings on the energy and telecoms agreements are still pending. Serbia needs to find legal solutions for the implementation of agreements that are sustainable and can withstand legal challenges.

Implementation of other agreements has continued, albeit at a slower pace. On IBM, further to the six interim facilities, two additional permanent **crossing points**, were agreed, for which Serbia has initiated the expropriation process on its territory. However, illegal crossing roads/by-passes, in particular in the north of Kosovo, continue to be regularly used to smuggle substantial amounts of goods. Additional measures need to be taken by Serbia to stop illegal

crossings. The processing of cases in the framework of the 2013 general modalities for **Mutual Legal Assistance** has been suspended between October 2014 and August 2015 by the Serbian authorities. The handling of over 600 pending cases has resumed in September 2015. On regional cooperation, Kosovo became a permanent participant in RACVIAC (the Centre for Security Cooperation) and joined MARRI (Migration, Asylum, Refugees Regional Initiative). However, Serbia needs to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. Serbia and Kosovo also participated in constructive discussions to improve cooperation in tackling migratory flows from Kosovo early this year.

Overall, Serbia and Kosovo have remained engaged in the dialogue and committed to the implementation of the April 2013 First agreement of principles governing the normalisation of relations and other agreements reached in the dialogue. The steps taken gave fresh momentum in the normalisation of relations and should have a positive and concrete impact on the everyday life of citizens in both Kosovo and Serbia. Further progress in this area remains essential for advancing the European future of both Serbia and Kosovo.

#### 4. ECONOMIC CRITERIA

Key economic figures	2013	2014
Gross domestic product per capita (% of EU28 in PPS)	37	36
GDP growth (%)	2.6	-1.8
Unemployment rate (female; male) (%)	22.1 (23.8; 20.8)	18.9 (19.6; 18.3)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	66.0 (56.8; 75.3)	66.2 (57.5; 75.1)
Current account balance (% of GDP)	-6.1	-6
Foreign direct investment (FDI) (% of GDP)	3.9	3.8

Source: Eurostat

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.

The monitoring of these economic criteria should be seen in the context of the increased importance of economic governance in the enlargement process; in 2015 the enlargement countries were invited to prepare Economic Reform Programmes (ERPs), which set out a medium-term macro-fiscal policy framework together with key structural reforms aimed at supporting the framework and boosting competitiveness. The ERPs were the basis for country-specific recommendations jointly adopted by the EU and the Western Balkans and Turkey in the Economic and Financial Dialogue meeting on 12 May 2015.

#### 4.1. The existence of a functioning market economy

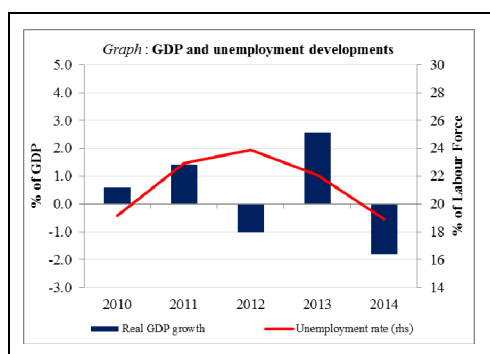
**Serbia is moderately prepared in developing a functioning market economy. Good progress** was made to address some of the policy weaknesses, in particular with regard to the budget deficit, labour market and the business environment. However, fiscal imbalances are still high and major sectors of the economy are in need of reform. Credit activity is weak, also constrained by very high level of non-performing loans. The private sector is underdeveloped and hampered by weaknesses with the rule of law. In line with the ERP recommendations and in order to support long-term growth, in the coming year Serbia should pay particular attention to:

- sustaining efforts to reduce the budget deficit and the high public debt level;
- advancing private sector development through the restructuring and privatisation of state-owned enterprises (SOEs) and addressing the challenges of stagnating credit growth and non-performing loans (NPLs);
- implementing public administration reform.

##### Economic policy essentials

**The government's determination to pursue economic reforms has strengthened.** Serbia submitted its Economic Reform Programme, covering the period 2015-2017, in March 2015. The objectives of the programme are to achieve macroeconomic stability, to remove obstacles to growth and to improve competitiveness. To this end, the authorities have already undertaken significant measures to reduce the budget deficit. They have also outlined an ambitious reform agenda aimed at restructuring state-owned enterprises, streamlining and improving the performance of public administration, improving the business environment, and strengthening financial stability. Serbia needs to follow up on its commitments and take further steps to implement the ERP recommendations, which are set out below. Since February, the government reform agenda has been supported by a new arrangement with the International Monetary Fund.

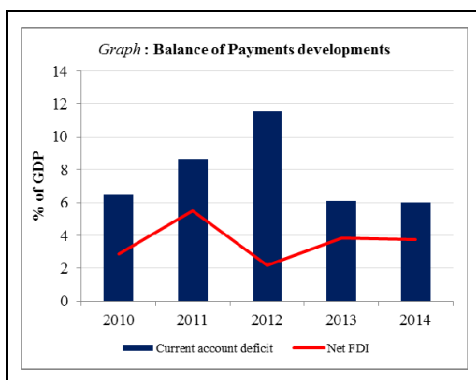
##### Macroeconomic stability



**Serbia's economy is recovering from a third recession in five years, but GDP remains around its pre-crisis level.** Economic growth averaged 1.0 % over 2008-2013, while it was negative in 2014. The economy has become less dependent on consumer spending and more open as exports have increased by close to 50 % since 2009. The shift to new sources of growth is incomplete as investments remain weak despite some signs of picking up in 2015. Slow economic development has led to stagnating average

income per capita (PPS), which stands at 36% of the EU average.



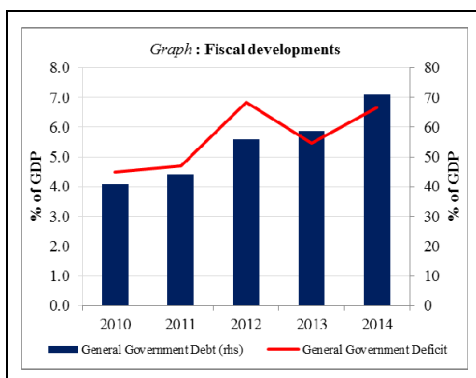


**External imbalances have been reduced by growing exports and subdued imports.** The current account deficit fell below 5.0 % of GDP in the first half of 2015, down from double-digit levels in the beginning of the decade. Most of the deficit was covered by net foreign direct investment, which stabilised at close to 4 % of GDP, still below the needs of the economy. External debt has increased since mid-2014 to around 80 % of GDP but, in view of shrinking external imbalances, debt sustainability does not raise immediate concerns. The official foreign exchange reserves stand at a

comfortable level, covering about seven months of imports of goods and services — an important buffer in view of external risks.

**Unemployment remains very high despite signs of improving labour market conditions.** Unemployment fell below 20 % and both employment and activity rates have increased. Although some of the new jobs were in the public sector or in informal employment, large gains were observed in registered private employment, especially for women. Most of these jobs, however, went into less paid, low productivity sectors. Average real wages fell as a result of public sector wage cuts. However, private sector wages have recently increased.

**Prices have been broadly stable, allowing the central bank to reduce interest rates.** Inflation has been below the central bank tolerance band (4 %  $\pm$  1.5 percentage points) for more than a year. Low inflation is the result of low international prices of primary commodities, weak domestic demand, exchange rate stability and delays in administrative price adjustments. The low inflationary environment and a rapidly falling budget deficit in 2015 allowed the central bank to cut its key interest rate in successive steps, from 8.0 % in February to 5.0 % in September 2015 and to gradually cut the foreign currency reserve requirement ratio by six percentage points by February 2016.



**The budget deficit fell sharply in the first half of 2015, but fiscal consolidation still needs to be sustained and underpinned by implementing structural reforms.** The 2015 budget targets a deficit of 5.8 % of GDP and is based on a large decrease in current expenditure. Considerable savings have already been made from the cuts in pensions and public sector salaries implemented last year. Additional savings are expected from a number of other measures ranging from public administration reform, to lower subsidies and reforming public enterprises.

Revenue collection continued to improve in 2015, in particular due to some excise duties and non-tax revenue (e.g. telecom licences and SOEs dividends). In addition, expenditure restraint and under execution of capital spending have led to a better-than-expected budgetary performance. By the end of August the cumulative deficit stood at only 1.1 % of the annual GDP — a third of its level in the previous year and far below the target.

**ERP recommendation 1:** ‘Strengthen fiscal consolidation by using any excess revenue and current expenditure savings to further reduce budget deficits in 2015 and the following years. Underpin the medium-term consolidation path by implementing the planned structural reforms.’

In view of Serbia’s high indebtedness and the extensive structural reform agenda, and in line with ERP recommendations, consolidation efforts need to be sustained. This requires Serbia to tackle the biggest sources of fiscal risk by further strengthening tax administration and public finance management, implementing public administration reform and restructuring state-owned enterprises in line with adopted plans.

**ERP recommendation 3:** ‘Further strengthen public finance management, notably by improving the budgetary process and the capacity of the tax administration. Compile and start submitting to Eurostat excessive deficit procedure notification tables before the end of 2015.’

**The recently improved fiscal performance followed years of increasing fiscal imbalances and missed budget deficit targets.** The budget deficit averaged 5.7 % of GDP over 2009-2014, regularly overshooting planned deficits. It went up to 6.7 % of GDP in 2014, reflecting mainly higher spending on interest payments, activated government guarantees and expenditure related to bail outs of failed state-owned banks and loss-making SOEs. Revenue was lower than planned and budget execution was marked by significant under execution of capital expenditure, pointing to a general problem of weak preparation of public investment projects. Government debt rose above 70 % of GDP.

#### Interplay of market forces

**Some steps have been taken to start restructuring large state-owned enterprises.** Payment discipline between SOEs has been improved and could be further strengthened following recent legislative amendments. However, SOEs restructuring continued to face delays and big utility companies remain a significant source of market distortions and fiscal risk. Therefore, it is important that Serbia advances the restructuring of these companies in accordance with ERP recommendations.

In December, the government adopted guidelines for restructuring Srbijagas, the state-owned gas company. In line with these, in early July it adopted a decision to unbundle the operation of gas transmission networks and distribution activities. The financial restructuring of the company is still awaited and the resolution of its biggest debtors needs to advance further.

**ERP recommendation 2:** ‘Advance the restructuring and privatisation of state-owned enterprises, prioritising the biggest companies. Introduce better corporate governance and advance, as planned, the organisational and financial restructuring of large, loss-making utilities. [...]’

A corporate restructuring plan for Elektroprivreda Srbije, the state-owned power utility, was adopted in November and — as a first step — the company was reorganised to increase its efficiency. A financial restructuring plan, which contains measures to reduce costs and improve revenues, including a 4.5 % increase in the regulated electricity tariff, was adopted in June. In January 2015, the government announced full liberalisation of the electricity and gas

market, allowing users to switch to a distributor other than the state-owned utility company. However, only 5 % of all users have done so, as households and small buyers still have the right to guaranteed usage at regulated prices.

In July, Railways Serbia was unbundled into passenger, freight and infrastructure, including by creating a holding company. Corporate and financial restructuring plans have been prepared and are planned to be adopted by the government in September.

**Privatisation attempts have been revived recently, although results so far are marginal.** The sustainable operation and future privatisation of the steel mill in Smederevo is a key challenge. In June, the government took steps to start the privatisation of the majority state-owned Telekom Srbija. In January, it adopted an action plan to resolve 188 companies through a bankruptcy procedure. In addition, about 200 enterprises are expected to be fully or partially privatised, either by equity or asset sales, or through strategic partnership.

The protection of companies in restructuring from forcible collection of debts and bankruptcy expired in June. However, it was extended for 37 of them until October, while for another 17 firms, deemed of strategic importance and employing some 22.000 people, protection was extended until end of May 2016. As the end of the restructuring process is expected to result in redundancies, the government has put in place an adequately funded social programme. In view of the time and capacity needed to process such a large number of privatisations, the government should prioritise the restructuring of the biggest and most problematic cases.

Market entry and exit

**Procedures for construction permits have been improved but further efforts are needed to ensure proper implementation.** As in previous years, in 2014 the number of newly established companies (8 209) was more than three times the number of companies closed (2 601). Still, market entry has continued to be burdened by lengthy and costly procedures to obtain various permits. One major improvement was the introduction of a new integrated procedure for issuing construction permits ('one-stop shops'); its implementation has in most cases significantly shortened the time required to obtain permits. The establishment of an electronic permitting system is envisaged to be set up by 2016. The issue of converting usage rights into ownership rights of construction land, which had hindered potential investments, was solved but further efforts are needed to ensure proper implementation.

Legal system

**Legal predictability and enforcement have remained weak and significant efforts are needed to further improve the business environment.** Many laws, important for structural reforms and socioeconomic development, are still adopted through emergency procedures, without proper consultation and public debate. Moreover, the implementation of laws remains problematic as there are long delays in the adoption of by-laws. The judicial system has been slow to enforce property rights.

**ERP recommendation 5:** 'Improve the business environment and tackle the grey economy, notably by better regulating para-fiscal charges, business inspections, and leasing of labour. Take steps to further simplify the regulatory environment by re-launching the 'regulatory guillotine'.'

The backlog in the courts is still substantial and companies often avoid using the courts as a solution to their problems. Enforcement of legislation on property restitution, which is expected to improve legal clarity over real estate ownership, is making progress; 42 % of all claims submitted have now been resolved.

The informal economy remains a major obstacle to fair competition and business development. To tackle the grey economy, the government adopted an action plan and set up a coordination body. A new law on inspection oversight, introducing a risk assessment system and better coordination between different administrative bodies, was adopted in April. Implementation of the new legislation and rules still needs to be tested. Further efforts are needed to better control para-fiscal charges and to regulate labour leasing, and to further simplify the regulatory environment in accordance with ERP recommendations.

Financial sector development

**The banking system is still facing a number of challenges, including weak credit activity and a high level of non-performing loans (NPLs).** The financial sector continued to be dominated by commercial banks, mostly foreign-owned, holding more than 90 % of all assets, followed by insurance companies with 5.2 %. In June, the central bank enhanced its monitoring of majority

**ERP recommendation 4:** ‘Advance with the rebalancing of macroeconomic policies with fiscal consolidation as a pre-condition for a more accommodative monetary policy stance, with a view to fostering a pick-up in the pace of credit extension. In this context, increased efforts to address the high burden of non-performing loans on banks’ balance sheets, involving all key stakeholders including the central bank as necessary, also appear warranted.’

Greek-owned banks and limited their transactions with parent banking groups. Euroisation continued to be widespread, with about three quarters of deposits and of loans to households and businesses denominated in or linked to foreign currencies.

Financial intermediation was revived only temporarily due to a boost from a government subsidised programme. Still, credit growth remained weak and credit to the private companies continued shrinking, marking an absolute five-year low in April. Commercial banks have channelled their resources into lending to the government, albeit at a slower pace, and in building up their net foreign assets.

Mirroring the difficult economic environment and constraining lending activity, NPLs remained very high at 22.8 % in June. However, the banking system as a whole remained adequately capitalised and liquid. With the help of international financial institutions, the government adopted a comprehensive strategy and an action plan for NPL resolution in line with ERP recommendations. In August, the central bank also adopted an action plan for implementing this strategy. Special bank diagnostic studies, to be completed in October, should also provide additional information on the quality of bank assets and support the implementation of the NPL strategy. Governance weaknesses prompted the strengthening of the supervisory and improvement of the bank recovery and resolution frameworks.

**4.2. The capacity to cope with competitive pressure and market forces within the Union**

**Serbia is moderately prepared in terms of capacity to cope with competitive pressure and market forces within the Union. Some progress** was made particularly with regard to further opening up the labour market and providing support for the development of small and medium-sized enterprises (SMEs). However, the education system has remained inefficient, physical infrastructure underdeveloped and the informal sector and state aid have remained substantial.

In line with the ERP recommendations and in order to support long term growth, in the coming year Serbia should pay particular attention to:

- improving the quality of the education system and gearing it towards labour market needs;
- stimulating private investments and speeding up the implementation of public infrastructure projects;
- providing a transparent framework of state support to the private sector, with a focus on SMEs.

### Human and physical capital

**The needs of the economy and a worsening demographic situation demand further reforms of human capital policies in accordance with ERP recommendations.** Although Serbia's public spending on education is comparable to that of EU countries, its quality has remained low, manifested in below-average OECD Programme for International Student Assessment (PISA) test scores and a high number of unskilled workers. Despite recent improvements, the labour market is still characterised by high unemployment, skills mismatches, a high share of informal employment, and high migration rates (especially of highly-skilled workers).

**ERP recommendation 6:** 'Adopt a comprehensive and well-targeted set of active labour market policies, with a focus on youth and the long term unemployed, as well as dedicated skills upgrade programmes. The finalisation of the national qualifications framework should be the first step in a progressive reform of the education system, aimed at improving the outcomes of the system, thereby enhancing the human capital productivity.'

The efficiency of the education system needs to be improved by rationalising the school network and gearing vocational education more to labour market needs. Additional emphasis should be placed on teacher training and curriculum reforms at basic levels of education. This is the means by which the basic and transversal skills and student competences can be improved, better preparing them for the job market or further education. Serbia has maintained a relatively high proportion of public investment in research and innovation. However, there is little private investment and little cooperation between public and private researchers.

Active labour market policies have been in decline until recently. They need to focus on youth and the long-term unemployed and provide stimulation to employers to reduce the informal forms of employment, in line with ERP recommendations.

**Physical infrastructure is severely affected by years of underinvestment and concerted efforts are needed to boost private and public investment.** Investment has still not recovered to pre-crisis levels and remained at about a quarter below its peak. Public investment, in particular, has been subdued. The poor state of infrastructure undermines competitiveness and deters foreign investors, hampering regional and EU trade integration. There is a clear need to increase public investment, improve preparation and speed up the implementation of public projects, in particular those included in Serbia-EU's 'single project pipeline.'

**ERP recommendation 7:** 'Stimulate private investment, for example by establishing public schemes to support lending to SMEs and research activities in companies. To increase public investment, improve preparation and speed up the implementation of public projects. Step up the works on corridors VII and X in line with the regional core network. Improve energy production and transmission, most notably by better governance of energy firms, regulation of the network and the construction of gas inter-connectors.'

The ongoing fiscal consolidation and the

reform of governance of public projects should create the conditions for increasing infrastructure investment and stepping up work on regional transport corridors in accordance with ERP recommendations. In addition, to diversify energy supplies Serbia should go ahead with the construction of gas inter-connectors as planned. Private investment should be further stimulated by establishing public schemes to support lending to SMEs and research activities in companies, in line with ERP recommendations.

#### Sectoral and enterprise structure

**The structure of the economy remained broadly unchanged and reducing the large informal sector remains a major challenge.** With a share of 50.9 % of GDP, services continued to play a major role in the economy. In 2014, agriculture slightly increased its share to 8.1 % of GDP, whereas industry's share fell by 1.7 percentage points to 20.7 % of GDP due to the floods which severely affected the energy and mining sectors. Employment was roughly unchanged across sectors, with agriculture remaining the biggest sector, employing almost a fifth of the labour force. The large informal sector represents a major obstacle for economic development, fuelled by weak rule of law, and imposes significant risks and costs to the overall economy.

SMEs account for over 70 % of employment, but contribute only 53 % of the total gross value added. They remain disadvantaged compared to large companies and state-owned companies that receive state aid. SMEs are the most affected by the poor access to finance in Serbia. Limited progress has been made as regards the development of SME-oriented financial instruments.

#### State influence on competitiveness

**State support for loss-making SOEs remained significant and needs to be addressed in line with ERP recommendations.** In 2014, spending on these measures combined has reached the highest level since 2000. The increase over the last three years was in large part due to

**ERP recommendation 2:** '[...] Review the efficiency of all forms of state aid and take steps to reduce it. Proceed to revisit public sector employment in a sustainable manner by implementing the Action plan on public administration reform.'

the delayed process of resolution of SOEs. However, signalling a change in policy, the 2015 budget law does not envisage new issuance of state guarantees for liquidity support and limits new project-based guarantees. More predictable instruments of state support to the private sector need to be developed to benefit both foreign and domestic investors. State support should also be redirected towards efficient and horizontal objectives, such as support to SMEs and research and development.

#### Economic integration with the EU

**Serbia improved its external competitiveness and increased further its trade integration with the EU.** A weaker dinar and a relative decrease of labour costs have boosted external competitiveness. The EU increased its trade with Serbia and remained by far the country's main trading partner, accounting for 69 % of total exports and 61 % of total imports of goods. Exports to Central European Free Trade Agreement (CEFTA) countries represent 20 % of all exports and have the potential to be boosted by the planned trade liberalisation in the services sector.

The EU also remains the main source of FDI with a share of almost three-quarters. Through the network of various free trade agreements, Serbia enjoys good market access but needs to facilitate trade by measures removing non-tariff barriers, especially for companies operating in global value chains.

## 5. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

### 5.1. 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** for the free movement of goods. **Some progress** was made, notably with the adoption of European standards. In the coming year, Serbia should in particular:

→ ensure better implementation of technical requirements and standards.

On the **general principles**, Serbia is drafting a methodology to ensure alignment with Articles 34-36 of the Treaty on the Functioning of the European Union (TFEU). On **horizontal measures**, the quality infrastructure strategy for the period 2015-2020 was not yet adopted. The administrative capacity of the Ministry of Economy, in charge of coordination, has decreased and needs to be strengthened.

On **standardisation**, the Institute for Standardisation of Serbia (ISS) has adopted approximately 96 % of all European standards and harmonisation documents. It has met the technical criteria for full membership of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). The ISS currently has 187 active technical committees and 62 full-time employees. Amendments to the Law on Standardisation were adopted in May, aiming to further align national legislation with the *acquis*.

A total of 37 **conformity assessment** bodies have been designated under the relevant EU directives. In April 2015 Serbia repealed the formal *ex ante* controls on certificates of conformity, specifically for imports of products covered by the Machinery Directive, the Low Voltage Directive and the Electromagnetic Compatibility Directive. However, certain *ex ante* controls remain, specifically for imports of products covered by the Radio equipment and Telecommunications Terminal Equipment Directive and fire protection devices and appliances.

On **accreditation**, the Accreditation Body of Serbia (ABS) in October 2014 signed a new International Accreditation Forum Multilateral Agreement extending management system certification. Accreditation process continued steadily over the reporting period but ABS staffing levels remain insufficient.

On **metrology**, secondary legislation in the non-harmonised area was adopted, together with a regulation based on recommendations of the International Organisation of Legal Metrology. The number of internationally recognised national standards for calibration and measurement stood at 143. The Directorate for Measures and Precious Metals upgraded its market surveillance capacity, particularly for supervision of the implementation of EU directives on standards and non-automatic scales.

In **market surveillance**, the law on general inspection oversight was adopted in April 2015. The Product Safety Council was reconstituted in August 2015 in order to improve coordination and operations amongst various stakeholders. The administrative capacity of the line ministry has been upgraded, but remains insufficient.

On **'Old Approach' product legislation**, Serbia adopted secondary legislation on crystal glass product marking which aims to be in line with the *acquis*, and laws on active substances in biocidal products. Legislation on motor vehicles and emissions of pollutants from non-road

engines remains to be adopted. As regards ‘**New and Global Approach**’ **product legislation**, legislation on recreational craft and on cableway installations was adopted. The former is in line with the *acquis*; the latter is partially aligned with the relevant directives. The law on fire protection equipment was adopted but remains to be aligned with relevant EU directives. Further alignment is required in the areas of cableway installations, construction products, toy safety and eco-design requirements for energy-related products.

As regards **procedural measures**, Serbia adopted legislation on civilian firearms, and adopted and fully implemented legislation on the export and import of arms and military equipment which is in line with the EU export control regime. Legislation on the production and transfer of arms and military equipment remains to be adopted. Serbia still needs to align its legislation with the *acquis* on pricing medicinal products and on returning cultural objects unlawfully removed from the territory of an EU Member State.

## 5.2. 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 in this chapter, notably in adopting new legislation on access to the labour market. In the coming year, Serbia should in particular:

→ continue its efforts for strengthening the capacity of social security institutions.

As regards **access to the labour market**, a Law on Employment of Foreigners and a work permit rulebook were adopted in November 2014. The law regulates the employment of foreign citizens in Serbia and further aligns its legislation with the *acquis*.

The Ministry of Labour’s 2015 action plan and the annual plan of the National Employment Service (NES) include provisions on **EURES**, the European jobs network, and create a network of private employment agencies which will publish vacancies jointly with the NES.

As regards **coordination of social security systems**, new agreements came into force with Belgium, Luxembourg, Hungary and Canada. An agreement with Romania was finalised, but is not yet signed, and an agreement with France was ratified in March. An agreement on electronic exchange of social security data was signed with Montenegro. The capacity of social security institutions needs further strengthening.

## 5.3. 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 is **moderately prepared** in these fields. **Some progress** was made with the adoption of regulations on postal services. In the coming year, Serbia should in particular:

→ adopt a strategy for alignment with the professional qualifications *acquis*;

→ adopt an umbrella law on services, as a first step towards alignment with the Services directive.

There were no developments on the **right of establishment**. On **freedom to provide cross-border services**, an umbrella law aligning Serbian legislation with the Services Directive is still needed. Screening of sectorial laws has to be completed to prepare for their alignment. A strategy and a law on **mutual recognition of professional qualifications** have yet to be adopted.



As regards **postal services**, the Regulatory Agency for Electronic Communications and Postal Services adopted a regulation on the conditions of access to the postal operator's postal network in December 2014. It also adopted a regulation on minimum standards for universal postal services provision. Both regulations further align Serbian legislation with the *acquis*. The inspection of postal services remains inadequate. The public postal operator has not yet been turned into a corporate company.

#### 5.4. 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 is **moderately prepared** in the area of free movement of capital. **Some progress** was made with the adoption of the Law on Payment Services. In the coming year, Serbia should in particular:

- further liberalise short-term capital movements.
- strengthen the Agency for the Prevention of Money Laundering.

There were no developments on **capital movements and payments**. Short-term capital transactions and deposit activities by residents are still restricted, while long-term capital transactions have been fully liberalised. The acquisition of real estate, especially agricultural land, is still restricted. On **payment systems**, in December, Serbia adopted a Law on Payment Services to further align its legislation with the Payment Services Directive and the Electronic Money Directive.

Serbia adopted a national strategy for the **fight against money laundering** and terrorism financing in December. The Agency for the Prevention of Money Laundering and the Financial Intelligence Unit of the Ministry of Finance both need greater administrative and analytical capacity. The agency still does not have adequate premises, which prevents it from recruiting new staff. Serbia still needs to establish a track record of investigation of and conviction in money laundering cases.

#### 5.5. Chapter 5: Public procurement

*EU rules ensure public sector procurement of goods and services in any Member State is open to all EU companies on the basis of non-discrimination.*

Serbia is **moderately prepared** in this area, which is particularly vulnerable to corruption. More efforts are needed to prevent corruption from occurring during the procurement cycle. **Good progress** has been made in the past year, notably by adopting amendments to the Law on Public Procurement and increasingly using open tender procedures.

Significant efforts are needed across the board to improve competition, efficiency and transparency in public tenders. In the coming year, Serbia should in particular:

- strengthen the capacity of the Public Procurement Office and the Republic Commission for the Protection of Rights in Public Procedures;
- swiftly implement the public procurement strategy in particular on ensuring the sound implementation of existing legislation and on further alignment with the EU Concessions Directive.

### Institutional set-up and legal alignment

The **legal framework** is broadly in line with the *acquis*. The Law on Public Procurement adopted in 2012 is largely in line with the EU directives on classical and utilities' procurement, but does not take full advantage of the flexibility procedures offered by the utilities directive. The law was amended in February 2015 to reduce the price preference given to domestic bidders to 5 %, ahead of the schedule for liberalisation under the Stabilisation and Association Agreement, and in July to further align it with the EU Directives adopted in 2014. The legislation on defence and security procurement is broadly in line but contains more exemptions than the EU Directive. Serbia must ensure that bilateral agreements concluded with non-EU countries do not unduly restrict competition and are fully consistent with the EU *acquis*. The Law on Public-Private Partnership follows the basic rules of the *acquis*, but needs to be aligned with the new Directive on Concessions.

In October 2014, the government adopted a public procurement **strategy** for 2014-2018 and a related action plan, which includes measures to further strengthen the regulatory framework and align it fully with the EU *acquis*.

The **Public Procurement Office (PPO)** is the independent state body which supervises the implementation of the Law on Public Procurement. Its role in launching certain regulatory reforms should be clarified.

### Implementation and enforcement capacity

Serbia's **public procurement market** remained relatively stable as a percentage of gross domestic product (GDP), at 7.7 % in 2014 compared with 6.8 % in 2013 and 8.5 % in 2012.

**Monitoring** of the award and implementation of contracts is improving. Since use of the negotiated procedure must now be authorised by the PPO, the value of negotiated procedures fell to 5 % of the total value of public tenders in 2014, from 17 % in 2013. In 2014, the State Audit Institution detected irregularities in tenders worth EUR 63 million, as against EUR 263 million in 2013. The public procurement portal is increasingly used, with 50 % more notices published in 2014 than in 2013.

The **capacity to manage public procurement processes** was further improved through the certification of an additional 890 public procurement officials by the PPO. However, the PPO does not have enough administrative capacity itself for its numerous responsibilities. The role and function of the annual procurement plans adopted by the contracting authorities needs to be reviewed; publishing them would further increase transparency.

The framework for **integrity and handling conflicts of interest** was strengthened under the new public procurement law. In December 2014, the PPO adopted a model internal plan for preventing corruption in public procurement procedures. From January 2015, high-volume contracting authorities are expected to gradually adopt their own plans for curbing corruption based on this model.

### Efficient remedy system

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

The number of requests for protection of rights received by the Republic Commission increased by 35 % in 2014 compared to 2013. The Republic Commission took a total of 2 702 decisions in 2014 compared with 1 966 in 2013, an increase of 37 %. Public procurement procedures were partially or fully annulled in 1 336 cases. In 2014, the Republic Commission

further built up its enforcement record by reviewing the implementation of 266 of its decisions and concluded that in 7 cases, they had not been properly enforced by the contracting authorities.

The Republic Commission has continued to build up its **implementation capacity** to a total of 70 employees, which is still not enough. The capacity of the administrative courts to deal with complex public procurement cases also needs to be strengthened.

## 5.6. 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 with online filing of financial statements, and the first audit quality control inspections.

On **company law**, it has been possible since December to incorporate a business in 24 hours. Financial statements can now be filed electronically on the Register of Financial Statements. Serbia is developing online electronic company registration to facilitate its business environment; the process is not yet fully operational.

On **corporate accounting and auditing**, the Chamber of Authorised Auditors made the first quality control inspections of audit firms based on the 2013 Law on Auditing. The law needs to be amended to align with the new EU Accounting and Auditing Directives.

## 5.7. Chapter 7: Intellectual property law

*The EU has harmonised rules for the legal protection of copyright and related rights. This covers, for instance, computer programs, broadcasting and trademarks, designs, biotechnological inventions and pharmaceuticals.*

Serbia has reached a **good level of preparation** as concerns alignment of intellectual property law with the *acquis*. **Some progress** was made on intellectual property rights (IPR). In the coming year, Serbia should in particular:

- further align its Law on Copyright, Topographies of Semiconductor Products, Patents and Trademarks with the *acquis*, including with the IPR Enforcement Directive;
- strengthen formal coordination of different stakeholders on enforcement.

On **copyright and neighbouring rights**, full alignment with the *acquis* of the Law on Copyright and Related Rights remains to be achieved, in particular as regards the amendments introduced in 2012. The Law on the Protection of Topographies of Semiconductor Products also needs to be aligned with the *acquis*.

On **industrial property rights**, the amendments to the Law on Industrial Design adopted in May 2015 align them further with the *acquis*. The other relevant laws on patent and trademarks still need to be further aligned.

On **enforcement**, the number of counterfeit and pirated goods confiscated by the customs administration and the Market Inspectorate increased substantially, partly as the result of the use of newly procured equipment. The number of checks carried out by the Ministry of the Interior fell, while the number of criminal charges that it brought stabilised (at 90 in 2014). There were 1 110 court cases on IPR in 2014, compared with 731 in 2013.

Further alignment of legislation with the Directive on the Enforcement of Intellectual Property Rights was ensured by the adoption of the amendments to the Law on Industrial

Design. The other IPR laws still need to be aligned. A permanent coordination body for the enforcement of IPR was set up in October 2014, but is not yet fully operational. The national IPR strategy and action plan 2011-2015 were broadly implemented and need to be replaced by a new strategic framework.

## 5.8. Chapter 8: Competition policy

*EU rules protect free competition. They include anti-trust rules against restrictive agreements between companies and abuse of dominant position. EU rules also prevent governments from granting state aid which distorts competition.*

Serbia is **moderately prepared** in the area of competition policy. **Some progress** was made in the area of antitrust and mergers. In the coming year, Serbia should in particular:

- make significant progress in aligning its legislation on state aid control with the *acquis* as state aid control still has significant shortcomings;
- take steps to make the Commission for State Aid Control more independent and effective;
- ensure that aid received by the steel mill Smederevo Zelezara is compatible with the Stabilisation and Association Agreement.

On **antitrust and mergers policy**, Serbian legislation is largely in line with the *acquis*. The Commission for the Protection of Competition (CPC) maintained its activity level: in 2014, it took no decision on anticompetitive agreements, but five decisions on abuse of dominance and 97 decisions on mergers, two of which were approved subject to conditions. The level and number of fines remain relatively modest: only one fine, of EUR 160 000, was imposed in 2014. The organisation of the first two dawn-raids against cartels in July is a positive development towards a more effective fight against cartels. The CPC's administrative capacity was significantly strengthened in 2015. The judiciary's capacity to assess complex competition cases needs to be strengthened.

In **state aid**, the rules on *de minimis* state aid were further aligned with the Commission General Block Exemption Regulation in October 2014. The exemption from state aid rules for companies in the process of restructuring and privatisation has not yet been repealed. Serbia still has to draw up a regional aid map. The monitoring of cumulation of aid granted needs to be strengthened. A number of existing state aid schemes, including fiscal ones, still need to be aligned with the *acquis*. In 2014, the Commission for State Aid Control (CSAC) adopted 43 decisions and conclusions, including 17 launching *ex post* checks. This is slightly fewer than in the previous year. In line with Protocol 5 of the Stabilisation and Association Agreement, Smederevo Zelezara, a steel mill in difficulty, has not received state aid since 1 February 2015 but it needs to be shown that the aid received before then was compatible with competition law.

The new members of the CSAC are not affiliated to state-aid-granting ministries but still nominated by them. The operational independence of the CSAC remains to be demonstrated, notably through a track record of well-founded decisions. The capacity of the CSAC's secretariat, already insufficient, declined further. Further advocacy efforts are needed to ensure that all aid measures are notified to the CSAC and approved before being granted. Aid measures should be made more transparent.

As regards **liberalisation**, full alignment with the EU rules on state aid in the form of public service compensation has yet to be ensured. Serbian legislation has yet to be aligned with the Directive on the Transparency of Financial Relations between Member States and Public Undertakings.

## 5.9. 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 is **moderately prepared** in the area of financial services. **Good progress** was made with the adoption of the framework for resolution of banks and the laws on insurance and payment services. In the coming year, Serbia should in particular:

→ take additional steps to align Serbia's rules with Basel III standards and the Solvency II Directive.

On **banks and financial conglomerates**, in February 2015, Serbia adopted several laws which establish a new legal framework for the resolution of banks and insurance companies in difficulties, based in particular on the Bank Recovery and Resolution Directive. In February 2015 both the Law on Deposit Insurance and the Law on the Deposit Insurance Agency were adopted and further aligned with the Directive on Deposit Guarantee Schemes. In December, the National Bank of Serbia revised its strategy for the full implementation of Basel III standards. Legislation on financial conglomerates remains outstanding.

On **insurance and occupational pensions**, the Law on Insurance adopted in January 2015 and subsequent decisions of the NBS are more in line with the *acquis*. Further alignment with the Solvency II Directive still has to be achieved. A Decree laying down the minimum sum to be insured by motor third-party liability insurance was adopted in October 2014, bringing Serbia's rules more closely to the *acquis*. Full alignment with the Directive on Institutions for Occupational Retirement Provision has not yet been achieved.

On **financial market infrastructure**, Serbia adopted the Law on Payment Services, in December 2014, to further align its legislation with the Settlement Finality Directive.

On the **securities market and investment services**, amendments to the Law on Investment Funds were adopted in October 2014 to further align it with the Directive on Undertakings for Collective Investment in Transferable Securities. The Securities Commission also adopted several by-laws on reporting requirements and accountancy rules applicable to investment funds and broker dealer companies.

## 5.10. Chapter 10: Information society and media

*The EU supports the good 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 information society and media. **Some progress** was made, notably with the digital switchover being completed and with respect to the ongoing implementation of the three new media laws. In the coming year, Serbia should in particular:

→ continue alignment of the legislative framework in electronic communications with the 2009 EU regulatory framework;

→ ensure the independence of the Regulatory Body on Electronic Media and strengthen the administrative and inspectorate capacity of the line ministry;

→ elaborate and ensure comprehensive regulation of advertising.

On **electronic communications and information and communications technology**, the digital switchover was completed in June 2015. Serbia also introduced technological neutrality in the 900 and 2100 MHz frequency bands and assigned the 1800 MHz band to

operators, allowing 3G and 4G services as of April. Serbia has yet to fully align with the 2009 EU regulatory framework for e-communications. Competitive safeguards have not yet been fully implemented. The operational independence of the telecom regulator needs to be fully ensured. The draft law on emergency services, introducing permanent financing of the emergency number 112, remains to be adopted. 55 % of the population have a broadband connection.

At the end of August 2015, Kosovo and Serbia agreed the Action Plan to implement the 2013 Prime Ministers telecom arrangements. The agreement of September 2014 signed by the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Montenegro and Serbia on reducing the prices of mobile roaming services came into force in July 2015.

In **information society services**, laws on information security and the e-government strategy remain to be adopted. The administrative and inspection capacity of the line ministry and its units responsible for information and communication technology and digital administration remain insufficient.

On **audio-visual policy**, the implementation of the Law on Public Information and Media, the Law on Electronic Media and the Law on Public Service Broadcasting is ongoing. The public broadcasters RTS and RTV adopted statutes in line with the Law on Public Service Broadcasting. A method of monitoring revenue and expenditure allowing separate book-keeping for public and commercial activities is yet to be introduced. This is a matter of concern with regard to monitoring state aid provided to RTS and RTV, as well as for ensuring their editorial independence. RTS and RTV should prepare consolidated records of licence fee payers and forms for collection of and exemption from licence fee payments, which is a precondition for introducing the licence fee.

The Regulatory Body for Electronic Media faces delays in preparing all the by-laws needed to implement the Law on Electronic Media. The regulator needs to be fully independent when monitoring the fulfilment of programming obligations of broadcasters. The regulator is not fulfilling its role of monitoring of the retransmitted audio-visual media content on cable operators which is regularly interrupted by local advertisements. This makes it more difficult to broadcast in line with the Audio-visual Media Services Directive and affects overall media advertising revenue.

## 5.11. 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 is at an **early stage of preparation** in agriculture and rural development. **Some progress** was made with expansion of the Farm Accountancy Data Network and adoption of the Instrument for Pre-accession Assistance for Rural Development (IPARD). In the coming year, Serbia should in particular:

- develop an action plan for *acquis* alignment in agriculture and rural development
- ensure adequate allocation of resources and strengthening of the capacity of all IPARD bodies with a view to obtaining entrustment with budget implementation tasks.

As regards **horizontal issues**, the implementation of the strategy for agricultural and rural development for the period 2014-2024 has started. Serbia's adoption of a national programme for agriculture would contribute to ensuring its implementation and sector planning. Establishment of the Farm Accountancy Data Network (FADN) is progressing. Serbia has yet to designate formal institutional responsibilities pertaining to FADN and adopt a rulebook to

transpose the FADN regulation. Verification of data quality and the use of the FADN data will greatly facilitate policy planning and monitoring. As regards activities towards establishing the Integrated Administration and Control System (IACS) to prepare for the management and control of agricultural payments, Serbia should focus on developing the land parcel identification system and the farm register. This requires it to clarify the responsibilities of stakeholders, adopt the legal base and build capacity to ensure the system works properly.

In the area of the **common market organisation (CMO)**, in the wine sector, registration of vineyards has progressed. Administrative capacity in the sector needs further strengthening. Rulebooks on the zoning of viticultural geographical production areas and packaging and labelling of wines were adopted. A draft law on spirit drinks is advancing and must be aligned with the *acquis* before adoption.

On **rural development**, the IPARD programme (2014-2020) was adopted in January. It focuses on upgrading holdings and processing establishments to EU standards. Relocation of the IPARD Agency to Belgrade was an important development. The legal base for adequately resourcing IPARD operating structures has been created. Staff recruitment and training need to accelerate. The capacity of the offices of the National Authorising Officer, the National IPA Coordinator and the Audit Authority in relation to IPARD needs to expand further. This gives cause for serious concern for timely implementation of the programme and should be promptly addressed.

On **quality policy**, no progress can be reported. On **organic farming**, the national action plan for the development of the organic sector remains to be adopted.

## **5.12. 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 seed, plant protection material, harmful organisms and animal nutrition.*

Serbia is **moderately prepared** in the area of food safety, veterinary and phytosanitary policy. **Some progress** was made, with the opening of the phytosanitary laboratory and the re-alignment of the maximum level of aflatoxins in milk with the level in the EU. In the coming year, Serbia should in particular:

→ review the capacity of the veterinary, phytosanitary and national reference laboratories directorates and adopt an action plan to strengthen them.

In the area of **general food safety**, in February the phytosanitary laboratory was the first of the national reference laboratories to be opened. Further efforts are needed to put other laboratories into operation, such as the laboratory for quality control of raw milk, and to obtain accreditation for them as necessary. On **food safety rules and specific rules for feed**, the permitted level of aflatoxins in milk has been aligned with the requirements of the EU *acquis*. Yeasts have been added as a new category to the catalogue of feed materials. Planned amendments to food safety law are still pending.

On **veterinary policy**, a programme of animal health protection measures for 2015 was adopted in April. No new cases of classical swine fever were notified, while the programme to eradicate rabies in wildlife continued successfully. The country has adopted an animal health programme on bluetongue disease and allocated funds to buy vaccines. The plan for controlling residues of veterinary products and medicines in animals for 2015 is being implemented. Serbia has largely aligned its legislation on animal welfare on farms with EU law, but implementation and enforcement need to be improved. National legislation on animal

welfare in slaughterhouses and transport has yet to be aligned with the *acquis*. National legislation on identifying and registering bovines should be better enforced by increasing coordination with the Agrarian Payments Directorate on cross-compliance of subsidies, and with the police on preventing illegal trafficking and trade in animals.

In relation to the **placing food, feed and animal by-products on the market**, Serbia introduced temporary amendments on how to classify and handle animal by-products. They address the lack of developed infrastructure for collection and transport and the lack of capacity of rendering plants. A national monitoring and control programme for food and feed safety needs to be adopted. Serbia also needs to adopt a programme for upgrading agri-food establishments and the food safety council needs to be appointed. The management of animal by-products is an area of particular concern. Serbia should strengthen enforcement of legislation on separation and treatment of animal waste and adopt and implement a strategy to align it with EU *acquis*.

In the area of **phytosanitary policy**, the Law on Plant Protection Products is not implemented in relation to registration, for which the previous non-EU compliant procedure is still applicable. The rulebooks for the annual programme for post-registration control of plant protection products and measures for plant health protection for 2015 have been adopted.

The new law on **genetically modified organisms** remains to be adopted, in line with the EU *acquis*, which would also allow Serbia to join the World Trade Organisation.

### 5.13. Chapter 13: Fisheries

*The Common Fisheries Policy protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for aquaculture as well as support for fisheries and coastal communities.*

Serbia is **moderately prepared** in the area of fisheries. **Some progress** was made with creating the legal base for a national catch certification scheme for imports and exports of fishery products and a system for collecting market data.

As regards EU requirements on **resource and fleet management, and inspection and control**, the law on animal husbandry needs to be amended to provide a legal basis for the introduction of a national catch certification scheme for imports and exports of fishery products. A law on protection and sustainable use of fish stocks came into force in December.

Serbia does not have any **structural actions** in place for small-scale fisheries or inland fisheries. As regards **market policy**, the capacity of the administration managing and controlling imports and exports of fisheries products needs to be upgraded and brought into line with the *acquis*.

### 5.14. Chapter 14: Transport policy

*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 is **moderately prepared** in transport policy. **Good progress** was made on road, rail and inland waterways. In the coming year, Serbia should in particular:

→ ensure that railway undertakings that were certified and licensed by Serbian authorities have access to the network and the service facilities in Serbia for the purpose of providing domestic or international rail freight services;



→ confer all competencies regarding type authorisation, vehicle authorisation and national vehicle register to the safety authority;  
→ further strengthen its administrative capacity for enforcement and inspection.

On **road transport**, legislation aimed at aligning with the *acquis* on dangerous goods was adopted in November. The Serbian Strategy on road safety was adopted in July. Legislation on driving and on rest periods for domestic lorry drivers remains to be adopted. Further alignment with the road safety and dangerous goods *acquis* is still necessary. While the number of fatal road traffic accidents is falling, it remains high and road safety remains a concern.

As regards **rail transport**, an agreement on railway border crossing procedures was signed between Serbia and the former Yugoslav Republic of Macedonia in February. The law on air, railway and waterborne accident investigations was adopted in August, providing for the establishment of an independent accident investigation body. Open access to the railway market, with transparent track access charges and capacity allocation, still needs to be achieved. Serbian Railways continue to deny track access to a duly licensed and safety-certified domestic freight operator. Serbian Railways were unbundled in July. Public service obligation contracts have yet to be signed.

On **inland waterway transport**, the strategy on waterborne transport development for 2015-2025 was adopted in January. In February, amendments were adopted to the law on navigation and ports on inland waterways. The merchant shipping law remains to be adopted.

On **intermodal transport**, the construction of the first modern intermodal terminal in Belgrade has not yet started. Further implementing legislation on support measures for intermodal transport, on incentive measures for road carriers and on loading units on the railways is needed.

On **air transport**, the revised list of air carriers subject to an operating ban in the EU was adopted in January. The Serbian European Aviation Safety Agency and Civil Aviation Directorate agreed on a new working arrangement in May. Further alignment with the *acquis* on accident investigation and working time is required. Inquiries into Air Serbia's compliance with the 'effective control' requirements in the European Common Aviation Agreement (ECAA) are ongoing. The administrative capacity of the Civil Aviation Directorate requires strengthening to fulfil the obligations of the ECAA Agreement. Serbia actively participates as an observer in the Joint Service Provisional Area initiative.

As regards **maritime transport**, amendments to the law on maritime transport were adopted in February. A national and international shipping registers was established. A rulebook on ship documents and books was adopted in July. In the area of **satellite navigation**, Serbian participation in the Galileo programme has yet to start.

## 5.15. Chapter 15: Energy

*EU energy policy covers competition and state aids, equal access to resources, the internal energy market, energy efficiency, nuclear energy and nuclear safety and radiation protection.*

Serbia is **moderately prepared** in the area of energy. **Some progress** was made in the internal energy market. In the coming year, Serbia should in particular:

→ take measures to improve alignment with the *acquis* in renewable energy, energy efficiency, develop competition in the gas market and achieve cost-reflective electricity tariffs;

→ participate in the region's electricity Coordinated Auction Office in line with its Energy Community obligations;

→ strengthen the independence and increase administrative capacity of the energy and nuclear regulators.

On **security of supply**, two decrees on mandatory oil stocks were adopted in October 2014 and the Directorate for Management of Mandatory Stocks was set up in the Ministry of Mining and Energy. However, Serbia is still at a very early stage of alignment with the *acquis* and cannot provide information about its stock levels. Preparatory work on building a gas interconnector between Serbia and Bulgaria should accelerate in order to diversify Serbia's gas supply. The security of the electricity supply was seriously affected by the damage to the Kolubara coal mine during the 2014 floods, when Serbia had to import electricity and lignite. Serbia has ceased all preparation for the South Stream pipeline following Russia's abandonment of the project.

Substantial progress was made in terms of normalisation of relations between Serbian and Kosovan transmission companies. Following an agreement in August 2015 between Serbia and Kosovo, a Serbian power supply company should be established to supply customers in northern Kosovo. This company has not yet been established. The parallel management that Serbia installed at the Gazivode/Ujmani hydropower plant continues to interfere in its operation, with a risk of flooding.

On the **internal energy market**, the law on energy (which incorporates provisions from the third Energy Package) was adopted in December. The energy sector development strategy has not yet been adopted. Since January, electricity and gas markets have been fully opened in Serbia. New electricity and gas supplier switching rules came into force in July. Further efforts are needed to strengthen the independence of the Serbian energy agency, AERS, and its capacity to cover responsibilities arising from the third Energy Package. At the end of 2014, Serbia adopted a plan to unbundle the gas utility, Srbijagas, addressing its failure to meet its obligations under the Energy Community.

At the end of 2014, AERS approved agreements between the transmission system operator EMS and its Hungarian, Bulgarian and Croatian counterparts on bilateral coordinated allocation of capacity. Regulated electricity tariffs need be adjusted to reflect cost. The Secretariat of the Energy Community opened infringement proceedings against Serbia for its failure to participate in the activities of the region's Coordinated Auction Office.

On **renewable energy**, administrative procedures for issuing permits and network connections were simplified by the new energy law of December 2014. Amendments to the planning and construction law adopted in December 2014 provide a simplified approval procedure for building energy facilities. There is no significant investment in the renewable energy sector. Substantial efforts are urgently needed to achieve Serbia's target of obtaining 27 % of gross final energy consumption from renewable sources by 2020. Any further development of hydropower should be in line with EU environmental legislation.

Full alignment with the **energy efficiency** *acquis* has not yet been achieved. Two rulebooks on energy management were adopted in December. The ministry lacks administrative capacity to draft by-laws. The energy efficiency fund did not produce significant results although 11 contracts were signed with different municipalities for projects in the field.

On **nuclear energy, nuclear safety and radiation protection**, Serbia adopted a regulation setting up a nuclear security and safety programme and a regulation on the safety of nuclear facilities and nuclear material. A national strategy for the sector has yet to be adopted and alignment with the *acquis* on radioactive waste management, radiation protection, spent fuel,

nuclear safety and security is needed. The Serbian Radiation Protection and Nuclear Safety Agency (SRPNA) has not consolidated the inspection activities of the relevant ministries. SRPNA filled 26 posts out of its approved 35. SRPNA issued an operating licence for a new nuclear and radioactive waste hangar. An action plan needs to be drafted for decommissioning research reactor A at the Vinča site. The radiological situation at the abandoned Kalna uranium mine needs to be improved.

## 5.16. Chapter 16: Taxation

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

Serbia is **moderately prepared** in the area of taxation. **Some progress** was made with the adoption of the 2015-2020 programme to transform the tax administration. This should strengthen strategic management and planning of taxation. In the coming year, Serbia should in particular:

- improve operational activities to curb the informal economy;
- further align national rules on excise goods, including those on imported spirits and coffee, with those of the *acquis*;
- further simplify and unify tax procedures and better train staff.

On **indirect taxation**, no progress can be reported on *value added tax* (VAT). *Excise* legislation still contains some discriminatory measures on imported spirits and coffee. Excise duty on electricity and on electronic cigarettes was introduced, as of August. On **direct taxation**, the amended law on **profit tax** passed in December exempts humanitarian aid, and assistance provided to different levels of government.

On **administrative cooperation and mutual assistance**, Serbia signed an agreement to join the Fiscalis 2020 programme, which came into force in July.

On **operational capacity and computerisation**, electronic services to taxpayers were further extended and revenue increased. The use of e-declarations became compulsory for a large number of tax declarations. Efforts to combat the grey economy intensified, with reinforced checks on VAT compliance. A new programme for 2015-2020 to transform the tax administration was adopted in June. As a positive development, it includes quarterly performance indicators to assess compliance with objectives. While public communication has improved, the tax administration should upgrade taxpayer service and simplify administrative procedures. Efforts are needed to train staff more effectively. The new well-equipped data centre has become fully operational this year; but maintaining staffing in the IT division has become a challenge due to wage competition from the private sector.

The tax administration has intensified work on improving supervision by training of tax inspectors in various fields, in line with EU methodology. The discretionary powers of individual tax inspectors should be further reduced. Some work was also done to improve operational activities to curb the informal economy, notably against illegal trade in fine-cut tobacco and cigarettes and in games of chance and gambling activities.

## 5.17. Chapter 17: Economic and monetary policy

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

Serbia is **moderately prepared** in the area of economic and monetary policy. **Some progress** was made on alignment with the *acquis* and with the preparation of the Economic Reform Programme (ERP). In the coming year, Serbia should in particular:

→ intensify efforts to improve economic policy coordination, including the design and implementation of structural reforms.

On **monetary policy**, alignment of the legal framework is well advanced. Monetary financing of the public sector is prohibited by the central bank law. The law also establishes price stability as the central bank's primary objective. However, Serbia's inflation rate has been below the central bank's tolerance band (4 % ±1.5 percentage points) since 2014.

On **economic policy**, Serbia submitted its ERP to the European Commission in March. It outlines a comprehensive programme of fiscal consolidation and structural reforms anchored in a stand-by arrangement with the International Monetary Fund. The proposed set of sectoral reform measures in the ERP is appropriate but remains modest in relation to the needs and vague in terms of budgeting and implementation schedules. The weak presentation of many sectoral reforms indicates that the ERP should have undergone a more thorough consultation procedure inside and outside government. This would ensure domestic ownership and better implementation.

Serbia introduced fiscal rules in 2010, but public debt continued to increase and is expected to stabilise only in 2017 at almost 80 % of GDP, breaching the statutory 45 % ceiling. The Fiscal Council, which is an independent institution set up under the same legislation, continued to express valuable opinions on budgetary and economic policies.

## 5.18. 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 statistics. **Good progress** was achieved in the past year, notably in harmonising data production with the *acquis* and further developing sectoral statistics. In the coming year, Serbia should in particular:

→ improve the compilation of macroeconomic statistics in line with European System of Accounts (ESA) 2010, start sending data for the EU's excessive deficit procedure and improve the process for sending data to Eurostat;

→ continue to boost coordination of statistical data producers on macroeconomic statistics (Statistical Office, Ministry of Finance, and National Bank) and strengthen the administrative capacity of the Statistical Office;

→ align its legislative framework on territorial units for statistics (NUTS) with the NUTS regulation, in line with its SAA obligations.

On **statistical infrastructure**, the legal framework is largely in line with the European statistics Code of Practice, while the upcoming revision of the law on statistics is expected to increase the professional independence of the Statistical Office of the Republic of Serbia (SORS). The capacity of the Statistical Office needs to be further strengthened, notably in

relation to human resources. Data transmission to **Eurostat** has started, but this needs to be considerably improved. On classifications and registers, main classifications are in line with the *acquis* while, the classification of territorial units remains to be aligned.

Regarding **macroeconomic statistics**, SORS compiles annual and quarterly GDP data in current and constant prices. Annual sector accounts are compiled as of 2005 and data for 2011-2013 were sent to Eurostat. However, further efforts are needed for improving the quality of the data. Data on the government deficit and debt are produced by the Ministry of Finance, but considerable efforts are needed to further develop finance statistics and 'supply and use' tables. Monthly and quarterly balance of payment data and quarterly data on the international investment positions produced by the National Bank of Serbia are only partially in line with the EU *acquis*. The harmonised index of consumer prices is used according to EU standards.

In the area of structural **business statistics** and short-term statistics, an increase of data coverage is necessary. Foreign affiliates statistics are only partially in line with the *acquis*. Data for tourism is not provided by type of locality or for national tourism. For transport, road, railway, inland waterways and air transport statistics need to be harmonised with the *acquis* and data needs to be sent more frequently. Research and development data are partially aligned with the *acquis* and further efforts are needed to send research and development expenditure and other related data to Eurostat. Statistics on business and household usage of information and communications technology are produced twice a year. The Community Innovation Survey (CIS) has been carried out twice; the 2010 data were sent to Eurostat but the 2012 data are still being processed.

On **social statistics**, Serbia is partially in line with the *acquis*. The population and housing census was conducted in 2011 and data have subsequently been published. The EU survey on income and living conditions is being implemented and the 2013 data were published. For social protection statistics, the European System of integrated Social Protection Statistics (ESSPROS) is implemented. Labour market statistics are broadly in line with the *acquis*. Statistics on structure of earnings and job vacancies still need to be produced. The labour cost survey data for 2012 were sent to Eurostat, while full implementation and transmission of quarterly labour cost index is expected end-2015. Public health statistics are partially in line with the *acquis*. Statistical surveys of crime are conducted but still need to be aligned.

In the area of **agricultural statistics** crop production, animal production, milk, dairy and slaughter statistics have been aligned, while orchard and vineyards surveys have yet to be introduced. Supply balance sheets and agricultural price statistics need to be harmonised with the *acquis*. The SORS continued to release data from the 2012 agriculture census.

As regards **energy statistics**, annual energy statistics are produced for all relevant energy sources and are submitted to Eurostat. **Environment statistics** are partially in line with the *acquis*. Waste and water statistics are collected but coverage has to be improved.

#### **5.19. Chapter 19: Social policy and employment**

*EU rules in the social field include minimum standards for labour law, equality, health and safety at work and anti-discrimination. They also promote social dialogue at European level.*

Serbia is **moderately prepared** in social policy and employment. **Some progress** was made on employment policy, social policy, and occupational health and safety. The preparation of Serbia's first employment and social reform programme is an important step in identifying key challenges in employment and social policies and policy reforms to address them. These areas continue to be affected by scarce public finances and insufficient institutional capacity. In the coming year, Serbia should in particular:

- ensure financial and institutional resources for employment and social policies;
- significantly strengthen social dialogue at all levels.

On **labour law**, steps were taken to review alignment gaps in labour legislation. Labour inspection activities have been intensified and better targeted, especially in relation to fighting undeclared work. Alignment continues regarding **health and safety at work**. The administrative capacity of the Labour Inspectorate needs to be increased.

With regard to **social dialogue**, consultation of the Socio-Economic Council on legislative amendments remains limited. Walk-outs of representative trade unions from working groups in charge of preparing important pieces of legislation are a concern. There has been little further progress in developing tri-partite social dialogue at local level. Several sector collective agreements remain to be concluded following the repeal of collective agreements in January. Bipartite social dialogue remains weak. Initial steps were taken to revise the laws on strike and peaceful settlement of labour disputes.

In the area of **employment policy**, employment rate continued to rise moderately to 42 %. There has been a decrease in both unemployment rate and informal employment. The proportion of young people not in employment, education or training while decreasing slightly, remains high at 18.6 %. Half of the unemployed are below the age of 35. In 2015 fiscal consolidation measures and restructuring of socially owned enterprises are expected to have a negative effect on overall employment. The government has set up a social fund for severance payments. A package of active labour market measures has been earmarked to target workers affected by restructuring of state owned enterprises. Serbia has prepared its first employment and social reform programme. It identifies key challenges in employment policy and sets out social policies and policy reforms to address them.

As regards preparations for the **European Social Fund**, high staff turnover is affecting IPA management expertise in the Ministry of Labour, Employment, Veteran and Social Affairs and in the National Employment Service. (*See also Chapter 22 — Regional policy and coordination of structural instruments*)

On **social inclusion**, the second national report on social inclusion and poverty reduction was adopted in October 2014. The third wave of the Survey on Income and Living Conditions was completed in May and provides an important source of indicators used at EU level to monitor poverty and social exclusion in light of the Europe 2020 strategy. The at-risk-of-poverty rate was 25.6 % in 2014, up from 24.6 % in 2013. The availability and quality of community-based services across the country remains uneven. The provision of social services is additionally compromised by the lack of implementing regulations and ineffective distribution of budget funds. Better enforcement of the regulatory framework is necessary. Only 17.8 % of registered unemployed Roma were included in active labour market measures. Roma continue to be excluded from a range of social services and their participation in the formal labour market remains very low.

On **social protection**, the 2014 pension fund deficit remained large. As a part of fiscal consolidation measures, all pensions above RSD 25 000 (approximately EUR 210) were progressively reduced in November 2014. The measure affected about 39 % of pensioners. Amendments to the Law on Pensions and Disability Insurance and the budget system law, adopted in December, provide that pensions will not be raised until the ratio of pension expenditure to GDP falls below 11 %.

On **anti-discrimination policy**, the Office of the Commissioner for Protection of Equality continued to raise awareness and promote mechanisms for protection against discrimination. The groups most discriminated against remain Roma, lesbian, gay, bisexual, transgender and

intersex people, people with HIV/AIDS, people with disabilities, and women. (See also Chapter 23 — Judiciary and fundamental rights)

On **equal opportunities** between women and men, amendments made to the labour law in July 2014 help to empower women at work, help working mothers to reconcile family and professional life, and offer greater protection to pregnant workers. However, the legislation needs to be fully implemented, particularly regarding the dismissal of pregnant women and women on maternity leave, sexual harassment, the gender pay gap and inequality in promotion, salaries and pensions. Women's participation in the labour market as well as the gender pay gap need to be tackled further. (See also Chapter 23 — Judiciary and fundamental rights).

## 5.20. Chapter 20: Enterprise and industrial policy

*EU industrial policy enhances competitiveness, facilitates structural change and encourages an enterprise friendly environment that stimulates small and medium sized enterprises.*

Serbia is **moderately prepared** in enterprise and industrial policy. **Some progress** was made with the adoption of a new strategy and action plan. The issue of construction permits was also addressed. In the coming year, Serbia should in particular:

→ improve the business environment, especially for small and medium-sized enterprises (SMEs), and facilitate their access to finance.

On **enterprise and industrial policy**, an enterprise and industrial strategy for 2015-2020 was adopted in March, together with an action plan for 2015-2016. The strategy is in line with the Small Business Act (SBA) principles. Serbia and the Commission agreed that the country would participate in the EU competitiveness and SME programme (COSME) as of 2016.

On **enterprise and industrial instruments**, Serbia participated in the latest SBA performance review which demonstrated that the national authorities improved the self-assessment process. First policy results show improvements on several scores, particularly in relation to bankruptcy, business support services and export promotion. However, support for smoother and cheaper access to finance remains problematic. Fresh financial instruments need to be developed and rolled out in order to reverse the long trend of credit stagnation. There was some progress concerning late payments but full alignment with the EU directive remains to be achieved.

As regards the business environment, the process of reviewing, updating and simplifying laws stalled; regulatory impact assessment is not systematically respected. Company registration has been simplified, but parafiscal charges continue to weigh on company operations. The state has yet to propose a policy approach which would ensure some overview and control of these charges, which are largely collected by municipalities and regulatory agencies.

In **sectoral policies**, the new law on construction permits adopted in late 2014 delivered good results, as the number of construction permits tripled and the time taken to issue them fell.

## 5.21. 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 and work continued on the extension of Orient East-Med core corridor in the Western Balkans for both road and rail. In the coming year, Serbia should in particular:

→ intensify its preparatory work for the gas interconnector with Bulgaria.

On **transport networks**, Serbia continued to participate in the South-East Europe Transport Observatory and to implement the memorandum of understanding on the development of the South-East Europe Core Regional Transport Network. The country played an active role in the Western Balkans 6 connectivity agenda by endorsing the agreement on the regional core transport network in Brussels in April, and the further agreement (in Riga in June) on the core network corridors and on the list of projects to be implemented by 2020 (in Vienna in August). The new law on planning and construction was adopted in December. It simplifies permitting and spatial planning procedures, allowing quicker implementation of infrastructure projects.

On road infrastructure on Orient East-Med core corridor, work is progressing on the E-75 from Niš to the border with former Yugoslav Republic of Macedonia, with work having started on the Caričina Dolina to Vladičin Han segment in April. Work continues on the E-80 from Niš to the Bulgarian border (Prosek to Dimitrovgrad) and the Belgrade bypass. Construction work on the Subotica to Kelebija (Y branch) segment has been temporarily suspended due to insufficient funds. Work on Road Route 4 (Belgrade to Bar) is ongoing. Work on railway Orient East-Med core corridor is ongoing.

On trans-European **energy networks**, Serbia continues to support the implementation of the Gas Ring Project for South-East Europe. Preparatory work on the construction of the gas interconnector between Serbia and Bulgaria needs to intensify to increase gas supply security. Construction of the Resita-Pancevo electricity interconnection between Romania and Serbia has started. Investment preparations for the project pipelines in transport and energy are advancing well.

## 5.22. Chapter 22: Regional policy and coordination of structural instruments

*The EU funds regional development in the Member States. Implementation is the responsibility of the Member States that must have adequate administrative capacity to ensure the good handling and sound financial management of the projects.*

Serbia is **moderately prepared** in regional policy and coordination of structural instruments. **Some progress** was made: Serbia is acquiring valuable experience of managing EU funds under ‘indirect management’ through component I of the IPA. In the coming year, Serbia should in particular:

→ ensure adequate capacity to implement ‘indirect management’ programmes.

The **legislative framework** is still not fully in line with the *acquis*, while the ability of the budgetary system and resources to provide adequate financing capacity at aggregate level remains to be tested. On the **institutional framework**, Serbia started to manage programs on Transition Assistance and Institution Building (IPA component I). Work continued to align the structures for programming and implementing national development policy and strategic planning with those of EU regional policy, so that Serbia can increase its ability to absorb EU funds and cofinance EU-funded programmes. On **administrative capacity**, further efforts are needed to put in place a staff retention policy to cope with the anticipated workload and staff turnover.

Notable efforts were made on **programming** and continued preparations for the ‘sector approach’ used under IPA II. Potential final beneficiaries need to improve their ability to produce project documentation in line with IPA requirements. On investment in transport, energy, environment and business infrastructure, Serbia continued to make significant efforts to establish a single project pipeline by preparing and using a methodology for selecting the most relevant projects. As part of this, a National Investment Committee was set up in



October 2014 and meets regularly. On **monitoring and evaluation**, sectoral monitoring committees for all sectors of IPA components I and II are operational and meet regularly.

On **financial management, control and audit**, Serbia's financial management and control systems were further developed to comply with the indirect management requirements for IPA components I and II (Cross-border cooperation). The capacity of the audit authority remains an issue of concern which needs to be addressed adequately.

### **5.23. Chapter 23- Judiciary and fundamental rights**

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

Serbia has achieved **some level of preparation** for the *acquis* and European standards in this area and has made **some progress**. In September 2015 the action plan required for the opening of rule of law Chapter 23 was successfully finalised. Improved rules for evaluating prosecutors and judges were adopted and steps were taken to reduce the sizeable backlog of cases. However, there is still scope for political influence over judicial appointments. The national anti-corruption strategy has so far not yielded the expected results. Corruption remains prevalent in many areas and continues to be a serious cause of concern. As regards fundamental rights, conditions for the full exercise of freedom of expression are not in place. Legislation to protect minorities is broadly in place but needs to be consistently implemented across the country. In the coming year, Serbia should in particular:

- consolidate the justice reform process, addressing existing gaps in the independence, accountability and effectiveness of the judicial system and ensure its effective implementation
- establish a track record of investigation, prosecution and final convictions in corruption cases, particularly in high-level corruption cases;
- ensure conditions for the full exercise of freedom of expression;
- implement the anti-discrimination framework more effectively, promote equality and ensure the integration of persons belonging to the most vulnerable groups (Roma, LGBTI persons, persons with disabilities, and persons with HIV/AIDS) and minorities.

*(See also the specific recommendations on the judicial system, the fight against corruption and the freedom of expression in sections 2.3 and 2.4.)*

### **Functioning of the judiciary**

#### Strategic documents

Serbia is implementing the action plan for the National Judicial Reform Strategy (NJRS) 2013-2018, although there have been some delays. The Strategy Implementation Commission lacks a work plan and financial and administrative support, so it cannot drive implementation effectively.

#### Management bodies

Only 9 out of the 11 positions on the High Judicial Council (HJC) are currently filled. The work of the HJC should be more transparent. Agendas for its meetings are published, but not the minutes. There was only one public session in 2014. The State Prosecutorial Council (SPC) and HJC post annual reports on their websites, but there is little up-to-date information on their activities. The councils urgently need to take over responsibility for the entire judicial budget and for effective management of the judicial system.

### Independence and impartiality

Various gaps in the independence of the justice system remain to be addressed by revising the Constitution and the legal framework. The nomination procedure for judges and prosecutors needs to be amended, as do the three-year probation period for candidate judges and the composition of and method of election to the HJC and SPC. Representatives of the government still publicly comment on ongoing trials/investigations, which undermines the independence of the judiciary. Court rules provide for random allocation of cases, but not all courts use this procedure and exceptions are frequent. Especially smaller courts assign cases manually. This creates a risk for interference by the court administration or president. There is no technology for allocating files randomly in prosecution offices.

### Accountability

The disciplinary prosecutor of the HJC started 42 disciplinary proceedings in 2014 and submitted 19 proposals for dismissal. On proposal of the Disciplinary Commission 11 final decisions were taken by HJC in 2014: five judges were dismissed, three judges resigned before the end of the proceeding, two were fined and in one case the statute of limitation had expired. In 2014, some 2 000 complaints against the work of judges and court presidents were filed with the HJC (mostly on excessive length of hearings). The number of disciplinary complaints against prosecutors and deputy prosecutors increased in 2014, but most were dismissed and in the few cases where sanctions were applied, they were not deterrent.

### Professionalism and competence

The current system of recruitment, transfer and promotion should be reformed to ensure a transparent and predictable judicial career system. Clear rules and an efficient promotion system need to be the norm. The HJC appointed 60 (permanent) judges at all levels in 2014-2015 and proposed 49 new candidates to parliament. New rules for evaluating judges were adopted in May. While most court presidents were approved by parliament in May, their appointment is still pending in six courts. In 2014, the SPC selected 19 deputy prosecutors and proposed candidates to parliament for 4 appeal prosecutors and 45 first-time deputies. In May, the SPC adopted rules on evaluating prosecutors and on the election of public and deputy public prosecutors. The recruitment and evaluation processes should include a greater role for judicial education. Judges and prosecutors are appointed to specific offices. There is no mechanism for transferring them elsewhere.

### Quality of justice

The Judicial Academy continued to organise regular training in EU law, in-service training for management posts in the courts, in-service training for specialised judicial posts and general in-service training. The academy's budget slightly decreased compared to previous year (EUR 1.5 million in 2014 and EUR 1.496 million for 2015). There is a need to increase the quality and to ensure the academy's capacity to become a proper entry point to the judicial profession. A training needs assessment is urgently needed.

A new special law protecting the right to a trial within a reasonable time was adopted in May and will come into force in January 2016. Some steps have been taken to monitor and harmonise court practices. In May the Supreme Court of Cassation adopted an action plan to monitor and harmonise case law more effectively. There is no comprehensive or effective mechanism for this yet. Poor quality legislation can result in contradictory court rulings. Case law, especially for the most important cases, and consolidated legislation should be accessible online.

Workload across the country remains uneven. The situation became critical in Belgrade's basic prosecution offices which process the majority of all cases and where new responsibilities for criminal investigation have not been backed by the necessary staff and resources. A case weighting system to calculate significant differences in workload between and within courts is urgently needed.

The HJC and SPC continued to share budgetary authority with the Ministry of Justice. Measures must urgently be taken to prepare the councils for taking responsibility for the judicial budget by the end of 2015. Both the HJC and the SPC saw a decline in their respective budgets. Specific financial, resource and infrastructure challenges for the prosecution service, stemming from the introduction of a prosecutorial-led investigation model, need to be addressed.

There is no centralised data collection system for the courts. The introduction of public notaries, meant as an efficient way of relieving the burden on the judicial system, has proven problematic. Selection and appointment procedures should be improved and the implementation of the law should take into account the need to ensure quality services and access to justice. The law on notaries was amended in September 2014 to remove the notaries' monopoly of real estate transactions. The adoption of by-laws on detailed supervision/inspection of the work of notaries and private bailiffs has been delayed. The new Law on Enforcement and Security has not been adopted. There is a need for broader awareness raising and training of all stakeholders on alternative dispute resolution.

Automated information exchange is extremely limited across the sector and information and communication technology is little used for sharing information on court practice and accessing services. The performance of the system is difficult to measure as data is scattered and based on insufficiently accurate manual collection of data.

### Efficiency

The overall length of proceedings and the number of old cases registered as a backlog remain of serious concern. A national backlog reduction programme is in place but the courts did not meet targets set for 2014, partly owing to the lawyers' strike. In 2014, the courts received 1 752 185 new cases and were able to settle 1 793 212, an improvement of 1 % compared to 2013. The court system remains clogged by extra-judicial duties, such as certifying documents, and especially by 1.6 million enforcement cases, mostly related to civil claims. A review of the legal framework is needed to allow older cases to be transferred to private bailiffs, which would help reduce the massive backlog in court enforcement. In 2014, the backlog in the Supreme Court increased (with a clearance rate of 80.7 %) while in the basic courts, administrative courts and higher courts it fell (with clearance rates of 110 %, 103.74 % and 108.47 %, respectively).

### **Anti-corruption policy**

#### Track record

There is some initial **track record of investigation, prosecution and convictions in cases which are not considered high-level corruption**. Sentences for corruption offences range from 6 months to 12 years, but the law is not applied consistently. Procedures for investigating corruption cases, particularly cases of high-level corruption, often take a long time because capacity is lacking and shortcomings in the legal framework prevent effective and systematic financial investigations and asset confiscations.

The specialist prosecution office for organised crime and corruption initiated investigations against 86 persons for **high level and severe corruption cases** in 2014. The office raised

indictments or indicting proposals against 54 persons. Indictments were confirmed against 32 persons, and additionally the indicting proposals entered into force against 5 persons. So far, there have been no final convictions for high-level corruption. The Prosecution Offices of general jurisdiction raised indictments against 990 persons for corruption related cases in 2014, and against 204 persons indictments were confirmed. Against 147 persons proceedings were discontinued and against 10 persons charges were rejected. In 2014, in one case of high level corruption assets have been permanently confiscated. **Leaks to the media about ongoing investigations**, in breach of the presumption of innocence, continue to be an issue of serious concern. There have been no investigations of these breaches. A number of high profile cases, including some in which evidence of alleged wrongdoing has been presented by the media, have never been seriously investigated.

A track record of judicial follow-up to the Anti-Corruption Agency, in-depth checks of **party funding, conflict of interest and asset declarations** still needs to be established. The Anti-Corruption Agency received 1 481 requests to investigate **conflicts of interest** in 2014 (compared to 1 402 in 2013) and processed 1 286 cases (compared to 958 in 2013). This resulted in 68 requests for misdemeanour proceedings (compared to 58 in 2013) and 43 first instance judgments most of which were reprimands and fines.

The agency submitted 168 requests for misdemeanour proceedings relating to **asset declarations**, of which 153 cases are for failing to submit reports on time. A total of 85 cases resulted in convictions by misdemeanour courts in 2014. The agency also filed 14 **criminal charges** in 2014 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. Proceedings are under way in 11 cases, a plea bargain is being negotiated in another, and in two cases the criminal charge was dismissed.

As regards checks on the **funding of political activities and elections**, the agency submitted 33 requests for misdemeanour proceedings for violations of the law on financing political activities. Misdemeanour courts handed down a larger number of sentences based on requests made in previous years (125 compared with 28 in 2013), including 45 final sentences. In 2014, the agency published 31 decisions taking funds from public sources away from political entities.

### Institutional framework

#### *Prevention measures*

Serbia's institutions for preventing corruption broadly meet international standards and have shown good potential. However, human resources and cooperation need improvement. The revised law enabling the **Anti-Corruption Agency** to enhance its role as the key institution needs to be adopted urgently. The agency continued to perform well, in line with its mandate and despite limited resources and both legal and institutional obstacles. The agency needs to increase its ability to collect and analyse data and its access to relevant databases. Overall, it must receive and maintain the capacity, tools and financial resources needed to carry out its mandate. The requirements of the Law on **Public Procurement** and the national anti-corruption strategy and action plan have yet to be fully implemented. Healthcare, education, construction and spatial planning, infrastructure projects and the privatisation of public enterprises remain particularly vulnerable to corruption. Independent supervision and capacity for early detection of wrongdoing and conflicts of interest need to be further developed. There should be greater accountability and transparency in the management of public enterprises.

The **Anti-Corruption Council** remained active in exposing and analysing cases of systemic corruption, in its advisory role to the government. However, the government does not follow

up on its recommendations. The Council remains under-resourced and the appointment of new Council members has been pending since 2013.

The institutional capacity of the **Commissioner for Free Access to Information of Public Importance and Personal Data Protection** needs to be further increased to ensure effective monitoring and adequate follow-up to the increasing number of requests for access to public information. Requests for access to information that were refused mainly concerned privatisation, concessions, public-private partnerships and other related procedures that have an impact on the budget.

#### *Law enforcement*

Judges, prosecutors and investigators specialised in financial crime including corruption have received further training but a more sustainable approach to specialist training at all levels is needed. The **specialist prosecution service for organised crime and corruption** has continued to process cases of high-level corruption. Comprehensive analyses of the risk of corruption in justice and law enforcement have been carried out.

**Interinstitutional cooperation**, between law enforcement agencies and with the prosecution service, has improved to a certain extent but requires further strengthening. The new financial investigation strategy includes plans to reorganise the law enforcement authorities, increase their level of specialisation, and recruit forensic accountants. However, funding has yet to be allocated.

There is no secure platform for **electronic data exchange** or communication between the prosecution service, the police, tax and other authorities. There is also no system allowing **statistical monitoring** of criminal proceedings. Internal control departments continue to lack **equipment, resources and human capacity**. Reform of the inspection services is needed to increase their accountability. Effective supervision and deterrent sanctions in cases of wrongdoing need to be applied. The independence and accountability of all investigative and judicial bodies dealing with corruption needs to be strengthened to ensure efficiency.

#### Legal framework

The legal framework for the **fight against corruption is broadly in place**. Corruption offences, including passive and active corruption, are defined in the Criminal Code. The excessive recourse to the provision on abuse of office in the private sector in the Criminal Code is harmful to the business climate and legal certainty. Amendments to the Criminal Code are still under consideration to provide for a sustainable legal solution to effectively prosecute cases of criminal economic offences. The Law on Civil Servants includes provisions on a **code of conduct for civil servants** and monitoring mechanisms. Preventing corruption in local government requires greater attention. The provisions in the current Law on the Anti-Corruption Agency on **preventing conflicts of interest** and declaring and checking on the **assets of public officials** should be amended to ensure its enforcement and deterrent sanctions in cases of proven infringements. The law on **financing political activities** is in place, but needs to be revised to ensure its penalty provisions are applied. The OSCE/ODHIR recommendations on financing electoral campaigns have not yet been addressed. Serbia should develop more robust legal provisions and ensure deterrent sanctions are applied to proven infringements of the law on financing political activities, conflicts of interest and declaration and verification of assets of public officials. The new law on **whistle-blower protection** entered into force in June.

General shortcomings in Serbia's laws and rules are conducive to corruption. The quality of legal drafting on corruption-related issues needs to improve and further efforts are needed to simplify procedures and clarify implementing rules.

## Strategic framework

Several important measures in the **anti-corruption strategy and action plan for 2013-2018** are behind schedule, e.g. setting up efficient coordination and monitoring mechanisms. Adequate resources and human capacity to fully implement the strategy and action plan have not yet been allocated.

The **inter-ministerial coordination group** put in place in 2014 and chaired by the Prime Minister met only once. There is an urgent need to ensure better working arrangements between the Ministry of Justice and other institutions and bodies involved in combating corruption. This applies primarily to relations with the ACA.

The government adopted a **strategy on financial investigations** in May which calls for investigation of the money trail of crime alongside criminal investigations, and supports investigation beyond the initial case. However, adequate resources have yet to be allocated and no action plan has been adopted. The action plan for the **public administration reform strategy** includes measures to increase accountability and transparency in the public sector with a view to combating corruption, but needs to be adequately resourced.

## **Fundamental rights**

Serbia has ratified all the main **international human rights instruments**. However, implementation of the relevant international instruments needs to be improved and more consistent. Since September 2014, the **European Court of Human Rights (ECtHR)** has found that the country violated the European Convention on Human Rights (ECHR) in 14 cases relating mainly to the right to a fair trial and protection of property. A total of 1253 new applications have been allocated to a decision-making body, bringing the number of pending applications to 1494.

In relation to the **promotion and enforcement of human rights**, relevant state bodies such as the Office for Human and Minority Rights, parliamentary committees, the Ombudsman, the Equality Protection Commissioner and also civil society organisations continued to promote awareness-raising on human rights, tolerance and non-discrimination. The role of the Office for Human and Minority Rights needs to be strengthened.

As regards **prevention of torture and ill-treatment**, the Ombudsman's Office acts as the national preventive mechanism. It needs more human resources and a solid and permanent internal structure. Penalties in the Criminal Code are not proportionate to the severity and gravity of the crimes of ill-treatment and torture. Proper legal safeguards against torture and abuse in social institutions have yet to be adopted. Overcrowding, especially in maximum security wards, poor living conditions, difficult access to specialist treatment programmes and inadequate access to healthcare in prisons are still matters of concern. Legislation covering detention in police custody, the prevention of torture and the internal complaints system needs to be amended to strengthen the rights of detainees in line with international standards. An effective internal non-judicial mechanism for reviewing complaints has yet to be set up. There has been no progress in changing the unlawful practice of using district prisons for police detention.

Concerning the **prison system**, implementing legislation for new laws on criminal punishment and on alternative measures and sanctions was adopted. Enforcement judges, in their main capacity of protectors of prisoners' rights, have been operational since October 2014. The probation service has expanded to 25 offices throughout Serbia.

A new law on **personal data protection** needs to be adopted to ensure full alignment with EU standards. Video surveillance, biometrics, security of data on the internet, processing and

protection of sensitive data as well as direct marketing remain inadequately regulated, leaving significant room for abuse. Legislation on processing sensitive data should be adopted urgently. There is a need to boost capacity and funding for the Office of the Commissioner for Free Access to Information of Public Importance and Personal Data Protection.

**Freedom of thought, conscience and religion** is guaranteed by the Constitution and generally respected. Several religious organisations are registered. Incidents related to religion have continued to decline. In addition to seven communities recognised as traditional religious communities, several religious organisations have been registered. The lack of transparency and consistency in the registration process continues to be one of the main obstacles preventing some religious groups from exercising their rights. Contested provisions of the rulebook on the register of churches and religious communities have not been changed. Access to church services in some minority languages is not fully guaranteed across Serbia.

As regards **freedom of expression**, there were several cases of threats and violence against journalists. Follow-up in terms of investigations, prosecution and final convictions has been very limited. A number of critical discussion programmes have been cancelled or have had their content and scope reduced. Statements by state officials in relation to investigative work of journalists have not been conducive to creating an environment in which freedom of expression can be exercised without hindrance. The commission tasked to look into unresolved cases of murdered journalists from 1999 and 2001 has made further progress in its work, with charges brought against several former security agency members for the murder of a publisher. However, the investigation of two other prominent murders of journalists has not progressed.

The three new media laws are being implemented, but their impact and effectiveness in terms of achieving the goals of the 2011 Serbian media strategy remain to be seen. The introduction of a media registry to bring more transparency to media ownership is at an early stage. The Commissioner for Access to Information of Public Interest reported several cases in which state bodies resorted to paying fines rather than disclosing the information requested. The introduction of a registration requirement to access the online National Economic Registry hampers the ability of journalists to research public information in confidentiality. The process of privatising state- and municipally owned media was started, albeit with some delay.

The Regulatory Body for Electronic Media has increased its monitoring of content. It has not reacted to programme changes that could affect the broadcasters' ability to meet the criteria on the basis of which they were awarded the frequencies. The regulator's independence needs to be strengthened. The Press Council has been more active in disclosing and analysing cases of breaches of professional journalistic standards and the Journalistic Code. The Press Council has raised major concern towards practices contrary to the ethics of the profession and the protection of privacy.

There is no consolidated record of the number of cases brought against the media for defamation, and fines are very low. Media reporting based on anonymous or leaked sources, detailing investigations, announcing arrests and quoting investigation documents continue to undermine trust in judicial institutions, breach personal data laws and challenge the presumption of innocence.

The internet is free and available with very little regulation. There has been no substantial progress in investigations on hacking attacks against websites occurred in 2014. Efforts are needed to identify and prosecute those suspected of violating internet freedoms.

Programming on public service broadcasters frequently features state officials from the governing parties and equal minded analysts, while the presence of the opposition and critical or independent commentators is less frequent.

**Freedom of assembly and association** is generally respected but the public assembly law needs to be fully aligned with the Constitution. During Serbia's hosting of the '16+1' summit of the states of Central and Eastern Europe and China in December, the authorities prohibited demonstrations of members of Falun Gong, arresting and expelling a number of EU citizens. A demonstration to commemorate Srebrenica was prohibited for security reasons. Activities of extreme right-wing organisations and violent groups of so-called football fans continue to be a cause of concern.

With regard to **property rights**, December 2014 amendments to the law on restitution extended the deadline for the start of financial compensation for confiscated property to 2018 while the period of repayment was shortened from 15 to 12 years. The Agency for Restitution had adopted around 34 000 opinions and first-instance decisions on the return of confiscated property out of 76 000 submitted claims. Property with an estimated value of over 1 billion euro has been returned to the original owners. A majority of the agency's decisions were approved by the Ministry of Finance as the second-instance decision body. The Ministry's insufficient staff levels led to delays in processing complaints.

Serbia's **non-discrimination** legislation is generally in line with European standards, with further alignment needed in particular as regards the scope of exceptions from the principle of equal treatment, the definition of indirect discrimination and the obligation to ensure reasonable accommodation for employees with disabilities. The action plan for the anti-discrimination strategy needs to be implemented. The office of the Commissioner for the Protection of Equality still lacks adequate premises and its capacity needs to be strengthened. The persons most discriminated against remain the Roma, lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, persons with disabilities and persons with HIV/AIDS who, together with human rights defenders, often face hate speech and threats. Instigating national, racial and religious hatred and intolerance is prohibited in the criminal code. Proper investigation, prosecution and sanctioning of hate-motivated offences remains essential.

Concerning **equality between women and men**, a Coordination Body for Gender Equality was set up in October 2014, replacing the Gender Equality Directorate in the Ministry of Labour, Employment, Veteran and Social Affairs. A sustainable institutional set up for promotion of gender equality with adequate resources needs to be ensured. (*See also Chapter 19 – Social policy and employment*). The increasing number of women killed by their partners is of concern. Emergency protection orders are not issued promptly, the number of shelters is insufficient and there is no state-run centre for victims of sexual violence and no national women's helpline. The protection of women against all forms of violence needs to be strengthened and mechanisms for coordinating the collection and sharing of data between all relevant actors in the system enhanced. Although the number of women members of parliament increased to 34 %, women's participation in politics and in the private sector remains very low.

The National Council on the **Rights of the Child** has restarted its work. Ensuring more effective coordination of children's rights and child protection systems should be prioritised, including in national policies. Administrative data are still not disaggregated to enable the status of vulnerable groups to be monitored, particularly with regard to Roma children and children with disabilities. A new action plan for children and a new national strategy for the prevention of and protection of children from violence are still needed.



The situation of children with disabilities in large institutions continues to be of concern. Family and parenting support services should be prioritised to prevent placement in institutional care. There is a need to further expand community-based services and ensure more integrated service delivery. The rulebook on recognising discrimination in education institutions needs to be adopted without further delays. Funding mechanisms for schemes to divert young people away from crime need to be decided on as a matter of priority. Mechanisms and services supporting asylum seekers need to be strengthened to become child-sensitive.

Regarding **integration of persons with disabilities**, laws on the movement of persons with disabilities with guide dogs and on the use of sign language have been adopted. Social inclusion needs to improve significantly, particularly with regard to employment, education and the availability of community-based services. The system of social services, including those for elderly persons, is still largely institutionalised. The treatment of persons with mental disabilities in institutions is still not regulated in accordance with international standards. The procedure for depriving persons with psychosocial and intellectual disabilities of their legal capacity should be aligned with international standards. *(See also Chapter 19 – Social policy and employment)*

A number of activities have been conducted with the aim of promoting the rights of **LGBTI** persons. Parliament has been active in hosting events related to rights of LGBTI persons. Police officers in all regional police departments were trained on working with victims of trans-/homophobic violence. Serbia was one of the signatories of the Joint Statement of Ministers of the region at the 2015 IDAHO forum. A Pride Parade was held in Belgrade on 20 September without major incidents for a second year in a row. LGBTI persons and activists often face hate speech and threats and in some cases physical violence. There is no centralised official data on the number of crimes motivated by homophobia and transphobia. School textbooks containing discriminatory content need to be repealed. Serbia has no procedures for legal gender recognition in place, even in cases of gender reassignment. Greater political commitment to promoting a culture of respect for LGBTI persons and to ensuring non-discrimination at work, in the health sector and the education system is still needed.

**Labour and trade union rights** are guaranteed by the Constitution and broadly upheld. However, the right to strike, collective bargaining and the functioning of social dialogue need further strengthening. Poor respect of tripartite dialogue remains of concern. The procedures and criteria for determining the representativeness of trade unions need to be agreed in a transparent way. Consultation of the Socio-Economic Council on legislative amendments remains limited. *(See also Chapter 19 – Social policy and employment)*

The 2011 Criminal Procedure Code contains provisions on **procedural rights** regarding injured party and witnesses. However, the legal framework remains to be completed, in particular when it comes to free legal aid, and the implementation of procedural safeguards fully assessed to ensure an effective protection system, supported by adequate staff, training and infrastructure. Support and protection for victims of crime is not in line with EU rules, and effective mechanisms for protecting victims' rights are lacking.

The legal framework for the protection of **minorities** and cultural rights is in place. Serbia is a party to the Framework Convention on National Minorities. The legislation is being implemented most effectively in the Autonomous Province of Vojvodina. It needs to be further stepped up, particularly in other parts of the country. Elections to the National Minority Councils took place in October 2014, when 20 national minorities elected their councils. In April, the Republican National Minority Council was re-established. A comprehensive revision of the Law on National Minority Councils to implement the relevant

decision of the Constitutional Court and to ensure it is in line with laws on the media, culture and education needs to be adopted. The State Fund for National Minorities is not operational yet. Effective functioning of local councils for inter-ethnic relations needs to be ensured. The legislation needs to be implemented consistently throughout Serbia, particularly in education, the use of languages, and access to media and religious services in minority languages. This should not affect learning of the official language, which is an important factor in the social inclusion of minorities. The public service broadcaster RTS needs to ensure more consistent access to information in minority languages. Following privatisation, public broadcasting services in minority languages need to be made sustainable. Representation of national minorities in public administration, particularly at local level, needs to be enhanced. Serbia is preparing a dedicated action plan on the protection of national minorities throughout the country by the end of 2015, as requested in the framework of chapter 23 negotiations.

The **Autonomous Province of Vojvodina** maintained a high degree of protection for minorities. The inter-ethnic situation remained good overall. However, in October 2014 following an incident at a football match in Belgrade between the national teams of Serbia and Albania, there were several attacks against the property of members of the Albanian minority. The Provincial Ombudsman's 2014 annual report noted that the law enforcement authorities seemed to have failed to act preventively. Majority of cases concern general discrimination on the basis of ethnicity.

Regarding the **municipalities of Presevo, Bujanovac and Medvedja**, the situation was stable overall. The dialogue between the central authorities and local ethnic Albanian leaders on a comprehensive programme of integration and economic recovery has not resumed. A more constructive cooperation of all stakeholders is needed. In order to address the inaccurate population figures resulting from the ethnic Albanians' boycott of the 2011 census and consequences on planning, the government decided to adopt an estimation of the population, with the help of independent international experts and in line with the recommendations by the Advisory Committee of the FCNM. The government's Coordinating Body continued performing its activities efficiently. Its role should be supported. In October 2014, the fourth generation of students was enrolled in the Department of Economics in Bujanovac and new scholarships were provided for students from Presevo and Bujanovac studying at the University of Novi Sad. Investment and grants to local entrepreneurs continued to be provided by central government. The region remains severely underdeveloped and the ethnic Albanian population continues to be underrepresented in public services.

The situation in the **Sandzak** area was mostly stable. The new Bosniak National Minority Council was elected and started work, thus resolving a long-standing problem. A more constructive cooperation of all stakeholders is needed on the ground. The Bosniak community continues to be underrepresented in the local administration, judiciary and police. The area remains among the most underdeveloped, with a high unemployment rate and a lack of adequate infrastructure and investment.

The adoption of a new **Roma** strategy and action plan remains outstanding. The third Roma seminar, held in June, concluded that good progress had been made with regard to civil registration but in all other areas progress was slow and uneven. The subsequent registration of undocumented citizens led to a fall in the number of 'legally invisible persons'. Systemic solutions have been found to prevent future reoccurrence of such cases. Further efforts are needed to ensure that children born to undocumented parents are registered immediately. The Roma continue to face difficult living conditions and discrimination in access to social protection, health, employment and adequate housing. Compliance with international standards on forced eviction and relocation still needs to be ensured. Legalisation of informal Roma settlements should be considered as a way of enabling them to be regulated and

covered by urban planning. Additional teaching assistants and health mediators are needed to address the high school drop-out rate among Roma children and poor access to healthcare. Such positions should be included in the national qualifications framework. Measures to address domestic violence in Roma families need to be stepped up.

According to the UNHCR, there are around 35 259 people who became refugees **refugees** and 203 140 **internally displaced persons** (IDPs) in Serbia as a result of the armed conflict in ex-Yugoslavia during the 1990s, of whom approximately 90 000 with displacement related needs and without a durable solution. The closure of the 10 remaining ‘collective centres’ hosting 227 refugees and 495 IDPs is a priority. The housing situation of displaced persons has improved slightly. Many refugees and IDPs still suffer from difficult living conditions, unemployment and poverty. Roma IDPs face double discrimination. The Law on Permanent and Temporary Residence needs to be implemented more consistently to allow IDPs without proper documentation to obtain basic rights. Serbia lacks a comprehensive strategy and action plan for resolving the protracted displacement situation and assisting IDPs with finding durable solutions.

#### **5.24. 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.*

There is **some level of preparation** in Serbia to implement the *acquis* on justice, freedom and security. In September 2015 the action plan required for the opening of rule of Chapter 24 was successfully finalised. **Some progress** was made, particularly in areas such as the fight against terrorism and drugs. Serbia is on the transit route for mixed migration of persons in need of protection and economic migrants via Turkey and Greece, towards northern Europe. The volume of mixed migration increased dramatically in the last year, weighing heavily on the asylum and migration framework, which is generally weak. Serbia is actively involved in international and regional police and judicial cooperation. In the coming year, Serbia should in particular:

- in close cooperation with EU Member States, continue its constructive approach in providing urgent respond to the migratory crisis situation and significantly strengthen migration management and asylum policies, with a specific focus on identifying people in need of protection;
- make significant further efforts to tackle the phenomenon of unfounded asylum applications lodged by Serbia’s nationals in EU Member States;
- establish a track record of proactive investigation, prosecution, final conviction and asset confiscation in cases of organised crime, including money laundering, and smuggling of people.

*(See also the specific recommendations on the fight against organised crime in section 2.3.)*

#### **Legal and irregular migration**

Serbia should be commended for its constructive approach in dealing with the migration crisis until now. Given its geographical location at the EU external borders, Serbia faces increasing mixed migration flows. The management of these flows, as well as ensuring borders surveillance, is a considerable challenge for the Serbian administration. As an immediate response to the crisis, Serbia made a substantial effort to ensure that third country nationals receive shelter and humanitarian supplies with EU and international support. A one-stop

centre in Preševo as well as refugee aid centers were established, close to the borders with the former Yugoslav Republic of Macedonia, Hungary and Croatia. In June, a working group on mixed migration flows was set up to elaborate a needs assessment. There has been a marked rise in criminal charges for human smuggling. In June, Serbia arrested nine customs officials suspected of letting people illegally cross the border with Hungary. 549 criminal charges were filed against 816 persons facilitating irregular migration. In the first half of 2015, 5 576 cases of illegal entry were detected at the common border with the former Yugoslav Republic of Macedonia, of which 98 % were detected by Serbian border guards. The implementation of the readmission agreement with the EU resulted in 2014 in the return of 6 962 people to Serbia (compared with 6 239 in 2013). Reception and accommodation capacity needs to be upgraded and adapted to increasing needs. Efforts are required to ensure that sufficient and well-trained staff both at central and local level can respond to the challenges and consequences of growing migratory pressure. Particular attention should be given to the needs of minors and vulnerable groups. Better coordination is required among all institutions involved in tackling irregular migration. Legislation on legal migration needs to be aligned with the *acquis*.

### **Asylum**

In September, the Serbian government adopted a "Response plan in the case of mass influx of migrants", which aims at managing flows of third country nationals who intend to seek asylum in the EU or in Serbia. Serbia's current accommodation capacity stands at 810 beds and through the implementation of the plan could be extended substantially. In January the Asylum Office was set up as a separate civilian unit within the border police directorate. It will be responsible for determining refugee status in the first instance. Up to 29 staff are planned with 19 positions occupied..

In 2014, Serbia faced some 16 500 intentions to apply (compared with 5 065 in 2013), but only some 1 400 people were effectively registered for asylum and 400 submitted an application. Only 18 interviews were conducted and 14 decisions taken, resulting in 8 rejections, 1 person granted recognition of refugee status and 5 people granted other forms of protection. From January 2015 to September 2015, 169 156 migrants were registered when transiting through the territory of the Republic of Serbia. Only 546 applied for asylum. In the same period, 16 persons got asylum and 14 subsidiary protection. 28 received a negative decision.

There is an urgent need for short-term measures to improve the processing of applications including the establishment of a protection-sensitive screening mechanism within the asylum procedure aimed at distinguish between third country nationals and persons in need of international protection and increase accommodation capacity. Comprehensive, overarching reform is urgently needed to rationalise the whole asylum system and bring it into line with EU *acquis* and international standards. Serbia needs enough well-trained staff to handle the increasing number of applications. Closer cooperation between the asylum bodies and the border police is necessary. Allegations of corrupt practices and activities by organised crime groups involved in people smuggling continue to be made.

### **Visa policy**

Interconnection of the integrated Serbian Visa Information System with diplomatic and consular missions and other relevant databases has yet to be completed. The list of countries for which visas are required has not been fully aligned with the *acquis*. On implementation of the visa-free regime with the EU, Serbia continued to take measures to address the phenomenon of unfounded asylum applications lodged by Serbian nationals in EU Member States and Schengen associated countries. Border controls and surveillance were stepped up

and 12 criminal charges for facilitating the abuse of the right to asylum in a foreign country were filed. The high number of unfounded asylum applications filed by Serbian citizens in EU Member States and Schengen-associated countries continues to be a problem as the total share of applications from Serbian citizens to the top five targeted destinations in 2014 is close to 44% (around 18 847 out of the total 42 840). Serbia continues to cooperate on measures to reduce the number of unfounded asylum claims, partly through operational cooperation with Member States and awareness-raising campaigns. Both operational checks on tourist agencies and transport companies and border control and surveillance were improved. Policies to improve the social and economic inclusion of the most vulnerable groups of the population most likely to migrate, in particular Roma, need to be stepped up and systematically funded in order to have a practical impact on the situation, albeit in the medium to long term. The capacity and resources to allow returnees to reintegrate remain limited.

### **Schengen and external borders**

Serbia continued to improve infrastructure and equipment at border crossing points. In January a risk analysis unit was set up in the border police directorate with a total projected staff of 14 (currently 12). It remains to be adequately staffed to become operational. In March, a new head of the border police was appointed, after an eight-month gap. Coordination between various border agencies needs to be improved. A new Integrated Border Management (IBM) strategy, in line with the EU concept, remains to be adopted. Measures to prevent corruption include shift rotations of border police officers carrying out border checks and border surveillance.

Serbia intensified its regional cooperation on border management. However, these efforts were overshadowed by the very sharp increase in the flows of third country nationals transiting through the region. The Joint Centre for Police Cooperation between Bosnia and Herzegovina, Montenegro and Serbia, in Trebinje, continued to work with liaison officers from Bosnia and Herzegovina and Montenegro with a view to improving regional capacity to counter cross-border crimes and illegal migration. However, Serbia needs to urgently appoint a liaison officer. An agreement with Bosnia and Herzegovina to block alternative routes across the state border is still pending. Cooperation with Montenegro in the area of border management, including on identification of unauthorised border crossing places needs to be stepped-up. Serbia continues to cooperate actively with Frontex.

As part of the dialogue on the implementation of the integrated border management (IBM) protocol, Serbian authorities are cooperating on technical activities related to setting up the six permanent IBM crossing points with Serbia/Kosovo. The first annual meeting on the rules for travel across the administrative boundary line took place in March. In April, both sides agreed to open two new border crossing points in Kapi and Izvor. In February, Serbia and Kosovo began consultations on migratory flows. A second meeting was held in April.

### **Judicial cooperation in civil and criminal matters**

Serbia needs to take measures allowing direct cooperation between Serbian and foreign courts and centralising the receipt of requests to courts for international judicial cooperation. Additional training is needed to improve knowledge of judicial cooperation and build the necessary language skills. Specifically on **judicial co-operation in criminal matters**, Serbia has not yet concluded a cooperation agreement with Eurojust because of the delay in updating its legal framework for protection of personal data. As regards **judicial co-operation in civil matters**, Serbia has not yet acceded to the 1996 Hague Convention on Child Protection.

## **Fight against organised crime**

### Track record

In the reporting period, 277 criminal charges were brought against 516 people for illegal crossing of the state border and people smuggling. In July 2015, an important drug lord was convicted to 20 years imprisonment, together with some associates. There remain indications that the network they belonged to, remains active in the smuggling of cocaine to Europe. In 2014, 2 138 criminal charges were brought for drugs offences. From January to May 2015, 22 kg of heroine, 8 kg of cocaine, 202 kg of marijuana and 8 kg of hashish were confiscated. The total amount of heroin seized in 2014 (193 kg) was 3.4 times that seized in 2013 (56.6 kg). Twelve organised criminal groups involved in drug trafficking were dismantled.. Seven criminal charges on suspicion of human trafficking (involving 14 perpetrators and 16 victims) were filed from January to April 2015. In 2014, 98 final judgments on human smuggling, convicting 142 people, were issued.

Precautionary **freezing of assets** at an early stage of an investigation is rarely applied. Assets thus often disappear, which results in a poor track record of confiscating criminal assets at the time of final conviction. The number of **final convictions** for organised crime activities remains low compared to the estimated scale of the regional and domestic criminal market. A track record of proactive investigation remains to be established. Final convictions and effective dismantling of criminal organisations remain rare.

### Institutional and operational capacity

Operational cooperation at bilateral and regional level further improved. In March, a first meeting between the police directors of Serbia and Kosovo took place with the support of EULEX. The police has access to Interpol databases of wanted persons, stolen motor vehicles, documents and works of art. Cooperation with Europol has intensified but the liaison officer in The Hague has not been appointed yet. Negotiations on cooperation with the European Police College (CEPOL) were finalised in April and a working arrangement is under preparation.

Three specialised units, for crime analysis; terrorism and extremism; and drug prevention, addiction and repression need to be adequately staffed, trained and equipped. Further efforts are needed to reform the organisation of the police. The level of inter-agency cooperation, information flow and exchange between law enforcement agencies needs to be further improved. A central criminal intelligence system and harmonised statistical data have yet to be set up. Cooperation between the police and the special prosecutor's office for cybercrime is improving. The High-Tech Crime Unit remains understaffed, considering the wide range of complex criminal activity it is expected to investigate. The accreditation process for the forensic institute of the Serbian police was completed in November 2014. New DNA and drug chemistry laboratories became operational in the Serbian National Crime Technical Centre.

Very few cases of **trafficking in human beings** have been successfully investigated, despite Serbia being a source, transit and destination country for trafficked people and facing increased migratory pressure. The draft anti-trafficking strategy and action plan are still pending adoption. A comprehensive, multidisciplinary and victim-oriented approach to human trafficking has yet to be developed. While Serbia has a coordinator for operational cooperation in the Ministry of Interior, it has yet to appoint a national rapporteur on combating human trafficking in line with the *acquis*. The Centre for Protection of Victims of Human Trafficking needs to strengthen its capacity. No state-run emergency shelter is available for the victims of trafficking and there is no appropriate centre for child victims. Adequate funding needs to be earmarked for assisting victims of human trafficking; the

relevant fund has not yet been set up. There is a need to further improve identifying, protecting and assisting victims of trafficking.

On money laundering, Serbia's capacity to run complex financial investigations alongside criminal investigations needs to be stepped up. Law enforcement agencies and prosecution services do not have access to relevant databases in line with data protection rules and inter-agency cooperation. The directorate that manages seized assets lacks staff and capacity, including storage capacity. An asset recovery office in line with the *acquis* still needs to be set up. In order to handle money laundering and financial crime cases more efficiently, exchange of data and pro-active co-operation between relevant agencies needs to be improved.

#### Legal framework

The ministry has started to reform its human resources system. This should contribute to limiting the exposure of police staff to politically motivated decisions. The legal framework for police cooperation needs to be further aligned with the *acquis*. The Public Prosecutor leads both the pre-investigation and investigation phases of cases. It is important to streamline cooperation between the prosecution and the police and improve the monitoring and performance of criminal justice. Hence, a number of shortcomings in the investigation phase need to be addressed through amendments to the Criminal Procedures Code, notably as regards the timeframe and arrangements for using special investigative measures. The police's dependence on the security and intelligence agencies to carry out certain special investigative measures in criminal investigations remains a matter of serious concern. The investigative powers of the border police and customs remain limited. The law on confiscation of criminal assets needs to be aligned with the *acquis*.

#### Strategic framework

In December, Serbia adopted a national strategy for the fight against money laundering and terrorism financing. A financial investigation strategy was adopted in May. The draft anti-trafficking strategy and action plan are still pending adoption. Serbia has no strategy on cybercrime and has not yet developed the capacity to make a strategic analysis of the organised crime situation on its territory based on Europol's methodology for Serious and Organised Crime Threat Assessment (SOCTA). Intelligence-led policing based on crime mapping and systematic use of threat assessments has not been developed. Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

#### **Fight against terrorism**

In October amendments to the Criminal Code were adopted, criminalising the phenomenon of foreign terrorist fighters in line with UN Security Council Resolution 2178 (2014). In the reporting period, 21 people were convicted for terrorism. In January, a coordination group for the fight against terrorism, prevention of radicalisation and extremism was set up. A new Law on Limiting the Disposal of Assets to Prevent Terrorism was adopted in March. A single national database, more efficient procedures for data exchange and better inter-agency operational cooperation are still needed. Efforts need to be enhanced to identify, prevent and disrupt the flow of foreign terrorist fighters traveling to conflict areas such as Iraq and Syria.

#### **Cooperation in the field of drugs**

Good international and regional cooperation continued on drugs, in particular with the seizure of 168 kg of marijuana in a joint operation with the former Yugoslav Republic of Macedonia. The national drug strategy and action plan were approved in December. Appropriate financial resources are needed to ensure it is properly implemented. The Prosecutor's Office for

Organized Crime initiated several investigations for the criminal offense of unauthorized production and trafficking of narcotic drugs and criminal alliance. The national focal point for cooperation with the European Monitoring Centre for Drugs and Drug Addiction was moved from the Public Health Institute to the Ministry of Health. Transfer of know-how following this move should be ensured. At interdepartmental level, there is a Commission for Psychoactive Controlled Substances and the Office for Combating Drugs, which is still not operational. As part of the national drug strategy, a clear definition of the responsibilities and powers of the various institutions as regards inter-agency cooperation is needed. The establishment of an early warning system is pending. Serbia will need to ensure proper staffing of and smooth exchange of data between the various bodies and departments active in this area. The lack of secure storage of seized drugs and precursors prior to destruction remains an issue of concern. An appropriate process for the destruction of precursors has yet to be set up.

### **Customs cooperation**

Regional and international customs cooperation continued, including through joint actions (*see also Chapter 29 — Customs union*). Serbia needs to ensure that the IT strategy for the customs administration is fully aligned with EU legislation on the use of technology for customs purposes. The investigative powers of customs officers and their ability to exchange data with other agencies at the border need to be broadened.

For measures against **counterfeiting of the euro**, see *Chapter 32 — Financial control*.

### **5.25. 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 scientific excellence and solid investment in research.*

Serbia is at **good level of preparation** in science and research. **Some progress** was made in improving the framework for science, research and innovation. In the coming year, Serbia should in particular:

- take actions to modernise organisation of research and innovation in line with the European Research Area and Innovation Union;
- stimulate cooperation between industry and academia and increase level of investment in research.

Serbia participates in EU research and innovation programmes Horizon 2020. It has taken measures to ensure good administrative capacity notably established a good network of National Contact Points (NCPs), nominated representatives in the Horizon 2020 Programme Committees and organised at regular intervals workshops and information days on Horizon 2020. Based on first Horizon 2020 statistics, participation is good. Serbia obtained for the first time a grant from the European Research Council (ERC) which demonstrates scientific excellence. Further efforts remain necessary in particular to increase participate in research and innovation actions on societal challenges and involve private sector in research.

On the **European Research Area**, limited policy actions have been taken in the last year. In 2014, the level of investment in research decreased to 0.78% of GDP compared to almost 1 % in 2013. The level is now substantially lower than Serbia's own national target. Serbia nominated its representative in the European Research Area Committee (ERAC) and related ERA advisory bodies and attends regularly the meetings.



On measures for the **Innovation Union**, the Serbian Innovation Fund continues to be active, and has successfully implemented 55 projects.

## 5.26. Chapter 26: Education and culture

*The EU supports cooperation in education and culture through funding programmes and through the open method of coordination. Member States must also prevent discrimination and facilitate education of children of EU migrant workers.*

Serbia is at **good level of preparation** in the area of education and culture. **Some progress** was made with the adoption of an action plan for the implementation of the education strategy. In the coming year, Serbia should in particular:

→ start preparations for establishment of a national Erasmus+ agency;

→ implement the action plan with education reforms according to schedule.

In **education, training and youth**, Serbia continued to participate successfully in Erasmus+. Preparations for the opening of a National Agency, which is needed for full participation in Erasmus+, have not yet begun.

Serbia adopted an action plan for the new education strategy in January 2015. However, several measures have been delayed and need to be stepped up. Additional investment (human and infrastructure) in education should target pre-school and basic education levels. Pre-school education benefits about 50% of children under 6 years whereas the EU target for 2020 is 95%. Serbia, at 8.7% , has already met the EU 2020 target on early school leavers (<10%). The reforms for the training of primary and secondary school teachers should be stepped up and focused on student-centred teaching, developing basic and transversal skills in students.

Serbia ranked 43 out of 65 in the 2012 PISA evaluation. There was some progress in reforming the vocational education and training system to better meet the needs of the labour market. The National Qualifications Framework needs to be finalised and cross-referenced with the European qualifications Framework. The ongoing reform of higher education needs to put particular emphasis on the relevance of its study programmes, as the unemployment rate for graduates with tertiary education (aged 19-24) stands at 40 % and emigration of young and skilled people is high. The lack of an efficient system for the recognition of foreign diplomas continues to be a serious impediment to graduates' further study and employment. A new strategy on youth 2015-2025 and action plan were adopted in February. Serbia contributed to the new EU Youth report. It participates very actively in the Erasmus+ Youth in Action strand.

On **culture**, Serbia ratified the European Convention for the Protection of Audiovisual Heritage in May. It is participating successfully in the Culture sub-programme of the Creative Europe programme and in Europe for Citizens. Serbia has made some progress in aligning its legislation in the audio-visual media sector in order to be able to participate in the MEDIA sub-programme of Creative Europe.

## 5.27. 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 is at an **early stage of preparation** in the areas of environment and climate change. **Some progress** was made in further aligning policies and legislation with the environment and climate change *acquis* and civil protection in particular as Serbia submitted its intended

nationally determined contribution to the expected 2015 Paris climate agreement. In the coming year, Serbia should in particular:

→ finalise the setting up of systematic strategic planning, and start implementing the country's contribution to the expected 2015 Paris Climate Agreement;

→ consolidate its strategic planning and administrative capacity to further align its policies with EU policies, and accompany this with substantial investment linked to strategic priorities;

→ take measures to set up an effective and permanent financing system for environment and climate action, including a stable financing of essential basic services, such as environmental monitoring;

In the area of the **environment**, no progress can be reported on *horizontal legislation*. Additional efforts are still required to improve reporting from agricultural and mining operators. Serbia maintains a high level of timely and complete data delivery to the European Environment Agency in the European Environment Information and Observation Network (EIONET). It needs to boost capacity for effective public participation and consultation in the environmental decision-making process, particularly at local level.

The annual update on **air quality** showed that seven of Serbia's eight urban agglomerations exceed the margin of tolerance of several pollutants. The air quality plan for Belgrade remains to be adopted and air quality planning for the remaining agglomerations needs to be accelerated. Work on a national emission reduction plan for the power sector was completed but remains to be adopted. Serbia missed its Energy Community deadline to implement the 1999 Directive on Sulphur Content in Fuels.

On **waste management**, work started on the regional waste management centre for the Subotica district, which will serve approximately 280 000 people. Non *acquis* compliant landfills need to be closed more quickly. A regulation on the plan for reducing packaging waste 2015-2019 was adopted in December. Additional efforts are needed to meet relevant targets for glass- and metal-containing packaging waste. More national investment and improvements to address systemic weaknesses in the implementation of environmental projects will be needed if management of all special waste streams is to comply with EU requirements. Full alignment with the Waste Framework Directive remains to be achieved and enforcement of waste legislation needs to improve.

As regards **water quality**, no progress can be reported. A national strategy and action plan on water protection have yet to be adopted. Priority should be given to aligning the legislation with the *acquis* and implementing the code of good agricultural practice.

As regards **nature protection**, the implementing provisions of Annex VI of the Habitats Directive have been included in Serbian fisheries legislation in October 2014. To overcome the current standstill in Natura 2000, the institutional framework for designating and managing future Natura 2000 sites needs to be streamlined and adequately resourced. The legal base and administrative capacity for enforcement of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) needs to be improved. Investments in hydropower need to comply with nature protection obligations.

As regards **industrial pollution and risk management**, amendments in March to the Law on Integrated Pollution Prevention and Control defer the deadline by which existing installations must hold a valid permit from 2015 to 2020. Serbia has not yet addressed the *acquis* requirement of either a fully integrated permitting process covering all areas or formal

consultation between permitting authorities. Capacity constraints hamper progress in implementing the legislation on prevention of chemicals accidents.

As regards **chemicals management**, March amendments to the Law on Chemicals and the Law on Biocides provide for a clear delineation of previously overlapping inspection remits between environment, market and sanitary inspections, and veterinary inspections for biocides. Capacity for environmental inspection is adequate.

In **civil protection**, disaster risk reduction and disaster management need to be treated as a matter of priority, particularly in the light of the severe floods in 2014. Serbia became the 33rd participating state in the EU Civil Protection Mechanism in July. Serbia needs to ensure that the Niš Humanitarian Centre does not duplicate the role of the EU Civil Protection Mechanism in the region. Serbia will also need to accomplish a countrywide risk assessment and assessment of its risk management capabilities.

On **climate change**, work on a comprehensive countrywide climate policy and strategy commenced. It needs to become consistent with the EU 2030 framework and it should be well-integrated into all relevant sectoral policies. Serbia submitted its intended nationally determined contribution (INDC) to the expected 2015 Paris Climate Agreement in June. The INDC is an economy-wide emissions reduction target of 9.8% by 2030 in comparison to 1990 levels, and it also covers aspects related to adaptation to climate change. Legislation on greenhouse gases emissions monitoring, reporting and verification for aligning with the EU Emissions Trading System was prepared for adoption. Activities pertaining to the establishment of a monitoring and reporting system for greenhouse gases emissions in line with EU Monitoring Mechanism legislation kicked off in May 2015. Serbia moreover implemented the first required measure of the Montreal Protocol, to freeze hydrochlorofluorocarbons (HCFC) consumption at the baseline level in 2013. Serbia started the preparation of a National Adaptation Plan. The National Committee for Environment and Climate Change was established in November 2014. Considerable strengthening of administrative capacities is needed as well as awareness raising activities.

## 5.28. Chapter 28: Consumer and health protection

*EU rules protect consumers 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 and communicable diseases.*

Serbia is **moderately prepared** in consumer and health protection. **Some progress** was made, notably with the establishment of the Consumer Council. In the coming year, Serbia should in particular:

- strengthen the administrative capacity of relevant authorities for consumer protection;
- work on strengthening the overall financial sustainability of the public health system.

On **consumer protection**, in December, the Consumer Council, was set up to encourage cooperation between consumer protection organisations. The National Consumer Complaint Register is operational, but not publicly accessible. The number of complaints filed by consumers has increased. The Rulebook on the operation of alternative dispute settlement entities was adopted in August. Cooperation between the line ministries and consumer organisations needs to increase, as does cooperation between consumer protection organisations. The administrative capacity of the authorities for consumer protection and market surveillance needs to be further strengthened.

On **product safety-related issues**, the new law on Safety Items of General Use has not been adopted. Alignment with the General Product Safety Directive should be further improved

through amendments to the law on product safety. On **non-safety-related issues**, the amended Law on Protection of Users of Financial Services was adopted in January, further aligning legislation with the *acquis*.

In the area of **public health**, the newly established **e-Health** Unit in the Ministry of Health is not operational. The EU-funded centralised electronic health record system is not yet fully integrated. A new law on health records was adopted in November. The poor financial situation of the public health fund puts the sustainability of the sector in question. Shortages of medical and administrative staff in primary healthcare centres pose difficulties, especially in rural areas. Greater human resource management and organisational capacity is needed, and a national plan for human resources in the health sector needs to be implemented. New programmes of specialisation and professional development should be developed. No progress was made in the preparation of a new strategy on **tobacco control**.

On **communicable diseases**, surveillance and response capacity remain limited and require modernisation. Further alignment of the national legislation with the *acquis* is required. A centralised health information and communication system has to be developed. More attention needs to be given to effective, sustainable financing of disease-specific strategies, including the national HIV/AIDS strategy and awareness-raising, notably on the importance of child vaccination. Additional work is needed in particular on surveillance of antimicrobial resistance and inter-sectoral cooperation.

On **blood, tissues, cells and organs**, alignment with the *acquis* and development of administrative capacity are still at an early stage. The administrative and technical capacity of the Directorate for Biomedicine needs strengthening and a legislative framework that outlines its competences and responsibilities in terms of oversight of the sector needs to be established. Overall, EU based quality and safety standards and proper inspection services of the sector need to be developed.

A number of rulebooks were adopted in the field of **pharmaceuticals**, in particular the rulebook on conditions for importing medical products and devices lacking marketing authorisation. Community-based **mental health** services still need to be developed.

On **drug abuse prevention**, the government office for the fight against drugs is not yet operational. In December, the government adopted the strategy for drug abuse suppression (2014-2021) and an action plan (2014-2017). On **rare diseases**, the Law on the Prevention and Diagnosis of Genetic Diseases, Genetic Anomaly and Rare Diseases was adopted in January. Continued efforts are needed to facilitate implementation.

## 5.29. 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 as well as adequate implementing and enforcement capacity and access to the common computerised customs systems.*

Serbia is **moderately prepared** for the customs union. **Good progress** was made on transit, with the adoption of the amended customs law. In the coming year, Serbia should in particular:

- upgrade or renew the customs declaration processing system and integrate the risk management;
- enhance and modernise management of the customs administration.

As regards **customs legislation**, an amended customs law was adopted in March, introducing a legal basis for use of the EU's new computerised transit system (NCTS). The customs tariff

has been aligned with the 2015 EU Combined Nomenclature. Simplified procedures for express shipments have been introduced. However, the law on the customs administration has not yet been adopted and legislation on cash controls, cultural goods and duty relief on imports of new production equipment still needs to be aligned with the *acquis*. Legislation on customs-related security initiatives has yet to be implemented. As of February, the rules of origin under the Stabilisation and Association Agreement have been harmonised with the Convention on Pan-Euro-Mediterranean preferential rules of origin.

The customs administration continued to strengthen its **administrative and operational capacity**. In 2014, a 12 % increase in customs duty collection was achieved. At unilateral basis, Serbia ratified the convention on the simplification of formalities in trade in goods and the convention on a common transit procedure in June 2015, as part of its preparations to accede to both conventions. The national NCTS is fully operational. A new centralised system for the management of bank guarantees is operational. The customs declaration processing system was further upgraded. Strategic and modern management techniques, including quality assurance and change management, are lacking and the IT strategy needs to be updated. Work on setting up a functional, interconnected IT system progressed, but the IT division continues to lose competent staff.

Risk management systems needs to be strengthened and harmonised. Integrity among customs officials was addressed by opening 99 disciplinary procedures against 113 customs officers for serious breaches of official duty. The customs laboratory needs to be further equipped. Serbia participates in the Customs 2020 programme.

Customs procedures were implemented without incident at the crossing points between Serbia and Kosovo. Closing the illegal crossing roads / by-passes between Serbia and Kosovo would help reduce illegal trade and smuggling of petrol and other goods.

### **5.30. 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, with Serbia joining the EU Civil Protection Mechanism. In the coming year, Serbia should in particular:

→ stop applying safeguards on selected agriculture products, which are not justified under the Stabilisation and Association Agreement and which point to weaknesses in administrative capacity to implement trade policy.

On the **common commercial policy**, no progress was made with Serbia's accession to the World Trade Organisation. WTO membership remains dependent on the adoption of a WTO and EU *acquis*-compliant law on genetically modified organisms and on the completion of market access negotiations with a number of WTO members.

On **administrative capacity**, a formal coordination structure for trade policy issues exists, consisting of relevant government services. In 2015, Serbia took safeguard measures on EU imports of milk, cheese, butter and pork. Consultations with the authorities on the justification for these measures were not conclusive. Serbia should therefore discontinue the safeguard measures without delay and avoid applying such measures unless fully justified. The capacity to collect market statistics and consult stakeholders remains weak.

The government updated the regulation on dual-use goods and adopted a regulation on customs control of exports and imports which could be used for capital punishment, torture or

other degrading treatment. Serbia would benefit from joining some of the international regimes overseeing national export control systems, such as the Wassenaar Arrangement.

As concerns **bilateral agreements with non-EU countries**, Serbia is still negotiating a free trade agreement with Ukraine. The Serbian parliament ratified a bilateral investment treaty with Canada in April.

Some progress has been made on **development policy** and **humanitarian aid**. Serbia acceded to the EU Civil Protection Mechanism in 2015 and set up a national system for disaster relief.

### **5.31. Chapter 31: Foreign, security and defence policy**

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

Serbia is **moderately prepared** in foreign, security and defence policy. **Some progress** was made as Serbia continued to participate in civil and military crisis management missions. In the coming year, Serbia should in particular:

- improve alignment with EU declarations and Council decisions;
- adopt legislation on the tracking mechanism for the implementation of EU restrictive measures.

Regular **political dialogue** between the EU and Serbia on foreign and security policy continued. On the **common foreign and security policy (CFSP)**, a law on implementation and tracking of the enforcement of restrictive measures has yet to be adopted. Serbia aligned itself, when invited, with 26 out of 40 EU declarations and Council decisions (representing alignment of 65%, compared with 62 % reported last year).

Serbia did not align itself with Council decisions, including EU **restrictive measures** on the illegal annexation of Crimea by Russia and events in eastern Ukraine. Nor did Serbia align itself with such Council decisions on Bosnia and Herzegovina, or Moldova.

High-level contacts with Russia continued. Russia's President visited Serbia in October 2014. Serbia's President attended the celebration of Victory Day in Moscow and members of the presidential guard participated in the military parade. Serbian and Russian airborne forces held joint military drills in November 2014 and together with Byelorussians forces in September 2015. Contacts with Ukraine were also strengthened. Serbia continued to support the territorial integrity and sovereignty of Ukraine, including Crimea. Serbia's Prime Minister and the Ukrainian President exchanged invitations for reciprocal high-level visits and Serbia delivered humanitarian assistance to Ukraine in April. In July, Serbia's Minister of Foreign Affairs visited Kiev in his capacity as OSCE chairman in office. Serbia also further strengthened its relations with China. China's Prime Minister visited Belgrade on the occasion of the '16+1' summit of the states of Central and Eastern Europe and China in December. Serbia's President attended the celebration of victory in World War II in Beijing together with the Serbian military, who participated in the parade. Serbia's Prime Minister visited the United States in June and September 2015.

On **non-proliferation**, Serbia ratified the UN Arms Trade Treaty in October. A new law providing for amnesty and legalisation of illegally possessed weapons and ammunition allowed the handing over of more than 2000 weapons, 160000 ammunitions and 1000 explosives, while nearby 4500 requests for registration of illegally held weapons were submitted. Serbia adopted a new law on trade in arms and military equipment. Serbia's 2008 application to join the Wassenaar Arrangement on export controls for conventional arms and

dual-use goods and technologies is pending. Ratification of the Additional Protocol to the Nuclear Non-Proliferation Treaty is still pending.

Serbia continued to engage actively in **cooperation with international organisations**. In January, it took the chair of the Organisation for Security and Cooperation in Europe (OSCE). Serbia increased its cooperation with NATO by adopting an Individual Partnership Action Plan in December and expressed willingness to engage in regular political dialogue.

Serbia continued to participate in civil and military crisis management missions under the **common security and defence policy** (CSDP), in particular EU NAVFOR Atalanta, EUTM Somalia, EUTM Mali and EUFOR RCA. In June, parliament approved Serbia's participation in EUMAM RCA. Furthermore, Serbia took part in UN operations, in particular UNIFIL, UNOCI, MONUSCO, UNFICYP, UNMIL, UNTSO and MINUSCA. It also approved Serbia's participation in the following UN operations for 2015: MINURSO, MINUSMA, UNMOGIP, UNMISS, UNAMID, UNISFA, UNDOF and MINUSTAH.

### 5.32. Chapter 32: Financial control

*Based on international standards, EU financial control rules promote sound financial management of national income and expenditure. They also 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. **Good progress** was achieved in the past year, especially in external audit and protection of the EU's financial interests. However, managerial accountability principle is not yet fully embedded in the management culture and responsibilities are not delegated. Significant efforts are needed to implement public internal financial control (PIFC) at all levels of administration and in state-owned enterprises. In the coming year, Serbia should in particular:

- improve implementing legislation for PIFC in line with the international standards;
- adopt and start implementing the new PIFC strategy and systematically ensure implementation of the government's recommendations on the annual report on PIFC;
- resolve impediments to further capacity development of the State Audit Institution.

#### Public internal financial control

Serbia needs to adopt a new public internal financial control **strategy** and **action plan** for 2015-2020. The action plan is to be embedded in the wider public financial management reform programme.

The **Central Harmonisation Unit (CHU)** should ensure a consistent approach to PIFC by ensuring better coordination and guidance for public-sector organisations. The CHU has prepared an annual review of implementation of PIFC in the public sector since 2012, but it neither provides a comprehensive analysis of systemic weaknesses nor proposes corrective measures. The future reporting would benefit from an assessment of implementation of the PIFC strategy and the State Audit Institution's findings on public-sector internal control.

**Financial management and control (FMC)** in Serbia is regulated in line with the Committee of Sponsoring Organisations (COSO) model and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). The implementing legislation still needs to be strengthened with regard to managerial accountability and management of irregularities. The focus is still on the legality and regularity of financial transactions. Risk management is not applied systematically and will need to be further developed. A key challenge is also to ensure appropriate internal control in smaller institutions and at local

level. Senior public-sector managers will need to be trained to understand their specific role and responsibilities on FMC. The **centralised budget inspection** function still needs to be regulated, taking account of compatibility with PIFC requirements

**Internal audit** in the public sector is still developing as a profession. Further efforts are required to ensure that senior management understands the purpose of internal audit and actively supports it so that it can add value to the organisation. The situation across the public sector is diverse in terms of staffing, functional independence, audit planning, management acceptance and types of engagement. Most of the central institutions have an audit charter and they perform audits according to strategic and annual audit plans. Many auditors are still asked to perform additional duties that jeopardise their professional independence. The lack of fully developed internal control in the organisations limits the type and scope of internal audit engagements and their added value to management. The role of internal audit needs to be strengthened as well as management acceptance of this function.

#### External audit

The **constitutional and legal framework** is in line with the INTOSAI standards. The independence of the State Audit Institution (SAI) is anchored in the Constitution. The SAI law provides for an exhaustive audit remit and guarantees the SAI's functional, organisational and financial independence.

On **institutional capacity**, the SAI is governed by a Council, which has five members, including a president, nominated by parliament. The SAI has been allocated 431 posts in total. At the moment, the SAI has 251 employees, and 212 audit staff. Lack of adequate premises is preventing further recruitments and is limiting the SAI's ability to fulfil its audit mandate. The responsibility assigned by the law to the SAI to detect errors and file with competent authorities misdemeanour, economic offence and criminal charges against individuals further constrains the SAI's limited audit resources. The SAI is implementing its 2011-2015 strategic development plan. The SAI has an internal audit function with one auditor. Remaining two posts are to be filled to meet international standards.

To enhance the **quality of audit work** the SAI adopted in April financial and performance audit manuals based on the INTOSAI's professional standards (ISSAI) framework. In July it set up a specific sector for audit methodology and quality control. However, only one out of nine staff members has been appointed so far. Performance audit work is gradually expanding. However, parallel reforms are needed in Serbia's overall public financial management system so that the SAI can meaningfully audit economy, efficiency and effectiveness of government spending of public money.

On the **impact of audit work**, the SAI has proactively contributed to improvement of the public-sector internal control standards in Serbia. The SAI's annual audit report to parliament is discussed in the Committee for Finance, the Budget and Control of Public Funds. The SAI improved its cooperation with stakeholders and increased its communication with the media.

#### Protection of the EU's financial interests

As regards **acquis alignment**, the national legislation incorporates the main components of the Convention on the Protection of the EU's Financial Interests and the three protocols to it, and lays down the obligation to safeguard evidence. The **national anti-fraud coordination service (AFCOS)**, has been set up as an independent unit under the Minister of Finance, with an appropriate legal basis in the budget system law and Ministry of Finance Systematisation Act. AFCOS's capacity has yet to be proven in practice. An AFCOS network involving other relevant authorities needs to be set up. No national anti-fraud strategy has been adopted yet.



On **cooperation with the European Commission**, a track record of reporting suspected cases of irregularity and fraud needs to be developed. A Cooperation Agreement with the European Anti-Fraud Office (OLAF) has yet to be signed. Serbia has set up basic procedures for reporting of irregularities and suspected fraud cases. An online reporting has also been established through the OLAF Irregularity Management System.

#### Protection of the euro against counterfeiting

The national legislation is **aligned** with the *acquis*, except for authentication of euro coins and handling of euro coins unfit for circulation. Serbia still needs to ratify the 1929 International Convention for the suppression of counterfeiting currency and to implement the relevant parts. **Technical analysis** of counterfeit money, including euro banknotes and coins, is performed by the National Bank, which has a dedicated department with 13 staff. Employees are regularly trained. The National Bank concluded formal **cooperation agreements** with the European Commission on coins in 2013 and with the European Central Bank on banknotes in 2014. Cooperation has started with neighbouring countries. At national level, cooperation between the National Bank and the Ministry of Interior has been formalised on transfer of suspected counterfeit money.

### **5.33. Chapter 33: Financial and budgetary provisions**

*Rules for funding the EU budget provide for contributions based mainly on the gross national income of each Member State as well as from value-added tax and customs duties.*

Serbia is at an **early stage of preparation** with regard to financial and budgetary provisions. **No progress was made.** In the coming year, Serbia should in particular:

→ set up the administrative body which will coordinate various institutions involved in the own resources system.

There were no developments in the fields of **traditional own resources**, the **value added tax-based resource** or the **gross national income-based resource**. (*For progress in individual areas, see: Chapter 16 — Taxation, Chapter 18 — Statistics, Chapter 29 — Customs Union, Chapter 32 — Financial control*).

Regarding **administrative infrastructure**, the administrative capacity of the institutions in charge of the relevant policy areas needs to be further strengthened and developed. A coordinating agency tasked to ensure the correct calculation, accounting, forecasting, collection, payment, control and reporting to the EU on the implementation of the EU's own resources rules still needs to be set up. Despite some improvements in the reporting period, instruments to fight and reduce tax evasion, fraud and the informal economy need to be further strengthened.

## Annex I - Relations between the EU and Serbia

Within the framework of the **accession negotiations**, the analytical examination of the EU *acquis*, was successfully completed in March 2015. So far, 14 screening reports have been tabled in the Council. The action plans for chapters 23 and 24 have been finalised, sketching out a comprehensive reform agenda in the area of the rule of law. Further to its negotiating position on chapter 32 last year, Serbia was invited to table four other negotiating positions on chapters 5, 13, 20, 25 and 26.

Serbia is participating in the **Stabilisation and Association Process**. Serbia has continued to build a track record in implementing the obligations of the Stabilisation and Association Agreement (SAA). The protocol on the adaptation of the SAA, to take account of Croatia's accession to the EU, was ratified by Serbia in October 2014. Invoking Article 23 of the SAA, Serbia took safeguard measures against imports from the EU of dairy and pig products in February and June 2015. Consultations with the Serbian authorities on the justification for such measures were inconclusive. Serbia should discontinue the safeguard measures as soon as possible and should avoid applying safeguards unless the circumstances can be fully justified. Further efforts are needed in particular in the area of state aid, especially to ensure the operational independence of the Serbian Commission for State Aid Control, to repeal the exemption of enterprises under privatisation from state aid rules and to demonstrate the compatibility of the aid given to the steel mill Smederevo with Protocol 5 of the SAA. Regular political and economic dialogue between the EU and Serbia has continued. Meetings of the Stabilisation and Association (SA) Council and Committee took place in December and February, respectively. Seven sub-committee meetings were held, together with two meetings of a special group on public administration reform. The SA Parliamentary Committee met twice. 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 first economic reform programme in March 2015 and has taken important steps to start implementing reforms recommended by the Economic and Financial Affairs Council.

**Visa liberalisation** for citizens of Serbia travelling to the Schengen area has been in force since December 2009. As part of the monitoring mechanism in place since visa liberalisation, the Commission has been regularly assessing the progress made by the country in implementing reforms introduced under the visa roadmap. The Commission submitted in February 2015 its post-visa liberalisation monitoring reports to the European Parliament and the Council. A **readmission agreement** between the European Union and Serbia has been in force since 2008.

Under IPA II, Serbia continues to benefit from **pre-accession assistance** with a total indicative allocation of € 1.5 billion for the period 2014-2020. The IPA National Programme 2014 amounts to € 115 million overall, with most of the funding supporting public administration reform, justice and home affairs, competitiveness, education and energy. Following the floods that occurred in May 2014, the Commission designed a special programme on flood recovery and risk management, allocating € 62 million exclusively to Serbia. In October 2015, the Commission adopted a special measure on strengthening the response capacity of the most affected countries in the Western Balkans to cope effectively with increased mixed migration flows of an amount of € 10 million, focusing primarily on Serbia and the former Yugoslav Republic of Macedonia.

In order to be able to implement in indirect management IPA II assistance the procedure for the entrustment of budget implementation tasks needs to be finalised. Urgent action is needed from Serbia to strengthen the Audit Authority, which remains critically weak. This led to the suspension of assistance and the freezing of payments to Serbia related to the implementation of IPA 2013 National Programme under decentralised management. Serbia continues to benefit from support under the IPA multi-country and regional programmes and to participate in cross-border cooperation programmes with neighbouring Western Balkan countries and with Member States and in European Regional Development Fund trans-national cooperation programmes.

Serbia participates in the following **EU programmes**: Horizon 2020, Erasmus+, Creative Europe - Culture Sub-Programme, Employment and Social Innovation, Europe for Citizens, Customs 2020 and Fiscalis 2020. Serbia became member of the EU Civil Protection Mechanism in June. Serbia has applied for observer status in the EU Fundamental Rights Agency.

## Annex II – Statistical Annex

### STATISTICAL DATA (as of 7.09.2015)

#### Serbia

<b>Basic data</b>	Note	2002	2010	2011	2012	2013	2014
Population (thousand)	1)	7 502	7 307	7 254be	7 219e	7 184e	7 149e
Total area of the country (km <sup>2</sup> )		77 474	77 474	77 474	77 474	77 474	77 474

<b>National accounts</b>	Note	2002	2010	2011	2012	2013	2014
Gross domestic product (GDP) (million national currency)	2)	1 037 897	3 067 210	3 407 563	3 584 236	3 876 403	3 878 024e
Gross domestic product (GDP) (million euro)	2)	17 100	29 766	33 424	31 683	34 263	33 059e
GDP (euro per capita)	2)	2 280	4 082	4 619	4 400	4 781	4 635e
GDP (in Purchasing Power Standards (PPS) per capita)	2) 3)	:	9 000	9 500	9 700	9 800	9 500
GDP (in Purchasing Power Standards (PPS) per capita), relative to the EU average (EU-28 = 100)	2) 3)	:	35	36	37	37	35
Real GDP growth rate: change on previous year of GDP volume (%)	2)	7.1	0.6	1.4	-1.0	2.6	-1.8e
<b>Gross value added by main sectors</b>							
Agriculture, forestry and fisheries (%)	2)	15.0	10.2	10.7	9.0	9.4	9.7e
Industry (%)	2)	27.0	22.7	23.5	24.9	26.6	24.6e
Construction (%)	2)	5.3	5.7	6.0	5.4	5.1	5.2e
Services (%)	2)	52.7	61.4	59.8	60.7	59.0	60.5e
Final consumption expenditure, as a share of GDP (%)	2)	96.9	96.5	95.3	95.7	93.1	94.4e
Gross fixed capital formation, as a share of GDP (%)	2)	16.2	18.6	18.4	21.2	17.2	17.2e
Changes in inventories, as a share of GDP (%)	2)	5.0	-0.1	1.7	-0.2	0.4	-1.6e
Exports of goods and services, relative to GDP (%)	2)	20.6	32.9	34.0	36.9	41.2	44.3e
Imports of goods and services, relative to GDP (%)	2)	38.7	47.9	49.4	53.6	51.9	54.3e

<b>Business</b>	Note	2002	2010	2011	2012	2013	2014
Industrial production volume index (2010 = 100)		98.6	100.0	102.5	100.2	105.6	98.8
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 (%)	4)	9.9	10.2b	9.3	:	:	:
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)	4)	6.3	9.8b	10.3	:	:	:
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)		:	:	:	:	:	:

<b>Inflation rate</b>	Note	2002	2010	2011	2012	2013	2014
Consumer price index (CPI), change relative to the previous year (%)		16.6	6.5	11.0	7.8	7.8	2.9

<b>Balance of payments</b>	Note	2002	2010	2011	2012	2013	2014
Balance of payments: current account total (million euro)	5)	-672	-1 887	-2 870	-3 176	-1 585	-1 985
Balance of payments current account: trade balance (million euro)	5)	-3 399	-4 581	-5 318	-5 480	-3 978	-4 111
Balance of payments current account: net services (million euro)	5)	135	8	163	156	334	465
Balance of payments current account: net income (million euro)	5)	-74	-670	-758	-799	-1 095	-1 343
Balance of payments current account: net current transfers (million euro)	5)	2 665	3 356	3 043	2 947	3 153	3 003
of which government transfers (million euro)	5)	519	193	206	151	131	89
**3 year backward moving average of the current account balance relative to GDP (%)	5)	-1.3	-11.2	-7.1	-8.3	-7.7	-6.9
Net inward foreign direct investment (FDI) (million euro)	5)	500.1	860.1	1 826.9	241.9	768.5	1 236.3
Foreign direct investment (FDI) abroad (million euro)	5)	21.2	143.0	122.0	42.3	10.0	264.2
of which FDI of the reporting economy in the EU-28 countries (million euro)	5)	:	37.2	100.2	22.3	19.8	35.4
Foreign direct investment (FDI) in the reporting economy (million euro)	5)	521.3	1 003.1	1 948.9	284.1	778.5	1 500.4
of which FDI of the EU-28 countries in the reporting economy (million euro)	5)	:	820.9	1 710.3	96.4	575.9	1 109.3
**Net international investment position, relative to GDP (%)	:	:	85.0	81.3	95.1	90.1	99.5
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)	5)	:	-9	-13	-6	11	-13

<b>Public finance</b>	Note	2002	2010	2011	2012	2013	2014
***General government deficit / surplus, relative to GDP (%)	:	:	-4.6	-4.8	-6.8	-5.5	-6.7
***General government gross debt relative to GDP (%)		71.9	40.8	43.3	55.8	59.0	68.9
Total government revenues, as a percentage of GDP (%)		:	41.7	40.0	41.1	39.7	41.8
Total government expenditure, as a percentage of GDP (%)		:	46.3	44.8	47.9	45.1	48.4

<b>Financial indicators</b>	Note	2002	2010	2011	2012	2013	2014
Gross foreign debt of the whole economy, relative to GDP (%)		56.7	79.0	72.2e	80.9	75.1	78.1
Gross foreign debt of the whole economy, relative to total exports (%)		310.5	247.1	216.5	223.6	184.7	178.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	6)	1 525	2 401	2 807	2 715	3 387	3 563
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	7)	1 803	3 891	4 663	4 227	4 776	5 078
Money supply: M3 (M2 plus marketable instruments, million euro)	8)	3 113	12 899	14 339	14 438	14 976	15 422
Total credit by monetary financial institutions to residents (consolidated) (million euro)		3 519	17 544	18 995	19 783	19 261	19 708
Interest rates: day-to-day money rate, per annum (%)		:	12.02	8.46	9.81	7.04	9.45
Lending interest rate (one year), per annum (%)		15.20	14.00	12.25	13.75	12.00	10.50
Deposit interest rate (one year), per annum (%)		3.80	9.00	7.25	8.75	7.00	5.50
Euro exchange rates: average of period (1 euro = ... national currency)	9)	60.694	103.043	101.950	113.128	113.137	117.306
Trade-weighted effective exchange rate index (2005 = 100)	10)	93.7	115.4	127.1	118.3	126.4	123.7
Value of reserve assets (including gold) (million euro)		2 186	10 002	12 058	10 915	11 189	9 907

<b>External trade in goods</b>	Note	2002	2010	2011	2012	2013	2014
Value of imports: all goods, all partners (million euro)		:	12 475	13 706	13 522	13 345	13 512
Value of exports: all goods, all partners (million euro)		:	7 067	8 058	8 251	10 413	10 562
Trade balance: all goods, all partners (million euro)		:	-5 408	-5 648	-5 271	-2 933	-2 950
Terms of trade (export price index / import price index * 100) (number)		101	115	119	122	122	122
Share of exports to EU-28 countries in value of total exports (%)		:	61.8	62.9	62.5	63.8	65.7
Share of imports from EU-28 countries in value of total imports (%)		:	57.2	55.9	58.5	55.7	57.1

<b>Demography</b>	Note	2002	2010	2011	2012	2013	2014
Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)		-3.3	-4.8	-5.2	-4.9	-4.8	-4.9
Infant mortality rate deaths of children under one year of age (per thousand live births)		10.1	6.7	6.3	6.2	6.3	5.7
Life expectancy at birth: male (years)		69.7	71.4	71.6	72.2	72.5	72.6
Life expectancy at birth: female (years)		75.0	76.6	76.8	77.3	77.7	77.7

<b>Labour market</b>	Note	2002	2010	2011	2012	2013	2014
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (%)		:	63.7	64.1	64.3	66.0	66.2
*Employment rate for persons aged 20–64: proportion of the population aged 20–64 that are in employment (%)		:	51.2	49.2	48.9	51.2	53.5
Male employment rate for persons aged 20–64 (%)		:	59.2	56.8	56.7	59.5	61.2
Female employment rate for persons aged 20–64 (%)		:	43.5	41.7	41.1	43.1	46.0
Employment rate for persons aged 55–64: proportion of the population aged 55–64 that are in employment (%)		42.0	32.8	31.4	31.6	34.3	35.9
Employment by main sectors							
Agriculture, forestry and fisheries (%)		:	22.3e	21.2e	21.0	21.3	21.1
Industry (%)		:	21.0e	21.5e	21.3	21.1	20.0
Construction (%)		:	5.0e	5.3e	5.2	4.8	4.4
Services (%)		:	51.7e	52.0e	52.6	52.9	54.5
People employed in the public sector as a share of total employment, persons aged 20–64 (%)		:	31.0	31.5	32.6	32.6	31.6
People employed in the private sector as a share of total employment, persons aged 20–64 (%)		:	65.5	65.8	65.1	65.2	66.4
Unemployment rate: proportion of the labour force that is unemployed (%)		14.5	19.2	23.0	23.9	22.1	18.9
Male unemployment rate (%)		12.9	18.4	22.4	23.2	20.8	18.3
Female unemployment rate (%)		16.5	20.2	23.7	24.9	23.8	19.6
Youth unemployment rate: proportion of the labour force aged 15–24 that is unemployed (%)		45.3	46.2	50.9	51.1	49.4	47.1
Long-term unemployment rate: proportion of the labour force that has been unemployed for 12 months or more (%)		9.9	13.3	16.9	18.6	16.8	12.8
Unemployment rate for persons (aged 25–64) having completed at most lower secondary education (ISCED 0–2) (%)		:	16.7	21.6	23.4	21.3	18.1
Unemployment rate for persons (aged 25–64) having completed tertiary education (ISCED 5 & 6) (%)		:	17.7	21.3	22.3	20.9	17.7

<b>Social cohesion</b>	Note	2002	2010	2011	2012	2013	2014
Average nominal monthly wages and salaries (national currency)	11)	13 260	47 450b	52 733	57 430	60 708	61 426
Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2000 = 100)	11)	154.9	277.4b	277.9	280.4	275.0	271.0
GINI coefficient — see definitions		:	:	:	:	38.0	38.7
Poverty gap		:	:	:	:	36.6	39.9
*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 (%)		:	8.2	8.5	8.1	8.7	8.3

<b>Standard of living</b>	Note	2002	2010	2011	2012	2013	2014
Number of passenger cars relative to population size (number per thousand population)		179.1	214.3	230.5	239.2	246.5	:
Number of mobile phone subscriptions relative to population size (number per thousand population)		322.5	1 357.0	1 399.4	1 261.9	1 280.9	1 307.6

<b>Infrastructure</b>	Note	2002	2010	2011	2012	2013	2014
Density of railway network (lines in operation per thousand km <sup>2</sup> )		49.2	49.3	49.3	49.3	49.3	49.3
Length of motorways (kilometres)		370	495	595	607	607	607

<b>Innovation and research</b>	Note	2002	2010	2011	2012	2013	2014
Public expenditure on education relative to GDP (%)		3.7	4.6	4.5	4.5	4.3	:
*Gross domestic expenditure on R&D relative to GDP (%)		0.35	0.74	0.72	0.91	0.82	:
Percentage of households who have internet access at home (%)		:	39.0	41.2	47.5	55.8	62.8

<b>Environment</b>	Note	2002	2010	2011	2012	2013	2014
Energy intensity of the economy (kg of oil equivalent per 1 000 euro GDP at 2005 constant prices)	3)	917.7	696.1	711.5	648.8	652.9e	:
Electricity generated from renewable sources relative to gross electricity consumption (%)		:	31.4	22.6	24.8	32.1	:
Road share of inland freight transport (based on tonne-km) (%)		12.1	27.8	30.5	44.8	43.1	44.1

<b>Energy</b>	Note	2002	2010	2011	2012	2013	2014
Primary production of all energy products (thousand TOE)	12)	11 739	9 876b	10 504	10 105	11 442	:
Primary production of crude oil (thousand TOE)	12)	782	929b	1 111	1 224	1 263	:
Primary production of hard coal and lignite (thousand TOE)	12)	8 679	7 226b	7 822	7 276	7 668	:
Primary production of natural gas (thousand TOE)	12)	364	342b	449	472	470	:
Net imports of all energy products (thousand TOE)	12)	4 741	6 320b	5 048	4 179	3 760	:
Gross inland energy consumption (thousand TOE)	12)	15 760	15 093b	15 749	13 997	15 172	:
Electricity generation (thousand GWh)	12)	35.1	38.0	38.6	36.8	39.9	

<b>Agriculture</b>	Note	2002	2010	2011	2012	2013	2014
Agricultural production volume index of goods and services (at producer prices) (previous year = 100)		97.0	103.2	96.4	80.5	121.8	102.1
Utilised agricultural area (thousand hectares)	13)	5 071	3 521b	3 528	3 462	3 491	3 507
Livestock numbers: live bovine animals (thousand heads, end of period)		1 112	938b	937	921e	913	920
Livestock numbers: live swine (thousand heads, end of period)		3 634	3 489b	3 287	3 139e	3 144	3 236
Livestock numbers: live sheep and live goats (thousand heads, end of period)		1 685	1 712b	1 699	1 867e	1 841	1 967
Production and utilisation of milk on the farm (total whole milk) (thousand tonnes)	14)	1 596	1 498b	1 474	1 486e	1 467	1 514
Harvested crop production: cereals (including rice) (thousand tonnes)	13) 15)	8 298	9 694b	9 538	6 355	9 091	10 848
Harvested crop production: sugar beet (thousand tonnes)	13)	2 098	3 551b	3 004	2 483	3 180	3 507
Harvested crop production: vegetables (thousand tonnes)	13)	1 340	1 117b	1 024	936	1 062	965

: = not available

b = break in series

e = estimated value

\* = 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) Break in 2011 due to the introduction of a new estimation method.
- 2) Based on ESA 2010.
- 3) Source: Eurostat.
- 4) 2002: includes all entities in administrative registers (legal units).
- 5) 2014: based on balance of payments manual edition 6 (BPM6).
- 6) 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, i.e. accounts from which payments can be made without any restrictions.
- 7) The money supply M2, in addition to M1, includes other dinar deposits, both short-and long-term.
- 8) The money supply M3, in addition to M2, includes short-and long term foreign currency deposits (without the so-called frozen foreign currency savings).
- 9) Arithmetic mean of official middle exchange rates of the dinar against the euro on working days.
- 10) Index of nominal effective exchange rate adjusted for the ratio of domestic consumer price index to the weighted sum of indices of consumer prices in the euro area and the United States. Calculation based on geometric average.
- 11) 2002: wages and salaries paid to employees of legal entities. 2010–14: wages and salaries paid to employees of legal entities and of unincorporated enterprises.
- 12) 2002: source, Eurostat.
- 13) In 2014, a new method of data collection including sample surveys was set up. Time series have been revised back to 2007.
- 14) In million litres. Milk from cows, sheep and goats used for human consumption or processing. 2002: excluding milk from goats.
- 15) 2002: excluding triticale.