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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 05.11.2008
SEC(2008) 2698 final

COMMISSION STAFF WORKING DOCUMENT

SERBIA 2008 PROGRESS REPORT

accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2008-2009

{COM(2008)674}

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COMMISSION STAFF WORKING DOCUMENT

Serbia 2008 Progress Report

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region.

This progress report largely follows the same structure as in the previous years. The report:

- briefly describes the relations between Serbia and the Union;
- analyses the situation in Serbia in terms of the political criteria for membership;
- analyses the situation in Serbia on the basis of the economic criteria for membership;
- reviews Serbia's capacity to implement European standards, that is, to gradually approximate its legislation and policies with those of the *acquis*, in line with the Stabilisation and Association Agreement and the European Partnership priorities.

The period covered by this report is from 1 October 2007 to early October 2008. Kosovo¹ is dealt with in a separate Progress Report. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or await parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Serbia, the Member States, European Parliament reports² and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Serbia in its separate communication on enlargement³ based on the technical analysis contained in this report.

1.2. Context

Serbia is a potential candidate for EU membership. The European Council of 14 December 2007 stated that "it considered that a stable and prosperous Serbia fully integrated into the family of European nations is important for the stability of the region. In this regard, it encouraged Serbia to meet the necessary conditions to allow its Stabilisation and Association Agreement rapidly to be signed and, in the light of Serbia's considerable institutional capacity,

¹ Under UNSCR 1244/1999.

² The rapporteur for Serbia is Mr J. Kacin.

³ Enlargement Strategy and Main Challenges 2008-2009.

and recalling its conclusions of December 2006, reiterated its confidence that progress on the road towards the EU, including candidate status, can be accelerated." On 29 April 2008 Serbia signed a Stabilisation and Association Agreement and an Interim Agreement on trade related measures with the EU.

1.3. Relations between the EU and Serbia

Serbia is participating in the **Stabilisation and Association Process (SAP)**. The Stabilisation and Association Agreement (SAA) provides a framework of mutual commitments on a wide range of political, trade and economic issues. The SAA was initialled on 7 November 2007 and signed, along with the Interim Agreement, on 29 April 2008. Recalling the relevant provisions of the SAA and the Interim Agreement, the Council stated that full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), including all possible efforts to arrest and transfer indictees, is an essential element of these Agreements. EU ministers agreed to submit the SAA to their parliaments for ratification and the Community agreed to implement the Interim Agreement as soon as the Council decides that Serbia is fully cooperating with the ICTY. The Serbian parliament ratified the SAA on 9 September 2008. The Serbian government took a decision in October 2008 to implement the Interim Agreement by 1 January 2009 as a tangible sign of its commitment to advance rapidly towards European integration.

Visa facilitation and readmission agreements between the EU and Serbia entered into force in January 2008. Dialogue on visa liberalisation started in January 2008. In May 2008 the Commission presented a roadmap on visa liberalisation to Serbia. In September 2008 Serbia presented the Commission with a detailed report of measures undertaken in the framework of visa liberalisation.

Relations between the EU and Serbia have been affected by the declaration of independence of **Kosovo**. In February 2008 a demonstration against the declaration of independence ended in violence with several protestors attacking foreign diplomatic missions in Belgrade, including EU embassies. The EU condemned these attacks and urged the Serbian authorities to do all in their powers to prevent further violence.

Serbia has vowed to use only peaceful means and has exercised restraint in its response to the declaration of independence by the Kosovo assembly. The Serbian government has undertaken legal and diplomatic measures to contest the legality of the declaration of independence. Serbia withdrew serving ambassadors from countries that recognised the independence of Kosovo, including EU Member States. Following the formation of the new Serbian government in July 2008, ambassadors who had been withdrawn from EU Member States returned to their posts. Serbia has opposed reconfiguration of the international civilian presence in Kosovo, including EULEX deployment, unless authorised by the UN Security Council. In October 2008, the UN General Assembly voted in favour of a resolution tabled by Serbia, seeking a non-binding advisory opinion from the International Court of Justice (ICJ) on the legality of the Kosovo declaration of independence.

The EU is providing guidance to the Serbian authorities on reform priorities as part of the **European Partnership**. The Serbian government has adopted a National Programme for European Integration that also covers the European Partnership priorities. Progress on reform priorities is encouraged and monitored by the **Enhanced Permanent Dialogue (EPD)** process. Plenary EPD meetings were held in November 2007 and April 2008. Several sub-EPD meetings took place during the reporting period, covering sectors such as energy,

transport, the environment, the internal market, trade, justice, liberty and security and agriculture. A political dialogue meeting at ministerial level took place in January 2008.

Serbia receives pre-accession **financial assistance** from the Instrument for Pre-Accession Assistance (IPA). IPA assistance is being implemented by the Commission Delegation in Belgrade, which has taken over responsibility for ongoing CARDS assistance from the European Agency for Reconstruction. Decentralised management of aid is a medium-term objective for Serbia and still requires much preparatory work by the Serbian authorities.

The Serbian national IPA allocation for 2008 totals €190.9 million. The Serbian government actively participated in preparation of the 2008 IPA programme. Financial assistance will focus on areas such as strengthening democratic institutions, public administration reform, strengthening the rule of law, the fight against corruption, human rights and protection of minorities. Serbia benefits from regional and horizontal programmes. Serbia will also participate in cross-border cooperation, where the priorities include infrastructure, flood prevention, environmental problems, cultural exchanges, research, job creation, security and crime prevention. A number of **civil society** initiatives are being supported both under the national IPA programme and by thematic financing instruments such as the European Initiative for Democratisation and Human Rights. Support to civil society under 2008 programmes amounts to over €6 million.

Concerning participation in community programmes, Serbia signed Memoranda of Understanding with the Community for the PROGRESS and Culture programmes in November 2007 and February 2008 respectively.

2. POLITICAL CRITERIA

This section examines progress made by Serbia towards meeting the Copenhagen criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Constitution

Following the adoption of the new constitution in 2006, the Law on the Constitutional Court was adopted in November 2007. Ten of the fifteen judges of the Constitutional Court were appointed and sworn in, and the President of the Court was elected. In December 2007 parliament adopted a package of laws necessary for calling presidential, provincial (Vojvodina) and municipal elections, as required by the Law for the implementation of the Constitution (Constitutional Law). The province of Vojvodina adopted a new statute in October 2008 in line with constitutional requirements. This new statute has to be approved by the national parliament.

There has, however, been no follow-up to the opinion of the Venice Commission of the Council of Europe concerning the constitutional provisions adjudged not to be fully in line with European standards. The major causes for concern are political party control over the mandates of members of parliament and the role of parliament in judicial appointments.

Specific laws establishing clear and objective criteria for the re-election of judges have not yet been adopted and the provisions in the Constitutional Law lack clarity and transparency. There was insufficient consultation prior to the adoption of the laws necessary for holding provincial and municipal elections.

Overall, there has been progress on adopting legislation to implement the new constitutional framework. However, further reforms are needed to ensure that the constitutional provisions, notably on the judiciary, are implemented in line with European standards. This is one of the key priorities of the European Partnership.

Parliament

Parliamentary activities were affected by deep divisions between political parties on key policy issues which led to early elections in the country.

Presidential elections were held over two rounds in January and February 2008 during which relations with the EU and Kosovo dominated the electoral campaign. The presidential elections were assessed by international observers as being in line with international standards. The incumbent President Boris Tadic was re-elected on a pro-European platform.

Parliamentary elections were held in May 2008 following the split in the ruling coalition and the Prime Minister's decision to propose dissolution of parliament. The campaign was once again dominated by the status of Kosovo, relations with the European Union and the possible signing of the SAA. International observation bodies qualified the elections as largely in line with international standards, but noted that they were partly overshadowed by negative aspects of the campaign. The 'For a European Serbia' bloc, led by the Democratic Party (DS) emerged as the largest group in the 250 seat parliament, followed by the Serbian Radical Party (SRS).

The new parliament was constituted in June 2008, ahead of the legal deadline, and a speaker and six deputy speakers were elected. Standing committees were constituted, including the Committee on European Integration. Several committees are chaired by members of opposition parties. Ethnic minority lists continue to be represented in the parliament.

The new parliament ratified the SAA in September 2008 and has begun work on a legislative package intended to address key political priorities. In October 2008, the parliament appointed four deputy ombudsmen.

However, legislative activity during the reporting period has been limited. Legislation on a single voter register, the Law on the assembly and new rules of procedure have not yet been adopted. The existing rules of procedure are inadequate for efficient, streamlined parliamentary debates. Plenary sessions, which are broadcast live on the public broadcasting service, have often been dominated by political posturing and lengthy debates on unrelated issues slowing up the adoption of legislation. Parliament failed to abide by legal deadlines for several appointments. Parliament and its committees still lack sufficient numbers of expert support staff. Committees remain largely reactive, with the majority of bills debated directly in plenary. The practice of law-making by urgent procedure and without sufficient public debate has continued. Offensive and inflammatory language against political opponents and human rights defenders recurred in parliament. The current parliamentary rules have been insufficient to prevent such behaviour.

Constitutional provisions giving parties control of the mandates of members of parliament remain an obstacle to reform of parliament and to its role as a genuine political forum. The electoral framework has not been revised and is not in line with European standards. Existing legislation continues to allow parties to appoint members of parliament arbitrarily from their electoral lists after the elections instead of determining the order beforehand. This system lacks transparency and gives political parties full control over the candidates. Moreover, most parliamentary parties have concluded individual agreements with their members of parliament on blank resignations, which can be activated at any moment by the party leadership. This practice builds on the constitutional provisions giving parties control of individual mandates of members of parliament.

Overall, the work of parliament was affected by the prevailing political climate in the country, ongoing disputes between political parties, and the disruption caused by elections. The new parliament has begun work on an ambitious legislative agenda and has adopted some legal acts. However there was little legislative output during the reporting period. Parliamentary reform has been delayed and concerns regarding political party over the mandates of members of parliament have not been addressed. The capacity of the parliamentary committees remains limited and election legislation has not yet been revised.

Government

Government activities have been dominated by issues relating to Kosovo and relations with the EU.

In January 2008, the former government adopted an action plan setting out measures to be taken in response to the expected declaration of independence by the Kosovo Assembly. The Serbian government condemned attacks by protestors against foreign diplomatic missions in Belgrade in February 2008. However, some members of the former government condoned incidents that occurred immediately after the declaration of independence of Kosovo.

The former government was unable to overcome deep divisions between coalition partners, the DS and the DSS over contractual relations with the EU. This culminated in the refusal by Prime Minister Vojislav Koštunica to convene a government session to authorise the signing of an interim political agreement that had been proposed by the EU. In March 2008, disagreements regarding links between Kosovo and EU integration, particularly in the context of the SAA, finally led to the fall of the government. These disputes and challenges continued after the SAA was signed in April 2008.

Following parliamentary elections, a new coalition government took office in July 2008, composed of the 'For a European Serbia' bloc, led by the DS and a bloc led by the Socialist party of Serbia (SPS). The coalition also includes several minority representatives. On 7 July 2008, the incoming Prime Minister Cvetković set out the key priorities for the new government's term of office namely: European integration, a commitment "to undertake all legal and diplomatic measures so as to preserve Kosovo and Metohija as an integral part of Serbia", the economy, social accountability, the fight against crime and corruption and observance of international law. The government also prepared an ambitious legislative agenda covering key political priorities related to EU integration.

The new government has 27 members, including three deputies, one of whom is in charge of European integration. There is a new post of Vice Prime Minister, held by the leader of the SPS, Ivica Dacić, who will take over the functions of the Prime Minister in his absence, with

the exception of the right to propose the election or dismissal of other government members. A new Ministry for Human and Minority Rights, replacing the previous government agency, has also been established.

On the institutional level, European integration structures were strengthened through the formation of coordination bodies, including a policy coordination body chaired by the Deputy Prime Minister and an expert working party comprising 35 working groups covering all areas of the *acquis*. The Serbian European Integration Office was also reinforced. Most ministries and agencies continued their efforts to draft legislation in the area of European integration and implementing existing legislation. Under the coordination of the Serbian European Integration Office, the Serbian administration actively worked on drafting the National Programme for EU Integration which was adopted by the government in October 2008. A public consultation was launched in June 2008. The European Commission was also consulted and provided comments on the draft NPI in July 2008.

In November 2007 members of the Council for European Integration were appointed. This is an expert advisory body to be presided over by the Prime Minister. The Council has, however, never been convened.

The Law on Government was amended in November 2007, in accordance with the Constitution. The new provisions regulate issues such as the incompatibility of functions and conflicts of interest.

Legislation on local self-government, territorial reorganisation, local elections and the city of Belgrade was adopted in December 2007. New programmes were developed to enhance the performance and efficiency of local government, in particular in dealing with citizens' requests. The new legislation allows local government units to possess and manage their own property. The new Law on local elections exempts minority parties from the legal threshold of 5% normally required for political parties to enter local assemblies. These provisions were applied in the May 2008 local elections.

These changes are generally in accordance with the European Charter of Local Self-Government. However, some shortcomings remain. A specific law regulating the transfer of property to municipalities, in line with the Constitution, has not yet been adopted.

The elections for the Provincial Assembly of Vojvodina and municipal elections were held on in May 2008 in line with international standards.

Overall, government activities during the reporting period were dominated by issues relating to Kosovo and relations with the EU. The previous governing coalition was deeply divided over major policy issues and suffered from in-fighting and lack of policy coordination. As a result little progress was made. Following the legislative elections there has been increased stability in government and greater consensus on European integration. The new government has declared its intention to deepen EU-Serbia relations, to improve overall efficiency and effectiveness, to advance the reform agenda, and to achieve full cooperation with the ICTY.

Public administration

In November 2007 the Law on public administration was revised in line with the Constitution. The changes introduced more precise provisions on the role of the central administration in monitoring the legality of acts adopted by local governments. The Code of Conduct of Public

Servants was adopted in February 2008. The Human Resources Management Agency continued to train civil servants.

The legal deadline for completion of open competitions for recruitment of civil servants expired in May 2008 however, this process was not completed. Serbia has still to adopt legislation on salaries of political appointees.

The newly established Office of the State Ombudsman was very active. Between January and July 2008 the ombudsman received over 2 600 requests for assistance. The ombudsman proposed numerous amendments to draft legislation, including laws on the army, the Constitutional Court, security services, children's rights and the draft rules of procedure for the Serbian parliament. Good cooperation was established between the State ombudsman, the ombudsman in Vojvodina and municipal ombudsmen. The ombudsman in Vojvodina reported that out of 382 eligible cases in 2007, a total of 322 were resolved and 60 were ongoing. In October 2008, following a long delay, the four deputy Ombudsmen were appointed by parliament.

However, the Serbian authorities have not created the technical conditions necessary for proper functioning of the Office of the State Ombudsman. Temporary premises are inadequate and only 33 out of 64 posts have been filled. The Serbian administration lacks sufficient knowledge of the ombudsman institution and its role and has not paid sufficient attention to its recommendations.

The commissioner for free access to information of public interest intensified his activities during the reporting period. The work and activities of the commissioner are made available to the public. A guidebook on the Law on free access to information was published in a number of minority languages. The government has, however, not created the conditions necessary to enable the office of the commissioner to function fully, including provision of adequate premises. Insufficient enforcement capacity and the failure of the Serbian authorities to ensure implementation of the commissioner's recommendations in several cases continued to hamper the work of the office of the commissioner.

In May 2008 six independent State bodies (the Ombudsman, the State Audit Institution, the Commissioner for Free Access to Public Information, the Committee for the Suppression of Conflicts of Interest, the Public Procurement Commission and the Commission for the Protection of Bidders' Rights) expressed concerns about the difficulties they face in carrying out their duties. In particular, they complained about working conditions that undermine their independence and about insufficient follow-up to their recommendations.

Capacity-building in the police forces continued. A new police training centre came into operation in November 2007. Action was taken in the area of regional police cooperation, following ratification of the Convention on South-East Europe Police Cooperation. Serbia signed an agreement on strategic cooperation with Europol in September 2008. Work at operational level has continued, but key strategies – for fighting organised crime, terrorism and drug abuse and on community policing – have yet to be adopted. There continues to be insufficient coordination between the Ministry of Interior and other ministries and government agencies.

Overall, Serbia continues to have good capacity in the area of public administration. However, there was a slowdown in public administration reform during the reporting period. Further efforts need to be made to fully implement the 2005 Law on Civil Servants to

improve the recruitment system and strengthen professionalism and accountability throughout the civil service. Independent and regulatory bodies performed well under difficult conditions. Greater determination needs to be shown by the Serbian authorities to empower regulatory and independent bodies and to ensure that they operate effectively.

Civilian oversight of the security forces

The laws on defence, on the army and on basic organisation of security services were adopted in December 2007, in line with the Constitution, and entered into force in January 2008. The Ministry of Defence actively ensured prior consultation of the ombudsman on human rights aspects of the new legislation. Statutory provisions on democratic oversight of the army and the security services are comprehensive and assign a primary role to parliament. The new Framework Law on security services replaced the earlier government decision regulating the National Security Council. Under the new law, the National Security Council is responsible for coordination and control of security agencies and the parliamentary board for security and defence has been given enhanced powers. Measures were taken to improve the financial situation of military personnel, including army pensioners.

The legislative framework has not been completed, however. A national security strategy, a defence strategy, a military doctrine, new legislation on conscientious objectors and implementing laws on security agencies still need to be adopted. The Parliamentary Committee for Security and Defence was not active during the reporting period. In February 2008 parliament adopted a resolution in connection with Kosovo calling for military neutrality. Military reservists wearing uniforms and insignia were however involved in a number of violent incidents in the aftermath of the Kosovo declaration of independence.

Overall, there has been some progress on civilian oversight of the security forces, with the adoption of a number of laws. Reform in this sector still has to be completed and the new parliament needs to ensure effective democratic oversight.

Judicial system

Progress in the judicial sector has been slow and largely confined to administrative improvements.

The Constitutional Court, which had not been operational since October 2006, resumed duties in December 2007, although only 10 of the 15 judges have been appointed. The Constitutional Court faces a heavy backlog of cases. Premises for the new appellate and administrative courts have been provided. However, these courts are not yet in operation.

The overall professionalism of judges and prosecutors is relatively high and has been further improved by training provided by the judicial academy. Remuneration of judges and prosecutors has also improved.

However, key legislation necessary for implementation of the Constitution and the judicial reform strategy has not yet been adopted. This includes the laws on courts and on prosecutors. In the absence of new legislation, no new judges or prosecutors are being appointed and vacant positions are not being filled. At the same time, some 200 judges who fulfil the criteria for retirement are still in office, as parliament has not yet taken the decision necessary to relieve them from active service. These factors severely undermine the efficiency of the judiciary.

To counterbalance the influence of parliament over appointing judges and prosecutors, objective selection criteria have been developed including a plan to introduce two years of initial training for all judges plus a final exam. However, in the absence of the new law on the judicial academy, these criteria have not been applied. Furthermore, objective criteria have not yet been established for appointments to be made during the interim period between adoption and full implementation of the new law. No decision has been taken on proposals to re-appoint all practising judges and prosecutors. Concerns remain that such a re-appointment exercise could be affected by undue political influence and disrupt the functioning of the judiciary.

There are continuing concerns that the prosecution service is not being adequately prepared for its enhanced role in criminal investigations, as provided for by the new Criminal Procedure Code, the entry into force of which has been postponed until the first half of 2009. Insufficient financial resources, training and staff have been allocated for this purpose.

As regards juvenile justice, the national data collection and monitoring mechanism have not yet been updated to reflect the provisions of the new Juvenile Justice Law and related implementing laws.

The significant backlog in civil, criminal and commercial cases remains a serious cause for concern, as are the delays in enforcement of court decisions. In the absence of efficient court management systems and of legislation streamlining procedures, the Serbian judiciary has been unable to reduce the number of pending cases or average length of proceedings. The efficiency of the court system is, moreover, hampered by the uneven workload of courts and judges.

There has been some progress on domestic war crime cases. The war crimes prosecution service filed several indictments during the reporting period and some judgements have been passed. However a number of cases are still pending. There is also a number of pending high-profile cases in the area of organised crime.

Overall, there has been little progress with the judicial reform process, which is a key priority of the European Partnership. The legislative framework to implement judicial reform, as provided for by the new Constitution, is still not in place. Considerable efforts still need to be made by Serbia to ensure the independence, accountability and efficiency of the judicial system.

Anti-corruption policy

There was some progress during the reporting period on fighting corruption and developing a fully comprehensive anti-corruption policy, which is a key priority of the European Partnership.

Amendments to the law on financing political parties, and the law establishing an anti-corruption agency, which also contains new rules on conflict of interest, were adopted in October 2008. The Civil Law Convention on Corruption and the Additional Protocol to the Criminal Law Convention on Corruption were ratified in November 2007. The compliance report was submitted to the Council of Europe's Group of States against Corruption (GRECO) in December 2007.

Specialised departments within the prosecution offices have been set up at district level to investigate corruption cases. A deputy prosecutor at national level has been given a coordination role on anti-corruption cases. The police directorate has specialised units dealing with corruption and financial investigations. Several high-profile corruption investigations are ongoing. Joint investigation teams of prosecutors and police have been set up.

However, practical results in fighting corruption have been limited. Under the previous law on financing political parties, enforcement procedures were weak. This resulted in most political parties not disclosing full details of their finances. Furthermore, the supervisory authority did not have sufficient capacity and expertise to assess the accuracy of the declarations provided.

More than one third of State officials did not declare their assets in 2008. The former law on conflict of interest did not provide for sufficient enforcement procedures and did not ensure an independent audit of the declarations submitted. Officials in certain areas, such as the judiciary, were not required to provide asset declarations. The Board for Resolution of Conflict of Interest has insufficient qualified staff and resources and does not have the powers to assess the validity of the information provided in the declarations.

The anti-corruption agency has not yet been established. This is of particular concern in view of the new role assigned to it under new legislation in the areas of conflict of interest and financing of political parties. Serbia has to ensure that the new agency will have a sufficient level of independence, capacities and competencies in order to effectively fulfil its tasks. The current role of the Anti-Corruption Council is limited to advising the government. The Law on free access to information contains loopholes, such as criteria for the classification of information, which hamper implementation. The action plan for the fight against corruption lacks clear deadlines, specific action and the necessary resources for implementation and therefore needs to be revised.

Public procurement and privatisation procedures along with major budgetary expenditure are not efficiently monitored by independent bodies. The State Audit Institution is not fully operational with only two auditors' posts filled, and currently cannot provide efficient auditing services. Other control bodies, such as the Commission for the Protection of Bidders in the area of public procurement, act only upon specific requests and conduct no general monitoring of the procedures for lack of appropriate powers and financial resources.

The capacities of the law enforcement bodies to investigate corruption cases are limited. At the same time, courts are bound by highly complex procedural rules imposing strict conditions on the prosecution service. This results in a low rate of convictions in corruption cases.

Overall, corruption continues to be widespread and to pose a serious problem in Serbia. Despite greater public awareness of the issue and newly adopted legislation, major problems remain. These include the lack of sufficiently independent and efficient oversight bodies in core areas such as party financing, conflict of interest, public procurement and privatisation. These problems will have to be addressed in the context of implementation of the newly adopted legislation.

2.2. Human rights and the protection of minorities

Observance of international human rights law

As regards **ratification of human rights instruments** Serbia has ratified all major human rights instruments.

Serbia has largely met its obligations to report to UN bodies. Serbia submitted the second periodic report on implementation of the Council of Europe Framework Convention for the Protection of National Minorities in March 2008. However, the revised European Social Charter has not been ratified.

The **European Court of Human Rights** (ECtHR) delivered 13 judgments during the reporting period finding that Serbia had violated the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR). The largest number refers to violations of the right to fair trial. A total of 1,131 new applications to the ECtHR were made during the reporting period and 14 judgements were delivered. There are approximately 1,800 pending cases against Serbia.

As regards **promotion and enforcement of human rights** the Judicial Training Centre has provided training on implementation of the ECHR. However, in practice, the Serbian courts still show reluctance to directly implement ratified international treaties that guarantee protection of human rights. Lawyers rarely invoke these standards. Constitutional appeals against human rights violations are legally possible. However, there have been no judgments since the Constitutional Court was established in 2007.

The Serbian authorities finally implemented the 2005 decision of the UN Human Rights Committee concerning violation of freedom of expression in the case against a journalist sentenced for slander.

Following the formation of the new government in July 2008, the former government human rights agency was replaced by a Ministry for Human and Minority Rights.

Overall, the legal and institutional framework for the observance of human rights is in place. However there has been insufficient progress on implementing international human rights law. Institutional structures for the implementation of human and minority rights have to be further reinforced.

Civil and political rights

With regard to **prevention of torture and ill-treatment and the fight against impunity**, judicial control over respect for human rights in prisons has improved. Final judgments are made by the Supreme Court in the administrative disputes procedure. However, there has been no progress on investigating alleged serious violations of human rights relating to prison riots in 2006. Legal grounds for police intervention and cooperation with prison authorities at the time have not been clarified.

In a number of cases, alleged use of excessive force by police in pre-trial proceedings has not been fully investigated. There are frequent allegations of ill-treatment of suspects by police during questioning. The Serbian authorities should ensure that thorough investigations are conducted into all allegations of torture and ill-treatment.

The latest monitoring exercise by the Council of Europe Committee for the Prevention of Torture took place in November 2007. However, the resultant recommendations were not made public by the Serbian authorities.

As regards the fight against impunity, the capacity of the Serbian war crime prosecution service needs to be further strengthened. There are still obstacles to the transfer of cases and extradition of suspects in cases of war crimes and crimes against humanity between Bosnia and Herzegovina, Croatia, Montenegro and Serbia.

As regards **access to justice**, Serbia has not yet put in place a comprehensive legal system for free aid. The right to mandatory defence in most serious criminal cases is enshrined in the new Criminal Procedure Code but there are still no specific provisions on mandatory defence in cases of pre-trial detention.

Reforms of the **prison system** continued, with the reconstruction of three of the largest prisons in Serbia. Training also continued, with efforts to include broader categories of staff, such as court guards. Action was taken to address the serious problem of drug abuse which affects almost half of the prison population. A new model for prisoners serving juvenile sentences, based on modern standards, is being implemented. In addition, community based alternative services such as day care centres should be developed to enable alternative sentencing for children.

The prison administration is acting on complaints by prisoners in a more professional manner. The department for the protection of prisoners' rights in the Ministry of Justice has also put in place a more effective system to deal with complaints from prisoners.

A system of alternative sanctions, applicable to all conditional sentences and accounting for over 50% of all judgments, is at an early stage of implementation and lacks proper monitoring. At present, 4 800 prisoners are serving terms of up to one year. A sharp increase in the number of prisoners (from 8 900 in December 2007 to 9 500 in May 2008) has put serious strains on the capacity of prison infrastructure. This remains the biggest challenge facing the prison service. Some 6 500 offenders are still in detention and awaiting final sentencing and transfer to prison to serve their sentences. The latest statistics on criminal offences indicate an increase in serious crime, repeat offences and juvenile offenders.

Prison security has improved slightly and the level of violence has decreased. However, overcrowding, violence among prisoners and drug abuse remain serious problems in prisons in Serbia.

The Constitution contains guarantees for **freedom of expression** which are generally protected. However the conditions for freedom of expression in Serbia were affected during the period immediately following the Kosovo declaration of independence. There were numerous reports of incidents involving offensive language, hate speech and violence against organisations and individuals, mainly journalists and human rights defenders. In March 2008, a number of media outlets and journalists' associations addressed a series of concerns to the Serbian authorities. They complained, in particular, of repeated verbal and physical abuse and of being accused of unpatriotic reporting. The law enforcement authorities arrested the suspected perpetrator of a violent attack on a journalist in July 2008. Authorities also took actions against extremist groups in October 2008.

There were also cases of threats to journalists from local officials and businessmen where, in some instances, recorded material was confiscated from journalists in an attempt to prevent them from providing reporting on a range of issues. There was no progress in the investigations on murders of journalists dating back to the 1990s and of an attempted murder of a journalist in April 2007.

The law on **media** concentration and new legislation on advertising have not yet been adopted. Legislation on local self-government, adopted in December 2007, contains provisions in contradiction with the laws on broadcasting and public information and is undermining the privatisation of municipally owned media. Allocation of regional frequencies has been completed, but the process lacked transparency in a number of cases. Distribution of municipal frequencies has not been completed. There were breaches of the legislation on the protection of privacy and professional standards and ethics by some sections of the media, notably in cases of sensationalist reporting.

The Constitution guarantees **freedom of assembly** and these rights are generally protected. A number of peaceful rallies and demonstrations took place following the Kosovo declaration of independence. However, there were violent incidents when foreign diplomatic missions were targeted and attacked by demonstrators in Belgrade in February 2008. These acts were condoned in some political quarters and sections of the media, while the immediate response from the law enforcement authorities was inadequate.

There were reports of attacks against organisations and individuals defending civil and political rights, fighting against impunity and defending the right to different sexual orientation. Some efforts were made by the law enforcement authorities to follow up such incidents, however, in most instances the perpetrators have not been brought to trial.

The Constitution guarantees **freedom of association**, including political and trade union associations. Restrictions to this right, including grounds and procedures for a possible ban on associations, assign a primary decision-making role to the Constitutional Court. Constitutional grounds for prohibition include violent breaches of constitutional order, violation of guaranteed human and minority rights and incitement to racial, national or religious hatred. Under the new Law on ministries adopted in July 2008, registration of political and citizens' associations remains under the authority of the Ministry for Public Administration and Local Government, which set up a department for this purpose in 2007. Trade unions are under the authority of the Ministry of Labour and Social Policy. Registration of minority national councils falls under the new Ministry for Human and Minority Rights.

Laws implementing the new Constitution in this area have, however, not yet been adopted. New legislation on associations and on political organisations has yet to be adopted. The existing legislation imposes restrictions which go beyond the constitutional provisions.

Civil society organisations continue to play a major role in social, economic and political life in Serbia. However, longstanding legislative deficiencies have not been adequately addressed. These concern the legal status of NGOs and their financing, including restrictive and unfavourable fiscal conditions applied on an *ad hoc* and arbitrary basis. A number of NGOs, in particular human rights defenders, were subjected to threats and verbal abuse for holding diverging views on issues such as the situation in Kosovo. Such incidents have not been fully investigated.

Freedom of religion is guaranteed by the Constitution and law in Serbia. However there are shortcomings resulting from the implementation of legislation from 2006 on churches and religious organisations. These concern registration of so-called "non-traditional" religious communities. There have been repeated reports of arbitrary decisions in connection with registration of "non-traditional" religious communities, affecting their legal status and rights. There were several religiously motivated incidents, including attacks, hate speech, vandalism and offensive graffiti against a number of religious communities. These incidents were not

followed up sufficiently by the law enforcement authorities, and investigations have been inconclusive.

Overall, civil and political in Serbia are generally respected. However, these rights were affected by the political developments that led to early elections and by the unstable political climate prevailing during the reporting period. Legislation needs to be further adjusted to European standards. Existing constitutional and legal guarantees need to be fully enforced and violations properly investigated.

Economic and social rights

There are several legal and constitutional provisions in place guaranteeing **women's rights** in Serbia. However, a specific law on gender equality and the national strategy for improvement of women's position and enhancement of gender equality have not yet been adopted. The Directorate for Gender Equality in the Ministry for Labour and Social Affairs was active during the reporting period in furthering women's rights. Following the May 2008 legislative elections there are 53 women members in the 250-seat parliament and five women in the 27-member government. However, violation of women's rights is frequent and often goes unreported. Domestic violence continues to be a serious problem. Criminal penalties are insufficient. The State ombudsman and the provincial ombudsman in Vojvodina highlighted continuing discrimination against women on the labour market. Women remain under-represented in managerial positions. Discrimination particularly affects Roma women, women from national minorities and women with disabilities.

The State ombudsman has been active in the area of **children's rights** and has followed up a number of complaints. A reform of the child welfare system is in progress, with the aim of replacing several residential institutions with specialist fostering. The number of children without parental care placed in institutions has decreased from around 2,200 in 2005 to 1,700 in 2007. Approximately one third of children without parental care are placed in residential institutions while the other two thirds are placed in foster families. In May 2008 the government adopted a national youth strategy which was the result of an extensive and transparent consultation process.

However, the conditions for many children in Serbia remain poor. Children from socially vulnerable groups, in particular from minority groups such as Roma, and children with disabilities, continue to suffer from widespread discrimination and exclusion from health, education and social welfare services. There are serious levels of violence against children, with only a limited number of cases reported and prosecuted. There is insufficient reliable data on child trafficking, child labour and on sexual exploitation of adolescents.

In the case of **socially vulnerable persons and/or persons with disabilities**, Serbia signed the Convention on Rights of Persons with Disabilities and the Optional Protocol in December 2007. This Convention has still to be ratified. The government also adopted a strategy on improving the situation of disabled persons in Serbia in December 2007. This strategy defines a package of activities for the period 2007-2015, including adoption of the two-year operational action plans. In October 2007, the government established a Council for Disabled Persons, a 20-member advisory body with the task of coordinating activities in this sector. However, the strategy for improving the conditions of persons with disabilities contains no plan or proposals to improve the conditions for people placed in long-term residential institutions. The law on professional rehabilitation and employment of persons with disabilities has not yet been adopted.

Serbia's preparations in the field of mental health are at an early stage. The government adopted a report in November 2007 on residential institutions for mentally handicapped children, adults and elderly. The report acknowledged that there had been insufficient investment in several mental health institutions. It also highlighted the unsatisfactory implementation of the Law on the family, which requires that children be protected in a family environment whenever possible. The government has started to implement some measures to improve the existing institutions and to facilitate de-institutionalisation. They include a ban on use of premises which do not comply with minimum standards, transfers of young children to foster families, development of community-based services and training for staff. Moreover, further anti-stigma campaigns and educational activities were organised.

However, amendments to the Law on social protection, which would better regulate the mental health sector, have not yet been adopted. Some institutions are still overcrowded. The de-institutionalisation process is not adequately developed. There is insufficient support for foster families and much remains to be done to develop community-based services. Inter-ministerial cooperation needs to be strengthened. Local services and the inspectorate of the Ministry of Labour, Employment and Social Policy do not have sufficient qualified human resources.

As regards **labour rights and trade unions**, in April 2008 a new general collective agreement was signed by the two representative trade unions and employers' associations. This is a big step forward towards promoting social dialogue, as the previous general collective agreement had expired in September 2005. The agreement contains provisions on various rights of employees, such as remuneration, fringe benefits, safety at work, absence and the right to establish trade unions. However, social dialogue is still weak. The role and capacity of the Socio-Economic Council still need to be fully developed. Councils at local level have been established in only a limited number of municipalities.

The constitution prohibits direct and indirect **discrimination** on any grounds. A comprehensive anti-discrimination law has not yet been adopted. In practice, there is still widespread discrimination, primarily against national minorities, Roma or women as well as lesbian, gay, bisexual and transgender (LGBT) people. The State ombudsman's 2007 annual report found that a number of people were exposed to hate speech and discrimination on the grounds of their sexual orientation and gender identity and that the authorities had failed to provide adequate protection against such treatment.

With regard to **property rights**, legislation on restitution has not yet been adopted. This prevents proper launching of the restitution process. In the meantime, privatisation of some of the properties in question has continued. However, this has been contested by the association of former owners which is concerned that this will *de facto* prejudice future decisions on the return of property.

Overall, the legal provisions for the protection of *economic and social rights* are largely in place in Serbia. The legal framework however needs to be developed and practical enforcement of the existing legislation improved. Further efforts are needed to improve the social inclusion of children, persons with disabilities and vulnerable groups, in particular access to health, including mental health, and a proper education.

Minority rights, cultural rights and protection of minorities

The European Commission against Racism and Intolerance of the Council of Europe issued its first report on Serbia in April 2008. It noted that various measures to combat racism and intolerance towards **minorities** had been taken, but that a number of steps were still pending. Affirmative action was applied in the 2008 legislative, provincial and municipal elections exempting minority parties from a threshold to enter parliament. New legislation extends the requirement for local administrations to use official seals in minority languages, where those languages are in use. The budgetary allocation for minority national councils was increased in 2008. The new Law on local self-government introduced more detailed provisions concerning the obligations of municipalities with an ethnically mixed population to establish inter-ethnic councils.

However, the legislation on minority national councils has not yet been adopted. The Republican Council for Minorities has not met. Bilateral agreements on protection of national minorities with Hungary, Croatia, Romania and the former Yugoslav Republic of Macedonia are not being fully implemented. The joint commissions required by the agreements have either not been established or are not fully operational. In April 2008, the Constitutional Court overruled an earlier decision by the central election commission reducing the number of signatures required by law for the submission of electoral lists for minorities from 10 000 to 3 000. Coming just before the elections, the court ruling, while in line with existing legislation, raised concerns about the effects of such a high threshold on the position of small ethnic groups. The 2007 annual report by the State ombudsman found considerable regional discrepancies, notably regarding the capacity of the administration to ensure respect of minority rights. One particular cause for concern was the situation of Roma and Bosniak minorities. There is a disproportionately high level of unemployment among minorities.

The political climate deteriorated in the period immediately following the Kosovo declaration of independence, resulting in a number of incidents in towns in *Vojvodina*, in particular against the Albanian national minority. Incidents involving extremist groups were also reported. The State and provincial ombudsmen condemned the events and urged the relevant institutions to act. The 2007 annual report by the provincial ombudsman noted that 25 out of the 605 complaints were in connection with minority rights.

The situation in *Southern Serbia* has remained stable but tense. The decision by the Serbian government to refuse to recognise diplomas from educational establishments in Kosovo has been criticised by the Albanian community in Southern Serbia. The Albanian community expressed concern at the impact of this decision on the employment prospects of holders of Kosovo diplomas in Southern Serbia. Ethnic Albanian parties remained divided over participation in the general legislative elections. In the end a coalition of Albanian parties took part and one Albanian member of parliament was elected. The regional office of the Coordinating Body for Southern Serbia was strengthened, increasing representation of persons of Albanian origin. This body was instrumental in enhancing communication between the municipal authorities and central government. The government allocated €3.8 million to co-finance infrastructure projects in 2008. However, the Albanian minority continued to express concern at under-representation in public administration and the lack of political will by the central government actively to develop the region.

The situation in *Sandžak* has continued to deteriorate. Divisions within the Muslim community have deepened and there have been several outbreaks of violence. Municipal structures lack the capacity fully to enforce minority rights in Sandžak.

The number of **refugees** from Croatia and Bosnia and Herzegovina has decreased in recent years, mainly due to naturalisation. According to the UNHCR, there are around 97 000 refugees and 206 000 **internally displaced persons (IDPs)** in Serbia. The number of centres has been reduced. However, some 2 100 refugees and 5 500 IDPs are still accommodated in 60 centres and 99 specialised institutions. The conditions in those centres are very poor. The amendments to the Law on refugees and a national strategy on refugees and IDPs have not yet been adopted. IDP groups, in particular the Roma, continue to face serious difficulties obtaining identification papers and thus access to basic social services, including health care.

In January 2008, the Re-admission Agreement between Serbia and the EU entered into force. The agency for human and minority rights published a handbook for returnees. However, the national strategy on returnees and re-integration has not yet been adopted.

In June 2008, Serbia took over the annual presidency of the 2005-2015 Decade of **Roma** Inclusion. The key priorities of the Serbian chairmanship are housing and anti-discrimination measures in the field of education. In March 2008, the Council for Implementation of the Roma Decade was established under the chairmanship of the Deputy Prime Minister and involving representatives of civil society. However, it has met only once. Roma health mediators have been employed in 15 primary healthcare centres. Funds have been earmarked in the national budget for the work of coordinators for Roma issues in 40 municipal social work centres by 2008. Awareness-raising activities in cooperation with the international partners have continued. Media training on Roma issues was organised for government press officers and journalists. There have been some improvements in the number of Roma children attending secondary schools due to the affirmative measures taken by Ministry of Education and the Ministry of Human and Minority Rights. However the, generally, low school attendance by Roma children remains a serious problem, in particular among Roma girls.

In practice the Roma population continues to face extremely difficult living conditions, exclusion and discrimination. One of the major persistent problems facing the Roma community is access to personal documents. This has had grave consequences for the ability of large sections of the Roma population to gain access to basic social and economic rights. A significant proportion of the Roma population still lives in extreme poverty and illegal settlements. The Roma population, especially women, are subject to widespread discrimination when it comes to access to the labour market. There are a disproportionately high number of Roma children in special schools for children with learning difficulties. A climate of intolerance towards the Roma population continues to prevail in Serbia.

Overall, the framework for the protection of minority rights in Serbia is in place and minority rights are broadly respected. However there were some negative developments during the reporting period due, in large part, to the unstable political climate following the declaration of independence of Kosovo. On the legal front, legislation on national councils needs to be adopted and the electoral framework revised in order to fully ensure affirmative action. Insufficient attention has been paid to resolving the status of refugees and IDPs. The conditions of the Roma population remain very difficult.

2.3. Regional issues and international obligations

There are no major outstanding issues in connection with Serbia's compliance with the **Dayton/Paris peace agreement**.

Serbia continues to be covered by the monitoring procedure of the Parliamentary Assembly of **the Council of Europe** on fulfilment of obligations and commitments arising from its membership of the Council of Europe.

Serbia has made significant progress on improving cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. Full cooperation with the ICTY is an international obligation and one of the key priorities of the European Partnership. In June 2008 Stojan Župljanin was arrested near Belgrade and transferred to The Hague. In July 2008, following the formation of a new government and staff changes in the intelligence services, ICTY fugitive Radovan Karadžić was arrested in Belgrade and also transferred to The Hague.

Serbia needs to build on these achievements and do all in its powers to arrest and transfer of the two remaining fugitives, Ratko Mladić and Goran Hadžić.

The status of the former State Union law on the freezing of assets of ICTY fugitives has not been clarified. Assets are being frozen, but the procedures are highly complex and the current legal framework leaves potential loopholes and shortcomings in enforcement. Amendments to the current legislation included special investigative measures against support networks for war crime fugitives and a more efficient system for investigating and processing cases.

To date, the War Crimes Chamber of the Belgrade District Court has tried 123 individuals suspected of involvement in war crimes on the territory of the former Yugoslavia. The prosecution service has conducted proceedings against 111 persons, since it was established in 2003 and has filed indictments against 57 persons, representing over 2,000 victims of war crimes.

Several cases were opened and judgments handed down in the different instances during the reporting period. Good regional cooperation continued, allowing direct exchanges of evidence, documents and data relevant to investigations of war crimes cases. A memorandum of understanding was signed in October 2007 between the Serbian special prosecutors and the supreme State prosecutor of Montenegro.

However, the work of specialised institutions is affected by the limited capacity to investigate and process a higher number of cases. There were continuing threats against the war crimes prosecutor and the president of the war crimes chamber.

Serbia's policy regarding the **International Criminal Court (ICC)** is aligned with the EU guiding principles and the EU common positions on the integrity of the Rome Statute. Serbia has concluded no bilateral agreements granting exceptions from ICC jurisdiction.

Serbia opposed reconfiguration of the international civilian presence in **Kosovo**, including EULEX deployment, unless authorised by the UN Security Council. Serbia organised municipal elections in Kosovo in May 2008 in spite of UNMIK opposition and strengthened its parallel institutions in Kosovo including the establishment of an assembly of municipalities. In July 2008, the Serbian government adopted a conclusion endorsing the establishment of the assembly of municipalities as necessary to safeguard the interests of Serbs in Kosovo

The Serbian government has used legal, diplomatic and peaceful means to contest the declaration of independence by the Kosovo assembly. In January 2008, the government adopted action plans providing measures in response to the expected declaration of

independence. In February 2008, the Serbian government adopted a decision, which was subsequently endorsed by parliament, on the annulment of the declaration of independence.

The Serbian authorities issued protest notes to and recalled serving ambassadors from countries that recognised Kosovo's declaration of independence, including EU Member States. Following a decision by the new Serbian government in July 2008, Serbian ambassadors who had been withdrawn from EU Member States subsequently returned to their posts. Ambassadors from Montenegro and the former Yugoslav Republic of Macedonia to Serbia were in October 2008 declared *persona non grata* following the recognition of Kosovo by Montenegro and the former Yugoslav Republic of Macedonia.

In August 2008 Serbia submitted a draft resolution to the UN General Assembly, seeking an advisory opinion from the International Court of Justice on the legality of the declaration of independence of Kosovo. In October 2008 the UN General Assembly voted, on the basis of the Serbian resolution, in favour of asking the International Court of Justice (ICJ) for a non-binding advisory opinion.

There have been no significant developments regarding the implementation of the **Sarajevo Declaration** which aimed at completing the refugee return process.

Regional cooperation and good neighbourly relations form an essential part of the process of Serbia's moving towards the European Union.

Serbia actively participated in regional initiatives, including the transition from the Stability Pact to a more regionally owned framework with the South East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC). Serbia has also contributed to ensuring effective implementation of the Central European Free Trade Agreement (CEFTA). Serbia also actively participated in the Energy Community Treaty. Serbia's participation in regional cooperation has been affected by its approach towards participation of Kosovo in the regional initiatives and other *fora*. It is important that Serbia demonstrates a constructive attitude towards Kosovo's participation in regional initiatives.

Relations with **enlargement countries and neighbouring EU Member States** have been intense, with frequent bilateral contacts and visits.

Economic agreements continue to be implemented between Serbia and *Albania*. However relations between the two countries have been affected by Albania's recognition of the independence of Kosovo.

Relations with *Bosnia and Herzegovina* remain stable. By arresting an ICTY fugitive Radovan Karadžić in July 2008, Serbia took an important step towards complying with the February 2007 ruling of the International Court of Justice concerning application of the Convention on the Prevention and Punishment of the Crime of Genocide. In January 2008, the Serbian parliament and the parliament of Republika Srpska signed a Protocol on Cooperation. A number of Serbian politicians considered decisions of the High Representative in Bosnia and Herzegovina concerning changes in the decision-making procedures in the Bosnia and Herzegovina Council of Ministers and in the Parliamentary Assembly, a violation of the Dayton Agreement. This led to exchange of sharp statements between the Belgrade and Sarajevo authorities. A border agreement with Bosnia and Herzegovina has not yet been signed.

Relations with *Croatia* are stable but have been affected by Croatia's decision to recognise Kosovo. The provisional visa-free regime remains in force. There has been some progress in cooperation on missing persons and on war crimes prosecutions. There has been no progress in delimiting the border. Other open matters include property related issues, in particular claims for compensation for lost occupancy and tenancy rights, refugee return, and Croatia's genocide lawsuit before the International Court of Justice, on which hearings began in May 2008.

Serbia's relations with the *former Yugoslav Republic of Macedonia* were stable throughout much of the reporting period. However relations were adversely affected by the decision of the former Yugoslav Republic of Macedonia to recognise Kosovo's independence in October 2008. Serbia has also protested against border demarcation activities by the former Yugoslav Republic of Macedonia which involved the Kosovo authorities. Unresolved issues concerning relations between the Orthodox Church in the two countries persist.

Relations with *Montenegro* advanced smoothly during much of the reporting period, but were adversely affected by the decision of Montenegro in October 2008 to recognise the independence of Kosovo. There has been progress on a number of bilateral issues. An agreement on defence cooperation was signed in November 2007. An Agreement with Montenegro on social security entered into force in January 2008. On the basis of a bilateral agreement, Serbia continues to represent certain Montenegrin interests abroad, including issuing of visas. The issues regarding dual citizenship for members of the Serb community in Montenegro remained unresolved. Tensions between the two orthodox churches have continued.

Relations with *Turkey* are generally good. There is a high level of support for intensifying bilateral cooperation. However, political relations were affected by Turkey's recognition of Kosovo independence. Serbia is currently negotiating a free trade agreement with Turkey.

Serbia continues to maintain good relations with *Romania*. Relations with *Bulgaria* and *Hungary* were affected after both of these countries recognised the independence of Kosovo.

Overall, Serbia has been active in regional cooperation initiatives. However, regional issues have been affected by Kosovo-related developments. Serbia has made significant progress towards fully cooperating with the ICTY.

3. ECONOMIC CRITERIA

In examining the economic developments in Serbia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

In December 2007, the government submitted to the European Commission an Economic and Fiscal Programme (EFP), covering the years 2007-2010. It builds on the budget memorandum of April and the October 2007 update thereof and presents a generally coherent and ambitious macroeconomic and fiscal framework together with an ambitious agenda for structural

reforms. The 2009 budget memorandum was adopted in May 2008 and was followed by an update on 2 October 2008. In early October, the government approached the International Monetary Fund (IMF) on starting negotiating a new Stand-by Agreement, in an attempt to establish an external policy anchor. The government has cited the need for greater ownership of, and autonomy for, economic policy planning and implementation. Overall, consensus on the fundamentals of a market economy has been maintained.

Macroeconomic stability

In 2007, GDP growth accelerated to 7.5%, from 5.7% in 2006. Following a strong performance in the first half of 2007, the Serbian economy slowed down somewhat during the second half of the year. Higher private consumption as a consequence of strongly rising real salaries slowed in the course of the year. Furthermore, the severe drought resulted in a significant drop in agricultural production. Industrial output slowed to about 2.5% year-on-year during the second half of the year, partly due to an overhaul of the US Steel plant. During the second quarter of 2008, GDP growth slowed to 6.2% year-on-year, from 8.2% year-on-year during the first quarter. For the whole first half of 2008, GDP growth reached 7.3% year-on-year. Growth of industrial production accelerated to 6.0% year-on-year during the first quarter of 2008 compared with 0.7% during the fourth quarter of 2007, driven by the resumption of production at US Steel. However industrial output slowed to 2.3% year-on-year during the second quarter of 2008. Average per capita income increased to 35% of the EU-27 average in purchasing power standards, from 33% a year earlier. Overall, economic growth continued to be driven by the services sector, in particular wholesale and retail trade, transport and telecommunications, along with financial intermediation.

In 2007, the current account deficit widened to 12.4% of GDP compared with 9.4%⁴ a year earlier, driven by a growing deficit in the trade balance and a decline in current transfers. Strong domestic demand fuelled by a significant relaxation of fiscal and wage policies, coupled with a drought-related export ban on some agricultural products and a drop in steel output, contributed to a deterioration in external accounts. On the financing side, capital inflows remained strong, but slowed during 2007 to 21% of GDP, from 30% in 2006. Foreign direct investment fell to 5.1% of GDP from 13.8% a year earlier when the sale of the second mobile telephone operator yielded substantial revenue. By contrast, financing by medium- and long-term foreign borrowing grew to 10% of GDP, from 9% in 2006. During the first half of 2008, the current account deficit widened to close to 20% of GDP and FDI rebounded below 9% of GDP. At the end of 2007, the stock of foreign exchange reserves of the National Bank of Serbia (NBS) stood at EUR 9.6 billion or 8.3 months worth of imports of goods and services. As a result of the growing debt financing of the external deficit, foreign debt rose to about EUR 18.9 billion at the end of 2007, equivalent to 65% of GDP, compared with 63% a year earlier. Private- and public-sector foreign debt stood at 43% and 22% of GDP respectively. Debt service has increased to 8.5% of GDP and is projected to continue rising significantly in years ahead. Overall, external imbalances have widened, the quality of financing has deteriorated, foreign indebtedness has grown and the degree of macro-vulnerability of the economy has increased.

By October 2008, the international financial crisis has had only a limited direct impact on the Serbian economy and its financial sector. However, a widening current account deficit and a

⁴ This is revised downwards from 17.7% of GDP in 2007 and 13.8% in 2006, following a change of method by the National Bank of Serbia in early 2008.

growing level of external debt create important external financing needs requiring significant capital inflows. To that extent, the external imbalances render the Serbian economy vulnerable to possible disruptions in capital flows. The risks of a sudden stop or reversal of capital flows have recently grown and/ higher risk premiums and refinancing costs could put further pressure on the external side. In particular, a decline in cross-border lending, which has become an important financing source for the domestic corporate sector, could be affected. . The Serbian authorities have recently increased the amount of guaranteed deposits, lifted reserve requirement for banks' foreign borrowings and eliminated the tax on savings income. In 2007, labour market conditions improved slightly. The employment rate rose to 51.5% of the working-age population in October 2007, while the unemployment rate fell to 18.8% compared with 21.6% a year earlier. However, the transfer of about 90,000 unemployed persons from the employment register to the health insurance register, following an amendment to the legislation, contributed to this apparent improvement in the labour market statistics. Nominal wages grew by 22.1% year-on-year on average in 2007, compared with 24.4% a year earlier. Due to a decline in inflation during the first half of 2007, real wage growth accelerated to about 20% year-on-year - substantially stronger than in 2006. However, a renewed rise in inflation starting in the second half of 2007 resulted in a slowing of real wage growth. This trend continued in 2008. During the first half of 2008, nominal wage growth slowed to 19% year-on-years and, due to a higher inflation rate, real wages slowed to 7.8% year-on-year. Overall, despite high economic growth rates in recent years unemployment is still a major challenge.

The new monetary policy framework, introduced in September 2006, aims at a gradual transition towards inflation targeting with explicit targets for annual core inflation rates. Core inflation declined slightly to 5.5% year-on-year in December 2007, compared with 5.9% a year earlier. For the whole of 2007 core inflation remained within the 4-8% target range, despite re-emerging inflationary pressures stemming from rising aggregate demand, the drought-related increase in food prices and rising prices for crude oil and derivatives on world markets. However, core inflation re-accelerated during the second half of 2007 and in the course of 2008, reaching 10.3% year-on-year in July against a core inflation target range of 3-6% for the whole of 2008. By comparison, the headline rate of retail price inflation, followed more closely by the public, slowed to an annual average of 6.8% in 2007, compared with 12.7% a year earlier. Retail price inflation bottomed out at 4.5% year-on-year in May 2007 and then began to rise, ending on 10.1% year-on-year in December 2007. This upward trend continued in 2008 and retail price inflation reached 10.5% year-on-year in August 2008. To stem the rising inflationary pressures but also to help support the local currency, which had come under pressure on the foreign exchange market in early 2008 due to growing political uncertainty, the NBS increased the repo rate by 625 base points to 15.75% between December 2007 and May 2008. However, the expansion of monetary aggregates remained strong during 2007. The annual M3 growth rate, covering currency in circulation plus demand, time and savings deposits, accelerated during the second half of 2007, reaching 43% year-on-year in December. This trend reversed in 2008 when M3 growth slowed to 34% year-on-year in June. Credit growth also decelerated during the same period and stood at 32% year-on-year in June 2008, partially due to higher interest rates, also affected by global financial crises. Overall, while the new monetary policy framework of inflation targeting managed to tackle inflationary pressures, the real test of whether the set target can be achieved will come in 2008, as inflationary pressures have resurfaced and are contributing to a less stable environment for economic operators.

As far as foreign exchange rate policy is concerned, the NBS tightened administrative measures aimed at discouraging use of the euro within the economy and, at the same time, making the dinar more attractive. The NBS has, in principle, limited its intervention in the inter-bank foreign exchange market to situations of excessive daily fluctuations. However, during the second half of 2007 the NBS was prompted to intervene in support of the dinar which repeatedly came under depreciation pressure. This continued in early 2008 and the NBS sold EUR 393 million to support the dinar during the first four and a half months of the year. Following the formation of a pro-European government, the Serbian dinar (RSD) significantly regained strength. The EUR/RSD exchange rate fluctuated between RSD 75 and RSD 85 in 2007 and 2008. Overall, the volatility of the exchange rate increased, mainly because of political developments.

Fiscal policy remained expansionary in 2007 and 2008 ahead of presidential and parliamentary elections. Following the inflow of substantial privatisation proceeds in 2006, an increase in expenditure was achieved without significant new borrowing. According to the Government Finance Statistics (GFS) standard of accounting, the general government balance declined to 1.9% of GDP in 2007, from 1.5% of GDP a year earlier. Total expenditure remained high at 44% of GDP in 2007, compared with 43.9% a year earlier. Capital expenditure related to implementation of the National Investment Plan increased to 4.8% of GDP in 2007 from 3.9% in 2006. During the same period, current expenditure declined to 38.5% of GDP, from 39.5%, indicating some success on the part of fiscal policy in curbing constant pressures for higher current spending. However, labour costs and transfers continued to account for more than 60% of total public spending. Following the reform of the tax system in previous years, total revenue has stabilised at around 42% of GDP. 2007 saw a slight decline of revenue to 42.1% of GDP, from 42.4% in 2006. During the same period, public debt declined to 29.4% of GDP, from 36.2%, while net lending remained low, increasing marginally to 0.6%, from 0.5%. For 2008, a revised budget, which was adopted by the government in early October, foresees a deficit of the consolidated government budget to increase to 2.7% of GDP, compared to an initially planned deficit of 1.7%. This boosts expenditure to 45.4% of GDP, adding additional demand pressures on an economy showing already signs of overheating and growing macroeconomic imbalances. Overall, fiscal policy remained expansionary, ahead and after several rounds of elections, contributing to weakened macro-economic stability. The fiscal position remains vulnerable and fiscal policy would benefit from strong external anchors in the face of growing expenditures pressures and the ongoing financial crisis.

Overall, the macroeconomic policy mix was unbalanced, with insufficient fiscal restraint. The growing macroeconomic imbalances and external and financial vulnerabilities require a more restrictive policy response. Monetary policy would normally be expected to deliver adjustments which are unlikely to be attained with the announced fiscal policy. However, largely due to the high degree of euroisation, Serbia lacks an effective monetary transmission mechanism. This situation, coupled with the untested record of the central bank on its inflation targeting policy, may actually imply that the government will not be able to match fiscal policy adequately to containing rising external imbalances. The onus within the policy mix is therefore expected to remain on fiscal policy to address these imbalances. Overall, a too lax fiscal policy ahead of and after various elections has contributed to growing external imbalances and to inflationary pressures induced by domestic demand.

Interplay of market forces

Finalising the process of privatisation or, when appropriate, liquidation of socially- and State-owned enterprises is one of the key priorities of the European Partnership.

Privatisation of socially-owned companies continued in late 2007 and early 2008, in the form of both tenders and auctions. About 400 socially-owned companies were sold in 2007 (16 tenders, 283 auctions and over 100 companies sold through the sale of State-owned stakes on the capital market). This was followed by about 40 privatisations in the first two months of 2008, but the process slowed in March. The total number of companies privatised since the process started in 2002 had risen to over 2,200 by the end of February 2008. The number of firms that still need to be sold has consequently declined to about 700. The deadline for completing this process has been extended by one year until the end of 2008. A commission for the privatisation of public utilities has been set up and the government plans to privatise two State-owned companies by the end of the year.

Four large State-owned companies (the electricity company EPS, Telekom, Belgrade airport and the pharmaceutical company Galenika) are due to be put up for sale in the form of initial public offerings. Selection of a privatisation advisor has started. The first few companies are expected to be sold in 2008 and the whole process to be completed by 2010. A tender for sale of national flag carrier JAT Airways failed due to lack of interest. The oil conglomerate NIS has been sold as part of a framework agreement for supply of gas and oil with Russia. Serbia has entered with Fiat into a joint venture to restructure local car manufacturer Zastava into a modern production unit of the Fiat group. The question of privatisation of about 500 utilities at the level of local communities also remains open. Their restructuring and reorganisation have not yet begun and the plan for their privatisation remains undefined.

In December 2007, the law on the free distribution of shares in six State-owned companies to all adult citizens who did not benefit from earlier privatisations (15% of capital) and to ex-employees of these companies (2-5% of capital) was adopted. Under this law about 4 to 4.5 million citizens are expected to receive free shares in these large companies.

The share of the private sector remains at between 55% and 60% of total output. The private sector employs over 60% of the total number of employees. However, socially-owned, and in particular only partly restructured and non-privatised State-owned, companies still generate a large part of Serbia's output. Private companies remain relatively weak and have a major share in trade, but less so in production. This prevents development of competitive domestic products and burdens public finances. Overall, while there has been some progress with the privatisation of socially-owned companies, this is not the case with State-owned companies. As a result, a competitive and dynamic private sector has not yet been fully established.

Market entry and exit

As regards market entry and exit, some progress was made during the reporting period. In 2007, around 12,100 new companies and 48,700 new entrepreneurs were registered. In the first three months of 2008, an additional 3,100 new enterprises and 10,100 entrepreneurs were registered. However, the business environment has not improved substantially. With regard to market exit, implementation of the 2005 Bankruptcy Law has continued. About 25% of cases were closed within one year and another 20% within two years. However, the number of pending cases was still very high on 651 at the end of 2007. In addition, the bankruptcy unit of the Privatisation Agency has more than 360 socially-owned enterprises in its portfolio. Most of the cases have now been pending for three years or more and some for even more than a decade (mainly related to bankrupt socially-owned enterprises). The business

environment has deteriorated, particularly in the areas of starting a business and construction permits. On the other hand, registering property has been facilitated. Overall, amid some progress, excessive bureaucratic requirements and complex legislation continue to hamper the business environment.

Legal system

As regards the legal system, no significant progress can be reported. Several reform-related laws have been held up and implementation of the existing laws is sometimes weak. The courts and administrative bodies lack the technical capacity and personnel to perform their activities properly and promptly. This has led to inconsistent implementation and very lengthy procedures, which frequently exceed the deadlines set by law. Widespread corruption as well as criminal activities affect the business climate and impact negatively the quality of public services. Overall, the weaknesses of the judiciary reduce legal predictability and undermine trust in the legal system among economic operators, in particular in effective enforcement of property rights.

Financial sector development

Lending activity of banks increased by 39%. Loans increased to 35% of GDP and 53% of the banking sector's total balance sheet. The share of total loans granted to the enterprise and household sectors stood at 58% and 40% respectively. Of the latter, 13% were used for house-building. Deposit activity of banks grew by 44%. The largest share of deposits was accounted for by the household sector (46%), followed by the enterprise sector (33%) and bank deposits (12%). Foreign currency deposits made up 67.7% of total deposits. Short-term time deposits (52%) predominated, followed by demand deposits (40%). Overall, financial intermediation continued to grow, but from a still relatively low level. However, the high degree of euroisation of assets and liabilities, combined with potential currency mismatches, could give rise to substantial balance-sheet risks for banks, households and corporations.

The number of majority State-owned banks remained unchanged at eight (out of a total of 34), while 20 banks are now majority-owned by foreign shareholders. Six banks were under majority ownership of domestic natural persons or legal entities. The five largest banks in terms of assets accounted for 46.5% of the total banking sector. In May 2008, the NBS issued a new licence to a non-EU bank for a green-field investment. Overall, while competition between banks is well established, privatisation of the State-owned banks has not advanced.

At the end of March 2008, 28.3% of the banking sector's total assets were classified as risky. The share of total credits in default in total outstanding debt stood at 4.4%, while the foreign exchange risk ratio of banks stood at 13.8%. The average capital adequacy ratio of the banking system stood at 27.7% and, consequently, remained well above the required minimum of 12% of risk-weighted assets for each bank. The profitability of the banking sector improved and the return on equity increased to 12.7%. Overall, the banking sector is profitable and remains generally sound. However, the high share of risky assets may indicate substantial financial vulnerabilities.

Following strong gains by both indexes at the Belgrade Stock Exchange during the first few months of 2007 (up by 88%), equity markets began to retreat and had lost all their early-2007 gains by August 2008.

At the end of May 2008, 21 insurance companies were operating in Serbia (including four green-field companies that received operating licences in 2007 and early 2008). The structure of the insurance sector is continuing to change with the privatisation of the socially-owned insurance companies and the arrival of new foreign investments. In addition, the second-biggest insurance company (DDOR of Novi Sad) was successfully privatised in 2007, when it was sold to an EU-based insurance company. As a result, foreign ownership of the insurance sector has increased strongly to 62.8% of total premium income in 2007 compared with 26.4% a year earlier. In the four years from 2004 to 2007, the premium income of non-life insurance almost doubled. In the case of life insurance it nearly tripled. At the same time, the insurance sector's share of capital in the total financial sector has increased to 6.9%. Overall, significant progress has been made with development of the non-banking financial sector.

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

Existence of a functioning market economy

Deteriorating macroeconomic stability, together with greater political uncertainty, contributed to creating a less stable and less predictable climate for decision-making by economic operators. The functioning of market mechanisms, which is required for efficient allocation of resources, was hampered by distortions, heavy State involvement in production of private goods and lack of competition.

Human and physical capital

Little progress can be reported on reform of the education system. The growing gap between demand for and supply of skilled employees is one of the main obstacles to increasing direct foreign investment and developing new branches of the economy. However, companies are responding to the growing shortages by becoming more proactive in offering personal/professional development and training incentives to new recruits. In addition, the number of human resource consultants and recruitment firms has increased. These not only provide support in locating people with the right skills, but also offer services like organisational and personnel development. Public universities continue to be overburdened with bureaucracy and curricula are often outdated. A number of private universities have emerged. Attitudes towards lifelong learning and mobility started to change only recently. Public education expenditure accounts for a relatively small 3.7% of GDP, well below EU levels. Overall, the economy has increasingly been suffering from a shortage of skilled employees, while supply has only gradually been building up in response.

In 2007, the investment ratio fell to 18% of GDP from 19.7% in 2006. Foreign direct investment fell sharply to EUR 1.6 billion or 5.1% of GDP from EUR 3.4 billion or 13.8% a year earlier. The sectors benefiting most from FDI were banking and the real estate business, followed by processing industry and wholesale and retail trade. Funds from the National Investment Plan (NIP) have been used for various infrastructure projects (Belgrade ring road and motorways in Southern Serbia), but also to stimulate foreign investment and job creation. The total budget for expenditure under the NIP stands at EUR 600 million for 2008. Overall, investment activity from domestic sources has been holding up well, while foreign investors have become more hesitant, primarily due to growing political uncertainty.

Sectoral and enterprise structure

Progress in selling State-owned companies was hampered by the election cycle and political developments. Restructuring and privatisation have been slow. The shift of economic activity towards the services sector is continuing, with services currently accounting for 54.7% of GDP. Manufacturing and construction account for 16.3% of GDP, while agriculture's share of GDP declined to 9.2%. About 50% of all employees are still working in State- and socially-owned enterprises. The informal sector remains large. Overall, the pace of structural adjustment of the economy is being held back by slow reforms.

State influence on competitiveness

Subsidies from the consolidated State budget accounted for 1.5% of GDP in 2007, down from 2.4% a year earlier. Relevant legislation on State aid control and the appropriate monitoring mechanism and authority are still missing. State-controlled monopolistic structures remain in place, such as the import ban on refined petroleum products to protect the domestic refinery industry from foreign competition. Overall, State influence on competitiveness has declined, but remains substantial.

Economic integration with the EU

Exports and imports of goods and services grew to 28% and 50% of GDP respectively in 2007, compared with 27% and 47% a year earlier. As a result, trade openness increased to 78% of GDP in 2007 from 74% in 2006. The EU remained Serbia's main trading partner. Exports and imports of goods and services to and from the EU increased to 56% and 54% of total exports and imports respectively, compared with 53% and 49% in 2006. Serbia's other main trading partners were Montenegro, Bosnia and Herzegovina, Russia and China. Overall, foreign trade has continued to grow and trade integration with the EU remains at a high level.

Net foreign direct investment from EU countries in Serbia remains unchanged at about EUR 2.3 billion. However, the EU's share of total net foreign direct investment in Serbia almost doubled to 116% in 2007 from 61% a year earlier. This large swing was caused by a strong inflow to Serbia from Norway in 2006, combined with a strong outflow from Serbia to Bosnia and Herzegovina in 2007, both of which distorted the figures for total net foreign direct investment in Serbia.

Standard indicators suggest a continuing deterioration in export price competitiveness. Real wages grew by 14.1%, i.e. by more than average labour productivity (estimated at 8.6%), implying a 5.4% increase in real unit labour costs. The nominal effective exchange rate of the dinar appreciated by 3.3%. In real effective terms, the dinar appreciated by 10.1%, as consumer prices grew faster on the domestic market than abroad.

4. EUROPEAN STANDARDS

This section examines Serbia's capacity gradually to approximate its legislation and policies to the *acquis* related to the internal market, sectoral policies and justice, freedom and security, in line with a Stabilisation and Association Agreement and the European Partnership priorities. It also analyses Serbia's administrative capacity. In each sector, Commission's assessment covers progress achieved during the reporting period, and summarises the country's overall level of preparations.

4.1. Internal market

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4.1.1. Free movement of goods

There has been some progress in the area of free movement of goods. In the field of **standardisation**, progress can be reported following the approval of the statute of the Standardisation Institute. The appointment of the managing board of the Standardisation Institute in December 2007 has allowed for the development of activities, including the adoption of annual financial plans and an annual programme. In January 2008, the Standardisation Institute became an affiliate member of the European Committee for Standardisation (CEN). The Institute has been able to significantly increase the number of European standards (ENs) adopted annually. By September, 2,805 European Standards had been adopted as Serbian standards. However, the new law on standardisation has not been adopted. Serbia still needs to intensify its efforts to repeal mandatory standards and adopt European standards in order to achieve full membership of the European standards organisations. The Ministry of Economy and Regional Development was appointed in December 2007 as the enquiry point for technical regulations in Serbia. At the same time, the Standardisation Institute of Serbia was appointed as the enquiry point for adopted or proposed standards in Serbia. The Standardisation Institute also needs to strengthen human resources and improve training facilities.

Progress can be reported in the area of **conformity assessment**. The number of accredited conformity assessment bodies has increased by 61 and currently stands at the level of 325. However, the law on technical requirements for products and conformity assessment has still to be adopted and a new designation procedure for conformity assessment bodies has not yet been established.

Some progress can be reported in the area of **accreditation**. Institutional capacities have been improved through the establishment of the accreditation council of the Accreditation Body of Serbia in March 2008. The Accreditation Body has improved its IT capacity and the collection of fees. However, its human resources and training facilities are limited. Furthermore, the new law on accreditation has not been adopted. There is also a need to develop new accreditation schemes.

Progress can be reported in the area of **metrology**, mainly on the upgrading of calibration laboratories. Serbia has also attained associated membership in the European Cooperation in Legal Metrology. However, further efforts in the area of legal metrology are still needed. The new law on metrology has not yet been adopted. The institutional setup of the Directorate of Measures and Precious Metals has to be clarified and the limited administrative capacities upgraded.

There has been no progress in the area of **market surveillance**. Preparations for the establishment of an appropriate market surveillance structure in line with Community

legislation have not yet started. Coordination among the market surveillance authorities is still lacking.

Serbia continued to experience delays in the transposition of **sector specific** Community legislation.

Progress has been made in the area of **consumer protection**. The establishment of advisory centres for consumer protection has begun, and training activities for professional staff within the area of consumer protection have started. The National Bank of Serbia has worked to increase awareness of financial literacy and to create consumer confidence in using financial services. The budget of the Ministry of Trade and Services within the consumer protection area has increased substantially. Also efforts to improve public awareness have been intensified. However, a new law on general product safety has not yet been adopted. The work of the national council of consumer protection is not efficient enough. A new law on consumer protection, upon which the further development of advisory centres is contingent, has still to be adopted. The implementation of the national consumer protection programme is weak, and no annual programme has been adopted. The administrative capacity of the Ministry of Trade and Services remains weak, and there are no out-of-court dispute resolution bodies. Public awareness-raising activities are not sufficient, and the capacity of consumer organisations to contribute effectively in this respect is limited, especially when the 61 consumer organisations in Serbia are fragmented and lacking financial resources.

Overall, preparations in the area of free movement of goods are moderately advanced. However, the legal framework, such as the law on technical requirements for products and conformity assessment or the legal framework for metrology, needs to be further developed. Serbia has not yet aligned national legislation with the product-specific *acquis*, to clarify the institutional set-up and to strengthen the administrative capacity. Nor has Serbia aligned national legislation with the *acquis* for non-product related issues such as consumer contracts and marketing law. Cooperation between state institutions within the area is not sufficiently developed. Serbia needs to raise general awareness of the importance of quality infrastructure among ministries as well as economic operators and needs to speed up implementation and the enforcement of legislation on consumer protection.

4.1.2. Movement of persons, services and right of establishment

Some progress was made in the area of **movement of persons**. The new law on foreigners has been adopted. . The administrative capacity of the Ministry of Economy, which is in charge of movement of workers, is limited. There have been no developments in the area of co-ordination of social security.

With regard to the **right of establishment** the Agency for Business Registers improved its procedural management by issuing the registration certificate for business entities within a maximum of 5 days.

An electronic database on business entities and entrepreneurs is now fully operational. The Business Registry has still to be transformed into a one-stop shop for all procedures related to business start-ups, including issuance of a tax number, which is currently provided by the Tax Administration. There are still delays due to certain requirements to issue accompanying licences at the municipal level.

No progress was made on **company law**, and amendments to the Company Act and the Company Registration Act are still pending. The Law on accounting and auditing from June 2006 is only partly harmonised with the *acquis*, while the adoption of the new law that should be fully harmonised is still pending. The application of the international financial reporting standards is obligatory. National Accounting Council, established by the Ministry of Finance and Association of the Certified Auditors are both operational. However, the preparation of the Strategy and Action Plan on corporate financial reporting by the former is still pending.

As far as provision of services is concerned, in the area of **financial services** the National Bank of Serbia is entrusted with the supervision of the banking, insurance and voluntary pension funds sectors and is active in using its supervisory powers (on-site inspections, reporting, regulatory powers). The Securities Commission is in charge of supervising the capital market. The Securities Commission has recently been strengthened, but it is still not sufficiently independent and lacks competencies as defined by international standards.

Serbia needs to make efforts to align its banking regulation with the *acquis*, especially focusing on the Capital Requirement Directive which implements the Basel II framework in EU legislation. The supervisory capacity needs to be further strengthened in order to be able to cope with the requirements put in place with the Capital Requirements Directive and risk-based supervision.

Overall, the preparations in the areas of movement of persons, services and the right of establishment and company law are moderately advanced towards meeting SAA obligations.

4.1.3. *Free movement of capital*

In the area of free **movement of capital** there has been some progress during the reporting period.

The National Bank of Serbia has adopted additional implementing legislation with the aim of further liberalising capital flows. Furthermore, the National Bank of Serbia amended the regulation on personal transfers of foreign cash to and from Serbia, raising the ceiling from €5,000 to €10,000 as of June 2008. This measure, which is in line with the *acquis*, should simplify customs procedures and significantly liberalise cross-border transfers of cash. In February 2008, the National Bank of Serbia and the National Bank of Bosnia and Herzegovina began to implement the clearing arrangement that will include a number of banks from the two states. The National Bank of Serbia also signed the Memorandum on cooperation with the National Bank of former Yugoslav Republic of Macedonia in the area of banking supervision.

However, outward payment and current account transactions are not yet fully liberalised and restrictions on short-term credit and portfolio investments are still in place.

According to the Law on Foreign Exchange Operations, non-residents are free to make direct investments. There are restrictions in the arms sector and in areas defined as restricted zones by law, where foreign investors may only participate in joint ventures with domestic entities subject to the consent of the Ministry of Defence and without acquiring the majority rights to manage the enterprise.

Foreign natural and legal persons can acquire property in Serbia only if there is a reciprocal agreement with their country of origin and if they can demonstrate that they are conducting

business activities in Serbia. Legal entities wanting to purchase property are required to be established in Serbia. During the reporting period, there was significant foreign investment in the banking and the trade sectors.

Overall, preparations in the area of capital movements are moderately advanced. However, Serbia needs to further progress to timely respond to the gradual liberalisation laid down in the SAA.

4.1.4. *Customs and taxation*

Serbia has made good progress in the area of **customs**. In terms of legislative activities, an implementing regulation was adopted which allows full alignment of the customs tariff nomenclature with the EU 2008 Combined Nomenclature and the Harmonised System classification. However, further alignment with the EU Customs Code is still required, in particular with regard to transit and security provisions. Moreover, in order to fully comply with the provisions of the SAA, Serbia needs to abolish fees related to the normal application of customs procedures.

The customs administration was reorganised and **administrative capacities** of the customs administration have been further strengthened. A new Tariff Division was established and revenue collection increased, despite a reduction in the average level of the duties. The customs administration also established a Post-Clearance Department, with 20 staff members at national level and about 30 staff at regional level. Furthermore, the customs administration intensified its anti-smuggling activities in joint actions with the other state bodies and international partners. A Risk Management Strategy has been adopted. By using risk analysis, the customs administration achieved good results, especially in the seizure of narcotics and counterfeited goods. The new Code of Conduct has been implemented and as many as 70 employees have been dismissed. These changes helped the disclosure of cases of abuse of office and the prosecution of these individuals before the court..

The activities relating to the implementation of the integrated border management strategy and action plan have been pursued further. Nonetheless, additional efforts are needed in order to achieve a more uniform and less discretionary application of customs procedures at various customs posts.

Overall, Serbia is already well advanced in terms of meeting the SAA requirements and remains committed to reforms in the area of customs. There has been improved IT support for audit and risk analysis. The enforcement capacity of the Serbian customs administration has improved. However, Serbia's customs infrastructure, customs procedures and human capital need to be further strengthened. Audits, post clearance controls and general management need to be based more on mid-term strategies and annual plans, in order to enhance performance and to ensure consistency in their application.

In the area of **taxation**, some progress has been recorded. New *ad valorem* and specific duties on cigarettes became applicable. This has brought the structure of the excise duties on cigarettes in line with the *acquis*.

The Serbian tax administration intensified its efforts to improve tax collection. Tax revenues have been rising constantly since 2003, and this trend continued in 2008. Both regular and enforced collections have improved. The tax administration also initiated a number of bankruptcy procedures against tax debtors aiming at collecting unpaid taxes. Field audit has

improved as the result of improved procedures. As of March 2008, mandatory electronic filing of tax returns for the large tax payers has been introduced.

The tax administration has also identified a large number of "phantom companies" thus stepping up the fight against tax fraud. The number of criminal charges for tax evasion has been constantly increasing, in particular on withholding tax and social contributions on salaries. The tax administration continued to actively cooperate with the special prosecutor on organised crime. The audit department was restructured and strengthened, and was also supported by an IT system developed using own resources in the tax administration. Due to this new approach, field audits became more successful.

In the area of training and education, the Serbian tax administration intensified efforts to improve employee skills and **administrative capacity**. Training has been provided for new recruits as well as the majority of current employees.

The Serbian tax administration improved international cooperation with other tax administrations in the implementation of ratified bilateral agreements in particular on avoidance of double taxation, cooperation and mutual assistance.

There was little progress on approximation of tax legislation to the *acquis*, particularly with regard to direct taxation. New business taxation based on the principles of the Code of Conduct has still to be adopted. Certain new tax arrangements are not compatible with the *acquis*, such as the reduced rate of VAT on computers or on the acquisition of a first apartment for residential purposes.

Overall, Serbia is well advanced in meeting the requirements of the SAA in the area of taxation. In particular the new *ad valorem* and specific duties on cigarettes became applicable in line with the SAA. Enforcement capacities of the tax administration and tax collection have been strengthened, but there is still a sizeable informal sector, and the collection of registered tax debts has to be reinforced. Serbia's tax legislation remains partially aligned with the *acquis* and certain provisions, most notably on excise duties and VAT, need further alignment. Serbia needs to follow up to ensure compliance of its tax legislation with the Code of Conduct for business taxation. In the area of direct taxation, alignment with the *acquis* is still at an early stage.

4.1.5. Competition

There has been some progress in the area of implementation of **anti-trust** legislation.

The efficiency of the Commission for the Protection of Competition has been improved by the allocation of new premises and the employment of new staff. In 2007, the Commission for the Protection of Competition dealt with twice as many cases as in 2006, including some highly sensitive cases affecting the general public. In particular the number of cases related to merger control increased. .

The majority of the competition cases in 2007 (around 85%) related therefore to the control of mergers, while this trend continued during 2008. There is a need for a more adequate notification threshold for mergers, ensuring that the obligation to notify is restricted to those mergers that are liable to affect competition in Serbia.

The existing anti-trust legislation is not yet fully aligned with the requirements of the SAA and Interim Agreement. The merger control procedures are not yet adequate to ensure the

efficiency of the Competition Commission. The enforcement capacities of the Commission for the Protection of Competition are still weak, notably due to its inability to impose fines. It is essential that the operational independence of the competition authority is assured. The enforcement capacity of the judiciary is weak due to lack of specialised knowledge. Work has just begun on competition advocacy among government officials, regulators, judges, business community, and the general public.

No progress has been made in the area of state aid. In September 2008, the Serbian government adopted the report on the state aid inventory for 2006. However, Serbia has neither yet adopted a legislative framework for state aid nor established an operationally independent state aid authority or a system of *ex-ante* control of state aid measures which are required by the SAA. Monitoring of state aid continues to be weak and administrative capacity is insufficient.

Overall, Serbia is moderately advanced in the area of anti-trust, including mergers, but its legislative framework and enforcement capacities have still to be improved. In the area of state aid, preparations are still at an early stage. Efforts are needed to meet the SAA requirements in competition.

4.1.6. *Public procurement*

Some progress has been made in the area of public procurement. Transparency of award procedures was improved by the establishment of a web-based portal, which has also brought a reduction in expenses, increased competition and control, better communication among the stakeholders, more reliable statistics, greater awareness and a better public procurement environment overall.

However, gaps in the existing legal framework and amendments to public procurement legislation are still outstanding.

The public procurement institutions, including the Public Procurement Office and the Commission for the protection of bidders' rights have insufficient physical and human resources. Their operational independence has not improved. Further efforts are needed on training and the development of the public procurement system. The Strategy for upgrading the public procurement system in Serbia, adopted in June 2006, has not yet been implemented.

The implementation of a non-discriminatory and well functioning public procurement system in Serbia continues to be adversely affected by the weaknesses in the public administration's internal audit system, by the absence of a fully functioning supreme audit institution and by corruption.

Overall, Serbia still lacks a consistent, effective and fully independent public procurement system with streamlined award procedures. Additional efforts are needed in terms of amending the legislative alignment, implementation of the public procurement strategy and strengthening the capacity to implement the requirements of the SAA

4.1.7. *Intellectual property law*

Some progress has been made in the area of **intellectual property rights**. The Intellectual Property Office was appointed coordinator for intellectual property rights within the government in October 2007. This has improved the cooperation between various state

institutions. The IT capacity of the office has been strengthened. The IT capacity of the office has been strengthened and some additional staff has been recruited as well. However, the administrative capacity of the Intellectual Property Office is not sufficiently developed. The Office needs additional qualified staff and continued training activities. The government has not yet appointed its Director. The financing of Intellectual Property Office from the state budget (currently under the responsibility of the Ministry of Finance) needs to be determined, in order for it to be transformed into a financially autonomous agency, thus increasing its organisational efficiency.

In relation to **industrial property rights**, the Intellectual Property Office has continued to strengthen its IT capacity, in particular by starting to develop a national industrial design database, in order to improve cooperation with economic operators. In June 2008, Serbia was invited to accede to the European Patent Organisation. The process of granting patents has been streamlined in accordance with European standards. The law on optical discs has not yet been adopted.

Some progress has been made in the field of enforcement. The tax authorities have started to take specific measures in order to protect intellectual property rights. Seizures by market inspection officers have improved slightly. The customs administration has continued to make progress in enforcing intellectual property rights. There is still inadequate storage space for counterfeited goods that infringe **copyright and related rights**. The market inspectorate has not made sufficient efforts to combat infringements. There is a shortage of judges specialized in this area. There have been some campaigns to raise public awareness on intellectual property rights, both for relevant state institutions and the general public.

Overall, Serbia's preparations in the area of intellectual property rights are moderately advanced. Efforts need to be strengthened in order to improve alignment with the *acquis* and administrative capacity and enforcement. Public awareness raising activities also need to be sustained in the fight against piracy and counterfeiting.

4.1.8. *Employment and social policies*

Little progress has been made in the area of **employment policy**. The employment strategy is in line with EU requirements, but its application remains weak. Active policy measures aimed at boosting employment, in particular in the SME sector, have been prepared and implemented.

Work continued on the development of regional training centres under the national employment service. This has contributed to a limited reduction in the number of unemployed but the rate remains high with a large percentage of unemployed women (53.8%). The reform of the education system, including vocational training, is lagging behind. Reforms in the employment services have also been delayed and although some progress has been registered, the effectiveness and administrative capacity of the National Employment Service is not yet sufficient.

In general, the record of implementing of employment measures and policies has improved, but coordination and harmonization with other policies is not sufficient in order to reduce unemployment.

In the field of **social policies**, the *labour law* of March 2005 remains unchanged, although certain implementing rules have been adopted.

There has been no progress in the area of *health and safety at work*.

A general Collective Agreement was signed in April 2008 between the association of employers and two representative trade unions, for the first time without state mediation. However, *social dialogue* continues to be weak. The functioning of the Socio-Economic Council needs to be improved.

Concerning *social inclusion*, the Serbian poverty reduction strategy has contributed to reducing the number of people living in absolute poverty. This number was reduced from about one million in 2002 (14.4% of the population) to under 500,000 in 2007 (about 6.6% of the population). However, fighting poverty and social exclusion in particular of Roma and IDP remains a key challenge. Serbia signed the Convention on the Rights of Persons with Disabilities in December 2007, but it has not yet been ratified. The 2007-2015 Disability Strategy has to be fully implemented. The implementation of the Law against the discrimination of people with disabilities is weak.

There is no comprehensive *anti-discrimination law*. Widespread discrimination, in particular against the Roma community, people with disabilities, ethnic minorities and people of different sexual orientation, prevails. Protection against discrimination on the labour market is weak.

Serbia has begun the process of decentralising the system of **social protection**, although financial assistance remains highly centralized. Strategic plans for the development of a network of social institutions at local level have been adopted. The process has begun with the adoption of simplified procedures for local social assistance institutions. Due to a lack of resources, the implementation of strategies at local level remains weak. The process of de-institutionalisation has begun and needs to be further developed. As of 1 January 2008, three pension systems (for employed persons, the self-employed and farmers) have been consolidated into a single system. However, this consolidation has not closed the financial gap in the pensions system, primarily because of the extremely low ratio of employed persons to pensioners.

In the area of *equal opportunities*, the National Strategy for the improvement of women's status and advancement of gender equality (2008–2014) was launched in January 2008. A Gender Equality Department has also been established in the Ministry of Labour and Social Policy. However, the Law on Gender equality is still pending. Women continue to be over-represented among the unemployed.

Progress can be reported in the area of **public health**. The reform of the health insurance system is ongoing. The IT capacity of the health insurance fund has been strengthened. The implementation of the law on health insurance has continued, in particular with regard to the inclusion into the compulsory health insurance scheme of people who were not previously covered by this scheme. Awareness raising campaigns have been launched directed at the general public and aimed at improving communication between health professionals and patients. However, the administrative capacity and managerial skills as well as funding in the public health sector are not sufficiently developed. The administrative capacity within the Public Health Institute is also limited. Moreover, a strategy on public health and a law on public health are outstanding. As regards mental health, the government has taken some measures to improve existing institutions and facilitate de-institutionalisation. However, community-based services are not sufficiently developed as an alternative to institutionalisation.

Overall, Serbia has started to address its priorities in the area of employment and social policies. The country's capacity to effectively implement employment policies has improved, but is still inadequate. With regard to social policies, legislation still has to be adopted and the overall implementation needs to be further developed. Further efforts are needed in the area of public health in order to strengthen the administrative capacity and to develop a more patient-oriented system.

4.1.9. Education and research

Concerning European standards on **education**, there is little progress to report.

Changes to the curriculum have been introduced in primary and secondary schools. Reforms, to adapt the higher education system to the Bologna requirements, have continued. A law amending the Law on Higher Education was adopted in October 2008. The process of accreditation of higher education institutions has begun.

However, sustained efforts are needed in order to ensure quality, mobility and links with the labour market. Links between university, vocational education and training and other education sectors are still weak, and mechanisms to ensure inter-sector mobility and to facilitate the enrolment in higher education institutions and to improve recognition of prior learning are not in place. The development and adoption of a national qualification framework has not advanced. The vocational education training system needs to be reorganised and adult training developed in order to ensure a broader range of profiles and better adaptability to economic needs. Limited administrative capacities and a lack of coordination among responsible institutions remain issues of concern. Financing for the education sector is still inadequate. It represents 3.7% of GDP and is affected by rigid allocation mechanisms, insufficient funding from local governments and a lack of involvement of the business sector. In the area of culture, Serbia signed a Memorandum of Understanding in 2008 with the European Commission and began participating in the Culture programme. The UNESCO Convention on cultural diversity has not yet been ratified.

Concerning **science and research**, Serbia's association to the Seventh EC Research Framework Programme has provided a high rate of return in terms of successful projects. A consultative bureau for international projects has been established within the Ministry of Science, which assists and encourages researchers to participate in the Seventh Research Framework Programme. Serbia has expressed interest in becoming associated to the Seventh Euratom Research Framework Programme (2007-2011). With respect to the integration into the European Research Area, Serbia has still to adopt a national strategy aimed at increasing public and private investment in research and promoting scientific careers and mobility of researchers. Moreover, Serbia has not yet developed an integrated research policy.

Overall, Serbia needs to continue its efforts to develop and adopt actions to facilitate its integration into the European Research Area.

4.1.10. WTO issues

Serbian preparations to join the WTO are relatively advanced although the process slowed down in the first half of 2008. However, if progress continues as planned, Serbia could be well placed to meet its objective of joining the WTO in the near future.

4.2. Sectoral Policies

4.2.1. Industry and SMEs

Serbia has made some progress in the **SME** sector.

A good institutional framework for SMEs had been put in place, and its performance has improved during the reporting period. In particular, there has been a substantial improvement in cooperation and coordination between the various actors – the Ministry of Economic Affairs, the SME agency, and other stakeholders. The SME Council, which comprises representatives of various ministries and entrepreneurs, meets regularly and is functioning well. However, not all ministries have yet fully taken the SME Council into account in their preparation of strategies and documents. Further strengthening of business advocacy is taking place through the reform of the Chambers of Commerce. The Agency for SME development has developed a network of regional agencies and local offices aimed at providing non-financial support.

Regarding the regulatory burden on the business environment, the Council for Regulatory Reform has elaborated a Strategy for Regulatory Reform in the Republic of Serbia for 2008-2011 together with an action plan with the aim of carrying out regulatory reform and reducing the administrative burden for SMEs

Serbia continues to be fully committed to the process of the European Charter for Small and Medium-sized Enterprises, to which it provided high quality input. Internal coordination is working well and there is active participation by all relevant bodies in the process.

Based on the programme for the development of business incubators and clusters, five new incubators started operating in 2007 and one in 2008, bringing the total number to 17. 20 clusters are operating and 14 projects are financially supported by the Ministry of Economy and Regional Development in the manufacturing, food production, tourism and IT sectors.

However, the 2009-2013 Strategy for Competitive and Innovative SMEs, and its Action Plan, drawn up after wide consultations with representatives of the SME sector, has not yet been adopted. Serbia has not made progress in developing and implementing a modern **industrial policy**.

Overall, preparations in the area of industry and SMEs are advanced and fulfil the relevant SAA requirements

4.2.2. Agriculture and fisheries

Some progress has been made in the area of **agriculture** and there have been some improvements to the administrative capacity

In the area of **rural development** the government adopted three regulations defining the distribution and use of subsidies in 2008 in the areas of rural tourism, support to internally displaced persons, and support to the Roma community. However, a strategic plan for rural development and a multi-annual rural development programme have not been adopted. An inter-ministerial mechanism for coordination of policies related to rural development has not been established. The rural development sector is in need of qualified staff, and the framework legislation on rural development, which is intended to serve as a basis for the establishment of a national agency for rural payments, has not yet been adopted.

Concerning the wine sector, Serbia has strengthened its administrative capacity in order to prepare for the establishment of a vineyard cadastre. However, a sustainable system for vineyard and wine inspections has still to be established. A new law on wine has not yet been adopted. A national system of oenology laboratories has not yet been established.

The government has adopted four regulations on organic production. These regulations support the development of the sector and accredit the first certification organisations. They represent important progress in terms of alignment with the *acquis*.

In the area of **food safety**, Serbia has still to adopt framework legislation which complies with the *acquis*. Some progress has been made in clarifying the allocation of responsibilities between the relevant inspectorates. The full implementation of the new division of responsibilities and in particular cooperation between the Ministry of Agriculture and the Ministry of Health is subject to the adoption of this new framework legislation.

No progress has been made with regard to the upgrading of food establishments. Serbia has been listed as an "approved third country" in the milk sector for treated milk products however, no establishment has yet been approved for export to the EU.

Serbia has made some progress in the continued development of a **veterinary** information management system. Progress has been made in extending animal identification and registration of their movements to a larger number of animal species. Following the entry into force of the veterinary law, implementing legislation has been adopted. However, the Veterinary Directorate is in need of ongoing training activities and its management capacity remains limited. Decentralisation measures and training activities aimed at strengthening the field veterinary service have proved insufficient. Furthermore, Serbia needs to amend the framework veterinary law to bring it into line with the *acquis*, and also to adopt a new law on animal welfare.

Progress has continued in the upgrading of **laboratories**, notably in the food chain area. However, an administrative structure for the management of reference laboratories for food chain control has still to be established. A laboratory information management system for veterinary laboratories has not yet been integrated with the veterinary information system.

There is little progress to report in the **phytosanitary** area. The main development was the adoption by the Ministry of Agriculture of an annual programme on plant health for 2008. A plant health law and a law on plant protection products have not yet been adopted. A phytosanitary laboratory information management system has not yet been developed.

In the **fisheries** sector there has been no progress in the areas of marketing standards for fisheries products or with regard to structural policy.

Overall, Serbia is in a relatively advanced stage of preparation in the area of agriculture to fulfil SAA obligations. However, further efforts are needed in order to allow Serbia to better manage agricultural policy and to continue reforms in the sector. An appropriate legislative framework needs to be adopted and further efforts are necessary in order to strengthen the administrative capacity in the field of food safety, veterinary and phytosanitary policy. Further efforts are needed in the fisheries area in order to comply with the relevant parts of the *acquis* and prepare for the implementation of structural assistance.

4.2.3. Environment

There has been little progress in the area of environment.

As regards **horizontal legislation**, there is a growing awareness of the importance and role of Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA).

However, enforcement of EIA and SEA is not fully ensured and the level of non-compliance remains high. Inter-ministerial coordination on project assessment and the issuing of permits needs to be improved. Some training has been provided by the Ministry of Environment, but responsible institutions at the local level still lack the necessary capacities, sufficient awareness and specific knowledge.

The National Environmental Protection Strategy has not been adopted yet. The administrative structures to implement the Kyoto Protocol are not yet in place. Serbia has acceded to the Espoo Convention whereas the Aarhus Convention has still to be ratified.

There has been no progress in the area of **air quality**.

No progress can be reported as regards **waste management**. The law on waste and the law on packaging and packaging waste have not yet been adopted. Waste management plans at both national and local levels are still not developed. There has been no progress regarding hazardous waste management.

There has been no progress in the field of **water quality**. A new law on water has not yet been adopted. The issues of financial sustainability of the necessary investments and a reform of tariffs have still to be addressed.

There has been no progress in the area of **nature protection**.

On **industrial pollution control and risk management**, a rulebook on a register of polluters has been issued and is maintained by the Environmental Protection Agency. The Ministry compiled a list of around 220 installations which will have to comply with requirements of the Industrial Pollution and Prevention Control (IPPC) Directive before the deadline of 2015, as set out in the relevant national law. Little progress has been made in enforcing legislation and in developing plans for the compliance of existing installations.

No progress can be reported on **genetically modified organisms (GMOs), chemicals and noise**.

Administrative capacity has improved following the creation of a separate Ministry for Environment Protection. The number of employees at the ministry has increased, in particular in the departments dealing with European integration and horizontal legislation. Local environment development plans have been prepared in a number of municipalities. Environment protection inspectorates have been re-organised, allocated more resources and provided with specific training. Training activities on environmental law have been provided for judges and prosecutors.

However, institutional capacity and technical and human resources at the local level are still insufficient, as is coordination with the central level. Judicial enforcement of environment legislation still needs to be strengthened.

The Water Directorate within the Ministry of Agriculture, Forests and Water continues to be understaffed and its institutional capacity is inadequate. Coordination between the Environment and Agriculture ministries needs to be improved.

The Environmental Protection Agency is fulfilling its tasks in the areas of data collection and cooperation with the European Environment Agency. Its performance is improving, but the Agency still lacks the capacity to ensure proper implementation of the integrated monitoring strategy.

Resources allocated to environmental protection from the budget have been increased, but they still remain low. The Fund for Environmental Protection is active in the co-financing of projects, especially in the field of waste management, sanitation and air quality monitoring.

A National Sustainable Development Strategy was adopted, following a wide consultation process. It is structured around three pillars: knowledge-based sustainability, socio-economic conditions and environment and natural resources. It identifies priority actions and includes a preliminary estimate of financial needs and priorities.

Overall, Serbia is moderately advanced in the area of environment, including in some areas of horizontal legislation. However, some sectors are not sufficiently regulated. Legislation enforcement at all levels has still to be ensured. There is still no legal or institutional framework for water quality.

4.2.4. Transport policy

Serbia has made some progress in the area of transport.

A Strategy for the development of rail, road, water, air and inter-modal transport for the period 2008 to 2015 was adopted in December 2007, providing for the development of Corridors VII and X and of the core network. The Strategy also includes general principles of the *acquis*, in particular the concepts of sustainable transport, inter-modality, and prioritisation of railways and waterways as alternatives to road transport. However, the strategy does not adequately address institutional re-organisation and financial sustainability, and needs to be followed by more detailed action plans.

There has been some progress in the area of **trans-European transport networks**. Serbia has continued to actively participate in the implementation of the 2004 Memorandum of Understanding for the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO). It has approved a multi annual plan 2008-2012

As regards **road transport**, the Serbian Road Company has good human and technical capacities. However, a number of laws amending existing legislation, namely the Law on road haulage, the Law on transport of passengers, the Law on transport of dangerous goods and the Law on road safety, have still to be adopted. Once the Interim Agreement on trade and trade related matters enters into force, Serbia will be required to grant unrestricted Community transit traffic through Serbia.

There has been little progress in the field of **rail transport**. In December 2007, Serbia signed the "Addendum to the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network for a South East European Railway Transport Area", aiming at the gradual market opening of the rail transport market. Amendments to the railways law have not been adopted, delaying a number of reforms, in particular the

establishment of a regulatory agency, the definition of public service obligations and the conditions for market opening. Separation of infrastructure management and provisions of transport services has not yet developed beyond the separation of accounts and a system of access charges has only recently been launched. The sector remains in need of operational and financial rationalisation and substantial restructuring

In the field of **inland waterways**, there is moderate progress to report. The Law on inland waterway transport has not yet been adopted and Serbia still needs to ratify relevant European Agreements in this field. The development of infrastructure, namely the Danube and the Sava River, as well as the development of inland ports as intermodal terminals, requires specific focus and earmarked resources.

There is little progress to report on **combined transport** and inter-modality. A limited liability company for combined transport has been created within the Railways Company.

Some progress can be reported in the sector of **air transport**. The implementation of the first transitional phase of the Agreement on a European Common Aviation Area (ECAA) has continued and progress can be reported in security, safety and air traffic control. Nevertheless, the sector lacks the necessary legal framework, as the ECAA agreement is not ratified and the Law on civil aviation has not been adopted. Preparations for restructuring of the national carrier JAT are continuing.

In terms of administrative capacity, the Ministry for Infrastructure needs to further reinforce its capacities and to strengthen the expertise of its personnel, especially as regards the alignment of the national legislation with the *acquis*. The operational structures need to be reorganised. The Civil Aviation Directorate is operational and has the necessary expertise but the distribution of responsibilities between the Ministry and the Civil Aviation Directorate needs to be clarified.

Overall, Serbia is relatively advanced in the area of transport, but needs to update and align its legislation to the *acquis*. The transport strategy needs to be followed up by a master plan and sectoral measures. Furthermore, the relevant services are still to be reorganised and strengthened.

4.2.5. Energy

There has been some progress in the overall energy field during the reporting period.

There has been no progress regarding **oil stocks**. The level of available stocks remains below European minimum quantities.

As regards **security of supply**, some progress has been made in increasing gas reserves. Energy interconnection between Serbia and other countries of the region is progressing. However, the implementation of the Energy Sector Development Strategy remains limited, especially at local level. The sustainability of the sector and necessary investments are still to be ensured.

Good progress has been made in the **internal energy market**. A grid code for electricity transmission was adopted in April 2008. A tariff system for electricity transmission was adopted in December 2007 and has been in force since January 2008. A tariff system for electricity settlements for tariff buyers was adopted in February 2008. The sector is moving towards separation and identification of transmission costs. Transmission system operators

have to a large extent become financially sustainable. The formal opening-up of the electricity and gas markets to non-household consumers has been achieved. In February 2008, the Energy Agency lowered the eligibility threshold to all non-household consumers – a measure which applied to 47% of the electricity market and 90% of the gas market. The Energy Agency is endowed with the necessary capacities and expertise, and has continued to fulfil its tasks in an independent manner, in line with the Energy Community Treaty requirements.

However, amendments to the energy law, concerning electricity distribution grid codes and electricity market rules, have not yet been adopted. The separation between distribution and supply of electricity has still to be implemented, and the related deadlines of the Energy Treaty have not been respected. Unbundling and real market opening requires further substantial measures. The adoption of a sustainable tariff system that reflects costs remains has still to be adequately addressed.

Serbia has signed a Memorandum of Understanding with Russia on energy which was ratified by the Serbian parliament in September 2008. This is a framework document for signing several deals in the energy field for which the terms are still to be negotiated. The agreement includes privatisation and modernisation of the Serbian Oil Company (NIS - Naftna Industrija Srbije), completion of the construction of an underground gas storage facility and the passing of the Northern branch of the South Stream pipeline through Serbia. In the implementation of Memorandum of Understanding, Serbia needs to ensure that the obligations of the Energy Community Treaty are respected.

Little progress can be reported on **energy efficiency and renewable energy**. Serbia is participating in the energy efficiency task force created within the Energy Community. The Energy Efficiency Agency has still to ensure its sufficient capacity and financial sustainability.

In the area of nuclear safety and radiation protection, Serbia has made some improvements. The dismantlement and removal of spent fuel from the Vinča research reactor is progressing. Practical work has started on the characterisation of spent nuclear fuel elements from the RA nuclear research reactor. The construction of a modern and safe storage facility for radioactive waste is well underway. However, further improvements are still needed to fully remediate the nuclear legacy of the past and to implement the Vinča Institute Nuclear Decommissioning (VIND) programme adopted by the Serbian government in 2002. The technical capacity of the different Serbian organisations involved in nuclear issues also needs to be enhanced.

From the legislative and regulatory point of view, Serbia has still to adopt a law on ionising radiation protection and nuclear safety and to set up the appropriate regulatory agency. Serbia has still to accede to two additional international Conventions, namely, the Convention on Nuclear Safety, and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

In terms of administrative capacity, the Ministry for Energy and Mining has increased its personnel by about 10%, adding a specific unit on renewable energy. Municipalities have been provided with assistance. However, capacity needs to be further strengthened. Plans on management of sealed radioactive sources, environmental monitoring and radiation protection in the context of medical and industrial applications have to be further developed. An appropriate regulatory authority has still to be established.

Serbia has not yet acceded to the Convention on Nuclear Safety and to the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management

Overall, Serbia is moderately advanced regarding the energy sector, but progress is uneven. Substantial efforts are needed to comply with the Energy Community Treaty requirements and to address outstanding issues in relation to nuclear safety and radiation protection.

4.2.6. *Information society and media*

There has been little progress in the area of **electronic communications and information technologies**. The strategy for the development of telecommunications in Serbia from 2006 to 2010 still lacks timelines for achievement of the defined objectives and for the introduction of liberalisation measures.

Little progress can be reported on the harmonisation of the legislative framework with the *acquis*, in particular due to insufficient coordination among responsible bodies. Coordination between the Ministry for Telecommunications and Information Society and the regulatory authority (RATEL) has been affected by major disagreements, preventing the proper functioning of regulatory and legislative mechanisms. The Ministry, in June 2008, decided to temporarily take over RATEL's responsibilities. The government subsequently repealed this decision indicating that it was not in line with the Law on Public Administration. Relations between the Ministry and RATEL have since started to improve and a set of decisions on Voice over Internet Protocol (VoIP), international connectivity, licensing and operators and tariff rebalancing have been adopted.

In July 2008, RATEL issued a decision granting State access to all internet communications even without a specific police order. This decision, aimed at combating cyber crime and terrorism, was withdrawn by RATEL at the request of the Ombudsman and following criticism from the Commissioner for public information. Internet service providers, NGOs and citizens also expressed concern that the measure could be misused and constitute excessive control of and intrusion into citizens' privacy.

The mobile telephony sector is formally liberalised and consists of three operators. As regards the fixed telephony sector, the legislative and regulatory framework remains to a large extent inadequate for the entrance of new operators in the market. Further regulation is needed in terms of competition safeguards, network access and infrastructure development. International connectivity poses a major problem for many operators. The regulation of internet service remains inadequate and makes the entry of new providers difficult. Internet penetration rates are rising, but remain low, at about 16%. Tariff rebalancing and the development of cost models are outstanding issues. A universal service policy has still to be adopted.

In the area of **information society services**, the authorities have identified a number of priorities. A working group on coordination of IT activities has been established within the Ministry of Telecommunications. Three technical regulations on electronic signature have been adopted. However, legislation is still lacking and the Strategy on Information Society has not been followed up by action plans and a full assessment of investment needs. Currently, the role of IT in the government's communication with and services to citizens (e-government) is limited. Capacity in this area needs to be strengthened, especially at local level.

Serbia has not yet adopted the necessary legislation, in line with European standards, on e-commerce and conditional access services.

In terms of administrative capacity, the Ministry, established in 2007, has not been provided with an updated organisational structure and sufficient human resources, in particular in relation to the European integration process. RATEL is operational and financially autonomous. However, this authority does not have enough specific expertise to regulate an open telecommunications market. Its independence needs to be strengthened.

Little progress has been made in the area of **audiovisual policy**. Progress was made in negotiations with the WTO on audiovisual services, especially through the negotiation of exceptions to Most Favoured Nation rules. The Broadcasting Agency changed its binding directive to the Public Service Broadcaster RTS on the broadcast of live parliamentary debates into a recommendation. Serbia has not yet signed the European Convention on Transfrontier Television. The Law on Media Concentration has not yet been adopted and amendments to the Broadcasting law are awaited.

Transparency in the allocation of regional and municipal frequencies remains insufficient.

No progress can be reported with regard to the institutional framework. The transparency and accountability of the Broadcasting Agency still have to be strengthened through proper regulations. The enforcement of judicial decisions needs to be ensured.

Preparations in the area of information society and media are at an early stage. The sector is adversely affected by the legal vacuum and inadequate institutional and regulatory capacity.

4.2.7. *Financial control*

There has been little progress in the area of financial control. There is still no comprehensive policy on **Public Internal Financial Control (PIFC)**. An adequate co-ordination and harmonisation function for PIFC implementation is also lacking. The Central Harmonisation Unit has not been established. In its absence, its role is partly covered by the Internal Audit Unit in the Ministry of Finance. Internal Audit units have not been set up in all ministries.

The State Audit Institution is not yet fully operational. Although it has produced a rule book regulating its internal functioning, there have been delays in assigning appropriate premises for the office, which has delayed the recruitment of staff. So far only two auditors have been recruited.

Overall, Serbia is at a very early stage of preparations for introducing PIFC and a modern system of **external audit**. It has not met the requirements of the SAA and the European Partnership priorities.

4.2.8. *Statistics*

Serbia has made some progress in the area of statistics during the reporting period.

As regards **statistical infrastructure**, some progress can be reported in cooperation and coordination of the statistical system between public statistical producers in Serbia. The Serbian Statistical Office signed memoranda of understanding with the Ministry of Agriculture covering the planned agricultural census and with the Ministry of Finance covering data delivery to the statistical office. The resource situation improved slightly and

the 2008 budget for the Serbian Statistical Office has increased. However, the available funding is not yet sufficient to cover all planned activities. The new law on statistics has not been adopted.

There was some progress as regards **classifications** and the business register. The process of harmonisation with EU classifications for statistical regions, occupations and economic activities and products has started. The 2008 Combined Nomenclature was implemented in external trade statistics. Development of the statistical business register is progressing. However, there are no operational statistical registers at the Serbian Statistical Office.

As regards sectoral statistics, preparatory work has continued in a range of areas. Several pilot surveys were carried out and some results were published. For demographic and social statistics a labour cost pilot survey was conducted. The labour force survey methodology was revised. A pilot survey on innovation was conducted. For business statistics the results of the surveys on structural business statistics were published. These results are an important source for the national accounts. As regards transport statistics, a pilot survey on transport of goods was conducted.

Overall, Serbia is moderately advanced in fulfilling the requirements of the SAA and the European Partnership in the area of statistics. Increased efforts are needed as regards administrative capacity and priority setting.

4.3. Justice, freedom and security

4.3.1. Visa, border, control, asylum and migration

Some progress has been achieved during the reporting period in the area of **visa policy**. The visa facilitation agreement between Serbia and the European Community entered into force in January 2008. A visa liberalisation dialogue was initiated between the Commission and Serbia. The Commission handed over a roadmap on visa liberalisation in May 2008. Serbia provided a first report on its alignment with the roadmap benchmarks in September 2008. Serbia's diplomatic and consular representations continue to provide visas for Montenegro by mutual agreement.

However, the current visa regime is still not fully in line with European standards. Amendments to the Law on citizenship introduced a broad concept of dual citizenship for applicants of Serbian origin. One of the most important criteria is registration in Serbia, which causes problems due to destroyed or missing registry books.

The replacement of old and unsafe travel documents has been further delayed. The issuing of new ID cards started in April 2008; new biometric passports have only started to be issued as from August 2008. The full replacement of all old passports, originally planned for end of December 2008, has been deferred to end 2009.

The technical capacities of agencies involved in the issuing of visas, including equipment and training to detect forged and falsified documents, have not improved significantly. Some border crossing points continue to be better equipped than consular representations, but their powers to issue visas are limited. Access to the central visa database in the Ministry of Interior is still not provided.

Overall, Serbia is moderately advanced in the area of visa policy.

There has been some progress in the area of **border control**. A new Law on protection of the state borders was adopted in October 2008. Bilateral protocols on regular meetings of the heads of border services have been concluded with Montenegro and the former Yugoslav Republic of Macedonia. Staffing, initial training and provision of equipment for border police continued. Currently the border police comprise 3,120 staff.

However, implementation of the national integrated border management strategy and the action plan has been slow.

Inter-agency cooperation is based on informal arrangements, as multi- and bilateral agreements to cover the details of joint actions are not in place. There are considerable differences between the various border crossing points in terms of infrastructure and human and technical resources. Not all border crossing points have IT connections and some lack even basic equipment, in particular on the border with Montenegro.

Progress can be reported in the area of **asylum**. The new Law on asylum was adopted in November 2007 and implementation started in April 2008. As from that date, the Serbian authorities officially took over responsibility for handling asylum cases from the UNHCR. The asylum centre in Banja Koviljaca became fully operational and was handed over by UNHCR in June 2008. It has a capacity of 83 places, which is sufficient for current needs.

Asylum claims are assessed in the first instance by the new Asylum Office, which is located within the Ministry of the Interior. Appeals can be lodged at the Asylum Commission, which consists of eight members and a chairman appointed by the government. In certain cases, a legal review by the Supreme Court is possible.

However, the new law shows some procedural weaknesses. In particular, there is no provision for a general appeal to an independent judicial body. Implementing legislation has not been fully adopted. The capacities of the Asylum Office and the Asylum Commission remain limited and training needs have not been sufficiently fulfilled.

Due to the lack of referral mechanisms and asylum structures, asylum seekers who enter or remain illegally in Serbia continue to be subject to judicial and administrative detention.

Overall, Serbia has started to address the main priorities in the area of asylum.

There has been some progress in the area of **migration**. The Law on foreigners was adopted in October 2008. Implementation of the readmission agreement with the European Community started in January 2008. Between September 2007 and June 2008, 871 requests were filed under bilateral agreements and 100 under the EC readmission agreement. Serbia has agreed to 688 of these requests. In November 2007, Serbia established a Council for returnee reintegration and an inter-agency working group in charge of formulating a strategy and action plan in the area.

However, Serbia's capacities for integrating returnees remain poor. The national strategy has not yet been adopted, nor has the legal framework for reintegration been developed to allocate the necessary resources for implementing a comprehensive reintegration policy.

The handling of legal migration faces difficulties. Applications can only be filed from within the country. There is no central database of previous applications. Capacities of the competent Department for foreigners are weak. Currently, there are 5,253 foreign citizens permanently residing in Serbia.

Serbia has continued to strengthen the capacities of the border police in order to fight illegal migration. Sections for suppression of illegal migration and trafficking within the border police and the criminal police directorate continued to ensure good coordination with the 34 police secretariats. From September 2007 to June 2008, 506 illegal border crossings were recorded. In 2007, 952 overstay cases were reported.

Overall, Serbia is moderately advanced in the area of migration policy.

4.3.2. Money laundering

There has been little progress in the fight against money laundering. Activities were mainly focused on capacity building within the administration for the prevention of money laundering and the Financial Intelligence Unit. A national strategy for the prevention of money laundering and financing of terrorism was adopted by the government in September 2008. A manual for practitioners was developed and the number of cases being handled has increased.

However, new legislation for the prevention of money laundering and financing of terrorism have not been adopted. Current legislation is not in line with the Council directive on prevention of the use of the financial system for the purpose of money laundering and financing terrorist financing.

Criminal investigations in money laundering cases have had very limited success. Police and prosecution service lack the capacities and expertise to follow up properly reports issued by the Financial Intelligence Unit concerning suspicious transactions. This results in a low number of final convictions in such cases. Proper management of seized assets is still not assured. Legal entities do not fully comply with their reporting obligations and enforcement remains insufficient. Further efforts are needed in order to better control the high number of cash transactions.

Preparations in the area of money laundering are still at an early stage. Money laundering continues to be a serious problem in Serbia.

4.3.3. Drugs

Some progress has been achieved in the fight against drugs. Serbia is on one of the major Balkan routes for transit of heroin, cocaine, marijuana and synthetic drugs, with organised groups originating from Serbia being an important part of the criminal network.

Capacities of the border police have been strengthened and efforts have been made to improve regional and international cooperation. A number of successful operations were carried out which resulted in the detection of organised crime groups and narcotic drugs networks, as well as increased quantities of drugs seizures. From January to June 2008, Serbian authorities seized 350 kg of heroin, 15 kg of cocaine and 1000 kg of marijuana. Over 4000 criminal charges have been filed in relation to drug offences, compared to 5151 in 2007.

The Ministry of Health has stepped up its efforts to combat drug abuse in Serbia, mainly through awareness raising campaigns and support programmes for drug addicts.

However, neither the national strategy on preventing drug abuse and reducing supply nor the action plan for its implementation has yet been adopted. The same applies to the Law on production and trade of narcotic drugs. Cooperation with international bodies in the drug

control field, such as the European Monitoring Centre for Drugs and Drug Addiction and the United Nations Office on Drugs and Crime, needs to be improved. There is no exchange of operational data with UNMIK police. There is no databank on drug seizures. Drug abuse, in particular among young people, is increasing.

Preparations in the area of the fight against drugs are moderately advanced, but drug trafficking remains a serious concern.

4.3.4. *Police*

Progress in the area of police and policing has been limited. A strategic cooperation agreement with Europol was signed in September 2008. Regional police cooperation has been improved, following ratification of the Convention on South-East Europe Police Cooperation. Additional training efforts have been undertaken in order to improve professional capacity. A new police training centre came into operation in November 2007. The technical equipment of centralised police forces is of a relatively good standard, and includes modern forensic facilities.

Measures have been taken to improve police accountability. Four regional centres were established and the system for citizens' complaints was improved by developing a new leaflet on complaints procedures.

However, structural problems in the police forces persist. In the absence of new legislation concerning the division of responsibilities, there is a lack of coordination in core areas such as corruption, organised crime and war crimes. Legislation on the reform of the secret service has not been adopted. Considerable differences in the capacities of departments and services as well as a lack of coherent approach to human resources and financial management within the Ministry of Interior pose serious challenges for ongoing reform efforts. International cooperation needs to be further improved. Although police equipment for secret surveillance measures has been upgraded, police still need some support from the Security Information Agency in order to carry out telephone surveillance measures. Preparations for broader application of secret surveillance measures as foreseen under the new Criminal Procedure Code have not been sufficient.

The internal control department has not been sufficiently effective owing to limited support within the police, staff shortages and a lack of resources. Concerns remain over the level of transparency in police work and potential undue political influence.

Private security is not adequately regulated. Estimates suggest that up to 3,000 agencies, providing a wide range of security services, are operating in the absence of proper licensing and control. Small arms and light weapons are widespread and often subject of illicit use. This is a serious problem regarding criminal activity. Illicit arms possession among the general public remains very high. This still poses a significant challenge to security in Serbia.

Overall, Serbia is moderately advanced in the area of policing.

4.3.5. *Fighting organised crime and terrorism*

There has been little progress in the fight against **organised crime**. Organised criminal activities in the areas of drug trafficking and financial crime, including corruption and money laundering, remain a source of serious concern.

Responsibility for the fight against organised crime is shared between the department for the fight against organised crime within the Ministry of Interior and a number of specialised police departments. New laws on seizure of assets acquired through criminal acts and on criminal liability of legal persons were adopted in October 2008. Several high-level cases are ongoing, including the trial concerning the assassination of former PM Zoran Djindjic, for which the second instance procedure started in September 2008. Support for the witness protection system continued.

However, the legal framework is still incomplete, due to the delayed entry into force of the new Criminal Procedure Code. This is hampering the restructuring of police and prosecution services. The national strategy for fighting organised crime and the action plan have not been adopted. The shortness of the term of office of the special prosecutor for organised crime and his deputies continues to hamper the efficiency of work.

International police cooperation and the capacities of the specialised police services to investigate financial crime remain insufficient. Owing to the large number of police departments involved in the fight against organised crime, internal coordination is a challenge. Final convictions in organised crime cases are rare. A common database on information related to organised crime has not been set up. Although some efforts have been undertaken to improve the witness protection system, its capacities remain very limited and it suffers from a lack of trust and cooperation. Management capacities for seized assets acquired through criminal acts are not in place and provisions on confiscation of the proceeds of crime are not sufficiently implemented. Preparations in the area of the fight against organised crime remain at an early stage, which is a matter of concern and affects the rule of law and the business environment.

There has been little progress in the fight against **trafficking in human beings**. As a general trend, the number of persons trafficked through South Eastern Europe is decreasing. Serbia continues to be a source, transit and destination country, but the trend towards an increasing percentage of victims being Serbian continues.

In the period from September 2007 to June 2008, out of 41 identified victims of trafficking in human beings, 34 were Serbian citizens, five originated from Bosnia and Herzegovina, one from Romania and one from Ukraine. In the same period, police services filed 27 criminal charges of trafficking in human beings against 59 suspects. Fifty-three criminal charges were filed against 88 suspects of illegal state border crossing and the smuggling of 188 migrants. Criminal cases against police officers suspected of involvement in trafficking activities have been processed, but are not yet finalised.

The Agency for the Coordination of Protection of Victims, which is under the Ministry of Labour, Employment and Social Policy, has received additional financial resources. It launched an awareness raising campaign on national television and provided shelter and re-integration programmes for victims. Eleven centres for social assistance were established at municipal level. Temporary residence permits were issued for seven victims in 2007.

However, the post of the national coordinator for combating trafficking in human beings has been vacant since January 2008. The growing number of under-age victims is a matter of concern. Further efforts are needed to increase cooperation between state institutions and the NGO sector to a sufficiently high level. Compensation for victims has been very slow. The action plan for the implementation of the national strategy for combating trafficking in human beings has not been adopted.

Overall, Serbia is moderately advanced in the fight against trafficking in human beings.

Progress in the **fight against terrorism** has been limited to improved protection of official buildings and training efforts. Ratification of key international conventions is still pending. Specific legislation is not in place. A database on terrorism suspects has not been established. Cooperation between police and the security agency, as well as their ability to exchange information, need to be reinforced. Serbia remains at an early stage in developing a comprehensive approach to fighting terrorism.

4.3.6. Protection of personal data

There has been some progress in the area of protection of personal data. Serbia ratified the Additional Protocol to the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data. A new Law on data protection was adopted in October 2008.

However, in the absence of an independent and efficient data protection supervisory authority, existing data protection rules have not been implemented. Preparations in the area of protection of personal data are not well advanced.

STATISTICAL ANNEX

STATISTICAL DATA (as of 29 September 2008)

Serbia

Basic data	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (thousand)	1)	7 583	7 553	7 528	7 505	7 502	7 491	7 470	7 456	7 425	7 382
Total area of the country (km ²)		77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474

National accounts	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic product (GDP) (million national currency)	2)	169 517	210 232b	397 656	783 897	1 020 117	1 171 564	1 431 313	1 747 459	2 042 048p	:
GDP (million euro)	2)	:	17 907b	8 006	13 186	16 812	18 009	19 724	21 077	24 255p	:
GDP (euro per capita)	2)	:	2 371e b	1063e	1 757	2 242	2 407	2 643	2 833	3 273	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	:	:
SI: GDP (in PPS per capita, EU-25=100)		:	:	:	:	:	:	:	:	:	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)	2)	:	:	4.5	4.8	4.2	2.5	8.4	6.2	5.7	7.5e
SI: Employment growth (national accounts, % change on previous year)	2)	:	:	:	-0.2	-0.5	-4.0	1.2	-3.9	-1.0	:
Labour productivity growth: GDP growth per person employed (% change on previous year)	2)	:	:	:	5.1	4.7	6.7	7.2	10.5	6.8	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture	2)	15.4	18.8b	19.8	19.8	14.8	13.1	13.7	11.9	11.2	:
Industry	2)	22.6	23.2b	25.8	24.4	23.7	22.5	23.5	23.2	24.1	:
Construction	2)	4.3	3.6b	3.6	3.2	3.4	4.2	4.8	4.5	4.7	:
Services	2)	57.7	54.4b	50.8	52.6	58.1	60.2	58.0	60.4	60.0	:
Final consumption expenditure, as a share of GDP (%)	2)	98.5	96.3b	97.3	103.5	103.5	98.9	90.5	87.9	87.4p	:
Households and NPISH, as a share of GDP (%)	2)	78.2	78.0b	78.4	83.1	81.2	76.4	70.7	70.0	70.4p	:
General government, as a share of GDP (%)	2)	20.3	18.3b	18.9	20.4	22.3	22.5	19.8	17.9	17.0p	:
Gross fixed capital formation, as a share of GDP (%)	2)	9.8	10.8b	12.3	10.4	11.8	16.1	17.7	17.3	19.7p	:
Changes in inventories, as a share of GDP (%)	2)	-0.6	-0.5b	-3.8	5.7	5.5	6.6	18.6	14.9	12.9p	:
Exports of goods and services, relative to GDP (%)	2)	21.2	11.1b	10.5	21.7	19.9	20.6	23.8	27.7	30.7p	:
Imports of goods and services, relative to GDP (%)	2)	28.9	17.8b	16.3	41.3	40.7	42.2	50.8	47.8	50.8p	:

Industry	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Industrial production volume index (2000=100)		120.7	89.8	100.0	100.1	101.9	98.8	105.9	106.7	111.7	115.8

Inflation rate	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
SI: Consumer price index (CPI), (total, % change on previous year)		29.9	43.5	79.6	93.3	16.6	9.9	11.4	16.2	11.7	7.0

Balance of payments	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Balance of payments: current account total (million euro)		-419	-427	-166	-318	-1 319	-1 255	-2 306	-1 788	-3 157	-5 021
Balance of payments current account: trade balance (million euro)		-1 283	-1 167	-1 713	-2 577	-3 414	-3 555	-5 201	-4 252	-4 992	-6 445
Balance of payments current account: exports of goods (million euro)		2 585	1 452	1 781	2 033	2 339	2 934	3 282	3 995	5 128	6 463
Balance of payments current account: imports of goods (million euro)		3 868	2 620	3 494	4 610	5 753	6 489	8 482	8 247	10 121	12 908
Balance of payments current account: net services (million euro)		271	109	153	272	137	179	141	-5	-41	-13

Balance of payments current account: net income (million euro)		9	8	-1	7	-77	-120	-174	-260	-330	-503
Balance of payments current account: net current transfers (million euro)		583	624	1 396	1 980	2 035	2 241	2 927	2 730	2 207	1 939
of which government transfers (million euro)		0	0	293	660	525	421	382	264	186	202
Foreign Direct Investment (FDI) in the reporting economy (million euro)		:	:	:	:	:	:	:	:	:	:

Public finance

	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	:	:	0.8	-1.5	-1.9
SI: General government debt, relative to GDP (%)		:	:	:	101.6	69.5	64.3	53.3	50.1	33.2	28.7e

Financial indicators

	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	:	94.2	64.0	60.3	52.5	62.0	61.4	59.5
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	:	455.0	344.0	282.0	231.8	246.3	213.4	206.8
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		:	1 259	544	974	1 546	1 526	1 533	1 748	2 378	3 112
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	1 591	662	1 139	1 828	1 920	2 015	2 318	3 315	4 882
Money supply: M3 (M2 plus marketable instruments, million euro)		:	2 125	1 313	2 098	3 156	3 762	4 449	5 535	7 539	11 302
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	:	:	:	:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		:	11.740	49.670	59.770	60.680	65.060	72.570	82.910	84.160	79.980
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		652	659	958	2 050	2 937	3 548	3 780	5 525	9 593	10 897

External trade

	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Trade balance: all goods, all partners (million euro)	3)	-1 575	-1 423	-1 926	-2 862	-3 727	-4 147	-5 791b	-4 867	-5 471	-7 296
Value of exports: all goods, all partners (million euro)	3)	2 393	1 270	1 680	1 896	2 192	2 442	2 748b	3 572	4 992	6 205
Value of imports: all goods, all partners (million euro)	3)	3 968	2 694	3 606	4 758	5 919	6 589	8 539b	8 439	10 463	13 501
Terms of trade (export price index / import price index, % change to the previous year)	3)	3.4	-7.5	8.3	2.9	-4.9	3.7	6.7b	-9.2	6.2	-2.0
Share of exports to EU-27 countries in value of total exports (%)	3)	48.9	50.5	54.3	58.2	59.5	53.9	56.6b	58.7	57.5	57.5
Share of imports from EU-27 countries in value of total imports (%)	3)	56.7	59.9	61.6	57.6	59.6	58.4	58.2b	54.7	54.4	55.0

Demography

	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	-3.1	-3.9	-4.0	-2.7	-3.3	-3.3	-3.5	-4.6	-4.3	-4.7
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		:	:	:	:	:	:	:	:	:	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.9	11.1	10.6	10.2	10.1	9.1	8.1	8.0	7.4	7.1
Life expectancy at birth: male (years)		69.7	69.7	69.7	69.6	69.7	69.9	69.9	70.0	70.6	:
Life expectancy at birth: female (years)		74.7	74.8	74.8	74.8	75.0	75.1	75.4	75.4	75.9	:

Labour market

	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		67.6	68.2	68.2	68.9	68.4	68.9	66.4	65.2	63.6	63.4
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		58.2	58.3	59.2	59.7	58.5	57.9	53.4	51.0	49.9	51.5
Share of male population aged 15-64 that is in employment (%)		66.3	67.1	68.2	68.6	67.1	67.0	63.1	61.2	59.2	60.0
Share of female population aged 15-64 that is in employment (%)		50.3	49.8	50.4	50.8	50.0	48.7	44.0	40.8	40.6	43.0
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		40.5	42.3	43.3	42.1	42.0	44.3	37.3	35.4	32.6	33.5

Employment by main sectors (%)											
Agriculture		:	:	:	:	:	:	24.0	23.3	20.5	20.8
Industry		:	:	:	:	:	:	21.7	21.5	23.2	23.4
Construction		:	:	:	:	:	:	5.2	6.1	6.1	6.1
Services		:	:	:	:	:	:	49.1	49.1	50.2	49.7
SI: Unemployment rate: share of labour force that is unemployed (%)		14.0	14.5	13.3	13.3	14.5	16.0	18.7	21.1	21.0	18.3
Share of male labour force that is unemployed (%)		12.3	12.5	11.1	11.5	12.9	15.1	15.3	17.0	18.1	16.0
Share of female labour force that is unemployed (%)		16.0	16.9	15.9	15.7	16.5	17.2	23.1	26.5	24.9	21.2
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		50.6	53.2	50.2	46.4	45.3	44.8	48.1	47.7	47.8	43.7
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		10.0	10.5	9.9	9.0	9.9	11.0	14.5	16.7	17.0	14.8

Social cohesion											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Average nominal monthly wages and salaries (national currency)	1 702.0	1 992.0	3 799.0	8 691.0	13 260.0	16 612.0	20 555.0	25 514.0	31 745.0	38 744.0	
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)	115.5	94.2	100.0	118.4	154.9	176.5	196.1	209.5	233.3	266.1	
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)	:	:	:	:	:	:	11.5	11.4	12.6	10.7	

Standard of living											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Number of passenger cars per 1000 population	4)	230.7	208.3	169.2	184.2	179.1	185.3	194.8	198.6	203.6	200.1
Number of subscriptions to cellular mobile telephone services per 1000 population		:	:	155.1	251.1	322.5	399.3	578.8	700.4	894.7e	:

Infrastructure											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Density of railway network (lines in operation, per 1000 km ²)		49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	
Length of motorways (thousand km)		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	

Innovation and research											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
SI: Spending on human resources (public expenditure on education) relative to GDP (%)	3.3	2.7	2.5	2.5	3.0	3.8	3.5e	:	:	:	
SI: Gross domestic expenditure on research & development, relative to GDP (%)	:	:	:	:	:	:	:	:	:	:	
SI: Percentage of households who have Internet access at home (%)	:	:	:	:	:	:	:	:	18.5	26.3	

Environment											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)	:	:	:	:	:	:	:	:	:	:	
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)	:	:	:	:	:	:	:	:	:	:	
SI: Share of renewable energy in electricity consumption (%)	32.3	52.2	42.1	43.3	41.2	36.5	44.9	46.9	41.8	:	
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)	38.8	49.8	:	:	:	:	:	:	:	:	

Energy											
Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	
Primary production of all energy products (thousand TOE)	:	:	:	:	:	:	:	:	:	:	
Primary production of crude oil (thousand TOE)	:	:	:	:	:	:	:	:	:	:	
Primary production of hard coal and lignite (thousand TOE)	:	:	:	:	:	:	:	6 696	6 966	:	
Primary production of natural gas (thousand TOE)	:	:	:	:	:	:	:	:	:	:	
Net imports of all energy products (thousand TOE)	:	:	:	:	:	:	:	:	:	:	
Gross inland energy consumption (thousand TOE)	:	:	:	:	:	:	:	:	:	:	
Electricity generation (thousand GWh)	38.0	31.0	32.0	31.0	31.0	32.0	34.0	36.0	36.0	37.0	

Agriculture	Note	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agricultural production volume index of goods and services (producer prices, previous year=100)		99.0	100.0	87.0	118.0	97.0	93.0	120.0	95.0	100.0	92.0e
Total utilised agricultural area (thousand hectare)		5 086	5 086	5 074	5 077	5 071	5 079	5 075	5 075	5 066	5 053
Livestock: cattle (thousand heads, end of period)	5)	1 283	1 246	1 162	1 128	1 112	1 102	1 079	1 096	1 106	1 087
Livestock: pigs (thousand heads, end of period)	5)	4 293	4 066	3 615	3 587	3 634	3 439	3 165	3 212	3 999	3 832
Livestock: sheep and goats (thousand heads, end of period)	5)	1 868	1 794	1 670	1 612	1 685	1 741	1 728	1 748	1 718	1 756
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	6)	1 637	1 665	1 585	1 594	1 596	1 590	1 593	1 616	1 602	1 562
Crop production: cereals (including rice) (thousand tonnes, harvested production)	7)	8 104	8 584	5 213	9 001	8 298	5 453	9 867	9 510	8 268	6 115
Crop production: sugar beet (thousand tonnes, harvested production)		1 972	2 428	1 070	1 806	2 098	1 738	2 814	3 101	3 189	3 206
Crop production: vegetables (thousand tonnes, harvested production)		1 274	1 145	1 043	1 283	1 340	1 172	1 340	1 289	1 348	1 128

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

bbreak in series

1. Source: Eurostat.
2. From 1999 onwards, excluding Kosovo under UNSCR 1244.
3. From January 2004 onwards the Uniform Customs Document harmonised with EU regulations has been used.
4. Minister of Internal Affaires excluded the vehicles that were not registered before a given deadline (1 month).
5. Since 2006, the reference date is 1 December (instead 15 January as it was before).
6. In million liters, includes cows and sheep milk.
7. Without triticale, buckwheat and millet, which are small; rice production does not exist in Serbia.