



Government of the Republic of Serbia

Economic Reform Programme for the Period 2017-2019

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I. FRAMEWORK AND MAIN GOALS AND GUIDELINES OF THE ECONOMIC POLICY

The Government's strategic commitment to becoming a full member of the European Union, and the progress towards this goal were confirmed by the opening of four new chapters in 2016. To date, Serbia has opened six chapters, of which one has been temporarily closed. Regular political and economic dialogue on open issues from the Stabilisation and Association Agreement between the European Communities and their Member States, on one side, and the Republic of Serbia, on the other side, adoption of the Economic Reform Programme for the period 2016–2018, Employment and Social Reform Programme, revised National Programme for the Adoption of the EU *Acquis*, adoption of the Fiscal Strategy for 2017 with projections for 2018 and 2019, and other general and sectoral development strategies, implementation of the Public Finance Management Reform Programme for the period 2016–2020, and harmonization of domestic legislation, are all aimed at Serbia's fulfilment of economic preconditions for membership, laid down in the *acquis communautaire*, in the shortest time possible.

The European integrations process, in addition to the establishment of an institutional framework and strengthening administrative capacity, which should provide for and guarantee democracy and the rule of law, also involves the creation of a stable macroeconomic environment, development of a market economy, and strengthening its ability to respond to the challenges of competition in the EU. In the previous period, the Government initiated, adopted, and implemented key measures for creating stability of public finances and the entire business environment. In April 2016, the Stabilisation and Association Committee welcomed the strengthening of the Serbian economy and, in particular, a significant decrease of fiscal deficit. The successful accomplishment of objectives laid down in the fiscal consolidation programme was affirmed in the six successful reviews under the Precautionary Stand-By Arrangement with the International Monetary Fund (hereinafter: the IMF), with the assessment that the performance is significantly above expectations.

The economy of the Republic of Serbia improved against all macroeconomic indicators during 2016. The projection of economic growth has been raised through three reviews from the initial 1.8% to the current 2.7%, with an improved outlook in the following medium-term period. Achieving economic growth amidst the implementation of strict fiscal consolidation is a confirmation of the adequate choice of measures by the economic policymakers. The three-year fiscal consolidation programme objectives relating to the level of structural adjustment of the fiscal deficit and debt-to-GDP ratio have been achieved a year earlier. The focus of the economic and fiscal policy in the following medium-term period is on the achievement of the following objectives:

- maintaining of macroeconomic stability coupled with further reduction of the public debt and returning it within sustainable limits;
- continued implementation of structural reforms, particularly in the domain of public enterprises and increasing efficiency of the public sector.

The Government will continue improving the business environment with active measures in the next three year period. The achieved fiscal stability will bring about improved macroeconomic performance across the board. The established growth model is based on increased investment and export. Long-term sustainability of growth should be additionally supported by complex and comprehensive reform processes, which the Government will continue to implement, to remove existing barriers and risks. This boosts private initiative, promotes entrepreneurship and

innovation, and affirms development based on knowledge and technological progress, which in turn contributes to the creation of jobs and reduction of unemployment.

Owing to the fiscal consolidation measures, some room was created for the increase of pensions and wages in one part of the public sector, which will enable increase of the disposable income and standard of living of the population, but without jeopardising the planned budget deficit and downward trend of the public debt. Fiscal policy priorities remain as follows: the establishment of a tax system that fosters economic activity and employment, provides for more efficient tax collection, and reduction of informal economy.

Consistent implementation of fiscal consolidation and structural reforms has had a decisive impact on the strengthening of the local economy's resilience towards shocks. Well calibrated fiscal and monetary policy measures and their full coordination resulted in a low and stable level of inflation in the past three years. This created conditions for the National Bank of Serbia (hereinafter: NBS) to lower the target inflation rate in consultation with the Government. This will additionally reduce uncertainty in the operations of the entire economy in the following medium-term period, which will give momentum to further improvement of the investment climate and decreasing the costs of long-term financing of the needs of businesses, the state, and households.

The Economic Reform Programme ensures continuity of the process of restructuring of the Serbian economy. The fiscal consolidation in the forthcoming period will be supported by continued implementation of structural reforms focussing particularly on organisational and financial restructuring of public enterprises that are aimed at equipping them to function according to market principles.

To secure the widest consensus possible in the selection of priority reform measures, intensive inter-ministerial consultations were conducted through ERP coordinators in line ministries, and consultations were held with the European Commission and OECD in the development of the Preliminary List of the Priority Structural Reforms for the ERP 2017-2019. Selected priority structural reforms are in line with the priorities specified in national documents, national and regional strategies, key documents in the process of the Republic of Serbia's accession to the European Union, and recommendations of the EU Economic and Financial Affairs Council. The Preliminary List of the Priority Structural Reforms that includes 15 structural reforms was subject to public debate in the period between 18 October and 1 November 2016. The recommendations given on that occasion were taken into consideration when developing Chapter 4 Structural Reform Priorities for the ERP 2017-2019.

With the goal of ensuring the widest possible consultations with the civil sector, the integral version of the Draft Chapter 4 Structural Reform Priorities for the ERP 2017-2019 was available to the public from 9 to 23 January 2017.

II. THE MEDIUM-TERM MACROECONOMIC FRAMEWORK

1. The International Economic Environment

The global economic recovery is taking place amidst instability in financial and commodity markets, slowed economic growth in developed countries, and a slightly improved macroeconomic outlook in emerging market economies, divergent monetary policies of leading central banks, and growing geopolitical tensions.

In the World Economic Outlook from October, the IMF stayed with its July forecast of global economic growth of 3.1% for 2016 and 3.4% for 2017. The forecast takes into account the effects of slowdown of the Chinese economy which has a negative impact on investment activity and trade flows, low prices of energy which reduce the inflows into exporter countries, slowing of growth in the USA, and uncertainties with respect to Brexit negotiations. As a consequence of the new circumstances, the growth of developed countries has been revised down, while the outlook of emerging market economies has improved. Over the medium term, it is expected that the growth in most euro area countries and the USA will decelerate, that Russia will exit recession, and that

growth in emerging markets will pick up at a solid pace, which will have a combined result of acceleration of the global economic growth in 2017 and 2018 of 3.4% and 3.6%, respectively. Deteriorating economic trends in the international environment and contraction of the energy sector caused the growth in the USA to be revised to 1.6% in 2016 and 2.2% in 2017, which is lower by 0.6 p.p. and 0.3 p.p. respectively than the previous projection. Rising employment and, consequently, private consumption and private investment, remain the main drivers of growth in the following period, while the contribution of net export will be negative due to the appreciation of the US dollar and weakening of international trade. After the contraction of the Russian economy by 3.7% in 2015, the IMF expects the recession to continue due to the protracted effects of the decline in oil prices, EU sanctions, and existing structural imbalances in the economy. Due to unchanged environment factors, a moderate recovery of the Russian economy is expected in 2017 and 2018. Inflation, according to the forecast, will be low in 2016, but is expected to gain pace over medium term. The price growth in developed economies is expected to take off from 0.8% in 2016 to 1.9% in 2018, and inflation is expected to drop in emerging market economies, from 4.5% to 4.2%, in the same period.

Table 1. International environment – basic technical assumptions

	2016	2017	2018
Real GDP growth ¹ , %	3.2	3.6	3.7
Global trade growth ² , %	1.1	2.9	3.2
Three-month EURIBOR	-0.3	-0.3	-0.2
Ten-year government bond yields of the euro area members	0.8	1.2	1.5
Price of oil (\$/barrel)	43.1	49.3	52.6
Prices of non-energy commodity prices in USD	-4.0	6.6	3.8
USD/EUR exchange rate, end of period	1.1	1.1	1.1
Prices of grain, in US dollars, annual change ³	-8.5	6.2	6.3
Price of metal, in US dollars, annual change ⁴	-7.5	1.7	-1.0
Price of iron ore, in US dollars ⁵	53.9	48.4	42.8

1 Global GDP excluding the euro area

2 Global trade growth, excluding the EU

3 The price of grains as weighted average of the prices of wheat, corn, soy, rice and barley

4 The price of metals as weighted average of the prices of copper, aluminium, iron ore, tin, nickel, lead, and uranium

5 The price of iron ore (with 62% iron content) for the import to China, port of Tian Jan, in US dollars per metric ton

Source: IMF, World Economic Outlook, October 2016; European Commission Autumn Projections, November 2016; Macroeconomic Projections, ECB, December 2016

The European Commission (hereinafter: EC) kept its May forecast of economic activity growth in the EU for 2016 at 1.8% due to protracted effect of levers of growth from 2015, while the projection for 2017 was revised down to 1.6% due to increased uncertainty. In the upcoming period, domestic growth is expected to continue to drive GDP growth. More favourable trends in the labour market, in terms of higher employment and wages, will increase household disposable income and result in a positive contribution of private consumption to the overall growth. Increased investment will be boosted by better operating conditions, cheaper loans to businesses, higher public expenditure, and implementation of the EC Investment Plan for Europe. A mild acceleration of export growth is forecast but will not yet reach the level of import growth; however, the negative contribution of net import will gradually weaken and become mildly positive in 2018.

Over medium term, the rise in economic activity will be accompanied by the rise in employment. The labour market reforms implemented in some euro area members, and fiscal policy measures will have a favourable impact on job creation. Although the unemployment rate will remain uneven in the Member States, the overall unemployment in the EU in 2016 is expected to drop to 8.6%, which is lower by 0.8 p.p. than 2015. The declining unemployment trend will

continue, and at the end of the projection period the unemployment rate is expected to be below 8%.

Average inflation in 2016 is projected to be 0.3%, which is slightly up from 2015. The first half of 2016 was characterised by low inflation owing to the fall in energy prices, while it started to pick up in the third quarter due to the base effect of price levels from the previous year. In addition, external price pressures will positively contribute to the rise in inflation in 2017, and the inflation of import prices in 2017 will have a positive (plus) sign after being negative during the four-year period, that is, the inflation for 2017 and 2018 is forecast at 1.6% and 1.7% respectively.

The euro area economies were resilient to the slowdown of global trade flows in the previous period, due to the positive effects of euro depreciation on competitiveness. Despite the fall in unit labour costs, slowdown of global economic growth, and euro appreciation at the beginning of 2016, only a slight acceleration of EU exports is expected in the following period, from 3.0% in 2016 to 3.5% in 2017. Due to higher domestic demand, the growth of imports will slightly outpace that of exports at 3.6% in 2016 and 3.9% in 2017. In the following period, the current account balance is expected to moderately improve and the surplus to rise from 2.1% of GDP in 2017 to 2.2% of GDP in 2018.

The fiscal outlook has improved. Reduced general government deficit mostly results from the rise in economic activity and fall in interest rates. The fiscal deficit of the general government in 2016 is expected to be 2%, which is down by 0.4 p.p. from last year. Growing employment will be reflected in lower social transfers to the unemployed which, coupled with modest wage growth in the public sector, and stable share of capital expenditure, will lead to a decline in public expenditure as a share of GDP. The public revenue as a share of GDP is still declining, mostly as a result of reduced tax burden on labour, but to a lesser extent than expenditure-to-GDP. Lower interest expenditure will continue to have a positive impact on the level of structural fiscal result, although somewhat more slowly due to the exhaustion of the base effect. Together with further improvement of the cyclical component, and the primary fiscal balance in 2017 and 2018, it will result in the deficit falling to 1.7% and 1.6% respectively. The public debt as a share of GDP in 2016 is estimated at 86%, while it is projected to gradually decline in the following two years to 85.1% in 2017 and 83.9% in 2018. Such decline is for the most part supported by favourable economic trends and projected primary surplus.

In December 2016, the European Central Bank stayed with its estimate of the euro area economic growth for 2016 of 1.7%, while the forecast for 2017 was slightly improved, from 1.6% to 1.7%. Inflation in 2016 will be 0.2% as previously forecast. For 2018 and 2019, the ECB forecast the euro area growth of 1.6% each, with inflation of 1.5% and 1.7%, respectively. Additionally, the decision was made to continue with the Asset Purchase Programme until the end of 2017, with the reduction of volume from EUR 80 billion to EUR 60 billion, as from April 2017. The key policy rate was kept at 0.00%, and the negative rate on banking deposits of 0.4% was also confirmed to encourage lenders to increase their lending to companies and households. On the other hand, the expansion of economic activity in the USA in 2016, due to the increase of disposable household income, real estate prices, and rising investment, influenced the decision of the US Federal Reserves (hereinafter: the FED) to raise the key interest rate in December (from 0.25% to 0.50%) thus reducing the expansiveness of the monetary policy, which may have implications on the general level of public debt of certain countries due to the strengthening of the dollar exchange rate in the ensuing period.

Forecasts for the main trading partners of Serbia, Germany and Italy, include a moderate acceleration of growth - from 1.9% and 0.7% in 2016, respectively, to 1.7% and 1.0% in 2018. The rise in employment and, consequently, private consumption, are expected to ensure growth of the German economy, with slight slowing down in 2017. The resilience of exports to the decelerating global trade flows, and strengthening construction activity will additionally support growth in medium-term period. Despite the expected slight easing, current account surplus will remain high, while decreasing borrowing costs coupled with the rise in government revenue will ensure a

budget surplus. At the same time, the economic recovery in Italy is set to continue. The recovery will be of moderate intensity as the economy will be burdened with the high level of non-performing loans and, thus, with the problem of insolvency in the banking sector. Moreover, employment growth is expected to decelerate, and inflation to accelerate due to the rise in energy prices, the current account surplus and the budget deficit will narrow in the forthcoming period, owing to a higher primary surplus and lower interest costs.

The recovery of EU Member States' economies is accompanied with increased internal and external risks. The growth in EU countries will not be even and sufficient to speed up the convergence between the Member States. The risks are also related to the possibility of spillover of the slowdown in emerging market economies, particularly China, to the euro area through trade and investment flows, but also to the uncertainties with respect to the future trends in the prices of raw materials and energy in the international market. On the other hand, faster global growth than projected would result in the growing demand for oil, while lower investment in the oil sector capacity due to unfavourable price trends, could result in reduced supply of this type of energy, which would together cause the rise in the prices of oil to be greater than assumed. Political factors will also influence growth in EU Member States in 2017, given the Brexit negotiations with the UK, which may slow the free flow of goods, capital, and labour within the EU, but also geopolitical tensions that increase risk aversion, i.e. contribute to reduced investment.

2. Current Economic Trends and Outlook for 2016

Despite increased uncertainty at the international scene and decelerated recovery of the main trading partners, together with strong fiscal adjustment, the Serbian economy in 2015 achieved a 0.8% growth. Severe drought in the summer months resulted in the reduction of value added in the agricultural sector by 7.7%, which brought the rate of overall economic growth in this year significantly down. GDP growth was achieved in an economically sound manner, through the strengthening of investment and export activity, which is a necessary precondition for its sustainability over medium term.

Positive economic trends starting in 2015, continued during 2016. After the year-on-year growth of 3.8% in the first quarter, 1.9% in the second, and, 2.6% in the third quarter, according to SORS data, resulting in the GDP growth in the first nine months of 2.7%. After seasonal adjustment, the data show that the economic activity in the third quarter increased by 0.3% and this is the sixth consecutive quarter with positive trends.

Broken down by aggregates of use, net exports and investment accounted for the largest contribution to the year-on-year GDP growth in the first quarter (2.8 p.p. and 1.1 p.p. respectively). In the second quarter, investment activity remained an important generator of growth, with strengthening private consumption which contributed with 0.8 p.p. The growth in the third quarter was largely determined by positive trends in net exports and investments, contributing 1.6 p.p. and 1.1 p.p., respectively. A favourable environment conducive to greater economic activity was created by the successful fiscal consolidation, labour legislation reform, and more efficient public administration. Higher employment and wages, lower costs of financing, and higher volume of new lending, especially cash loans, as well as favourable price trends, gave a boost to consumption, which resulted in final consumption increase by 1.1%. At the same time, lower borrowing costs and low oil prices had a positive impact on companies' portfolios by intensifying private sector investment activity, which, coupled with a greater volume of infrastructure works, provided for an increase in total investments by 5.7%. Higher export demand, new market niches and improved competitive position, together with favourable trading conditions have resulted in rapid export growth of 11.2%. Diversification of investment in a large number of activities that produce tradables has ensured wide dispersion of exports, thus reducing the risk of exports slowing down in the medium term. Import activity is driven by the economy's demand for investment

goods and raw materials, which resulted in import growth; however, it was outpaced by exports making the net contribution of exports positive.

On the supply side, growth was supported by all production sectors. The first quarter increase in GDP was driven by the growth of industry and services by 1.3 p.p. each, and in the second quarter services led growth (at 1.0 p.p.), while industry saw negative developments due to the lower volume of output of the power generation sector. This decline is partly the consequence of the capital overhaul of generation capacities, but it can also in part be attributed to the way it is calculated, given the all-time high output generated by this sector in the same period last year in order to offset the losses caused by floods, which resulted in a very high base for comparison. The structure of growth from the first half of the year was retained during the third quarter, but with a higher share of agriculture, as a result of the record yields of some crops.

The rise in GVA has also been confirmed by the trends in high-frequency indicators across all production activities. The physical volume of industrial production in the first nine months of 2016 increased by 5.2% compared with the same period in 2015, with widely dispersed generators of growth, which is confirmed by the fact that 20 out of the total of 29 activities had a positive contribution. Mining grew by 5.3% y-o-y, while electricity generation grew by 4.5% y-o-y. The 5.3% y-o-y growth of manufacturing was driven by export-oriented industries (food, chemicals and tobacco industries, production of rubber and plastic goods, and production of electrical equipment). When industries are disaggregated by type of product, the largest growth compared with the same period last year can be seen in durable industrial goods (10.2% y-o-y), the result of increased output of electrical appliances and furniture. A significant rise was also observed in the intermediaries segment (9.5% y-o-y), driven by the growth of chemical, rubber and plastic industries, due to which this product group made the greatest contribution to the growth of total industrial production at 2.6 p.p. The output of non-durable industrial goods increased by more than 4.1% y-o-y, with tobacco and food processing industries accounting for the largest share of growth, while production of capital goods remained at approximately the same level as in the period January-September 2015, with continuing negative trends in motor vehicle production. Changes in the legislative framework and simplification of administrative procedures gave a boost to the investment cycle in construction, resulting in a 9.9% y-o-y increase in the value of construction works carried out in the first three quarters and an increase in the number of issued building permits by 18.7% y-o-y. Construction activity intensified for both building construction segment and investment into infrastructure. Wage increases and favourable price trends have increased the household's disposable income, which in turn generated growth in the services sector despite pessimistic expectations due to fiscal consolidation measures. Retail sales have increased by 7.9% y-o-y in real terms, with the highest increase of 9.3% y-o-y recorded in the sales of non-food products, followed by sales of food, beverages and tobacco, which increased by 7.9% y-o-y, while engine fuel sales increased by 6.1% y-o-y. The Government's strategic commitment to developing tourism services resulted in an increase in the number of tourists to approximately 2.4 million, which is an increase of 12.3% over the same period last year, with more than six million overnight stays in tourist accommodation establishments. According to current estimates, yields of main crops will be far above the multiannual average. The yield of maize, as the most important crop, is 36.6% higher than last year's, while the yield of wheat increased by 18.8%. Apart from grains, the yields of industrial crops have also increased, including sunflower by 43.6%, soybean by 29.2% and sugar beet by 17.2%.

Significant improvements against all macroeconomic indicators at the beginning of the year and the sustainable nature of the ongoing positive trends have improved the outlook for the coming period and resulted in an upward revision of the GDP growth rate in 2016 from 1.8% to 2.7% (by 0.9 p.p.). Competitiveness of the Serbian economy is expected to increase and, coupled with better utilization and expansion of production capacities, result in high real growth of imports of goods and services in 2016 (9.2% y-o-y). At the same time, a more favourable investment climate and planned investment into infrastructure will ensure high investment growth rate (6.4% y-o-y),

which, together with net exports, will be key contributors to economic growth in 2016, at 1.2 p.p. and 0.6 p.p., respectively. The short-term negative effect of fiscal consolidation on private consumption has been offset by the increase in private sector employment and wages, as well as by higher disposable income of households owing to favourable price trends and lower borrowing costs. Accordingly, private consumption is expected to further recover, which will contribute to GDP growth by 0.5 p.p. Projections are that the upward trends on the supply side will also continue, with every sector contributing positively to sustained acceleration of economic activity and with services and industrial production accounting for a slightly higher share. Strengthening of trade, tourism, hospitality and IT services on the one hand, and rising external demand, new market niches, and recovery of domestic consumption on the other, will contribute positively to the growth of the services and industrial sectors by 0.9 p.p. and 0.7 p.p. respectively. A significant positive contribution to GDP growth will also come from the agriculture sector, which will witness year-on-year growth of 8.4% due to low level of production in 2015 and favourable weather in 2016. The improved institutional framework, lower costs of financing, and a more efficient construction permitting procedure have laid the foundations for dynamic growth of construction, estimated at 8.9% y-o-y. As construction is associated with a large number of other economic activities, this growth is expected to have a multiplier effect on overall economic growth. Furthermore, taking into account the strategic commitment of economic policy makers to strengthening SMEs, the entrepreneurial sector can be expected to boost all segments of economic activity in the coming period.

External sector. The reduction of external imbalances continued in 2016. In the period January-October 2016, the current account deficit was about EUR 1.1 billion or down by 14.9% from the same period the previous year. It is estimated that it will amount to about EUR 1.4 billion, or 4.1% of GDP at the annual level, which is 0.6 p.p. lower than in 2015. Improvement of the external position of Serbia during the ten months of 2016 is a result of a decrease in trade deficit, and an increased surplus in the trade in services.

Completion of investments from the previous period, economic recovery of our main trading partners (euro area countries and CEFTA), better terms of trade, improvement of the business environment, and continued implementation of fiscal consolidation, have had a favourable effect on the volume of foreign trade and further reduction of foreign trade deficit. The trade in goods deficit in euros dropped by 12.5% y-o-y, with the rise in exports of 10.4% y-o-y, and imports of 4.6% y-o-y, while the foreign trade in services surplus increased by more than 30% y-o-y. A significant drop in the prices of crude oil and gas, of which Serbia is a net importer, was the primary contributor to improved terms of trade in the period January-September 2016¹.

Increased competitiveness of domestic industry was positively reflected in exports of the manufacturing industry, which, in the ten months of 2016 achieved a year-on-year growth of 10.5%. The greatest positive contribution came from the exports of electrical equipment, automotive industry, chemical products, tobacco, rubber, and plastics, and foodstuffs. On the other hand, a drop in the prices of primary commodities resulted in a lower value of oil industry and base metal exports. The effects of an excellent agricultural season, primarily with respect to grains, were only partly reflected in this year's exports of agricultural produce, and a greater effect is expected in the following calendar year. The increase in the value of imports by 4.6% y-o-y is, in our view, mostly due to the increase in the imports of equipment, considering a higher level of investment, and partly to the imports of consumer goods due to gradual recovery of final consumption, while the imports of energy went down, primarily owing to the lower prices of oil and gas.

The primary income account deficit rose by 19.4% y-o-y, above all as a consequence of higher expenditures based on direct investments. As could be expected, the secondary income account surplus fell by 5.0% y-o-y caused by somewhat lower net inflow of remittances and official donations, which is mostly a consequence of a high base, that is, last year's extraordinary

¹ A drop of EUR import prices of 15.2% y-o-y and export prices of 3.5% y-o-y.

inflow of remittances and donations in aid of the flooded areas. The capital and financial transaction account in the period January-October 2016 saw a net inflow based on FDIs in the amount of EUR1.5 billion (a 4.2% y-o-y increase), which was more than enough to cover the current account deficit (141.4%). FDIs remained diversified in terms of projects, and mostly focussed on manufacturing industry, financial sector, construction, trade, and real estate business. Broken down by country, the largest part of direct investments came from the European Union Member States, but the investments from Hong Kong, Russia, and United Arab Emirates also increased.² The net FDI inflow in 2016 is expected to remain at the previous year's level and to amount to approximately EUR 1.8 billion, and to retain its relatively large share of GDP of about 5%, which will provide for the full coverage of the current account deficit. Portfolio investments in the period January-October exhibited a net outflow of EUR 724.3 million due to lower borrowing needs of the government in a situation of further reduction of fiscal imbalance and achievement of a primary budget surplus, which also allowed partial prepayment of debt to the London Club of creditors, and also due to the withdrawal of investors from emerging markets in the expectation of further normalization of the FED's monetary policy. As regards financial loans, foreign deleveraging by residents was EUR 469.5 million, while cash and deposits abroad increased by EUR 414.5 million. Foreign exchange reserves of the National Bank of Serbia are still at the adequate level ensuring protection from external shocks – despite their decrease from EUR 704.8 million in the ten months of 2016, they cover about six months of imports of goods and services and 259.1% of short-term debt³ becoming due and payable in the following year.

Growth of economic activity, coupled with amendments to labour legislation, accompanied by appropriate retraining programs and self-employment incentives, resulted in favourable trends across all labour market indicators. According to the Labour Force Survey (hereinafter: LFS) the overall number of employed persons rose in the first three quarters of 2016. In parallel, the unemployment rate dropped by 2.8 p.p. and was at a record low of 13.8%. Falling unemployment in the period was mostly due to increased employment in seasonal and occasional jobs. The increase in the number of employees was reported in all production sectors, with the greatest contributions coming from services, and to a lesser extent industry and agriculture. The number of employees increased both in formal and in informal employment segments. Formal employment, as the better-quality part of overall employment, went up by 3.8%, which, in addition to achieved economic growth, was supported by more effective deployment of inspection services with the aim of curbing the grey economy. A strong growth of informal employment in the third quarter mostly results from greater hiring of seasonal workers in agriculture owing to the good year. Employment growth, but also incentives for inactive persons, through improvement and expansion of active employment measures, with additional motivation spurred by real wage growth, contributed to a year-on-year increase of activity rate in the third quarter by 2.3 p.p. Positive developments in the labour market are also borne out by the data available in the Central Registry of Mandatory Social Insurance, which show that the total number of formally employed persons in the period January-September 2016 increased by 1.2% y-o-y, entirely due to higher employment in the private sector (2.7%), while in the public sector this number decreased by 1.7%. At the same time, employment increased in the manufacturing industry, mining, trade etc., which is in line with the favourable economic trends in these sectors.

Thanks to faster wage growth in the private sector, wage differences between the public and private sector have been significantly reduced. The real and nominal wage decline in the public sector during 2015 brought down the difference between the average public-sector and non-public-sector wage from about 15% in November 2014 to 5.4% in the period January-October 2016. The real average net wage in the period January-October 2016 rose by 2.7%, y-o-y, mostly reflecting private sector wage growth (3.8%). In terms of individual industries, manufacturing and

² In the period January-October 2016, the breakdown of FDI inflows was as follows: EU 73.9%, Hong Kong 7.2%, Russia 4.9%, and UAE 2.8%.

³ September 2016

trade were the largest contributors to this wage increase. At the same time, the real average net wage in the public sector increased by 0.9% y-o-y, due to a certain extent to the diminishing base effect of public sector wage cuts made in 2015, and to nominal wage increases in certain segments of the public sector in early 2016. Considering the expected continued growth of GDP and investment, and developments in the labour market to date, employment is expected to edge up by the end of 2016, while wages will follow the pace of labour productivity, with a faster rise in private sector than in the public sector.

Inflation. Similar to the past two years, 2016 was also characterised with low inflationary pressures. Inflation was low and stable, and stood at 1.5% year-on-year in November. The largest positive contribution to the year-on-year inflation came from increased prices of tobacco, package holidays, and processed food. Continued low inflationary pressures were a result of the action of a large number of domestic factors, above all the restrictive fiscal policy, ensured relative stability of the exchange rate, and low and anchored inflation expectations of economic operators. Low inflationary pressures are also confirmed by the core inflation⁴ which stood at 1.4% y-o-y in November. Furthermore, cost pressures from the international environment were also low, owing to the still low global prices of primary commodities, and low inflation in the euro area, which is the main foreign trade partner of Serbia.

Credit activity and monetary trends. The monetary policy easing by the National Bank of Serbia, low interest rates in the euro area, drop in risk premiums, and increased competition between banks, and the picking up of the economic activity, all contribute to further growth of credit activity. Year-on-year increase of domestic loans (after excluding the effects of exchange rate variations⁵) picked up from 1.8% as at end of 2015 to 3.8% in October 2016. The recovery of the credit activity was supported to a great extent by the growth in loans to households (9.6% y-o-y in October), but as from May onwards, the positive contribution has also come from the corporate loans, despite the banks' activities directed towards resolving the non-performing loans through the sale of a part of non-performing receivables to the persons outside the banking sector, or through write-off. October is an exception, as a large domestic loan was refinanced through a cross-border arrangement, which resulted in a slight decline of the level of corporate loans year-on-year. At the same time, the amount of new loans extended to businesses in the first ten months of 2016 was higher by about 16% than in the same period of the previous year, and investment loans had a relatively high share in the composition of these loans. Considering the acceleration of the economic activity and significantly reduced interest rate on loans, we expect that the growth of the credit activity will continue in the coming period. Similar expectations – rising demand for loans and relaxing of the lending standards based on lower costs of sources of funds for loans – have for some time been shared by the banks in the surveys on lending activity, conducted both by the National Bank of Serbia for the banks operating on the territory of Serbia, and the European Investment Bank for the banks whose subsidiaries operate in Serbia.

In their lending activity, the banks still rely on domestic sources of funds, above all dinar and foreign exchange deposits of enterprises and households. In relation to that, the real growth of dinar aggregates in the ten months of this year, M1 by 7.3% and M2 by 1.3%, result primarily from the more vigorous growth of dinar sight deposits present for some time already and can also be associated with the recovery of economic activity, and to an extent, also with the curbing of shadow economy. Dinar savings deposits of households continued to rise in 2016, to peak at RSD 49.1 billion in October, supported by low and stable inflation and more favourable tax treatment of dinar savings deposits compared to those in foreign currency. The increase of foreign exchange deposits of enterprises, resulting from increased exports, as well as growth in foreign exchange savings deposits of households contributed to the real growth of the broadest monetary aggregate M3 by 4.4% over ten months of 2016.

⁴ Inflation after excluding the prices of food, energy, alcohol, and cigarettes.

⁵ Calculated at the exchange rate of dinar against the euro, Swiss franc, US dollar as at 30 September 2014. (the so-called program exchange rate use for the purposes of monitoring the IMF arrangement) taking into account the currency structure of loan receivables.

Exchange rate. During 2016, the dinar nominally weakened against the euro by 1.5%⁶. Relative stability of the dinar exchange rate was maintained amidst increasing uncertainty in the international environment owing to the improvement of macroeconomic fundamentals, above all, reducing internal and external imbalances, as well as timely interventions of the National Bank of Serbia in the foreign exchange market aimed at mitigating excessive short-term upward and downward fluctuations of the dinar exchange rate.

The first half of the year was characterised by depreciation pressures due to increased uncertainty in the international financial market due to turbulences in the Chinese market and expectations of further normalization of monetary policy of the Federal Reserves in the coming months, and the relatively high demand for foreign exchange of domestic companies needing to pay for the imports of energy, equipment and raw materials and intermediates, and to service foreign credit liabilities. At mid-year, after the results of the UK referendum on leaving the EU were published, the turbulences in global financial markets were also felt in the local foreign exchange market, but the timely intervention of the National Bank of Serbia quickly calmed it and preserved its stability. Thereafter, some appreciation pressures emerged, supported by greater interest of foreign investors in investing into long-term dinar denominated securities of the Republic of Serbia in the circumstances of more favourable macroeconomic outlook for the country, positive assessments of the IMF about the implementation of the arrangement, higher credit rating by Fitch, and lower country risk premium, and the expectations that the monetary policies of most leading central banks will more expansionary than previously expected. Additionally, demand for foreign exchange by local enterprises in certain months was lower than usual. Towards the year end, depreciation pressures re-emerged, primarily owing to the withdrawal of foreign investors from emerging market economies before the expected increase of the key interest rate by the FED in December.

To mitigate excessive short-term oscillations of the dinar exchange rate during 2016, the National Bank of Serbia intervened in the inter-bank foreign exchange market in both directions – by purchasing EUR 730 million and by selling EUR 980 million⁷.

3. The Medium-Term Macroeconomic Scenario

The projections of main macroeconomic aggregates and indicators for the Republic of Serbia in the period from 2017 to 2019 were based on the current economic indicators and prospects in Serbia and the international environment, taking into consideration the initiated or planned economic policies, and the Precautionary Stand-by Arrangement concluded with the IMF.

The achieved macroeconomic stability, in combination with reform laws and structural reforms, has a stimulating effect on the investment activity, while increased competitiveness of domestic businesses in international market, coupled with improved trade conditions, supports the import growth. Rising private consumption will be supported by positive steps forward in the labour market and increased credit activity. The Government will pursue a responsible and predictable fiscal policy aimed at the stabilization of public finances by reducing the consolidated government budget deficit and returning public debt within sustainable limits.

The projected GDP growth rate for the period from 2017 to 2019, amounting to 10.3%, indicates the accelerated growth trend and is based on the growth of domestic demand through intensified investment activity and recovery of private consumption. Economic trends and outlook for Serbia will to a large extent depend on the developments in the international economic environment, as well as on how successfully the real and public sector reforms are implemented. Reform laws and greater efficiency of administration have contributed to the creation of a favourable business environment, which will ensure the continuation of the initiated investment

⁶ Through to 26 December 2016

⁷ Through to 23 December 2016

cycle as the leading development factor. The growth of foreign direct investments will provide for the transfer of technology and know-how, and contribute to increasing competitiveness of the overall economy. On the other hand, the economic policymakers focus on the SME and sole trader sector, which is expected to significantly contribute to the growth of domestic investments, and thus the growth of employment and standard of living in the coming period. Sound and sustainable growth, with balanced regional development that is ensured through the establishment of industrial zones, will provide for further reduction of internal and external imbalances.

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

	Estimate	Projection		
	2016	2017	2018	2019
GDP at current prices, RSD billion	4,203.5	4,396.7	4,678.1	4,987.5
Real GDP growth	2.7	3.0	3.5	3.5
GDP deflator	1.3	1.6	2.8	3.0
Real growth of individual components of GDP, %				
Private consumption	0.6	1.4	2.2	2.9
Government consumption	3.9	1.6	2.6	2.3
Investments	6.4	5.7	5.7	4.9
Exports of goods and services	9.2	7.7	7.7	7.6
Imports of goods and services	6.2	5.3	5.8	6.3
Balance of goods and services, in EUR, % of GDP	-7.9	-7.7	-7.0	-6.4
Current account balance, in % of GDP	-4.2	-3.9	-3.9	-3.9
Inflation, period average, in %	1.1	2.4	3.0	3.0

Source: MoF

Real sector. Medium-term prospects for the real sector allow for the analysis of the cyclical position of economy and identification of the expected sources of real GDP growth in terms of the change in production and aggregate demand factors.

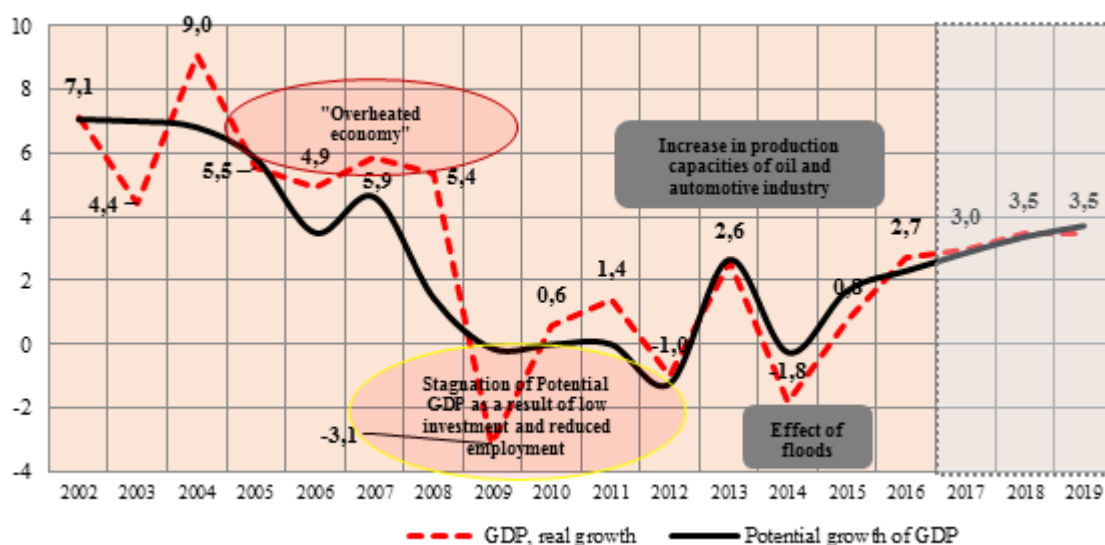
Current developments suggest further improvement of the performances of macroeconomic environment and intensified economic activity. Through several iterations, the 2016 GDP growth rate was revised up by 0.9 p.p., from initial 1.8% which was the projection of last year's Economic Reform Programme to current 2.7%. Low prices of oil products in the global market had a favourable impact on the disposable household income, and to a great extent determined a low and stable inflation, which, together with the growth of employment and wages in the private sector, neutralized the negative effects of fiscal consolidation on personal consumption. On the supply side, these developments had a positive effect on the service sector, which saw expansion in 2016 although the last year's Programme projected its contraction. The growth of personal consumption in the period of fiscal adjustment is, at the same time, a confirmation that the measures introduced by the macroeconomic policymakers were both appropriate and well-calibrated. On the other hand, the process of rightsizing developed at a slower pace than planned and, consequently, the government consumption in 2016 was above the projected level. Improved terms of trade, enhanced international competitiveness, and new market niches resulted in a growth rate that was, at the same time, higher than expected and faster than the growth of imports, which resulted in a higher positive contribution of net imports.

The largest adjustment was made to the projection of 2017 GDP growth rate, by 0.8 p.p. (from 2.2% to 3.0%). The systemic progress achieved in the creation of a conducive business environment will enable the growth of foreign and domestic investments while the acceleration of restructuring of the economy will create conditions for new employment, and better productivity and competitive position of the country. The results of the reforms that have been implemented so far will provide for the 5.7% increase of the investment activity, which will be the primary generator of economic growth in 2017, contributing 1.2 p.p. The slight recovery of private

consumption that was seen in the preceding year is expected to gather pace in 2017, boosted by the increase in pensions and some wages in the public sector, and higher minimum cost of labour. This will provide for a rise in the standard of living of the population, with contribution of private consumption to GDP growth of 1 p.p. High export growth will be accompanied with rising imports due to a higher demand for investment goods and raw materials and intermediates, which will be reflected in positive contribution of net export of about 0.6 p.p. On the production side, it is expected that higher standard of living will result in a greater contribution of the service sector, while the completion of the investments from the previous period will contribute to the growth of industrial production. Owing to the continuation of the initiated investment cycle, the construction sector will positively contribute to GDP growth, but the contribution of agriculture, assuming the growing season is average, is expected to be slightly negative. Economic developments and outlook for Serbia in 2017 will to a large extent depend on the developments in the international economic environment, as well as on further implementation of the structural reform process, primarily in the segment of public enterprises.

The assessment of the output gap, and of the actual and potential GDP ratio, is important for economic policymaking. The effectiveness of economic policy is reflected in the measures which contribute to the diminishing of the gap between the potential of the economy and the actual growth of GDP. Thus, in the circumstances of underutilized production capacity, monetary and fiscal policy measures have direct effects on the actual growth of GDP. When the actual GDP is at the level sustainable over the long term, it is not possible to use economic policy measures to directly increase the actual GDP without disrupting macroeconomic stability, rather, it is necessary to ensure real increase in available factors of production (investments in physical capital and human resources, and transfer of new technologies).

Graph 1 Real GDP growth: actual and projected rate and long-term trend, in %

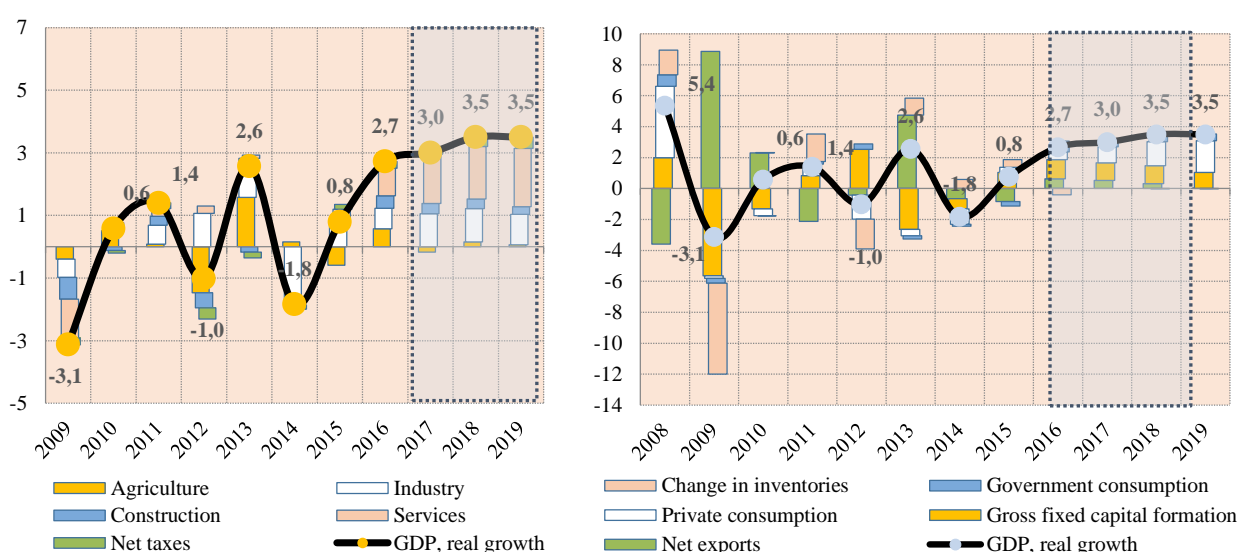


Potential GDP growth was considerably slowed down in the past six years. Namely, while the average annual growth of potential GDP exceeded 5% in the pre-crisis period, its average growth was approximately 0.6% in the period after the onset of the global economic crisis. A strong contribution of the capital factor to the growth of potential GDP in the pre-crisis period, driven by growing investment activity, significantly dropped when the crisis started. The positive contribution of multifactor productivity dwindled. The labour factor also negatively contributed to the growth of potential GDP, as a consequence of lower employment levels, and, to a lesser extent, an upward unemployment rate trend.

In the medium term, the potential GDP growth is expected to pick up. In 2016, the potential GDP growth is expected to be at the level of approximately 2%. The largest contribution to its

growth will come from the capital factor, due to a rebound of investment and, to a lesser degree, from the labour factor, on the back of an increased labour participation rate. The contribution of multi-factor productivity will be neutral. The expected increase in unemployment, due to the public sector rightsizing and the completion of restructuring processes in state-controlled enterprises, was mitigated by the increase of net employment in the private sector. The estimated potential medium-term growth is based on the accelerated economic recovery, where the output gap is expected to close at the end of 2017. It is projected that rising investment and favourable labor market developments will contribute positively to potential GDP growth in the coming years. Better financing conditions and stronger investment activity in the transport, energy, and agriculture sectors will increase the economy's potential. Further implementation of reforms towards the creation of an environment conducive to investment and employment will also enable a more efficient utilization of the available but underutilised production capacity.

Graph 2 Contribution to the growth of GVA and GDP by activity, p.p.



Medium-term macroeconomic projections anticipate the average real GDP growth at 3.3%. Investment and private consumption are expected to witness a dynamic growth at an average annual real rate of 7.7% and 5.8% respectively. Private and government consumption will also increase, but far more slowly than the GDP growth. Such structure of economic growth is desirable in terms of sustainability. The adopted plans for structural adjustment of the economy provide for continued reduction of wasteful spending, red tape, and unnecessary expenditures of the public sector, while increasing the quality of organisational, functional, and technical links between all of its components. Moreover, appropriate retraining and self-employment programmes will be offered to the part of the working-age population affected by the rightsizing process, and the most socially vulnerable segments of the population will be provided protection.

On the output side, in the period 2017–2019, the greatest contribution to GDP growth is expected from the service sector and industrial production. Increased investment activity in the private sector, and intensified implementation of infrastructural projects will result in a positive contribution of the construction sector, while the contribution of agriculture should be mildly positive.

The anticipated development scenario shows the Government's strategic orientation towards structural adjustment of the economy to maintain a sustainable growth trajectory, based primarily on the increase in overall investment activity by encouragement of private sector investment and exports, as the key factors for improving macroeconomic performances. At end-2019, the share of investment in GDP will be about 2 p.p. higher than in 2014, the share of

government consumption in the same period will fall from 17.7% to 15.8%, and the share of exports of goods and services in GDP will reach about 55%. An average annual net FDI inflow of approximately EUR 1.7 billion is necessary, with greater dispersion towards the tradable sector. The balance of payments financing also requires simultaneous reduction in the goods and services deficit and the current account deficit to 6.4% and 3.9% of GDP, respectively, at end of 2019, so as to ensure public debt sustainability, external liquidity, and solvency.

Employment and wages. Medium-term projection of employment and wage trends is based on the projected GDP growth and increased investments. It is expected that the overall employment will continue to grow in 2017 on the back of employment growth in the private sector. Owing to the improvements in employment legislation, structural obstacles to employment have been removed, labour market flexibility has been increased, and foundations for curbing shadow employment have been laid; this will contribute to the continuation of positive trends despite public sector rightsizing. The alignment of employment policies, education, and scientific and technological development, with the aim of adapting knowledge, skills, and employment levels to the needs of the labour market is of utmost importance for productive employment in the coming period. In this regard, reforms in the labour market and educational system areas are expected in the coming medium-term period, especially the introduction of the dual education system which will ensure that the skilled labour force matches the real needs of the labour market. The rise of real net wages in the private sector is expected to follow the growth of productivity in the economy in the ensuing period. The pace of real net wage growth that is slower than the real GDP growth, and the growth of wages that is in line with the productivity growth, will result in lower unit labour costs and improvement of the competitive position of the country. Real wage growth will also be supported by the increase in the minimum cost of labor from RSD 121 to RSD 130 as from 1 January 2017. This will have a positive effect on aggregate demand and a positive fiscal effect.

Monetary and exchange rate policy. Since 2009, the National Bank of Serbia has been in the inflation targeting regime. Owing to a considerable improvement of macroeconomic fundamentals and the outlook for Serbia in the coming period, primarily the sustainable reduction of external and internal imbalances, and the fact that inflation has been low and stable in the past three years, and that inflation expectations of the financial and business sectors are down to about 2–3%, the target inflation rate for 2017 and 2018 has been lowered by 1 p.p. to 3%±1.5 p.p. This further demonstrates that the National Bank of Serbia and the Serbian Government are determined to keep the inflation low, stable, and predictable over the medium term. Moreover, setting a lower inflation rate contributes to the improvement of business and investment climate, a drop in long-term interest rates, reduction of costs and currency risk for the economy, the population, and the government, which also contributed to the dinarisation process which is our strategic goal. The main instrument for achieving the inflation target is the interest rate applied in reverse repo operations with one week transaction maturity, while other monetary policy instruments (open market operations, credit and deposit facilities, required reserve, intervention on the foreign exchange market) have a supporting role. Temporary deviations from the inflation target are allowed if it is believed that the required monetary policy change could cause macroeconomic instability.

The cycle of relaxation of the National Bank of Serbia monetary policy started in mid-2013 when the key policy rate was 11.75%. Owing to low inflationary pressures, the consistent implementation of fiscal consolidation, and successful implementation of the arrangement with the IMF, with significant overachievement of targets, the lowering of the key policy rate was the fastest in 2015 (from 350 b.p. to 4.5%), and continued in 2016 at a more cautious pace, primarily bearing in mind the effects of the previous monetary policy relaxation and the uncertainty present in the international financial and commodity markets. The key policy rate was lowered in both February and July by 25 b.p., so that towards the end of 2016 it amounted to 4.0% which is its lowest level in the inflation targeting regime. Additionally, the NBS interest rate corridor was on the key policy rate was lower by 25 b.p. each side, so since July has been ±1.5 p.p. In the coming

period, the monetary policy will continue to encourage the expansion of credit and economic activity to the extent allowed by inflation factors.

In line with the chosen monetary strategy, the NBS will continue to pursue the managed floating exchange rate regime. That means interventions on the foreign exchange market in three cases: to reduce excessive short-term oscillations of the foreign exchange rate, preserve the stability of the financial system, and maintain an adequate level of foreign exchange reserves. In the short term, some pressures on the exchange rate are possible due to different nature of leading central banks' monetary policies, which could affect the liquidity in the international financial market and the movement of capital towards the emerging market countries, including Serbia. However, the reduction of internal and external imbalances contributes to a greater resilience of the domestic economy to external shocks, and the stability of the dinar exchange rate over medium term.

The required reserve policy was developed in such a manner as to encourage longer term and dinar sources of bank funding through differentiation of required reserve rate depending on the term and currency of liabilities. In 2016, the process of gradual lowering of the required reserve rates continued; it started in September 2015 and provided for their monthly reduction by 1.0 p.p. over the following six months. As a result, as from February 2016 these rates have been 20.0% for the liabilities with maturities of up to two years, and 13.0% for the liabilities with maturities of over two years.

Medium-term inflation projections. It is estimated that inflation will remain low and stable in the coming period, as well as that it will reach the target band ($3.0\% \pm 1.5$ p.p.) at the beginning of 2017, and then continue moving within this target band until the end of the projection period, i.e. until the end of 2019. Inflation will be maintained within the target band thanks to the effects of the earlier relaxation of the monetary policy, the growth of domestic demand, and the gradual recovery of the global oil price and inflation in the international environment, primarily in the euro area. On the other hand, relatively low costs of food production as a result of the good growing season this year and further lowering of the prices of primary agricultural products are still expected to have a disinflationary effect for some time.

The uncertainty regarding the achievement of inflation projection relates primarily to the further development in global commodity and financial markets, i.e. to the movements of global prices for primary commodities (oil and primary agricultural products) and the leading central banks' decisions on monetary policy. Besides, the projection assumes that the regulated prices rise will gather pace in 2017 (to 4%), but this rise could be lower given the resolve of the Government to primarily address the wasteful business practices of public enterprises by restructuring and not by raising the price of their products and services.

External sector and its medium-term sustainability. Progress in the process of European integrations, continuing economic recovery of the European Union, successful implementation of the arrangement with the IMF, and a more conducive business environment resulting from the implementation of structural reforms, should be positively reflected in further growth of FDIs over the medium term. The product composition of exports improved in the previous period owing to FDI inflow to certain export oriented sectors, which should contribute to a further growth of exports over medium term. After a successfully completed investment in the manufacturing of cars, parts, and accessories for motor vehicles, the share of these product in total Serbian exports in 2013 reached 20.5%. The following years saw a decline in car exports, which were gradually set-off by the growth in exports of parts and accessories for motor vehicles, to reach about 9% y-o-y growth of the automotive industry exports in the ten months of 2016. The share of the auto cluster in total exports remained at the 2015 level; however, the share of car exports fell by 1 p.p. to 8.7% while the share of other products rose to 9.9% of total exports. Intermediate goods account for the largest share in total exports (32.5%), including the auto cluster products. Resource based products (food, tobacco and rubber products), accounting for 23.6%, had the second largest share, followed by upstream products (clothing, footwear, furniture) accounting for 20.3%. In the

same period, primary products accounted for 13.4%. While the share of the above products in total exports was lower than in 2015, high technology products (mostly electric machines) increased their share by 1.5 p.p. to 6.9% of total exports⁸.

In terms of geography, the goods from Serbia are sold mostly on the EU market. The share of exports to this group of countries went up from 60% in 2010 to 66% in the period January-October 2016. The most important destinations are Italy⁹ and Germany, accounting for almost 45% of 2016 exports to the EU, or 28% of the total Serbian exports. The share of exports to CEFTA countries dropped from over 25% in 2010 to about 18% in 2016, while the exports to Russia first increased (2010-2013) to over 7% of total exports, then witnessed a subsequent decline, to account for 5% of total Serbian exports in the period January-October 2016.

Price competitiveness of Serbia, measured by real effective exchange rate¹⁰, continued to improve in 2016. In the period January–November 2016, the nominal effective exchange rate for the dinar depreciated on average by 2.0% y-o-y, while in the same period, the rise of domestic prices exceeded the rise of foreign prices by 0.7%, so the real effective exchange rate was weaker by 1.3% on average. Having improved in 2015, the cost competitiveness of Serbia, measured by real effective exchange rate calculated on the basis of unit labour costs¹¹, dropped by 1.2% in the period January–September 2016. Unit labour costs of the economy as a whole went up by 2.1% due to gross wages rising faster than productivity, while in the same period, unit labour costs in the euro area fell (1,0%). The growth of unit labour costs was partly compensated by the depreciation of the dinar's nominal exchange rate against the euro (1.9% on average for the three quarters of 2016).

Not only cost competitiveness but also structural competitiveness of Serbia was better in 2016, owing to the preserved macroeconomic and financial stability and further implementation of structural reforms focussing on the improvement of the investment and business environment, reflected in Serbia's progress on the international competitiveness lists. Thus, in the last World Bank's Doing Business, Serbia found itself among the 10 countries highlighted for making the biggest improvements in their business environment, its ranking improving from 54th to 47th place. This was, for the most part, supported by the introduction of the electronic building permits, by which Serbia achieved significant progress in this area. Progress was also made in the areas of starting a business (shorter time for registration) and registration of the transfer of title (introduction of a time limit for the completion of procedure).

The progress in the approximation of the Republic of Serbia to the European Union was accompanied by lowering of barriers to trade in goods, and currently the trade in goods with the European Union is almost entirely free. In addition to opening up towards the European Union Member States, Serbia is a signatory of several regional and bilateral free trade agreements concerning goods. At the same time, efforts have been invested in the area of liberalisation of trade in services, and under the Stabilisation and Association Agreement the schedule towards full liberalisation with the European Union is defined, and currently work is done on the liberalisation of trade in services with the countries in the region. Lower trade barriers are reflected in the increasing degree of openness of the economy¹² which rose from 79.8% in 2010 to 103.1% in 2015, and is expected to stand at approximately 117.4% in 2019. Further increase of the openness of the Serbian economy will also be supported by foreign direct investments. It should be underlined that, except for the investments in the military industry and the purchase of land, there are no legal barriers for foreign direct investments, and that there are not differences in the treatment of foreign and domestic investors in terms of their rights and obligations.

⁸ Other (unsorted) products have a share of 3.3% in the total export.

⁹ The largest share of automobile export is registered as export to Italy, regardless of the final destination.

¹⁰ The foreign exchange basket and price basket consist of the euro and US dollar, i.e. the consumer price indexes from the Eurozone and the US, at a ratio of 80:20.

¹¹ Calculated as the product of the nominal foreign exchange rate of the dinar against the euro and the ratio of the unit cost of work of the overall economy of Serbia and the Eurozone.

¹² Measured as share of exports and imports of goods and services in GDP.

Current account deficit should remain at around 4% of GDP in the following years, whereas the expected decrease in the goods and services deficit and a stable inflow of transfers should compensate for the expected increase in the primary income deficit. The improvement in the foreign trade deficit will primarily be contributed to by the initiated structural reforms and the execution of investments that have already increased the competitiveness of our products and services in foreign markets, as well as by the recovery of external demand from the European Union countries. The real growth of goods and services exports is expected to reach about 7% a year on average in the following three years, bringing their share in GDP up to 54.2% in 2019 (from 32.9% in 2010 and 48.3% in 2015). After the rapid growth in 2013, the share of goods and services exports in global exports continued to rise and is projected to reach 0.09% in 2016. The expected faster increase in the exports of goods and services than in their imports will allow a nominal decrease in the goods and services deficit from around 9.8% in 2015 to around 6.4% of GDP by 2019.

The expected increase in the stock of non-resident direct investments will result in profit from their ownership remaining a significant expense item in the primary income account in the future as well, which will be partially offset by a lower outflow from interest on loans and securities, due to private sector deleveraging and public sector borrowing under more favourable terms. In the following period the secondary income account is expected to see a stable inflow of remittances of around 9-10% of GDP. The structure of capital inflows will be dominated by foreign direct investments (around 4.5% of GDP on average annually), which will fully cover the current account deficit. In addition, the private sector is expected to continue deleveraging in the following period, but to a lower extent, whereas, taking into account the good fiscal results that do not require additional borrowing, the public sector will only borrow to repay its due debts.

From the point of view of international investment position (IIP), Serbia is a net debtor. At the end of September 2016, the negative IIP was EUR 35.0 billion (103.2% of GDP), an almost unchanged share relative to the end of 2015 (a 0.1 pp growth). In the observed period, the government and the banking sector decreased their negative international investment positions by EUR 870.4 million and EUR 740.2 million, respectively, mostly resulting from the reduction of these sectors' foreign debt, but also from an increase in bank deposits abroad. Due to a higher FDI inflow, the negative position of other sectors increased by around EUR 1.2 billion. On the other side, the positive position of the National Bank of Serbia decreased by around EUR 0.8 billion as a result of foreign reserve decrease. Debt instruments, including debts to related parties (accounting for 21.8% of total debt) present around 56.8% of IIP liabilities. Half of external debt is the public sector debt (53.2%), which is fully long-term. Public external debt is dominated by three currencies – the dollar, the euro and the dinar with a 46.7%, 38.7% and 9.6% share, respectively. At the same time, the share of the euro and the dollar in foreign reserves is 56.2% and 31.9%, respectively, so the currency structure of foreign reserves is in line with the foreign debt currency structure. Over two thirds of public debt is contracted at a fixed interest rate, so interest rate risk is significantly lower than foreign exchange risk. Most of the private sector debt structure (81.1%) refers to corporate debt. Although over 90% of corporate debt is euro-denominated, the fact that most of exports collection is executed in euros as well contributes to lower foreign exchange risk on corporate external debt. In terms of residual maturity, around 84.0% of corporate debt is long-term. The external debt of commercial banks accounts for 18.9% of private sector debt, with around 83.9% of bank debt contracted at a floating interest rate, while over 90% is euro-denominated. In terms of residual maturity, around 62.3% of the external debt of the banking sector (excluding deposits) is long-term.

As a result of capital inflow that should provide full current account deficit coverage, in the following years foreign reserves are expected to remain at an adequate level. At the same time, the expectations are that the negative international investment position will rise, in particular relating to direct investment, but also that the international investment position as a GDP share will remain at around 100%. Greater investment inflow will result in imports growth (primarily of equipment),

with a maintenance of the coverage of average monthly imports with foreign reserves at a level of around six months, i.e. foreign reserves will continue to provide adequate protection of the domestic economy against external shocks. At the same time, it is estimated that the coverage of short-term debt (observed by residual maturity) with foreign reserves will increase from 259.1% at the end of September 2016 to around 300% in 2019.

Financial sector. During 2015 there were no major changes in the structure of Serbia's financial system, i.e. the banking sector still presents the dominant form of financial intermediation (with a share of over 90% in total financial sector assets). As of 31 October 2016, 30 banks operated in Serbia's banking sector, of which 22 in majority foreign ownership (members of banking groups from 13 states), the Republic of Serbia has (direct and/or indirect) ownership over six banks and two banks were majority-owned by domestic legal persons. Banks in majority foreign ownership dominate the market and account for 76.2% of total balance-sheet assets, 81.6% of total gross loans and 74.0% of total deposits of Serbia's banking sector. In terms of the individual share of banks, the banking sector of Serbia is fragmented in all relevant market categories, pointing to a high degree of competition among banks.

The banks' total assets and capital amounted to RSD 3,186 billion (EUR 25.9 billion) and RSD 652 billion (EUR 5.3 billion), respectively, at the end of October 2015. At the end of September 2016 the capital adequacy ratio was 21.2%, which is significantly above the regulatory threshold in Serbia (12%), as well as the Basle threshold (8%). The growth rate of own funds was sufficient to enable the preservation of their share in total liabilities at the level of 20.5% at the end of October 2016.

The banks in Serbia operate at a high liquidity level, which is confirmed by the evolution of the key liquidity ratios and asset maturity structure, which are at very satisfactory levels. The average monthly current ratio for the banking sector was again above 2 during 2016 and 2.06 in October (the regulatory threshold is 1.0). The quick ratio was 1.69 in October 2016 (the regulatory minimum is 0.7). As of 31 October 2016, liquid assets accounted for 36.0% of total balance-sheet assets and 53.3% of total short-term liabilities.

The banking sector's profitability in the first ten months of 2016 was 27% higher than in the same period of 2015 and total net pre-tax profit amounted to RSD 36.1 billion (EUR 293.1 million). At the end of October 2016, the ROA and ROE ratios were at 1.39% and 6.81%, respectively.

Banking sector loans to the non-financial sector were at around 49.1% of GDP¹³ at the end of September, which indicates that the businesses and households are not over-indebted. If cross-border borrowing is added to this, the share reaches 72.4% of GDP. In the following period, with the acceleration of economic activity, the share of domestic loans is expected to increase marginally to around 51.1% of GDP, while the share of total debt is expected to remain at the current level, taking into account a greater reliance on domestic sources of funding. When it comes to the currency structure of non-financial sector debt, the implementation of the dinarisation strategy is expected to continue producing results in the form of a higher share of dinar-denominated lending in total lending, based on the maintenance of macroeconomic stability as well as due to the fact that international financial institutions, prompted precisely by macroeconomic stability, began issuing dinar-denominated securities to collect funds for the purpose of dinar-denominated lending. As a reflection of confidence that the achieved stability will be maintained in the long term, the banks included in their loan offers dinar-denominated loans with maturity of up to 30 years and an interest rate below 5%. We expect the share of dinar-denominated bank loans to continue increasing from its current level of around 32%, for households as well as businesses. At the same time, due to a faster growth of domestic loans relative to cross-border loans, we also expect the share of dinar-denominated lending in total non-financial sector borrowing to increase from the September 2016 level of 21.5%.

¹³ The share of loans to the private sector (companies, households and non-profit organisations) was 43.1% of GDP in September 2016.

The key risk for Serbia's banking sector is the high level of non-performing loans (NPLs), which as of October 2016 amounted to RSD 389.3 billion (EUR 3.2 billion), or 19.2% of total loans. For the purpose of resolving the issue of NPLs, on 13 August 2015, in cooperation with the NBS, the Government of the Republic of Serbia adopted the NPL Resolution Strategy of the Republic of Serbia. The implementation of the key goals of the strategy initiated in 2015 is conducted through the realisation of the activities spelled out in the Government Action Plan and the NBS Action Plan in order to respect the central bank's institutional independence.

The key efforts of the National Bank of Serbia as related to the Action Plan are directed towards 1) strengthening the bank's capacity to resolve the issue of high NPLs, as well as 2) contributing to the development of NPL market in Serbia. In the previous period, the National Bank of Serbia carried out all activities provided for by its Action Plan, predominantly aimed at strengthening the capacity of banks for non-performing loan resolution:

- The IAS 39 Application Guidelines were published,
- The bank NPL reporting system was improved,
- An analysis was carried out regarding the NPL market obstacles and limitations,
- A database was established of the property taken as collateral by banks,
- Additional requirements were introduced for banks in the context of monitoring the quality of security instruments and work of persons assessing those instruments,
- The regulatory framework was improved for the treatment of resolved receivables for the purpose of encouraging sustainable resolution practices and preventing the practice of evergreening,
- The non-performing asset management in banks was improved by introducing additional requirements for banks in the context of strategic planning and the process of non-performing asset management itself, and
- Guidelines were published for the publication of bank data and information relating to asset quality.

In the following period, as part of its regular supervisory activities, the National Bank of Serbia will monitor bank compliance with the regulations adopted previously in accordance with the Action Plan, particularly expecting more efficient and targeted resolution of non-performing loans by the banks. In addition, since the Strategy is cross-institutional and the causes of the problem are complex, efficient achievement of the goal set by the comprehensive Strategy implies coordinated action of all relevant and competent institutions, which are expected to carry out further activities in accordance with the Action Plan of the Government of the Republic of Serbia in the upcoming period.

The other activities provided for by the Strategy are within the jurisdiction of ministries (of finance, economy, justice and construction) as well the Deposit Insurance Agency. The data show that the systemic cross-institutional and coordinated approach provided for by the Strategy has a positive impact on the relevant stakeholders regarding NPL resolution.

An 8.3% decrease in the level of gross NPLs as well as a decrease by 2.4 pp in their share in total loans were recorded during 2016 and they are currently at the lowest level in the last almost four years. Taking this into account, the implementation of the NPL Resolution Strategy can be said to be producing visible results. The highest level of non-performing loans (42.8% of total NPLs) still comes from the corporate sector, with a 19.3% share in total loans to businesses. Among businesses, the highest NPL indicator (30.8%) was recorded in the construction sector, which accounts for 14.8% of total corporate NPLs. The share of non-financial entities in bankruptcy in total NPLs is increasing and was 29.2% at the end of October 2016. Household NPLs account for 18.4% of total NPLs, with their share in total household loans recording a decrease during 2016 to 9.7% in October, which was lower than the average for all sectors. The reduction in the share of NPLs is expected to continue in the upcoming period as well, especially

taking into account the improvement of the financial position of businesses and further expected increase in credit activity based on the acceleration of economic growth.

In addition, owing to a high coverage by allowances for impairment of these loans in accordance with the international accounting standards (at the end of October 2016, 66.5% of NPLs were covered by these allowances) as well as by regulatory provisions (116.6% at the end of October), at the current level NPLs do not endanger the operation of the banking sector or financial stability. Despite numerous challenges, the stability and resilience of the financial sector in Serbia to disturbances from domestic and international environment is also confirmed by the stress tests that the National Bank of Serbia conducts regularly (on a quarterly basis). The high capital adequacy of the banking sector in Serbia and its resilience to shocks was also confirmed by special diagnostic tests of asset quality of the banking sector in Serbia, which were conducted in late 2015 in cooperation with international financial institutions. In general terms, after carrying out all adjustments, the AQR procedure did not find any shortage of capital for any of the 14 banks that were included in the tests and have a total share of 88% in the banking sector assets.

As part of the efforts of the NBS as Serbia's banking system regulator to harmonise the regulatory framework to the maximum degree possible with the EU acquis and the best international practice and standards, during 2016 efforts were intensified on the establishment of regulatory framework in line with the Basle III standards and the provisions of the relevant EU regulations for credit institutions (CRR Regulation and CRDIV Directive). Following the preparatory phase which encompassed a regulatory gap analysis and after carrying out the quantitative impact study on the effects on capital and liquidity, relevant regulations were drafted and a public hearing was organised during 2016. On 15 December 2016, the Executive Board of the National Bank of Serbia adopted a set of regulations implementing the Basel III standards in Serbia: the Decision on Bank Capital Adequacy, the Decision on Bank Liquidity Risk Management, the Decision Amending the Decision on Bank Risk Management, the Decision on Reporting on Bank Capital Adequacy, the Decision amending the Decision on Bank Reporting and the Decision on the Disclosure of Bank Data and Information.

In addition to the harmonisation with the relevant EU banking regulations, the main goals of their adoption are the following: increasing the resilience of the banking sector through increasing the quality of capital and introducing capital buffers, better monitoring and control of bank exposure to liquidity risk, further strengthening of market discipline and transparency of bank operations in the Republic of Serbia by disclosing all relevant information on bank operations, as well as adapting the reporting system to new regulatory provisions.

The careful preparation and adoption of these regulations are another confirmation of the strategic commitment of the National Bank of Serbia to continuous improvement of the legal framework in accordance with international standards and EU regulations, while taking into account the specific features of domestic regulations and market, and to doing this in a way that ensures the preservation and strengthening of the stability of the banking and financial system as a whole.

In the following period, the National Bank of Serbia will continue to monitor the changes in the regulations governing the operation of credit institutions in the European Union and adjust and further harmonise the domestic regulatory framework accordingly.

Starting from 1 October 2015 (with the start of application of the Law on Payment Services) and until the end of 2016, the National Bank of Serbia issued decisions granting eight licences for the provision of payment services to interested companies that applied and met the prescribed requirements. In addition, one company was granted a licence for the issuance of electronic money as an electronic money institution. This initiated the process of development of payment services provision and electronic money issuance in Serbia, especially from the aspect of new market participants that now have an opportunity to provide these services to individuals and businesses.

4. Alternative Scenarios and Risks

External risks are determined by the rate of economic growth of the leading economies, the volume of global trade, volatility in the international financial and commodity markets, as well as by political risks primarily relating to geopolitical tensions, as well as the speed and outcome of the EU-UK negotiations. The economic recovery of the Republic of Serbia will largely depend on the speed of recovery of the euro area and economies in the region and, on this basis, the increase in foreign demand and foreign capital inflow, foreign interest rate evolution, movement of import prices, prices of food, oil products and iron ore in the international market. One of the risks for economic growth of the euro area, which is our largest foreign trade partner, relates to the slowdown in growth in the emerging countries, primarily China. Further decrease in the demand from China will affect its largest foreign trade partners and may jeopardise the nascent recovery of the EU economy, by reducing demand for its exports. Furthermore, the rebalancing of the Chinese economy may cause a continuation of the trend of greater-than-expected global trade growth deceleration, through a decrease in the global demand, and thus a continuation of the trend of low prices of primary products in the global market. Economic growth of developed countries may be further negatively affected by adverse demographic trends and slowdown in investment growth.

In such circumstances, there is danger of a decrease in private consumption, prolonging the trend of decelerated growth and low inflation. The risk increase in terms of the recovery of global and European economy is largely contributed to by the uncertainty in the international capital market related to the decisions of leading central banks. The normalisation of the FED's monetary policy and the key rate hike could result in a decreased capital inflow to emerging countries, which would intensify depreciation pressures on the dinar in the case of Serbia. An additional uncertainty is caused by doubts regarding further expansion of the ECB quantitative easing programme as well as by the ultimate effects of these measures. The deviation of the oil price from the projected value is possible in both directions, so a higher-than-expected growth would result in consumption decrease and a deterioration of the financial position of businesses (petrochemical complex, etc.), which may slow down economic activity. In addition, the movements of prices of primary agricultural products and base metals, which have a significant share in Serbian exports, present a symmetrical risk for macroeconomic projections.

Considering the low level of foreign trade and interconnection of Serbian and UK economies, the direct impact of Brexit on the Serbian economy is expected to be relatively small. However, the risk is posed by the effects of this process (the transition is expected to be completed in 2019) on the economies of our major foreign trade partners among the euro area countries and by the possibility of their indirect spillover. Changes in the trade regime due to the country's exit from the EU will slow down trade flows. The negotiation process will additionally contribute to the uncertainty in the global financial markets in the following period, in terms of price parities and exchange rates, as well as through lower credit ratings of the developed countries and, indirectly, the emerging countries as well. The course of negotiations will cause an increase in institutional, economic and political uncertainty in the EU that could spill over to global trade and financial flows. If the adverse risks materialise, the flight of capital from the emerging countries will continue and the credit rating of most countries will go down.

In addition to external risks, the macroeconomic scenario is also exposed to internal risks. Their impact is admittedly smaller due to the consistently implemented fiscal consolidation, better-than-expected economic growth outlook, lower external imbalance and consistent implementation of the IMF arrangement.

The baseline development scenario for the following three years is based on an increase in investment, goods and services exports, as well as a reduction of the share of public expenditure and deficit in GDP. A key prerequisite for the envisaged medium-term scenario is an

intensification of structural reforms while maintaining fiscal stability. The pace of implementing structural reforms will determine the pace of economic activity growth in the medium term.

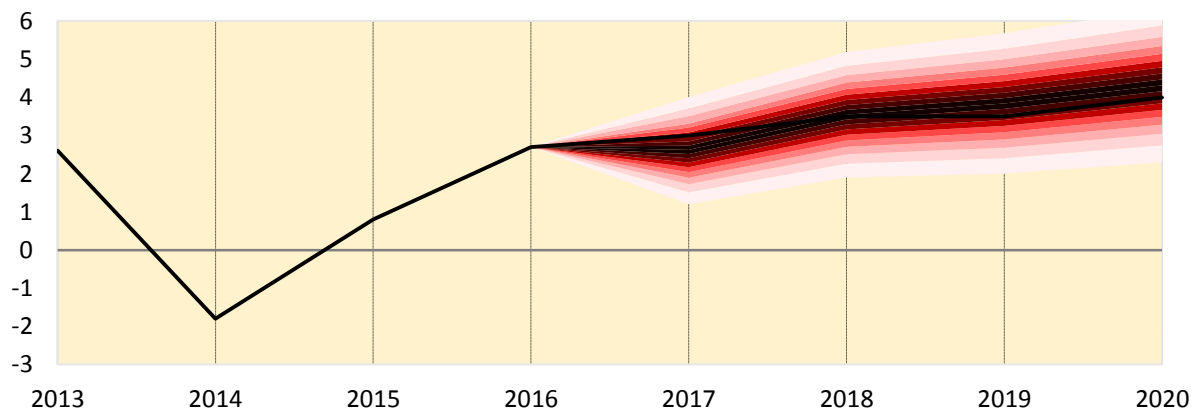
A deviation from the stated assumptions presents a risk for the medium-term macroeconomic projection. Any slowdown in the implementation of structural measures, which are to provide an enabling economic environment, would result in a deterioration of the country's macroeconomic position. Such trends would aggravate external and internal macroeconomic imbalances. Apart from that, there would be a slowdown and interruption of vital foreign capital inflow.

Taking into account a possibility of materialisation of the above risks and their respective impact on the macroeconomic projection for the period 2017–2019, an alternative scenario was prepared, with more moderate economic growth relative to the presented baseline scenario for the following medium-term period. The risks for the baseline scenario presented by this Programme are symmetrical.

A sensitive external position defined by a slow EU recovery and by complex geopolitical relations is built into the alternative scenario. Negative effects due to the materialisation and intensification of these risks can directly or indirectly spill over through the channels of foreign trade and financial sector, which would ultimately result in lower-than-projected export and investment activity.

The risk of slower growth of domestic demand, in particular investment spending as the key driver of economic activity, as well as personal consumption of households, presents the most important internal risk. An internal risk related to slower implementation of structural reforms planned for the following medium-term period should be added to this, due to which significant effects of reforms on the stabilisation of public finance and economic growth acceleration would be missing.

Graph 3. GDP growth scenarios



III. FISCAL FRAMEWORK FOR THE PERIOD FROM 2017 TO 2019

1. Medium-term Fiscal Policy Goals

The medium-term fiscal policy goal is a deficit of 1% of GDP, which will be achieved in 2019. Thus the public finances will be fully back on sustainable path, while the public debt decreases to 67% of GDP. Keeping the fiscal deficit in the range between 0.5% and 1% of GDP in the following period ensures a decrease in the public debt share to below 60% after 2021.

The high level of public debt, its accelerated further growth, as well as the high interest expenses in 2014 were a clear signal that it was necessary to initiate a serious fiscal consolidation programme. The debt level was 71.8% of GDP, interest expenses were 3% of GDP at the annual level, while the general government deficit was 6.6% of GDP. A serious fiscal consolidation programme was prepared, with the support of the IMF, and formalised by the conclusion of a precautionary arrangement in early 2015. It was estimated that a structural adjustment of around 4% of GDP in the period 2015–2017 was necessary to interrupt the public debt growth and reduce the debt share in GDP.

The structural (permanent) deficit reduction carried out in the first two years of the fiscal consolidation programme exceeded the initial expectations. The structural deficit reduction in 2015 was 2.6% of GDP, with an adjustment of around 1.3% of GDP expected in 2016. The key contribution to structural adjustment was given by expenditure (wage and pension) reduction, while the favourable macroeconomic environment, with the strengthening of tax and financial discipline, enabled a strong revenue increase. The goal of the fiscal consolidation programme was a structural adjustment of 4% of GDP, with the public debt trend reversal. Consistent implementation of fiscal consolidation measures, along with the expected macroeconomic recovery, resulted in a public debt decrease already in 2016. The completion of the rightsizing and restructuring process is also expected, which will result in a sustainable level of the budget expenditure side, while the favourable macroeconomic environment and fight against informal economy will cause faster revenue growth. Combined, these two processes will enable the creation of fiscal space that provides economic policy makers with more options when making decisions. After the completion of structural adjustment, there will be the second wave of fiscal deficit reduction due to automatic decrease in interest expenditure, which neutralised the effects of the implemented measures to a certain extent in the previous period.

Getting the fiscal deficit and public debt level to a sustainable path will facilitate the access to the international financial market. Lower interest rates and restoration of creditors' confidence will result in cheaper loans, which, through further transactions, will replace the most expensive ones and thus further improve the fiscal position. The government needs favourable credit lines, considering the need for further investment in the infrastructure, as does the private sector in order for businesses to increase investments, which together would ensure the continuation of the stable and sustainable growth path.

2. Fiscal Trends in 2016

The fiscal consolidation programme implementation as part of the IMF arrangement continued successfully in 2016. The estimated structural adjustment was 1.3% of GDP in 2016, after the very successful 2015, when a 2.6% of GDP structural fiscal adjustment was achieved. The total structural adjustment of 3.9% of GDP during the two years of fiscal consolidation programme implementation enables the realisation of the goal provided for by the IMF arrangement, which is an adjustment by 4.1% of GDP in a three-year period. In early 2016, the wage and pension policy was mildly relaxed, while compensatory measures were implemented on the revenue side by raising the excise duties on oil products. Measures were adopted that achieve significant savings in

the subsidies category. Structural adjustment also continued in 2016 by rightsizing employment in the public sector, with the ultimate goals being somewhat reduced after more thorough analyses. A noticeable slowdown in the rise of the number of pensioners is partly also due to the implemented parametric reform of the pension system. On the budget revenue side, the trend of improvement in the efficiency of tax revenue collection continued.

Table 3. Estimated structural adjustment elements in 2016, % of GDP

Excise duties on oil products - rate increase and consumption increase	0.28
Excise duties on tobacco	0.10
Excise duty on electricity - additional effects relative to 2015	0.27
Telekom Srbija a.d. dividends	0.21
Agricultural subsidies - savings based on new regulations	0.24
Rightsizing in 2015 - transferred effect (approximation)	0.12
Slowdown in the rise of the number of pensioners (approximation)	0.15
Wage and pension increase - net effects	-0.29
Other (collection efficiency, informal economy reduction)	0.24
Total structural adjustment	1.32

Source: MoF

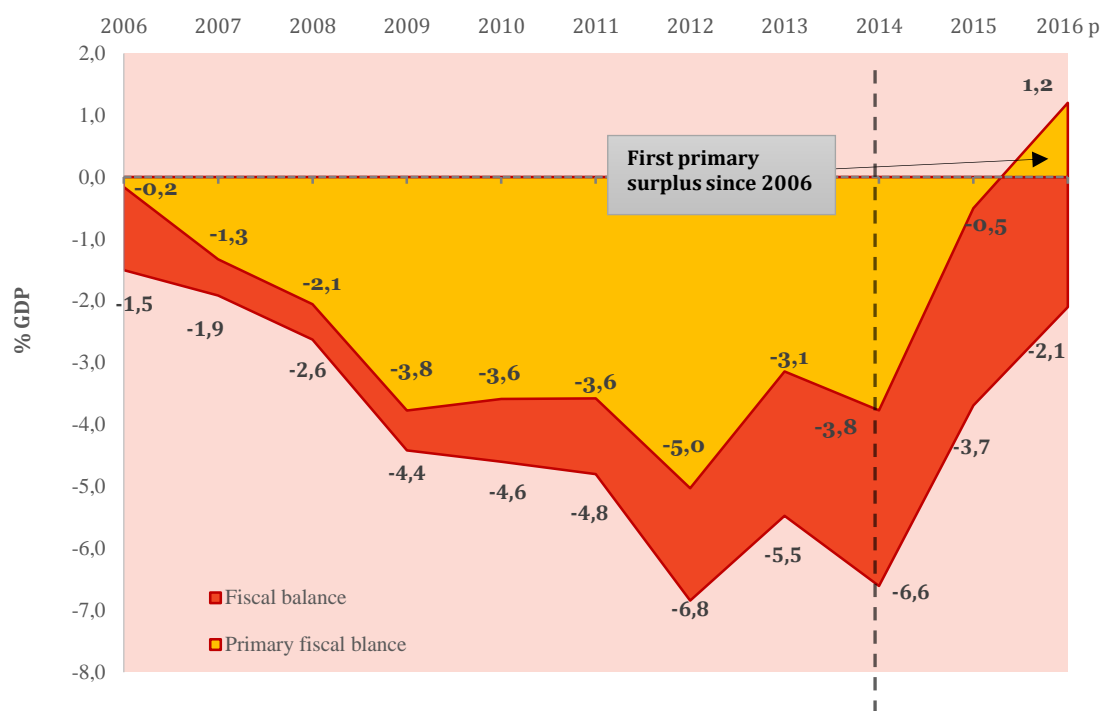
According to the latest estimates, in 2016 the fiscal general government deficit will be 1.8% of GDP lower than planned, with a significant probability of being even somewhat lower. During the sixth review of the IMF arrangement, a new macroeconomic and fiscal framework was agreed upon, which is also presented in this document. A new estimate was prepared for revenues, expenditures and the general government deficit, with the projected fiscal deficit being RSD 74.3 billion lower than planned. The latest macroeconomic trends and estimates and fiscal trends from the beginning of 2016 were taken into account, as well as the expected execution of certain one-off categories of expenditure not included in the plan. Due to a possible execution in certain expenditure categories below the ceilings, the fiscal outcome in 2016 could be more favourable than the outcome planned by this framework.

For the first time since 2005, a primary fiscal surplus will be recorded, which is at the same time an indicator of the level and successfulness of fiscal consolidation and a prerequisite for decreasing the public debt share in GDP. It is estimated that a primary fiscal surplus of at least 1.2% of GDP will be reached in 2016. This result shows that the fiscal consolidation measures achieved the desired effects and that public spending was sufficiently reduced. On the other hand, favourable fiscal trends and the improvement in the debt interest structure in the following period will ensure a stabilisation of the absolute level of interest expenses and a decrease in their share in GDP. This makes room for certain fiscal relaxation that would not jeopardise the main goals of the programme.

A reversal of increase in the share of public debt in GDP is the primary goal of the fiscal consolidation programme and was achieved one year ahead of schedule. The path of the public debt share in GDP will be reversed in 2016, after years of increase. The public debt share was planned to reach 74.6% of GDP in 2016 versus 76% of GDP at the end of 2015. The fiscal deficit decrease and the primary surplus recorded in 2016 are the most important factors that caused the downward path of the public debt share in GDP. The acceleration of economic growth and the attainment of a higher-than-projected real growth rate and nominal GDP amount also had a positive impact on the public debt share trends. These factors should have a structural impact on the level of the public debt share, with factors with temporary impact on the public debt share trend also materialising during 2016. Favourable trends in the international foreign exchange market (especially the US dollar rate) resulted in a lower value of the dinar-denominated amount of public debt in the first half of 2016. In addition, the satisfactory liquidity level contributed to certain short-term securities not being issued. Although there are risks in the following period that the

trends in the international foreign exchange market could have an adverse impact on the public debt trend, the planned fiscal outcome path will ensure the continuation of the positive trend initiated in 2016. On the other hand, the disbursements of proceeds from project loan financing intensified, which is considered to be positive because this portion of public debt certainly includes a developmental component.

Graph 4. Primary and total fiscal outcome, % of GDP



Better-than-planned public revenue collection contributed to improved fiscal position, i.e. a lower deficit, in 2016. The revenue projection was adjusted upwards by RSD 108.2 billion, with equal contributions to the better collection given by both tax and non-tax revenue. The expenditure projection was also revised upwards by a somewhat lower amount, but with significant changes in its structure. The changes in the expenditure structure arose due to changes in individual expenditure categories, because of the changed coverage of expenditures of particular government levels and their execution schedule and the planned execution of certain one-off expenditures that had not been initially planned.

Fiscal trends during 2016 largely reflect positive macroeconomic trends and economic growth acceleration, but also other factors that contributed to better public revenue collection. It is necessary to distinguish the effects (permanent and temporary) that caused the downward deficit revision. Public revenue is largely under the influence of macroeconomic trends, so its movement is mostly stable, except in the event of tax policy change. The reasons for the deviation may lie in the payment schedule of extraordinary non-tax revenue as well as in their amount, in certain methodological changes in public revenue coverage, improved tax compliance (collection efficiency), etc. On the other hand, as regards public expenditure, there may be changes in the execution schedule (discretionary component), implementation and enforcement of adopted measures, execution of one-off expenditures, etc. The new estimate of expected execution by the end of 2016 took into account the base effect, i.e. the difference between the actual and the planned values at the end of the previous year.

Table 4. Revenue, expenditure and result of the government sector in 2015 – budget and estimate based on the sixth review of the IMF arrangement, in RSD billion

	Budget 2016	New estimate 2016	Difference	Change, %	New estimate, % of GDP
PUBLIC REVENUE	1,711.5	1,819.7	108.2	6.3	43.3
Current revenue	1,697.2	1,809.3	112.1	6.6	43.0
Tax revenue	1,513.0	1,572.8	59.8	3.9	37.4
Personal income tax	149.5	155.1	5.6	3.7	3.7
Corporate income tax	64.5	78.5	14.0	21.7	1.9
Value added tax	427.0	447.6	20.6	4.8	10.6
Excise duties	254.3	265.2	10.9	4.3	6.3
Customs duties	34.8	36.3	1.5	4.3	0.9
Other tax revenue	65.5	64.2	-1.3	-2.0	1.5
Contributions	517.4	525.9	8.5	1.6	12.5
Non-tax revenue	184.2	236.6	52.4	28.4	5.6
Grants	14.3	10.4	-3.9	-27.3	0.2
PUBLIC EXPENDITURE	1,875.0	1,908.9	33.9	1.8	45.4
Current expenditure	1,719.9	1,736.2	16.2	0.9	41.3
Personnel expenditure	432.0	422.60	-9.4	-2.2	10.1
Goods and services	271.3	286.86	15.5	5.7	6.8
Interest repayment	144.9	138.60	-6.3	-4.4	3.3
Subsidies	111.6	120.40	8.8	7.9	2.9
Social benefits and transfers	715.7	716.30	0.6	0.1	17.0
<i>Of which pensions</i>	507.9	496.30	-11.6	-2.3	11.8
Other current expenditure	44.3	51.40	7.1	15.9	1.2
Capital expenditure	120.8	130.20	9.4	7.7	3.1
Net lending	2.2	3.50	1.3	59.1	0.1
Repayment for guarantees	32.0	39.00	7.0	21.9	0.9
Result	-163.5	-89.1	74.3		-2.1
Result in % of GDP	-3.9	-2.1	1.8		

Source: MoF

The fiscal framework estimate was made in agreement with the IMF and during the latest review of the IMF arrangement in October 2016, with both parties proceeding from the precautionary principle. It was concluded that there were upside risks and room for the final result to be more favourable in terms of fiscal deficit outturn. November fiscal trends and the expectations for December indicate that the general government deficit will be below the budgeted level and reach 1.3% - 1.4% of GDP.

The 2016 macroeconomic trends, reflected in the increase in average wages, employment and consumption, are strongly manifested in fiscal trends through their impact on the personal income tax and VAT collection. The average wage increase is in line with the recorded increase in revenue from social contributions and the wage tax. The increase in the revenue from the wage tax and contributions was caused by wage trends, primarily in the private sector. The trend of these tax types may serve as an important early indicator of overall economic trends.

Excellent results were achieved in the domain of VAT audit and collection efficiency improvement, especially in 2015, and a similar trend continued in 2016 as well. The main determinants of better VAT collection are the total level of consumption (C), effective tax rate and collection efficiency (C-efficiency). The VAT is the second largest tax type in total public revenue, and its trend is also driven by factors such as credit activity, trends in other income sources, collection efficiency and the size of informal economy, consumption structure and foreign trade trends. For the purposes of projection and short-term analyses of this tax type, it is necessary to separately observe the trend of gross collection and VAT refunds.

Gross VAT collection recorded a strong 7% increase, exceeding the growth of average wages, but also of total disposable income. The reasons for this deviation lie in the fact that wages are not the only source of disposable income (other sources may be pensions, loans, remittances, savings, social benefits, etc.). The growth of excise product consumption also contributed to the additional growth of VAT revenue. The last group of factors affecting gross collection relates to consumption structure (effective tax rate) and improved collection efficiency. A somewhat faster growth of domestic gross collection relative to the import VAT is noted. This is explained, in addition to intensified activities on combating informal economy, by a change in the natural gas and electricity taxation system (elimination of the VAT on imports of these goods). The net VAT collected during 2016 increased much faster than gross collection, primarily due to a slower increase in the level of VAT refunds relative to the previous year. There was no increase in the amount of refunds in the first half of the year, with this increase reaching 5% at the end of the year.

Excise revenue recorded higher growth due to an increase in the consumption of certain excise products and partly due to a reduction in the informal market size. The estimate of excise revenue on oil products assumed the 2015 consumption level with an application of new, higher specific excise duties. However, at the macroeconomic level, it is difficult to differentiate reliably between the effects of real consumption growth (price elasticity and the effect of economic growth) from those that are a consequence of changes in the size of informal economy. It is realistic to assume that the real increase in the consumption volume was also caused by a favourable trend of prices in the oil product market. In the last few years, due to inventory policy, the payment of excise duties on tobacco products was concentrated in the period before the planned changes in excise duty rates. All this introduces some uncertainty in the projection of this tax type, whose projected amount increased relative to the amount planned by the budget. The increase in the revenue from this tax type can mostly be attributed to better collection at the end of 2015, which indicates greater recovery of consumption, and partly to the measures combating informal market as well.

The corporate income tax projection increased significantly relative to the plan, so the collection of this tax type will be higher by around RSD 14 billion. The corporate income tax is the most volatile public revenue item and economic growth is not always the most reliable collection indicator for this tax type. Since the final data on profitability are not known during the preparation of projections for the following year, the practice is to assume for these purposes that it is unchanged and to accept a certain level of risk in the collection of this revenue type. According to the Business Registers Agency data, the total gross profit realised in 2015 is RSD 467 billion, 14.6% higher relative to 2014.

Non-tax revenue is a revenue category whose plan was revised upwards to the greatest extent, both in absolute and in percentage terms. The reasons for the revision were mostly methodological, but the inclusion of certain potential revenue items in the budget plan was abandoned for the sake of caution as well. It was agreed with the IMF representatives to include in the revenue plan only the anticipated structural, i.e. permanent, part of non-tax revenue relating to budget dividends, profit of public enterprises and other similar types of one-off revenue. This amount was set at RSD 9.6 billion, while any surplus over this amount would not be treated as part of structural adjustment. The budget plan did not include the revenue of RSD 12.8 billion for mobile 4G network licence although it was known that it would be paid in early 2016. Since in that moment Telekom Srbije A.D. was in the privatisation process, which was subsequently interrupted, the amount that would have belonged to the central budget based on dividends from this company was not included in the plan (RSD 8.9 billion was collected). The remaining amount includes payments by JP Elektroprivreda Srbije (PE Serbian Electric Power Industry), the Deposit Insurance Agency, premium payments for bond issue re-opening etc. The projection of regular non-tax revenue was not changed significantly. Of the total annual amount of general government non-tax revenue of RSD 236.6 billion, the structural, i.e. permanent, part accounts for RSD 216.6 billion. The RSD 20 billion difference consists of the 4G licence revenue in the amount of RSD

12.8 billion, revenue from land sale at the local level amounting to RSD 4 billion and a smaller portion of other payments.

Non-tax revenue at the local level will be RSD 21 billion higher relative to the plan; however, the increase in this revenue is mostly a result of methodological changes. One part of the increase relates to the revenue from dividends of local public enterprises. The other part is a consequence of changes in the reporting methodology at the local level. Namely, in late 2015 and during 2016, the data on total revenue and expenditure of pre-school institutions and the ticket collection system in the city transport network became an integral part of the City of Belgrade budget execution report. Therefore, the coverage of local budgets became wider¹⁴ and more correct in methodological terms, and this change had an impact on the total level of revenue and expenditure. This change is mostly neutral for the size of deficit at the local level because approximately the same amounts are presented on the expenditure side as well.

According to the new estimate of public expenditure, its total level should be higher by RSD 33.9 billion or 1.8%, with a significant change in its structure relative to the budget plan for 2016. The execution of some one-off expenditures is envisaged for 2016 as well – assumption into public debt of the natural gas debt of HIP Petrohemija (RSD 12.9 billion) and disbursement of bonus to pensioners (RSD 8.6 billion), but in a lower total amount than in the previous year. Based on one-off (non-structural) expenditure, RSD 43.5 billion or 1.1% of GDP was executed in 2015, while RSD 31 billion or 0.64% of GDP in total is planned in 2016. This amount also includes funds for severance pays and some one-off local government expenditures. In contrast to current expenditure, according to a new estimate, capital expenditure will record a stronger increase relative to 2015. There is room for total public expenditure to be lower than the anticipated amount. It may be assumed that current expenditure will not be fully executed (goods and services, interest and subsidies), which could result in a more favourable fiscal outcome than the one envisaged by this framework.

The personnel expenditure estimate decreased by 2.2% relative to the 2016 budget, primarily due to a lower amount of funds necessary for severance payments. The wage increase applying from the beginning of 2016 should generally be offset by the planned downsizing, while the level of severance pays would determine the total amount of funds for wages. There were, however, significant changes in the rightsizing process that will have permanent effects on the trend of this expenditure category. The lower amount of funds for severance pays will partly decrease the total amount of personnel expenditure, while the changes in the pace of rightsizing will result in somewhat higher wage expenses (excluding the funds for severance pays) than initially planned. The public sector rightsizing plan envisaged a reduction in the number of employees by 75,000 by the end of 2017. After the analyses of the employee number and structure by the competent domestic and international institutions, the rightsizing plan was revised to 25,000–30,000 people. According to the latest data available, by the fourth quarter of 2016 the number of employees decreased by around 22,000 relative to the end of 2014. The amount and payment of severance pay was also impacted by higher attrition, i.e. retirement. Savings on this basis were also made due to a slower rate of employee replacement at those positions. By the end of 2016, the share of personnel expenditure will decrease to 10.1% of GDP, which is within the EU average and contributes to the achievement of the goals set by the current fiscal rules (7% of GDP). In the following period, however, the existing solutions in this field should be revisited and the target share of personnel expenditure in GDP possibly revised to a socially and economically more acceptable level.

The goods and services expenditure records the highest change relative to the budget plan for 2016. The new estimate of goods and services expenditure is higher by RSD 15.5 billion or 5.7% relative to the initial plan, and its current increase is 16.5%. The highest increase in this

¹⁴ These revenues and expenditures had the character of own revenues, were covered by the plan but not by regular monthly reporting within the City of Belgrade Treasury.

expenditure is recorded at the local level, with essentially the previous execution alone causing the changes in the planned amount. The main reason for the higher execution at the local government level is methodological and relates to the expansion of the local budget execution report coverage. Namely, the wider coverage of non-tax revenue of local government level mostly resulted in higher spending presented in this expenditure category.

Interest expenditure is a category where significant savings are expected relative to the amount planned by the budget. The total fiscal outcome trend has an indirect impact on the interest expense trend. In addition to the deficit level, the amount of interest is affected by interest risk and foreign exchange risk for foreign-currency denominated liabilities. All above-mentioned risks were taken into account in planning interest expenses. During 2016, almost all of the above-mentioned factors had a positive impact. The significantly lower fiscal deficit had an impact on the general level of new borrowing. Satisfactory budget liquidity provided an opportunity to forego issuing certain short-term securities. On the other hand, a favourable trend in the US dollar exchange rate and a stable EUR rate neutralised foreign exchange risk, which, along with lower interest rates in the international market, decreased interest expenses.

The pension expense trend during 2016, the revised general government sector rightsizing goals and the lower-than-anticipated increase in the number of pensioners caused a downward revision of the planned pension expenditure. A certain reserve was left in the projection of this expenditure category in late 2015, considering that a faster inflow of new pensioners was expected based on the rightsizing process in the public sector (including public enterprises) and the completion of restructuring of the remaining enterprises in the privatisation process. The other factors that had an impact on the estimate of overall pension expenses are the linear increase in the nominal amount of pensions, as well as the increase in the amounts received by military pensioners in accordance with the Constitutional Court decision. The 2016 plan anticipated an increase in the number of pension beneficiaries above 1%, which was in accordance with the trend from the previous period.

The downward trend of the number of pensioners, which started in 2015, continued during 2016 as well. After a ten-year period of increase in the number of pensioners, the total number of pensioners decreased for the first time in 2015, by 0.2% or 3,200 persons. Moreover, the beneficiary structure also changed, so there was a decrease in the number of disability pension beneficiaries and, to a slightly lower extent, in the number of survivor pension beneficiaries. This was contributed to by the measures aimed at prevention of abuse in this area. The number of old-age pensioners still increases, but at a noticeably lower rate. Such trends are a result of parametric measures (raising the age requirement), but also of the introduction of penalties for early retirement. In accordance with these trends, the estimate of total pension expenditure was revised downwards by 2.3% relative to the planned amount, with a note that the one-off payment to pensioners was not presented as a part of total pension expenditure, but is treated as a type of other transfers to households.

The expenditure for social benefits and other transfers to households will increase relative to the planned amount, primarily due to the payment of bonus to pensioners. Each individual pension beneficiary was paid RSD 5,000 regardless of the level of pension they receive. The total effect of the one-off payment on this basis is RSD 8.6 billion. On the other hand, social benefits at the local level increased due to the already mentioned wider coverage of certain funds. The amount of debt payments to military pensioners based on court decisions increases as well. Namely, some beneficiaries did not enter the process of amicable debt settlement; instead, they recover the funds they claim on this basis by enforced collection, in accordance with individual court decisions.

Due to the planned one-off expenditures, the expenditure for subsidies is a category where the new framework envisages a higher-than-budgeted execution. A significant decrease in the total amount of subsidies was planned in 2016. Subsidies were abolished for the land exceeding 20 hectares in area as well as for leased state-owned land. Subsidies intended for public media services decreased from RSD 8 billion to RSD 4 billion. At the end of the year, the execution will

be higher than planned due to the assumption of Petrohemija's debt in the amount of RSD 12.9 billion, which is classified as a subsidy. Subsidies at the local level decreased relative to 2015, but this is a result of the already mentioned methodological change in beneficiary coverage and thus the classification on the expenditure side.

Guarantee repayments and subsidies will deviate significantly relative to the amounts planned by the 2016 budget. The cause of such trend is positive and relates to early repayment of the guaranteed amount of debt (debts of Galenika a.d. and JP Srbijagas), resulting in significant savings in interest expenditure in the following period. The plan had anticipated that JP Srbijagas repay by itself a part of its debt to its creditors, which was not realised to the full extent. Despite an improvement in the liquidity position of this enterprise, it is still unable to honour its obligations completely by itself.

Other current expenditure increased relative to the budget plan. A part of the increase is the result of parliamentary and local elections and the transfer of funds to political parties. The increase in this expenditure at the central level was also caused by the trend of expenses for the payment of fines based on court decisions and enforced collection, which are expenditure types that cannot be foreseen.

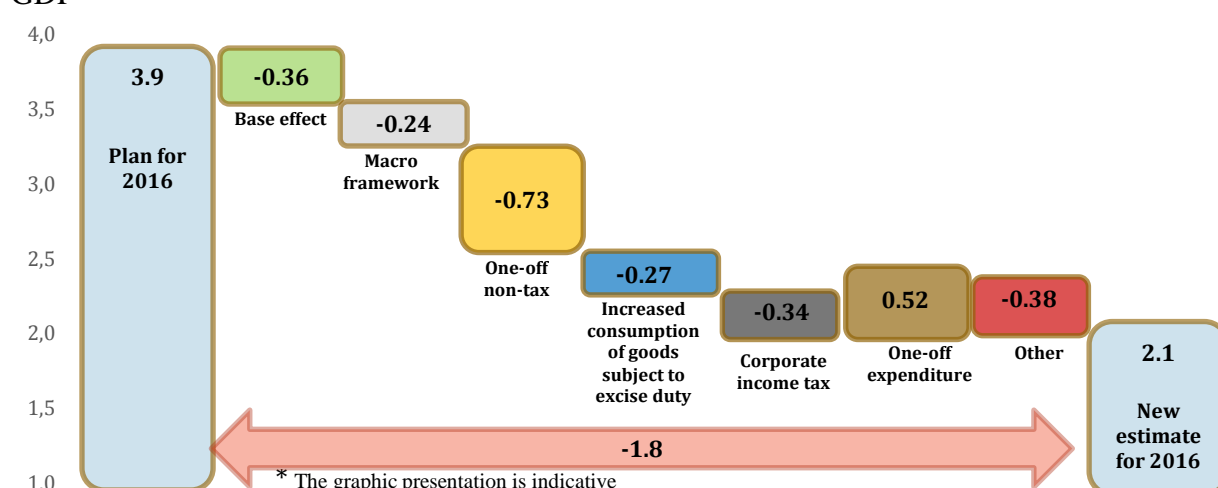
The execution of public investment is significantly better relative to the comparable periods of previous years. The highest increase in capital expenditure was caused by disbursements of project loans used for the construction of road and railway infrastructure, with an intensification of project execution at the local level as well. These are undoubtedly positive developments in public investment execution, because this relates to the construction of Corridors 10 and 11 as well as the rehabilitation of railway infrastructure. This undoubtedly positive trend will enable a mild increase in the share of public investment in GDP, which was at an extremely low level in the previous period.

The factors that contributed to the downward revision of the estimated fiscal deficit in 2016 are classified into the following groups: the base impact (the 2015 outturn), the effects of revised macroeconomic framework, the estimate of one-off non-tax revenue, the trend of excise product consumption, a significantly better corporate income tax collection, etc. The identification of these factors and their impact was made primarily for analytical purposes. The total impact of all identified factors on the 2016 deficit estimate is 1.8%.

Total revenue collected in 2015 was RSD 19 billion higher than the estimate that served as the base for the 2016 plan preparation. Of this amount, RSD 4 billion has no permanent impact on the deficit, so RSD 15 billion or 0.36% of GDP was identified as the base effect that reduced the deficit.

The effect of revised macroeconomic framework on lower fiscal deficit was estimated at 0.24% of GDP. The total effect estimate obtained in this analysis is based on the concept of sensitivity of public revenue to the real GDP growth rate. A stronger growth of economic activity causes primarily an increase in social contributions and personal income tax, but also in other revenue types. Some non-tax revenue types are also under the impact of economic activity level. Macro effects on the VAT trend are slightly lower due to the impact of lower inflation on nominal consumption, but also due to other factors such as credit activity growth, the trend of other types of disposable household income and collection efficiency. In addition, a smaller part of the effect of better macroeconomic framework on the lower share of fiscal deficit in GDP may be attributed to a higher nominal amount of GDP relative to the planned. The other factors that had an impact on the country's better fiscal position include the continuation of increase in the total tax revenue collection efficiency, the trend of the level and pace of VAT refunds relative to the initial plan, a significantly better corporate income tax collection, the payment of extraordinary non-tax revenue and execution underperformance in certain expenditure categories. The factor that will have a negative impact on the 2016 deficit is the assumption of HIP Petrohemija's debt as public debt. The fiscal deficit will also be increased by the payment of bonus to pensioners.

Graph 5. Contribution of individual factors to the deficit adjustment relative to the 2016 plan, % of GDP

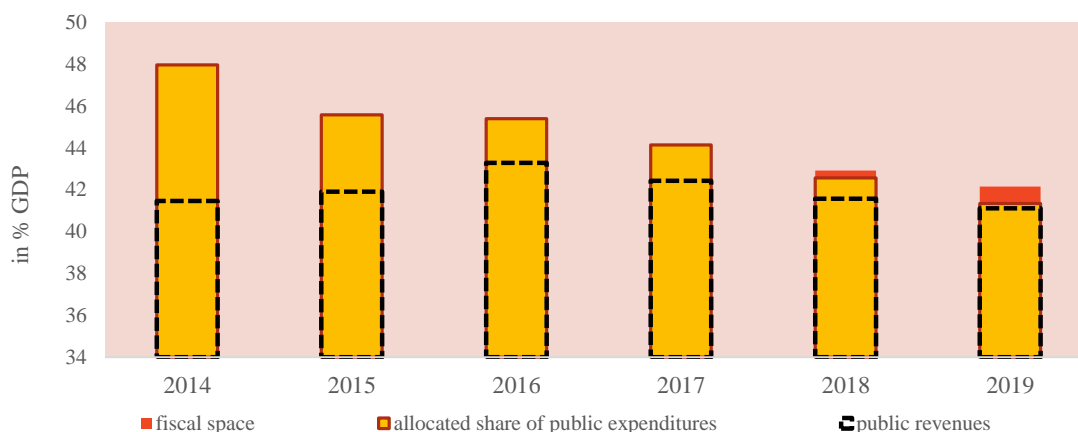


3. Fiscal Projections in the Period from 2017 to 2019

In the following medium-term period, the fiscal policy goals are aimed at further reduction of the fiscal deficit and public debt. The medium-term fiscal framework provides for a decrease in the general government deficit to 1% of GDP by 2019, and in the public debt share to below 70% of GDP. This involves a structural fiscal adjustment of 4.1% of GDP, of which a 2.6% adjustment was achieved already in 2015, and around 1.3% of GDP was achieved in 2016. Structural deficit is a deficit level that does not depend on the economic cycle and excludes one-off revenue and expenditure. Primary outcome, as the difference between the fiscal outcome and net interest payments, exhibits an upward trend and a primary surplus is expected to be recorded as early as 2016. Fiscal aggregate projections in the period from 2017 to 2019 are based on macroeconomic indicator projections for the stated period, planned tax policy which implies further alignment with the EU legislation and directives and corresponding measures on the revenue and expenditure side, including the reforms of large public enterprises.

Owing to fiscal consolidation measures, a fiscal space was created for new policies. Fiscal space is a positive difference between the target deficit and the expected deficit, i.e. the available funds created as the difference between the expected revenue and allocated expenditure. Deficit reduction primarily by adjustment on the expenditure side of the budget and favourable macroeconomic trends that led to better results on the revenue side produced a better-than-expected result. Therefore, the deficit levels in the following period, if the policy remains unchanged, will be below the target deficit, which enables the adoption and implementation of new policies. The fiscal space provides fiscal policy makers with greater freedom in choosing the funds allocation method, considering that they have more options available. The fiscal space may be used on the expenditure side as well as on the revenue side, by decreasing tax rates or abolishing certain levies. However, if the fiscal space is used for early debt repayment or deposit increase, the deficit would decrease further. In the presented medium-term fiscal framework, the fiscal space is presented as an unallocated part of expenditure.

Graph 6. Revenue, expenditure and fiscal space



Fiscal space in 2017 will be used for raising pensions and wages in one segment of the public sector. Excellent fiscal outcome in 2015 and 2016 made a selective wage increase and an across-the-board modest pension increase possible. A wage increase of 3–6% in one segment of the public sector and a 1.5% pension increase will increase the deficit by around 0.4% of GDP. These measures and their sources are designed so as not to jeopardise the intensity of fiscal consolidation and the pace of public debt reduction while, on the other hand, raising the standard of living for a part of the population and stimulating private consumption.

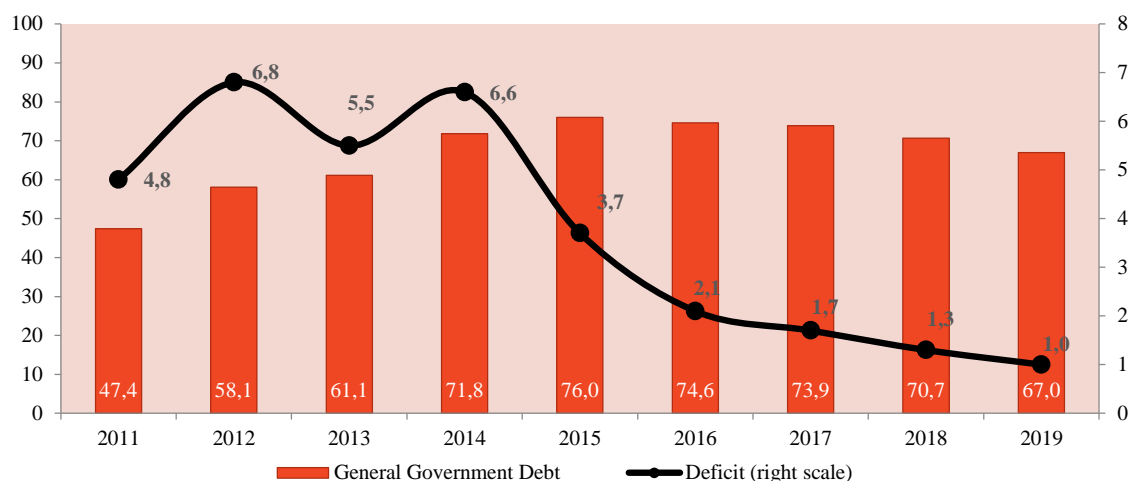
Table 5. Fiscal aggregates in the 2015–2018 period, % of GDP

description	execution	estimate	projection		
	2015	2016	2017	2018	2019
Public revenue	41.9	43.3	42.4	41.6	41.1
Public expenditure	45.6	45.4	44.1	42.9	42.1
<i>of which fiscal space</i>				0.3	0.8
Consolidated fiscal result	-3.7	-2.1	-1.7	-1.3	-1.0
Primary consolidated result	-0.5	1.2	1.4	1.6	1.7
General government debt	76.0	74.6	73.9	70.7	67.0
Real GDP growth rate	0.8%	2.7%	3.0%	3.5%	3.5%

Source: MoF

The public debt path was reversed and the public debt share in GDP started decreasing already in 2016. In the last two years, owing to fiscal and structural measures, debt growth first slowed down, followed by a decrease of the public debt share in GDP in 2016 for the first time. Debt reduction is closely related to the reduction of deficit as the main factor of borrowing, so the pace of deficit reduction determines the change in debt trajectory. It is estimated that, for a long-term debt reduction, the fiscal deficit should optimally be around 1% of GDP, and the lower the long-term deficit level, the faster the reduction of the public debt level. Financial transactions, such as replacing expensive debt with cheaper debt, as well as a better position of the country in the international financial market, will also contribute to further debt reduction.

Graph 7. Debt and Deficit in % of GDP



Consolidation of public finance will continue in 2017. The general government rightsizing process provides for a headcount reduction by five thousand. The process of restructuring public and former socially-owned enterprises will also continue in order to reduce the burden on public finance and the whole economy currently posed by these enterprises. The Local Government Finance Law reallocated the revenue from the wage tax to the central budget in the amount of around RSD 5 billion. In addition to reducing the general government deficit, the aim of this measure is to encourage local governments to improve revenue collection within their jurisdiction, primarily the property tax, and to improve the status of their finances.

A stronger growth of economic activity will cause a recovery of the budget revenue side. In terms of its share in GDP, the total revenue of the government sector, without indirect beneficiaries, has a downward trend, since the growth of nominal GDP outpaces that of revenue. Namely, tax revenue predominantly depends on the movement of private consumption whose growth rate is lower than the projected nominal GDP rate. Higher GDP growth rates in the period 2017–2019 will contribute to a more dynamic tax revenue increase relative to the previous period. Labour market recovery, as well as the growth of disposable household income and private consumption, along with the continuation of fight against informal economy and tax evasion, will be the factors that will cause stronger revenue growth.

Table 6. Total revenue and grants in the 2015–2018 period, % of GDP

description	execution	estimate	projection		
	2015	2016	2017	2018	2019
PUBLIC REVENUE	41.9	43.3	42.4	41.6	41.1
Current revenue	41.7	43.0	42.1	41.3	40.9
Tax revenue	36.2	37.4	37.3	36.7	36.5
Personal income tax	3.6	3.7	3.7	3.7	3.7
Corporate income tax	1.6	1.9	1.8	1.8	1.8
Value added tax	10.3	10.6	10.6	10.4	10.3
Excise duties	5.8	6.3	6.2	6.0	5.7
Customs duties	0.8	0.9	0.9	0.9	0.9
Other tax revenue	1.6	1.5	1.5	1.4	1.3
Contributions	12.5	12.5	12.6	12.6	12.7
Non-tax revenue	5.5	5.6	4.8	4.6	4.4
Grants	0.2	0.2	0.3	0.2	0.2

Source: MoF

The revenue projection for the period from 2017 to 2019 is composed based on:

- current tax policy;
- projections of development of the key macroeconomic indicators: GDP and its components, inflation, foreign exchange rate, foreign trade development, estimates of employment and wage trends in that period;
- estimated effects of remaining fiscal consolidation measures, specifically the public sector rightsizing and the restructuring of public and former socially-owned enterprises.

No significant changes in tax policy or existing tax rates have been envisaged. This ensures higher reliability in revenue estimation, because it always takes certain time for new rates to yield full effect and for tax system players to adjust their conduct. In addition, revenue projection implies maintaining the existing collection level of all structural types of total revenue.

Personal income tax reflects the development of wages and employment in the economy. The personal income tax is projected at around 3.7% of GDP during the entire medium-term period. The projected amounts are in line with the public sector wage policy, planned level of rightsizing in public fund beneficiaries and positive expected development of employment and average wages in the private sector, in line with economic recovery. The predominant type of the personal income tax is the wage tax, so the wage bill and employment trends are the main factors affecting this tax type. The other part of total personal income tax consists of the dividend tax, interest income tax, annual personal income surtax, etc. One of the reasons for the reduction of this category are lower interest income tax revenues caused by a general decline in interest rates and subsequent decline of revenue from savings deposits. The revenue from dividends and other types of personal income tax follows the trend of overall economic activity and wages. A certain level of risk in the collection of the wage tax exists if a nominal private sector wage growth fails to materialise or if it is lower than projected. A key element in this tax category is the fight against informal economy, considering the large number of unregistered workers and direct cash wage payments. Inspections and sanctions were stepped up during 2015 and 2016, which produced significant results in combating informal economy in the area of labour and employment, but it is very important to continue such efforts in this area in the upcoming period as well.

A stable share of mandatory social insurance contributions in GDP is projected for the following medium-term period. The trend of this revenue's share in GDP follows a similar path as the trend of the wage tax's share since the same assumptions on wage and employment trend in the following medium-term period were used in their projections. The only difference lies in contributions collected on the insurance of farmers and sole traders. Contributions are a tax category with the lowest level of tax compliance and the largest taxpayers' debt. Although in the previous period there were significant changes in the rates at which social contributions are calculated and collected (during 2013 the PDI contribution rate was raised from 22% to 24%, with a reduction of the wage tax rate from 12% to 10%, while in 2014 the PDI contribution rate was increased from 24% to 26%, while at the same time the health insurance contribution rate was reduced from 12.3% to 10.3%), in the following period no further rate changes have been envisaged.

Stable revenue from the corporate income tax is projected in the period 2017–2019 (1.8% of GDP). The collection of corporate income tax revenue in the upcoming three-year period will depend on the expected economic recovery, dinar exchange rate stability and the general profitability of businesses. The estimate of this revenue is characterised by high uncertainty due to economic factors, as well as the possibility of using tax credits or refunds. The medium-term projection does not assume major amendments to legal regulations and the precautionary principle caused the projection of future collection of this tax type to be very conservative. This is supported by the fact that the effects of tax benefit abolishment in 2013, due to the existence of a transitional

period of several years, are not included in the projection, so there is a possibility of a higher collection of this tax revenue.

The VAT revenue trend is characterised by a moderate decline of the share in GDP, since private consumption is projected to grow more slowly than nominal GDP. The key factor determining the VAT trend is domestic demand driven by disposable household income. Disposable income as a factor determining consumption depends on the movement of public wages, pensions, social benefits, private sector wage bill and other types of income, including remittances, as well as on the level of bank credit activity towards households. The relaxation of fiscal consolidation measures in the field of public sector wages and pensions will contribute to an increase in disposable household income, but on the other hand, the completion of public sector restructuring and rightsizing process, reducing these effects, is under way. Nominal growth of private sector wages and employment, due to anticipated acceleration of economic activity, trends in remittances and credit activity, will ultimately result in faster nominal growth of private consumption in the following period. However, due to the economy's rebalancing, a gradual decrease in the VAT revenue share in total GDP is projected, from 10.6% of GDP in 2016 to the 10.3% in 2019. Also, the projected exports growth in the following period will result in a VAT refund growth and consequently will affect the level of collected VAT. The risks for VAT projection in the following period are similar as for the personal income tax and relate to the trend in private sector wages, economic growth, as well as the prevalence of informal economy and efficiency of its combating. Additional revenue from measures for combating informal economy is not included in the projection, leaving a possibility for the current revenue estimate to be exceeded.

The results of more efficient collection and taxpayer audit are evident and this trend is expected to continue in the following period, but the effects of fight against informal economy are not explicitly included in the medium-term public revenue projection. The increase in the VAT collection level, in terms of implementing independent anti-evasion measures for the VAT, gave certain results in the previous period. There is room for improvement in this area. Tax administration will be further strengthened through consistent implementation of the Tax Administration Transformation Programme with a view to improving tax collection. It is estimated that an improvement in collection efficiency in the next four-year period would enable an increase in the VAT revenue by 1.8% of GDP.

The projection of excise duty revenue was prepared based on the current excise duty policy and projected consumption of excise products (oil products, tobacco products, alcohol, coffee and electricity). As regards excise policy for tobacco products, in the following medium-term period a gradual alignment with EU directives is envisaged. This implies the adoption of a medium-term plan for gradual increase in excise burden. For cigarettes, it will be reflected in a gradual increase in excise duties, so that within an acceptable period of time the EU minimum of EUR 1.8 per pack would be reached. These changes need to be carefully designed in order to avoid changes in the structure and volume of consumption which would jeopardise budget revenue, but also in order to ensure that they are not contrary to public health policy goals. For precautionary reasons, for the purposes of projecting excise duty revenue, a further decline of the legal market of tobacco products by around 3% annually on average is anticipated in the following period. In the event of continued improvement of conditions in the tobacco product market and reduction of informal economy, there is a certain upside risk relating to the collection of this revenue type.

Unlike tobacco products, the situation in the oil product market is significantly less volatile. Better control and effects of marking oil products and convergence of their prices to the level of prices in the region eliminated the possibility and profitability of illegal activities. In the following years, for the sake of caution, no continuation of increase in oil product consumption is assumed. Private consumption growth and accelerated economic activity can, nevertheless, be expected to contribute to consumption growth, which is already confirmed by excise collection data for 2016. In this case as well, there is an upside risk when it comes to revenue collection, if the trend of oil product market growth continues.

The revenue from excise duties on alcoholic beverages, coffee and electricity is projected in line with the existing consumption structure. The current nominal amounts of excise duties on alcoholic beverages and coffee are harmonised with the expected levels of inflation rate in the medium-term period. During 2015 the ad-valorem excise duty of 7.5% on electricity consumption expressed in monetary terms was introduced. For the period 2017–2019 annual revenue from this excise duty is planned in the amount of around RSD 15 billion, taking into account the current annual consumption and current prices.

The main determinants used to project customs duty revenues are imports and exchange rate developments. Customs revenues in 2016 account for 0.9% of GDP and they can be expected to remain at this level in the future. Taking into account the expected trends of consumption and exchange rate, as well as the completion of the process of customs tariff harmonisation due to the application of the Stabilisation and Association Agreement, a gradual nominal increase in this revenue is planned, while the share of customs duty revenue in GDP is not projected to change in the upcoming period.

The most important tax type among the other tax revenue types is the property tax, whose share is 70% in this tax revenue group. These revenues, consisting of taxes on use, possession and carrying of goods, other types of taxes at the local level, etc., have been projected based on movements in inflation, since the inflation component is built into a considerable part of these tax types. The level of these revenues is relatively stable and reactions to the economic downturn have not been so pronounced. The share of other tax revenue types will stabilise in the following medium-term period.

Non-tax revenue is a very heterogeneous category with individual types exhibiting different trends. The share of non-tax revenues in GDP will be falling over the medium term, after a surge in 2015 and 2016. This surge is a result of the payment related to the public sector wage cuts (public enterprises and local governments), higher revenues from dividends and profits from public enterprises, as well as the introduction of a fee for mandatory oil reserves. The share of non-tax revenue in GDP is projected to decrease from 5.6% of GDP in 2016 to 4.4% in 2019. The reasons for the decline in the projected share in the upcoming period include the exclusion from the base year (2016) of all those revenues that are not considered structural, i.e. recurring. This primarily refers to extraordinary non-tax revenues. Certain non-tax revenues are indexed to actual inflation in the previous year, others are linked to changes in the value of the bases to which they are applied and hence they are adjusted for inflation projections, while a portion is related to one-off payments into the budget (extraordinary non-tax revenues). Recurring non-tax revenues include various fees, charges, fines, revenues of government bodies and organisations and all other revenues collected according to the standard schedule over the year, in more or less similar amounts on a monthly basis with some seasonal variations. Extraordinary non-tax revenues include mainly one-off revenues, which are uncertain to a certain degree, both in terms of their amount and in terms of the timing of payments. Payments of profits of public enterprises and agencies, dividends belonging to the budget, revenues from receivables collected by the Deposit Insurance Agency, share premiums, etc., account for the bulk of these revenues.

As the country's EU membership process progresses, the amount of available IPA funds is going up, so these funds make up the predominant portion of grant revenue. The projected amounts of grants include the funds from the EU sectoral budget support.

A restrictive fiscal policy combined with good macroeconomic performance has led to the creation of fiscal space in the period 2017–2019, which may be used, inter alia, for new policies on the expenditure side. The main element of fiscal consolidation was the adjustment of the expenditure side. Most of the adjustment is related to personnel expenditure and pensions since these two items account for more than 50% of total expenditure. Good consolidation results are also reflected in the decrease of interest expenditure due to reduced borrowing requirements. Furthermore, the completion of the restructuring process of socially-owned enterprises, the resolution of inefficient public enterprises and financial sector stabilisation are supposed to

contribute to the lowering of expenditures. It would certainly be important to use a portion of available funds for increasing capital investment as a key component of economic development.

Fiscal trends in the past two years and the outlook for the following period allow a change in the expenditure structure in favour of the developmental component of the budget, primarily an increase in capital expenses. The expenditure structure is currently unfavourable, considering that its significant portion consists of the liabilities arising from inefficient operation of public sector segments, such as subsidies and guarantee repayments, high interest, while capital investment execution is insufficient. Social component of the budget can be improved by better social benefit programme targeting and higher allocation for health care and education. Wages and pensions will be stabilised by 2019 in terms of their share in GDP, which will be yet another factor that will enable a more equitable income reallocation, with a reduction of pressure on public finance.

Table 7. Total expenditure in the 2015–2019 period, % of GDP

description	execution	estimate	projection		
	2015	2016	2017	2018	2019
PUBLIC EXPENDITURE	45.6	45.4	44.1	42.9	42.1
Current expenditure	41.9	41.3	40.0	38.5	37.4
Personnel expenditure	10.4	10.1	9.9	9.3	9.2
Purchases of goods and services	6.4	6.8	6.8	6.8	6.8
Interest payment	3.2	3.3	3.1	3.0	2.7
Subsidies	3.3	2.9	2.4	2.3	2.2
Social assistance and transfers	17.6	17.0	16.5	15.8	15.4
<i>of which pensions</i>	<i>12.2</i>	<i>11.8</i>	<i>11.6</i>	<i>11.1</i>	<i>10.8</i>
Other current expenditures	1.1	1.2	1.2	1.2	1.2
Capital expenditure	2.8	3.1	3.3	3.5	3.6
Net lending	0.1	0.1	0.1	0.1	0.1
Guarantee repayment	0.7	0.9	0.8	0.5	0.3
Fiscal space	0.0	0.0	0.0	0.3	0.8

Source: MoF

Wage reduction, hiring freeze and public sector rightsizing are measures that have contributed the most to lowering expenditures and to the success of fiscal consolidation. Implementation of these measures brought about a decrease in the share of wages in GDP from about 12% in 2014 to 10% in 2016, and also in the coming period to almost 9% of GDP. The Budget System Law envisages lowering the level of wages to 7% of GDP, however, it seems that the thus targeted level of wages is set quite low. The average level of general government wages in the EU is about 10% of GDP, and the lowest 8%; therefore, for Serbia the adequate share of wages in GDP is 9-9.5%, which would already be achieved in 2018.

Redundancies and unfavourable employee structure are long-standing problems causing inefficiencies in the public sector and placing a burden on the entire economy. The initial plan for public sector rightsizing envisaged reducing the number of workers by 75,000 by 2017. Following extensive analyses of the number and structure of workers in each of the public sector segments, the plan was revised to a workforce reduction by 25,000-30,000. The latest data point to a reduction in the number of workers by around 22,000 relative to the end of 2014, and for 2017 the plan is to reduce the number of employees by another about 5,000. For 2018, no further staff reductions are envisaged, but there will be carry over effects of the 2017 rightsizing exercise. During 2016 a comprehensive remuneration system reform was initiated with a view to ensuring fairness and reducing differences between public sector workers, but it is not expected to have a significant effect on the total wage bill. The supporting regulations governing this area are expected to be adopted by the end of 2017. Wages of workers in certain parts of the public sector will be increased by 3–6% in 2017. This concerns workers in health care, education, the military,

police, culture and some workers in the judicial system. The effect of this measure on the general government deficit increase is about 0.2% of GDP.

The share of expenditures for goods and services has for years ranged from 6.3% to 6.8% of GDP. In 2016 the high level of these expenditures was a result of methodological changes at the local government level expanding the coverage for some revenues and associated expenditures. The share of this category of expenditure is projected to stabilise at 6.8% of GDP by 2019. The achievement of this goal will also be facilitated by the new Local Government Finance Law, which is expected to bring about the largest savings precisely in this expenditure item, starting from 2017.

Reducing interest expenditure is one of the best indicators of the success of fiscal consolidation. As a consequence of an extremely high public debt level and high fiscal deficits, interest has become one of the most important expenditure items, and definitely the fastest growing item. The level of interest is expected to peak this year, followed by a progressive decline of its share in GDP. In 2019 the level of interest expenditure will fall below 3% of GDP. Good results in 2015 and 2016, in terms of lower deficits, reduced borrowing requirements. There was a reversal in the movement of interest rates so a nominal reduction of interest expenditure can also be expected already in 2017. Improving Serbia's position in the international financial market will lead to a further interest reduction.

Social assistance and transfers to households present the largest category of the general government budget. Cuts in the amounts of pensions and pension system reform made a significant contribution to the lowering of the pension expenditure-to-GDP ratio. Their share in GDP is set to fall from 13% in 2014 to 10.8% in 2019. In addition to the nominal pension cuts, the absence of indexation and amendments to the pension system adopted in 2014 also contributed to such a trend. In 2016 pensions were increased by 1.25%, and in 2017 they will be 1.5% higher. The effect of increasing pensions in 2017 amounts to around 0.2% of GDP. From 2018 pensions will be indexed in accordance with the Budget System Law. According to this law, pensions should be at the level of 11% of GDP which is confirmed by this fiscal framework as well. Other forms of social benefits and transfers to households in the coming period will be adjusted by applying the prescribed indexation, current and planned policy changes in this area, and to the projected number of beneficiaries. During 2015 and 2016 spending on certain types of social assistance increased due to the implementation of fiscal consolidation measures. This refers to severance pay, higher unemployment benefits and potentially higher pension expenditure. Funds have been earmarked for these purposes in 2017 as well. The share of expenditure on social benefits is falling from 17.6% of GDP in 2015 to 15.4% in 2019.

Fiscal adjustment in the observed period will be implemented for the most part by cutting back on subsidies. In 2016 the subsidies for land areas covering more than 20 hectares, as well as state-owned land that has been leased were abolished. In the coming three-year period cuts have been envisaged in subsidies to Železnice Srbije a.d. (JSC Serbian Railways), Infrastruktura železnice Srbije a.d. (JSC Serbian Railway Infrastructure) and Srbija Voz a.d. (JSC Serbia Train) based on restructuring and rightsizing these companies. In 2017 a number of mines operating as part of JP PEU Resavica are expected to be closed down, leading to a reduction in the number of the company's workers. In 2017 this company will receive subsidies in the amount of RSD 5.1 billion, of which RSD 0.6 billion are related to the costs of closing down the mines. After that, there will be a reduction in the amount of subsidies, and should an adequate solution for the company be found, a complete scrapping of its subsidies as well. Bearing in mind the process of restructuring public and former socially-owned enterprises, subsidies will be cut on those grounds as well. Reducing subsidies supporting inefficient segments of the public sector would enable an increase in those subsidies which provide proper stimulus to the economy and which would lead to an acceleration of economic activities.

Category of other current expenditures includes miscellaneous outlays, such as grants to NGOs, political parties, religious and sports organizations, penalties, compensation of damages, etc. In the previous period, the level of this category was around 1% of GDP, and only in 2014 the

share of these expenditures in GDP increased to 1.4% due to compensation for damages caused by catastrophic floods. The effects of the Local Government Finance Law should be felt to a larger extent in this expenditure category as well. By 2019 these expenditures will be at the level of 1.2% of GDP.

Capital investments are an expenditure category that has the largest impact on economic activity and present a priority area. The share of capital investments in GDP which in the previous period was around 3% is considered to be insufficient and an increase to at least 4% is desirable. By reducing the government sector's current spending, fiscal space has been created that would have to be used in part to increase investments. Capital expenditures suffer from inefficient and insufficient use of funding from contracted international loans that are not disbursed to a sufficient extent. The most significant infrastructure works are on Corridors 10 and 11 which are mostly financed from international loans. By using part of the fiscal space for capital investments, their level could be even higher than 3.6% of GDP, the amount currently envisaged for 2019.

Loans from the budget constitute funds provided mostly for the purpose of ensuring liquidity and recapitalization of state-owned enterprises and banks. These expenditures increased in particular in the period from 2012 to 2014 for the purpose of resolving the issue of state-owned banks. The assumption of the JAT air carrier's debt and the provision of liquidity to JP Srbijagas should also be added here. The novelty in 2017 are expenditures for current liquidity of RTB Bor in the amount of RSD 2 billion. Since no new problems are expected in the banking sector and given that one of the priorities in the upcoming period is the reform of public enterprises, these expenditures are expected to stabilize at 0.05% of GDP.

Payments under issued guarantees and payments under guarantees for commercial transactions are liabilities arising from debts of public enterprises assumed by the central budget, since these companies were unable to honour them on their own. These expenditures present a major burden for the budget bearing in mind the longstanding inefficient operation of a large number of state-owned enterprises and companies. The largest outlays on this basis refer to JP Srbijagas, Železnice Srbije (Serbian Railways), Železara Smederevo (Smederevo Steel Mill), JAT and Galenika. It is worth noting that significant payments on this basis are also made for JP Putevi Srbije (PE Roads of Serbia), but these outlays are classified as standard debt repayment bearing in mind that this company constitutes part of general government. As in the case of loans from the budget, these expenditures will also be reduced if the problems of inefficiencies in public enterprises are resolved in an appropriate manner. The repayment plan envisages a significant reduction already in 2017, while in 2019 these expenditures will amount to only about 0.3% of GDP.

Reforms Aimed at Decreasing Various Forms of Budget Support

Cuts in budget support to public and state-owned enterprises imply: a) constraints on direct and indirect subsidies, b) strict restriction on the issuance of guarantees for new loans, and c) strengthening of accountability and transparency in the operation of these enterprises.

With the start of the fiscal consolidation process, reforms have been initiated that relate to three large groups of public and state-owned enterprises. The first group of enterprises includes those in the portfolio of the former Privatisation Agency, whose status will be resolved either through bankruptcy or privatisation. In this way a solution for 330 companies was found by the end of 2016. Severance pay was received by 24,474 workers. For 172 companies that employ around 45,000 workers, among which there are also companies of strategic importance such as PKB, RTB Bor, JP PEU Resavica, Petrohemija and others, a solution is still pending, whether through a pre-pack or regular bankruptcy procedure, in accordance with law.

Those companies for which finding strategic partners is planned and for which continued operations would be ensured through different forms of concessions could be classified in the second group of companies. For Komercijalna Banka, the second largest bank in Serbia, a

privatization advisor has been chosen, in order to implement the privatization procedure during 2017. The privatisation of Železara Smederevo was completed in June 2016, ensuring its operation without budget support in the future and preventing further debt accumulation. At the same time, consulting firms have been hired to explore the options of granting concessions for Aerodrom Nikola Tesla (Belgrade Nikola Tesla Airport) and the continued construction of Corridor 11.

The third group of companies comprises public and state-owned enterprises in the sectors of energy, rail transport and road infrastructure:

- 1) In cooperation with the World Bank, and in accordance with the obligations of the Republic of Serbia undertaken towards the IMF, the Government adopted the Financial Consolidation Plan of PE EPS in June 2015, as top secret, defining guidelines and measures to resolve problems in order to improve the profitability of the enterprise, to be able to respond to market challenges both with quality, as well as price, through the rationalization of business, new investments and the resolution of financial problems.

The above plan defines activities aimed at increasing revenues, namely: achieving a market price of electricity for guaranteed supply and improvement of collection, activities aimed at reducing cost through the rationalization of the number of employees, reduction of losses in electricity, optimization of the use of the production capacities of PE EPS and improvement of operational and organizational efficiency.

Regarding the achievement of market price of electricity for guaranteed supply, as part of the approved First programme loan for development policy in the field of public expenditures and public enterprises by the International Bank for Reconstruction and Development in the field of electricity, the loan recipient committed to gradually approximating the price of electricity to the market price. The ancillary programme to this loan does not define the percentage of increase, defining instead that increases to the price of electricity would occur following additional analyses based on the achieved progress of other measures being applied, as well as based on regional electricity prices. Likewise, the programme defines that this increase will occur if there is need, i.e. based on the first report on the need to further regulate the price of electricity for guaranteed supply, to be drafted by the Agency for Energy of the Republic of Serbia by 1 May 2017.

Regarding the rationalization of the number of employees, PE EPS, acting upon the Decision on the incentive reimbursement for the voluntary termination of employment no. 12.01.345129/4-16 of 1 September 2016 and the Decision on the amendments to the Decision on the incentive reimbursement for the voluntary termination of employment no. 12.01.393407/3-16 of 30 September 2016, implemented the procedure of voluntary termination of employment with payment of incentive reimbursements.

Based on the above decisions, employees interested in a voluntary termination of employment could apply by 30 September 2016, i.e. by 14 October 2016. Concluding with 30 December 2016, a termination of employment with payment of incentive reimbursements has been signed by 1,517 employees.

Over 3 billion dinars have been paid on the basis of incentive reimbursements at the level of the EPS group, with 655 million dinars paid based on regular severance pay based on the Collective Contract. The total cost of the procedure for voluntary termination of employment is within the planned funds envisaged by the GPP for 2016, and amount to just over RSD 3.7 billion.

The reduction of the number of employees for the 2017-2019 period will be implemented in accordance with the Financial Consolidation Plan and Plan for the Optimization of the Number of Employees of PE EPS. By the end of the first half of 2017, the Serbian Electric Power Industry is to be transformed into a joint-stock company, while considering other possibilities for the continued development of the company with the aim of improving company performance and providing professional management.

- 2) JP Srbijagas. From August 2015 the organisational structure of the company has been altered establishing special units in charge of gas transport and distribution. The plan envisaging the sale of non-core assets is being implemented, with continued efforts to resolve the issue of the largest debtors, including of the following companies: HIP Azotara, HI Petrohemija and MSK Kikinda. Following the adoption of the Financial Restructuring Plan in March 2016, which was prepared with the support of the World Bank, there was an improvement in debt collection. During 2016 a debt restructuring plan was prepared in order to reduce interest expenses and debt stock. Measures were implemented to avoid debt-equity swaps in the future, improve debt collection, evaluate existing and future investment plans in collaboration with the World Bank. The aim of these measures is to stem a further deterioration of the financial situation of JP Srbijagas and eliminate the need for additional state aid in accordance with the fiscal framework, and the legal obligation undertaken under the Treaty establishing the Energy Community and an obligation significant for achieving a full harmonization with the Third Energy Package in the context of negotiations on the accession of the Republic of Serbia to the EU.
- 3) In line with the EU countries' experience, three new companies have been spun off from Železnice Srbije a.d. (JSC Serbian Railways) in August 2015: Srbija voz a.d. (JSC Serbia Train), Infrastruktura železnice Srbije a.d. (JSC Serbian Railway Infrastructure) and Srbija kargo a.d. (JSC Serbia Cargo). The cargo transport division (Srbija Kargo a.d.) does not receive subsidies from the budget and operates on market principles as of August 2015. In January 2016, a fee for the use of railway infrastructure was introduced, as part of the opening of the rail transport market, and in June 2016, the first private railway operator got a licence to use the public railway infrastructure route. The reorganisation and improvement of business plans of Srbijavoz a.d., Infrastruktura železnice Srbije a.d. and Železnice Srbije a.d. will also continue with the aim of strict limitation of state aid in the medium term. The plans defining rightsizing by 2020 were adopted by the railway companies in September 2016, and they involve downsizing by around 3,000 employees in 2016, including attrition. In October 2016, a decision was made on the termination of transport on the lines that were out of service or identified as unprofitable, which would have a significant impact on the company's financial performance. The newly formed companies took over full responsibility for the payment of their liabilities to JP EPS, which also involves no default increase in payments to JP EPS. The change in status represents an obligation aimed at harmonizing national regulations with EU regulations in the context of negotiations on the accession of the Republic of Serbia to the EU.
- 4) *JP Putevi Srbije (PE Roads of Serbia)*. With the aim of ensuring adequate infrastructure maintenance, the road toll increased by ten per cent as of 7 January 2017. Further toll increases will take place in stages, and an estimate of adequate rates will be prepared in cooperation with the World Bank. A plan was adopted on improving road maintenance contracts and removing administrative obstacles. The objective is to make savings and boost the efficiency of the system thus reducing the need for subsidies from the budget. Options will be considered for the construction and maintenance of roads through concessions. Corporate and financial restructuring plans will also be developed in cooperation with the World Bank.

Given the amount of the payments for called guarantees and their impact on the deficit, the government has limited the issuance of new guarantees to state-owned enterprises since the beginning of 2015. Issuing guarantees for liquidity loans has been suspended entirely. The option to issue guarantees was only kept for capital project loans, while adhering to the limit set by the public debt sustainability objective.

4. Cyclically Adjusted Fiscal Balance

The cyclically adjusted fiscal balance is the fiscal balance from which the isolated impact of the business cycle has been removed, and the baseline identity is the following¹⁵:

$$B = CB + CAB$$

A part of the fiscal balance (B) that automatically adjusts to cyclical fluctuations is called cyclically adjusted fiscal balance (CAB), and the purpose of the procedure is to isolate the cyclical component of the fiscal balance (CB), which is a result of the output gap. The actual fiscal balance will be equal to the cyclically adjusted one if the output gap equals zero, i.e. if the real GDP growth rate equals the potential one.

The OECD approach was used to estimate the cyclically adjusted deficit, namely the disaggregated approach, which implies the estimate of elasticity of individual cyclically sensitive revenue and expenditure categories. The analysis also includes an estimate of structural primary balance, which is obtained by adjusting the cyclically adjusted primary balance for revenue and expenditure assessed as one-off and non-structural.¹⁶ The obtained results and their interpretation depend a lot on the length of the time series used in the econometric estimate of elasticity, on the reliability of statistical data, the existence of structural breaks in the series, changes in the methodology and coverage. Various tools for the estimate of output gap, theoretical methods (Cobb-Douglas production function) and different econometric filters (Hodrick-Prescott, Band-Pass, Kalman etc.) are used in practice. The selection of particular method depends on data availability, quality and series length etc. Each of the above-mentioned methods can produce different results to a smaller or greater extent, both in terms of the output gap size and schedule and in terms of its being positive or negative. In any case, output gap is not a value that can be calculated objectively, but only estimated, while for a correct analysis the postulates of economic theory and available information on economic trends should be used in addition to the above-mentioned methods. The estimate of cyclical fiscal outcome is therefore under a great influence of the selection of methods and manners of output gap estimate. Nevertheless, cyclically adjusted fiscal balance is an indispensable tool in the economic analysis and estimate of the country's permanent fiscal position. The output gap obtained by applying the Hodrick-Prescott filter was used for the purposes of this analysis.

Cyclically adjusted or structural fiscal outcome is the best measure of the country's total fiscal position estimate. The impact of cycles on fiscal trends cannot be excluded completely, and, as was mentioned, each of the methods applied for estimating the output gap produces slightly different results. However, this is the only way of determining how the tax system and expenditure policy permanently impact the country's fiscal position. The cycle analysis provides an opportunity of an objective observation of the country's current fiscal position and enables the economic policy makers to react on time.

The primary fiscal balance excludes interest expenditure as a form of unproductive expenditure without any impact on the trends in the real sector, and the trend of cyclically adjusted primary balance is used for assessing the fiscal policy character. The size of interest expenditure in practice often has a countercyclical effect due to the effect of crowding out the private sector from the capital market. The fiscal impulse was obtained as a difference between the cyclically adjusted primary balances in the current year and previous year. Furthermore, a positive (plus) sign denotes an expansionary fiscal stance while a negative (minus) sign denotes a restrictive fiscal stance. In the graph entitled Nature and Effects of Fiscal Policy in the Period 2006–2019 periods of expansionary and restrictive fiscal policy, as well as the size of the impulse as such, can be

¹⁵ A detailed description of the used methodology and the results can be found in the Fiscal Strategy for 2013 with projections for 2014 and 2015 or at <http://www.mfin.gov.rs/pages/article.php?id=8626>

¹⁶ This method of analysis is still in its infancy and in cooperation with relevant national and international institutions the estimate of levels of one-off revenues and expenditures will certainly be modified.

observed. The fiscal impulse is the relative change in the balance, and is aimed at analysing the effects of fiscal policy on the output gap developments and the assessment of fiscal multipliers.

Table 8. Fiscal Balance and Components for Calculation of the Cyclically Adjusted Balance in the Period 2005–2018, in % of GDP*

* For the period 2016- 2019 the table presents projected values.

	Output gap	Fiscal balance	Primary fiscal balance	Cyclical component of the fiscal balance	Cyclically adjusted fiscal balance	Cyclically adjusted primary fiscal balance	Structural primary fiscal balance **	Fiscal policy nature - fiscal impulse
2005	0.2	1.1	2.0	0.1	1.0	1.9	2.2	
2006	-0.1	-1.5	-0.2	0.0	-1.5	-0.1	0.6	2.0
2007	1.5	-1.9	-1.3	0.5	-2.5	-1.9	-1.5	1.8
2008	3.9	-2.6	-2.1	1.5	-4.1	-3.5	-3.6	1.6
2009	-0.9	-4.4	-3.8	-0.3	-4.1	-3.4	-3.5	-0.1
2010	-1.0	-4.6	-3.6	-0.4	-4.2	-3.2	-3.3	-0.2
2011	0.1	-4.8	-3.6	0.0	-4.8	-3.6	-3.8	0.4
2012	-1.0	-6.8	-5.0	-0.4	-6.5	-4.6	-4.6	1.0
2013	1.3	-5.5	-3.1	0.5	-6.0	-3.6	-3.4	-1.0
2014	-1.1	-6.6	-3.7	-0.4	-6.2	-3.3	-2.3	-0.4
2015	-1.4	-3.7	-0.5	-0.5	-3.2	0.0	0.4	-3.3
2016	-0.5	-2.1	1.2	-0.2	-1.9	1.4	1.6	-1.4
2017	-0.2	-1.7	1.4	-0.1	-1.6	1.5	1.6	-0.1
2018	0.2	-1.3	1.7	0.1	-1.4	1.6	1.6	-0.1
2019	0.4	-1.0	1.7	0.1	-1.1	1.6	1.6	0.0

** The structural primary balance obtained by excluding the estimated one-off revenues and expenditure. The results showing the change in the structural primary deficit do not exclude explicitly the effects of increase in the efficiency of revenue collection, and therefore the estimate of structural adjustment in 2015 and 2016 differs partially from the previously shown effects.

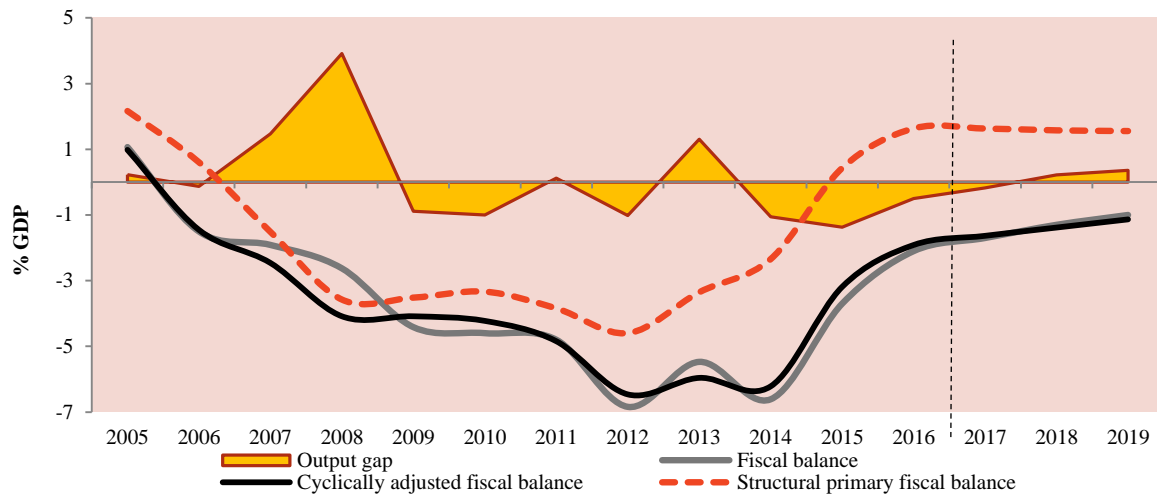
Source: MoF

The positive effect of the economic cycle is evident in 2007, 2008 and 2013, where there are positive output gaps. The effect of the cycle is such that it leads to a fiscal result that is better than it would have been had the economy been on the path of potential growth¹⁷. Conversely, in the period of the most severe crisis, from 2009 to 2012, the impact of the cycle was negative, the output gap reached negative values, and the actual fiscal deficit was higher than the cyclically adjusted one. In 2014 and 2015 the output gap reached relatively high negative values, to be subsequently reduced and closed after 2017.

The cyclically adjusted primary deficit has been decreasing since 2012. In 2015, the fiscal balance reached its lowest value in the last several years and a primary surplus will be finally recorded in 2016. Structural changes in the tax and expenditure systems during 2012 and 2013 started to produce results, and the fiscal consolidation process effectively began at that time. The fiscal consolidation measures adopted during 2015 significantly improved the country's fiscal position. After including into the analysis the structural primary balance it is possible to identify, first and foremost, one-off effects on the expenditure side although one-off effects on the revenue side are not insignificant either in certain years. The thus assessed structural primary balance is an efficient tool for a final assessment of the fiscal position, especially for the period 2014–2016, when the fiscal position significantly improved.

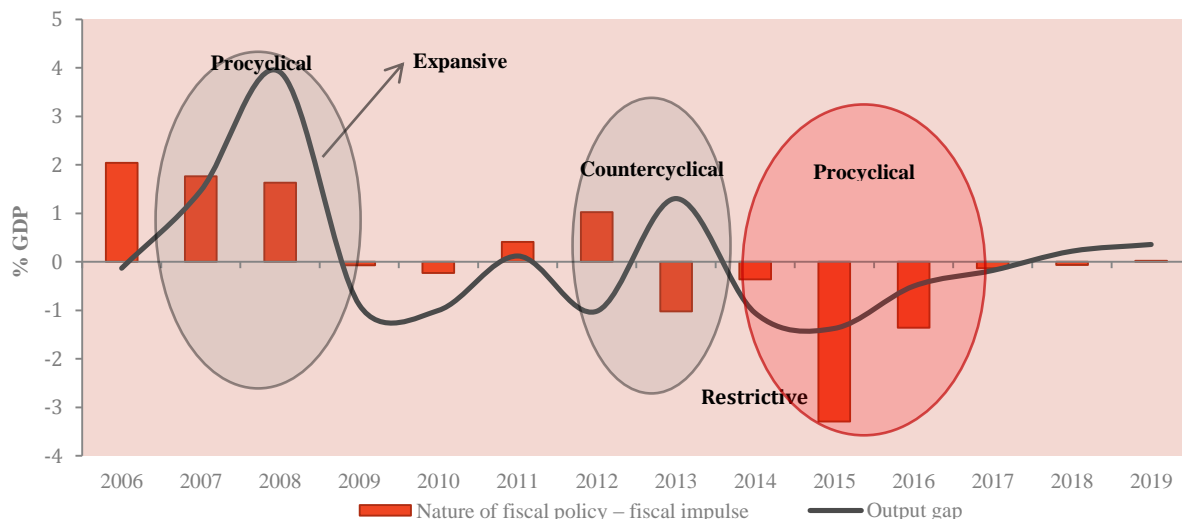
¹⁷ By including the output gap, the effect of fiscal policy in terms of its procyclical or countercyclical nature can be assessed. Procyclical policy is characterised by the presence of expansionary fiscal policy in the periods of growth above the potential one (or restrictive policy amidst recession), while the opposite applies to countercyclical policy. As a result of procyclical fiscal policy, changes in public expenditures follow the nominal GDP trend. Cyclically designed revenue growth component is then used either for the reduction of tax burden or in most cases for expenditure increase, primarily for the purpose of reducing the fiscal deficit.

Graph 8. Output gap, real, cyclically adjusted, structural fiscal balance in the period 2005–2019, % of GDP



*Projected values are shown for the period 2017 – 2019.

Graph 9. Character and effects of fiscal policy in the period 2006–2019*

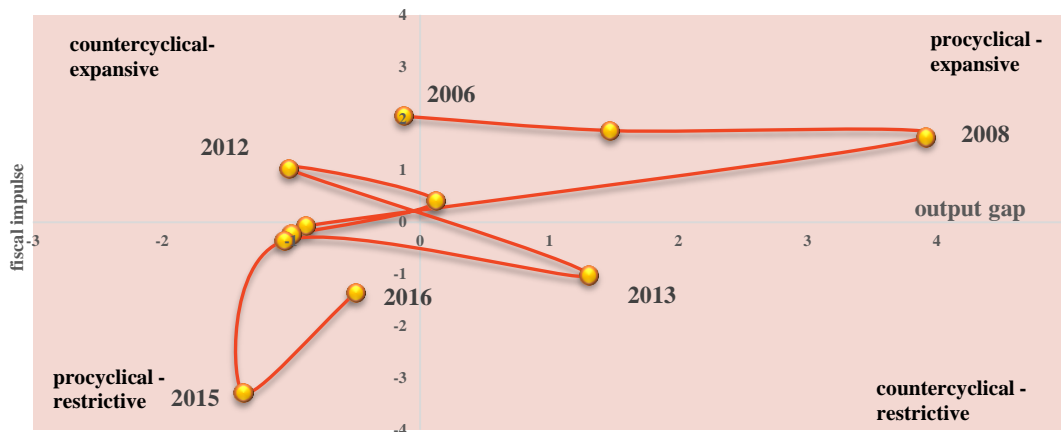


* For the period 2016- 2019 the table presents projected values.

Countercyclical policy was pursued in 2012, during the crisis, bearing in mind the relatively expansionary fiscal policy against the backdrop of a high negative output gap and vice versa in 2013¹⁸. At first sight, the economic logic causes such behaviour, although it is mainly a consequence of the structure of the tax and public expenditures systems, i.e. influenced by the operation of automatic stabilizers. Nevertheless, if expansionary policy fails to result in growth acceleration, and when fiscal policy measures alone cannot eliminate structural reasons for the existence of a negative output gap, both the actual and the cyclically adjusted balance deepen and public debt enters a stage of expansion. This is common in the situations where the values of fiscal multipliers are low, as is the case in Serbia.

¹⁸ In 2013, growth was higher than the potential one, primarily as a result of the opening of new capacities in the automotive and oil industries. That year was also characterized by the intention to make bigger savings on the expenditure side, due to underperformance on the revenue side, so the actual and the primary deficit narrowed.

Graph 10. Nature and effects of fiscal policy in the period 2006–2016



The measures adopted in the previous period, as well as the fiscal consolidation measures implemented during 2015, caused a structural improvement in the country's fiscal position. The negative fiscal impulse in 2016 was partly mitigated by the relaxation of the fiscal policy in the form of increasing pensions and some public sector wages. In the period 2016–2019, the effects of the public sector reform, the completion of the restructuring process and the elimination of some subsidies will result in permanent savings on the expenditure side. At the same time, space is opening for further relaxation of fiscal policy first on the expenditure side and then on the revenue side as well.

The negative output gap did not prevent successful implementation of fiscal consolidation in the period 2014–2016. Certain internal and external factors weakened the effects of fiscal consolidation. The following are among the most important factors: 1) significant improvement in the efficiency of tax revenue collection, 2) collection of one-off non-tax revenues that largely set off allocations for one-off expenditures, 3) favourable international environment (oil price, economic growth of foreign trade partners, ECB policy), 4) accommodating monetary policy of the NBS, and 5) relatively low values of fiscal multipliers.

The fiscal impulse was virtually neutral in the period 2017–2019. A certain minimal level of restrictiveness comes from the improvement in the collection efficiency at the central and local levels. The convergence of actual growth rates to the potential level mitigates the need for restrictive fiscal policy to a certain degree. In the context of stabilization of the public debt level, the effects of austerity measures in the observed period lead to its stagnation and a slight decrease, but for a serious reduction in the public debt-to-GDP ratio the achieved effects of fiscal consolidation measures need to be sustained beyond 2018. Real GDP growth above the potential one over the longer term would facilitate the process

5. Public Debt Management

In line with international practice and under the Law on Public Debt (Official Gazette of RS, nos. 61/05, 107/09, 78/11 and 68/15), the Ministry of Finance of the Republic of Serbia - Public Debt Administration prepares a Public Debt Management Strategy for the upcoming medium term. The public debt management strategy should be supported, and consistent with, the overall medium-term macroeconomic framework of the Government, and it constitutes an integral part of the Fiscal Strategy.

The Public Debt Management Strategy is based on the principles defining the need for a transparent and predictable borrowing process, while constantly developing the market for government securities, and an acceptable level of exposure to financial risks.

At end-November 2016, the stock of total general government public debt was RSD 3,089.1 billion, or 73.5% of GDP. Of this amount, direct liabilities amounted to RSD 2,773.4 billion, indirect liabilities to RSD 270.6 billion, RSD 44.2 billion was related to non-guaranteed debt of local government units, and RSD 0.9 billion to non-guaranteed debt of PE Roads of Serbia. Domestic direct liabilities amounted to RSD 1,090.9 billion, while external direct liabilities were RSD 1,682.5 billion. As for indirect liabilities, the domestic debt was RSD 49.8 billion, while external debt amounted to RSD 220.8 billion. When the central government total public debt is divided into internal and external public debt, their amounts were RSD 1,140.7 billion and RSD 1,903.3 billion, respectively.

According to the data as of 30 November 2016, the bulk of the Republic of Serbia's public debt is still denominated in the euro, which accounts for 40.4%. The next prevalent currency in the structure of public debt is the US dollar with a share of 33.7%, followed by the dinar with a share of 21.1%. The rest of the debt is denominated in special drawing rights - 3.7% and other currencies - 1.1%. The interest rate on the largest portion of the Republic of Serbia's public debt of 79.0% is fixed, while the variable interest rate is applicable to 21.0% of total public debt. Most of the public debt at variable interest rates is linked to Euribor and Libor, on the euro, and this type of debt accounts for 69.1% of the total public debt at variable interest rates; liabilities linked to the key policy rate of the National Bank of Serbia account for 5.8%; liabilities linked to Libor on the US dollar account for 11.8%, while other liabilities linked to other types of variable interest rates account for 13.3% (for the most part, to the variable interest rate on SDRs).

Having in mind the projected primary deficit of the Republic of Serbia's budget for 2016-2019, including the amount of project financing loan proceeds to be disbursed, the effects of changes in the exchange rate of the dinar against the euro and the US dollar in the baseline macroeconomic scenario, the stock of central government debt should stand at 65.9% of GDP at end-2019, while the stock of general government debt should amount to 67.0% of GDP.

Table 9. Baseline Projection of the General Government Public Debt Stock by 2019

	2016p	2017p	2018p	2019p
GDP, in billions of RSD	4,203.5	4,396.7	4,678.1	4,987.5
Primary surplus (central government), in billions of RSD	54.6	64.9	83.1	91.9
Interest (central government), in billions of RSD	129.0	134.0	132.5	127.7
Public debt (central government), in billions of RSD	3,089.2	3,201.8	3,256.4	3,287.2
Central government debt, in % of GDP	73.5	72.8	69.6	65.9
Non-guaranteed debt of local government, in % of GDP	1.1	1.1	1.1	1.1
General government debt, in % of GDP	74.6	73.9	70.7	67.0

Source: MoF and the Public Debt Administration

Local government debt is projected to remain at the relative level of around 1.1% of GDP in the coming period. The stock of general government public debt expressed according to the Maastricht criteria should be at the level of 61.2% of GDP at the end of 2019.

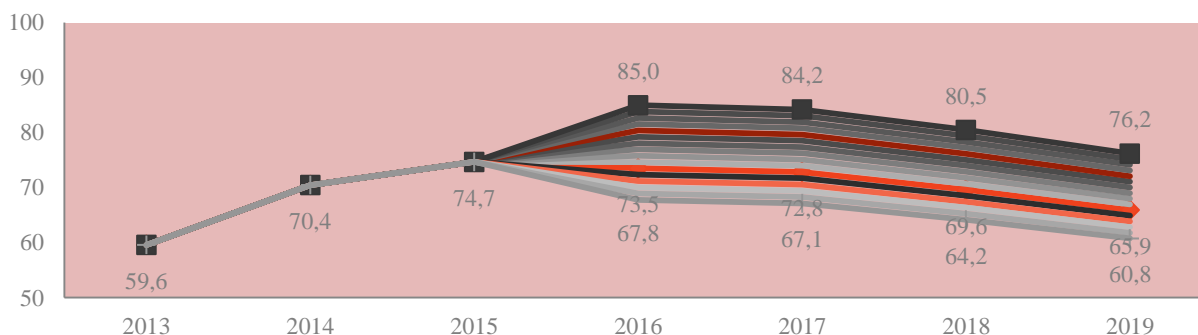
In cooperation with World Bank experts, the Public Debt Administration has prepared an analysis of the costs and risks of alternative borrowing strategies, by using the World Bank model (Medium Term Debt Strategy Model – MTDS), with a view to optimizing the portfolio and improving the efficiency of public debt management. By using the MTDS model, the baseline scenario and three alternative scenarios have been analysed (four analysed strategies), while also taking into account shocks on the interest rate side and the exchange rate side (sensitivity analysis).

Financial and fiscal risks may cause public debt to grow more than anticipated in the baseline scenario. The underlying risks that can bring about a rise in the debt and the cost of public debt servicing include:

- 1) refinancing risks;
- 2) foreign exchange risk;

- 3) market risk (interest rate risk, inflation risk);
- 4) liquidity risk;
- 5) credit risk;
- 6) operational risks;
- 7) risks associated with the distribution of servicing costs (debt structure, the concentration of liabilities).

Graph 11. Effect of Changes in the Dinar Exchange Rate against a Basket of Currencies from the Public Debt Portfolio on the Change in the Public Debt-to-GDP Ratio - Central Government



The graph above presents movements of the public debt-to-GDP ratio for central government, depending on changes in the exchange rate of the dinar against a defined basket of currencies. It shows the basic projection with alternative scenarios, depending on the appreciation or depreciation of the dinar exchange rate ranging from 10% appreciation to 20% depreciation of the dinar against the basket of currencies. By applying these scenarios, it is possible to see that the ratio for 2019 would range from 60.8% of GDP to 76.2% of GDP, while the baseline scenario would be at the level of 65.9% of GDP.

With a view to mitigating the exposure to variable interest rates, amidst the expectations that the variable interest rate with the highest share in the public debt – Euribor - would go up, new liabilities are contracted at fixed interest rates, where possible, especially for loans intended for financing investment projects, with lenders such as the European Investment Bank, the German Development Bank - KfW and the EXIM Bank of China.

Bearing in mind the limitations and potential risks related to the financial market, the public debt management strategy for the upcoming medium-term envisages the financing of the Republic of Serbia's budget outlays predominantly through issues of government securities in the domestic and international financial markets. The objective for the next long-term period is to secure funding mainly by issuing dinar denominated securities in the domestic financial market. However, the current situation suggests that, despite the strong resolve to continue with the development of the domestic market for government securities, in the next medium term part of the financing will have to be secured in the international financial markets. The annual borrowing decision is passed as part of the Budget Law for a specific fiscal year, and in line with changes in the main fiscal aggregates it is possible to change the borrowing plan in the course of the fiscal year. In the upcoming medium term, further development of the secondary market for government securities is expected, and one of the incentives for the development of this market segment will be provided by issues of long-term government securities denominated in domestic currency, in amounts per issue that can be considered as benchmark size issues from the standpoint of international standards.

One of the basic principles underlying the new arrangement with the IMF is that the Republic of Serbia will not issue guarantees to public enterprises for new loans to finance liquidity in the upcoming period, which has been confirmed by amendments to the Law on Public Debt enacted in July 2015. This signified the abandonment of the practice of the 2010 - 2014 period, when many sizeable liquidity loans were guaranteed for public enterprises and enterprises wholly

owned by the government - JP Srbijagas, Galenika and JAT Airways. In the next medium-term period, guarantees will only be issued for loans intended for investment projects and for boosting further growth and development of the economy, and attaining EU standards in the fields of energy efficiency, use of renewable energy sources and environmental protection.

6. Sensitivity Analysis and a Comparison with the Previous Programme

Fiscal risks. In previous years Serbia has faced significant expenditures as a result of materialized fiscal risks. These were primarily repayments of debt arising from issued guarantees, payments against court orders, resolving issues in state-owned financial institutions, takeover of non-guaranteed debts of public enterprises into public debt, and the like.

Fiscal risks imply exposure of public finances to certain circumstances that can cause short-term and long-term deviations from the projected fiscal framework. These deviations can occur in revenue, expenditure, fiscal result, as well as in government assets and liabilities, against what has been planned and expected.

Identification of major fiscal risks that can affect government finances over the medium term is a starting point for better fiscal risk management. Detailed information is available on some fiscal risks, and it is easy to identify whether and how likely it is that these will affect fiscal aggregates over the medium term. Sufficiently detailed information is lacking for some other, but even identifying them raises the awareness of the possibility of deviations from the projected fiscal framework upcoming period.

Macroeconomic assumptions and sensitivity of fiscal aggregates. Deviations of macroeconomic assumptions from the baseline scenario may lead to the deviations of fiscal aggregates from the projected level.

A negative scenario that implies economic contraction or lower growth in the coming period would lead to substantially lower capital inflows, and a drop in foreign trade. In that case, revenue would underperform and, consequently, the deficit would widen, if no further adjustments were made on the expenditure side. According to the assessments of fiscal balance sensitivity, any change in real growth of 1 p.p. of GDP leads to a change in the fiscal result of around 0.36 % of GDP. In the case of lower-than-planned real GDP growth rates in the next three years (on average lower by 1 p.p. a year), the cumulative increase in the fiscal deficit would amount to over RSD 0 billion.

Inflation is the main determinant of overall macroeconomic stability. Due to the modification of fiscal rules on indexation of salaries and pensions, in the coming period inflation will have less of an impact on the movements in the overall expenditure level than in the past. As for the revenue side, the impact of inflation on indirect taxes can be beneficial in the short run, but due to the inevitable adjustment of the real level of spending this effect is lost if the income level is limited. Exchange rate has a similar short-term effect. Some revenue items are indexed annually to inflation (mainly non-tax revenues and the levels of certain excise rates), so certain risk comes from that side; nevertheless, due to the low projected inflation rates, it is not high. Inflation, on the other hand, can indirectly affect the size of the deficit and public debt. In case it is significantly above the targeted levels, in the process of relevant interest rate adjustments, interest rates on public debt may go up. On the other hand, the consumer price index strongly affects the movements of the overall GDP deflator, and consequently the nominal GDP level, as the denominator for the ratios of the deficit and public debt to gross domestic product.

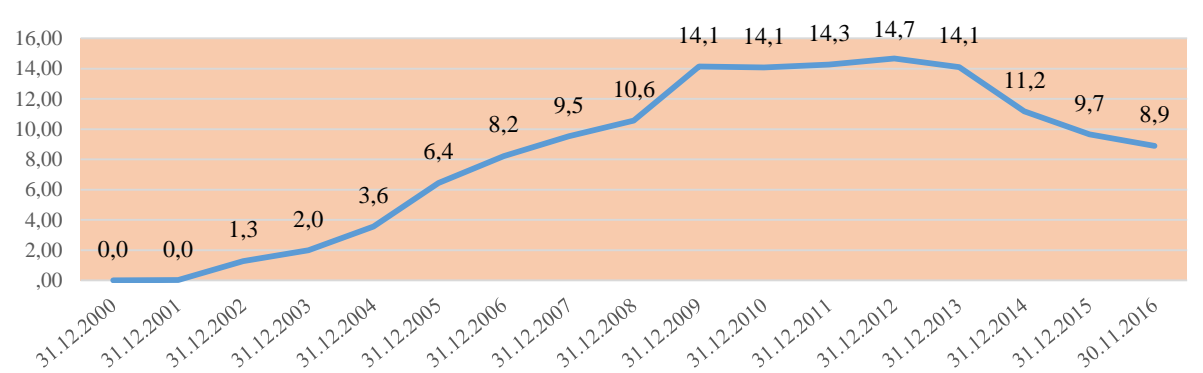
Interest expense is affected, besides the amount and composition of public debt, by factors such as the exchange rate and interest rates on the international and domestic markets. Given the unpredictable trends of certain variables, it is likely that more funds could be needed for interest payments in the coming period. Interest rate policy pursued by certain international institutions (Fed, ECB, etc.) can influence the general level of interest rates in the global markets, and for the Republic of Serbia, as a small, open economy, this poses an additional fiscal risk.

Government guarantees. Guarantees issued by the government affect the level of public debt, but also the level of deficit, if the state takes over repayment of such debt from the original debtor. Issued guarantees, according to the definition stipulated in the Law on Public Debt¹⁹, are a

¹⁹ Law on Public Debt "Official Gazette RS", No 61/2005, 107/2009, 78/2011 and 68/2015.

part of indirect liabilities and are included in public debt²⁰ in the full amount. In late November 2016, the share of indirect liabilities (guarantees issued by the Republic of Serbia) in the total public debt amounted to 8.9% (national methodology was applied). The greatest share of these liabilities in public debt, somewhat above 14% on the average, was recorded in the period between 2009 and 2013.

Graph 12. Share of indirect liabilities in public debt of the Republic of Serbia, %



At end-November 2016, the stock of public debt arising from issued guarantees amounted to EUR 2.2 billion, i.e. 6.4% of GDP. The guarantee-related debt stock was reduced by EUR 200 million from the end of 2015.

Table 10. Stock of debt arising from issued guarantees, in EUR million

Beneficiary	31/12/2015	30/11/2016
JP Srbijagas	644.8	450.0
JP Putevi Srbije	456.8	393.3
Železnice Srbije a.d.	346.0	301.5
Air Srbija a.d. Beograd	32.7	26.7
Galenika a.d.	57.5	28.1
JP EMS	45.7	41.6
JP EPS	172.7	386.6
Gradevinska direkcija Srbije (Building Directorate of Serbia)	0.0	0.0
RTB Bor	140.6	127.0
Agencija za kontrolu letenja Srbije and Crne Gore (Serbia and Montenegro Air Traffic Services)	25.9	17.9
JP Jugoimport - SDPR	38.0	33.5
FIAT doo	127.3	111.7
Aerodrom Nikola Tesla (Airport)	7.3	6.8
JAT Tehnika d.o.o.	4.8	4.8
JP Emisiona tehnika and veze	12.8	17.8
Local self-government units (cities and municipalities)	243.5	241.8
Fond za razvoj (Development Fund)	21.3	2.0
AOFI	19.6	5.4
TOTAL	2,397.1	2,196.4

Source: MoF, the Public Debt Administration

²⁰ The debt definition under the Maastricht⁷ criteria differs from public debt definition in the local legislation. According to the Maastricht criteria, public debt (general government debt) includes only called guarantees. Our local legislation takes a more conservative approach in this matter and all issued guarantees are included in public debt.

The total planned repayment in 2016 amounts to RSD 61 billion. Before 2014, the accounting methodology did not include repayments of guarantees²¹ in expenditures. From 2014 onwards, a part of these expenditures has been included in the budget expenditures²². Regardless of the budget and accounting presentation, the debt repaid by the government in lieu of the original debtor increases the need for borrowing.

Graph 13. Repayment of debt arising from guarantees, RSD billion

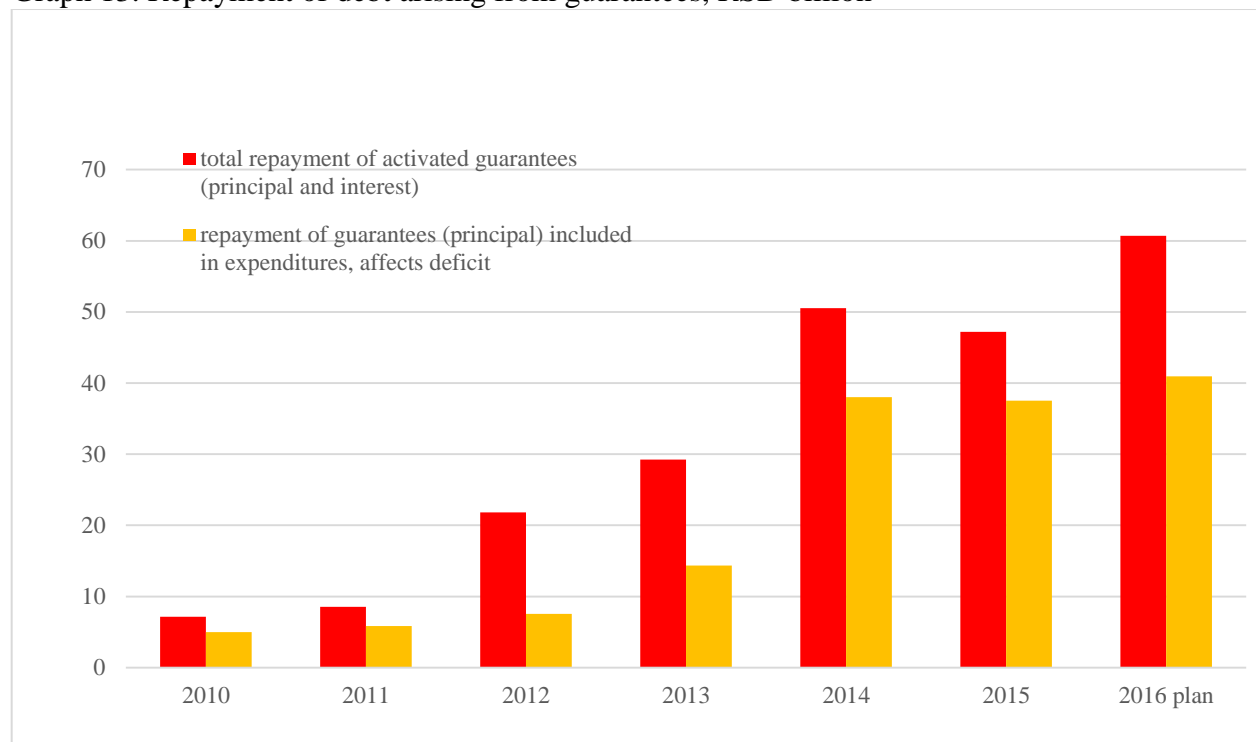


Table 11. Total paid liabilities arising from guarantees by beneficiary, RSD billion

Beneficiary	2015			2016 (until 30 September)		
	Principal	Interest	Total	Principal	Interest	Total
JP Srbijagas	17.6	3.7	21.3	17.8	2.5	20.3
JP Putevi Srbije (PE Roads of Serbia)	4.0	1.8	5.8	3.9	1.7	5.6
Železnice Srbije (Serbian Railways)	5.5	0.9	6.4	5.2	0.6	5.8
JAT	1.2	0.2	1.5	0.7	0.1	0.8
Galenika a.d.	2.1	0.5	2.6	1.6	0.3	1.9
Local self-governments	0.2	0	0.3	0.2	0.0	0.2
Smederevo Steel Mill	3.3	0	3.3	2.8	0.0	2.8
RTB Bor	0.4	0.2	0.6	0.0	0.0	0.0
Other beneficiaries	5.4	0	5.4	0.0	0.0	0.0
TOTAL	39.8	7.4	47.2	32.2	5.3	37.4

Source: MoF, the Public Debt Administration

²¹ Repayment on the basis of guarantees from the republic budget is included on the cash basis. International standards on accrual basis include the whole amount of outstanding debt in the expenditures at the moment of guarantee calling, while the debt repayment on this basis is treated as a financial transaction.

²² A portion of expenditure arising from the repayment of guarantees issued for JP Putevi Srbije (PE Roads of Serbia) is not included in budget expenditures, since this enterprise is a part of the general government, so the expenditures financed by guaranteed loans were a part of the general government expenditures at the moment spending of funds, while the repayment is treated as a financial transaction (below the line).

The growing indirect debt and inclusion of a portion of repayments for guarantees into the budget expenditures, and the consequent deficit increase have raised awareness of the growing fiscal risks resulting from issued guarantees. Therefore, measures have been taken to limit the issuance of new guarantees. Amendments to the Law on Public Debt prohibit any issuance of guarantees for liquidity loans. Amendments to the Law on the Development Fund of the Republic of Serbia suspended any further counter-guarantees for guarantees issued by the Development Fund of the Republic of Serbia.

In addition to restrictions in the issuance of government guarantees, the key step in the reduction and prevention of fiscal risks on this basis lies in the reform of state-owned and public enterprises, guarantee beneficiaries, to make them capable of repaying their own loans. Quite a number of these enterprises, the main beneficiaries of these guarantees, are in the restructuring process, or in the process of implementation of restructuring plans prepared in cooperation with international financial institutions. In 2015, only a limited number of new guarantees were issued, and only for loans used for public investment. The guarantees were issued to JP Srbijagas to build a pipeline between Aleksandrovac and Tutin, in the total amount of EUR 20 million, and to JP EPS (*JP Elektroprivreda Srbije - PE Serbian Electric Power Industry*) for financial restructuring in the total amount of EUR 200 million²³. The 2016 annual budget included plans for issuance of guarantees in the amount of up to EUR 140 million, for infrastructural projects loans²⁴. The plan for guarantee issuance for 2016 includes guarantees for JP EPS (Replacement of the system for ash and slag transport – TENT A, renewable energy program – Kostolac Wind Farm), and for JP Elektromreža Srbije a.d. (*PE Serbian Power Grid*) (Energy efficiency in transmission systems – Phase I – Trans-Balkan Corridor).

The 2016 repayment plan concerning guarantees (principal plus interest) amounts to RSD 61 billion, of which the expenditures affecting the deficit include RSD 32 billion for the repayment of guaranteed principal. The following table shows the breakdown of outlays for the repayment of principal from guarantees included in the budget expenditures.

Table 12. 2016 Repayment plan for guarantees (the portion included in budget expenditure) in RSD billion

Beneficiary	amount
RS Development Fund (Smederevo Steel Mill)	3.9
JAT	1.2
Galenika a.d.	2.1
Železnice Srbije a.d. (Serbian Railways)	7.0
JP Srbijagas	17.8
Other beneficiaries	0.4
TOTAL	32.3

Source: MoF, the Public Debt Administration, 2016 Budget Law

The repayments for guarantees will deviate from the amount planned in the 2016 Budget. Budget execution on this basis reached the planned amount in September. This is, however, a positive development, i.e. relates to early repayment of guaranteed debt (debt of Galenika a.d. and JP Srbijagas) resulting in substantial savings on interest expenses in the upcoming period. In the

²³ New indirect liabilities of the Republic of Serbia on the basis of issued guarantees in 2015 are regulated under the following laws: 1) Law on Ratification of Guarantee Agreement (Project of restructuring of JP EPS) between the Republic of Serbia and the European Bank for Reconstruction and Development in the amount of EUR 200 million, published in the Official Gazette RS – International Agreements, No 23/2015; 2) Law on The Issuance of a Republic of Serbia Guarantee in favour of the Societe General Banka Srbija a.d. Belgrade to settle the liabilities of JP Srbijagas Novi Sad under the Long Term Loan Agreement for the construction of the distribution pipeline connecting Aleksandrovac-Brus-Kopaonik-Raska-Nivo Pazar-Tutin in the amount of EUR 20 million, Official Gazette RS, No 112/2015.

²⁴ The total amount of guarantees planned in the Budget Law set at EUR 360 million is inclusive of EUR 220 million for guarantees for JP EPS and JP Srbijagas issued in 2015.

last quarter of 2016 a portion of the guaranteed debt of Galenika a.d. (EUR 16.6 billion) and JP Srbijagas (EUR 3.1 billion) was prepaid. In addition to the reducing the stock of guaranteed debt it also produced savings in interest expenses in the upcoming period. The plan is also to prepare, yet another portion of the guaranteed debt of JP Srbijagas in the amount of EUR 64 million, already in January 2017. The 2016 plans also projected that JP Srbijagas would be able to repay a part of debt to its creditors without assistance, but this has not been achieved to the full extent. In addition to improvement of the liquidity position of this enterprise, it is still unable to meet its obligations independently.

The stock and composition of public debt based on indirect liabilities and the rising budget expenses for guarantees suggest the significant fiscal risks that can materialize in the following few years. In the years to come repayment on the basis of guarantees is planned, but with a declining trend, from 0.9% of GDP in 2016 to 0.3% of GDP in 2019. Owing to the measures undertaken in the previous period, as well as to the negotiations with commercial banks that resulted in lower interest rates for the guaranteed liabilities of JP Srbijagas and Galenika a.d., exposure of the Serbian public finances to this risk has been reduced²⁵.

Structural reforms of public and state-owned enterprises, making them capable to compete in the market and making them financially sustainable on the one hand, and limited and targeted issuance of new guarantees on the other, will contribute to the reduction of fiscal risks on this basis and maintenance of expenditures within the planned, i.e. projected amounts in the coming medium-term period.

Transferring liabilities into the public debt of the Republic of Serbia. Assuming the liabilities of public and state-owned enterprises is a significant source of public finance risk, and directly results in the increase of public debt and government deficit. In the previous period, there were several occasions when liabilities of public and state-owned enterprises were taken over, directly increasing public debt by the amount of assumed liability of the debtor. At the same time, this amount becomes a budget expenditure, thus increasing the deficit of the general government.

In addition to assuming liabilities of public and state-owned enterprises, the rise of public debt and related deficit were also the result of court rulings as well as inadequate planning of certain expenditures (subsidies). In the previous year, the Constitutional Court ruling increasing military pensions and inadequate planning of subsidies to farmers increased the debt and deficit, resulting eventually in including this debt into the public debt and paying out the farmers in instalments. The debt of JP Srbijagas was also assumed. In 2015, the total sum of assumed liabilities of this kind amounted to RSD 43.5 billion.

Towards the end of 2016, as part of financial restructuring of HIP Petrohemija, a liability this company in the amount of EUR 105 million was transferred into public debt, in concert with the IMF program. The assumption of this debt combined with financial restructuring of the company has eliminated possible fiscal risks and future budget expenditures for the provision of support to this company.

Public enterprises. Operations of public enterprises are a significant source of fiscal risks both on the budget revenue and expenditure side. In their operations public enterprises are faced with numerous problems ranging from collection of receivables to regular servicing of liabilities to creditors, state, employees, etc. The state as the founder and only owner is responsible for operations, and is their protector of last resort in the case of illiquidity. Fiscal risks relating to operations of public enterprises can materialize through several channels. The government guarantees issued for public enterprise loans are the greatest, but not the only risk. Sustainability, efficiency, and profitability of public enterprises affect budget revenue, i.e. the amount of profit they pay into the budget. The quality of products and services provided by public enterprises

²⁵ Euro-denominated loans with residual maturities of less than 2 years, as from 18 November 2016 have the interest rate of 1.75%+3 month Euribor; Euro-denominated loans with residual maturities of more than 2 years, as from 18 November 2016 have the interest rate of 2.75%+3 month Euribor; USD- denominated loans, as from 18 November 2016 have the interest rate of 3.00%+3 month Libor

affect efficiency and profitability of the private sector in general and, ultimately, the level of taxes they pay into the budget.

Public enterprises represent an important segment of the Serbian economy since they employ close to 79 thousand people. Public enterprises are set up as companies that perform activities of general interest. Their operations are regulated under the new Law on Public Enterprises adopted in February 2016, as well as laws regulating some specific areas that remained beyond the scope of the Law on Public Enterprises (Energy Law, Company Law, etc.).

In order to reduce the fiscal risks related to operations of public enterprises, restructuring processes have been initiated in the largest public enterprises (Železnice Srbije a.d, JP EPS, and JP Srbijagas). The whole process is implemented cooperation with the leading global financial institutions – the IMF, the World Bank and the European Bank for Reconstruction and Development, so that these companies can be placed on solid foundations and can start operating in full compliance with market principles, thus reducing any potential fiscal expenses that can result from their operations.

Key financial indicators of public enterprises operations

At end of 2015 the total capital of public enterprises²⁶ at the national level amounted to RSD 1,530 billion, while the net loss incurred in 2015 totalled RSD 3.6 billion.

Table 13. Key financial indicators for public enterprises*, RSD billion

Description	2014	2015
Total assets	2,400.0	2,487.1
Own capital	1,557.0	1,530.2
Total revenue	465.9	498.8
Net profit (loss)	-65.3	-3.6
Subsidies	26.4	23.6
Subsidies, excl. JP Putevi Srbije	19.0	16.7
ROE, in %	-4.2%	-0.2%
ROA, in %	-2.7%	-0.1%
Subsidies, as % of total revenue	5.7%	4.7%

Source: Official financial statements published on the BRA website

*Aggregate data relating to the enterprises listed in Table 16

In 2015, the operations of the public enterprises established at the national level substantially improved. Although the net loss of RSD 3.6 billion was incurred, it was significantly lower than in the previous year, when it totalled RSD 65.3 billion.

The number of companies receiving subsidies was reduced from 21 to 20. In 2015, the share of received subsidies in the revenue structure of public enterprises was reduced to 4.7% of total revenue. Some subsidies take the form of capital investment, such as subsidies for JP Putevi Srbije (total RSD 6.9 billion), but they are intended for road infrastructure reconstruction.

Table 14. Overview of certain items in the financial statements for 2015

Public enterprise	Net result, RSD 000	Total assets, RSD 000	Capital, RSD 000	RoA, %	RoE, %
JP EPS (group)	6,986,344	1,091,126,511	781,376,116	0.7	0.9
JP Srbijagas	2,963,854	128,958,465	-68,559,132	2.4	-
Srbija Kargo a.d.	63,223	26,570,817	18,882,612	0.2	0.3
Srbija Voz a.d.	-876,158	32,575,413	27,518,264	-2.7	-3.2

²⁶ Financial indicators in the Tables were obtained on the basis of data from quarterly reports that all public enterprises submit to the Ministry of Economy.

Infrastruktura ŽS a.d.	-1,975,962	241,383,339	216,471,307	-0.8	-0.9
Železnice Srbije a.d.*	-8,483,272	24,673,946	-55,672,075	-5.1	-
JP Putevi Srbije	-9,597,720	528,624,223	404,150,235	-1.8	-2.3
Koridori Srbije d.o.o.	0	90,943,731	500	0.0	0.0
JP Elektromreža Srbije a.d.	2,846,912	92,927,409	58,912,336	3.1	4.8
JP PEU Resavica	-1,435,652	8,368,833	-5,353,310	-17.8	-
JP Pošta Srbije	3,128,267	34,115,664	25,825,335	9.1	12.2
JP Jugimport SDPR	2,008,291	32,447,664	7,986,711	6.8	27.1
JP Transnafta	125,528	4,714,235	4,483,276	2.7	2.8
JP Srbijašume	384,596	64,618,535	60,595,448	0.6	0.6
JP Srbijavode	14,368	18,703,079	5,229,832	0.1	0.3
JP Skijališta Srbije	54,329	10,281,839	2,578,563	0.5	2.1
Državna lutrija Srbije d.o.o.	40,116	2,130,965	1,106,092	1.9	3.6
DIPOS d.o.o.	168,427	895,315	721,352	20.2	24.6
JP Službeni glasnik	11,623	3,043,958	2,507,104	0.4	0.5
JP Zavod za udžbenike	2,533	3,221,962	3,021,313	0.1	0.1
JP Emisiona tehnika and veze	2,222	5,169,717	1,867,336	0.1	0.1
JAT Tehnika d.o.o.	18,411	2,507,750	937,483	0.7	2.0
JP za skloništa	-180,452	14,505,322	13,390,228	-1.2	-1.3
JP Stara planina	26,989	4,587,861	3,195,548	0.6	0.8
JP Nuklearni objekti Srbije	274	374,862	201,202	0.1	0.1
JP NP Tara	14,854	8,158,041	8,031,044	0.2	0.2
JP NP Fruška Gora	3,159	2,381,181	2,190,497	0.1	0.1
JP NP Đerdap	6,444	4,784,235	4,691,254	0.1	0.1
JP NP Kopaonik	7,955	3,655,518	3,615,207	0.2	0.2
Park prirode Mokra gora d.o.o.	288	191,879	9,962	0.2	5.8
Rezervat Uvac d.o.o.	278	41,871	12,404	0.7	2.3
Prosvetni pregled d.o.o.	19,050	61,693	52,135	35.9	43.1
JP Mreža most	8,344	29,959	13,334	29.0	78.8
Park Palić d.o.o.	2,110	152,516	2,781	1.4	104.9
NIJP Panorama Priština	42	1,248	60	1.2	1.9
Tvrđava Golubački grad d.o.o.	-1	4,648	550	-0.0	-0.2
Metohija d.o.o	1,491	14,486	5,486	16.1	31.5
JP Tanjug	34,119	179,975	158,252	19.1	25.9
Total	-3,604,648	2,487,128,665	1,530,156,632	-0.1	-0.2

* Net result of the Serbian Railways comprises the net result of the joint company until 10 August 2015 and the net result of the separated fourth company Serbian railways from 10 August 2015 to 31 December 2015.

Source: Official financial statements published on the BRA's website

In 2016, a positive trend in the operations of public enterprises at the national level, as a whole, continued. The table below shows preliminary operating results in the first 9 months of 2016.

Table 15. Preliminary operating results of public enterprises* for the first nine months of 2016, RSD billion

Operating results	Realized as at 30/09/2016
Operating revenue	317.9
Operating expenses	229.3
EBITDA	88.6
Depreciation	40.8
EBIT	47.8
Result before tax	31.1
Net result	22.5
Received subsidies	18.7

*aggregate data relating to the enterprises listed in Table 16

These operational results are significantly better in comparison with the plan, but also in comparison with the same period of the previous year. The net result for the first 9 months is a profit of RSD of 22.5 billion. JP EPS has the largest impact on all values, as it is the largest public enterprise by all criteria. In the first 9 months, this enterprise earned a profit amounting to RSD 15.3 billion.

Payment of profit into the republic budget. Payments of profits by public enterprises and dividends from the companies in which the state has an equity interest, account for a large part of non-tax revenues. Success of operations of these companies determines the amount of budget revenue from this source. Payments of regular profits and dividends are a regular budgetary non-tax revenue, while payments from retained earnings are treated as one-off revenue, and do not represent a permanent source of revenue.

In 2015, budget revenues from the payments of public enterprises, either of regular profits and retained earnings from previous years, amounted to RSD 10.6 billion, i.e. 1.1% of total budget revenue ^[1]. The 2015 Budget specified that the national public enterprises were obligated to pay 50% of the profit generated in the previous year. The same obligation extends to the companies for the relevant share of profits to be paid to the state as one of the owners. In addition to the regular profits, the government demanded payment of retained earnings from the periods before 2013 up to the amount that would not jeopardize regular operations of public enterprises. In 2015, approximately RSD 6.5 billion was paid into the republic budget on this basis (profits of public enterprises). In 2014, payments from the current profits amounted to RSD 4.9 billion, but no payments of retained earnings were received. In 2014, the share of revenue from the payments of public enterprises amounted to 0.1% of GDP, compared to 0.3% of GDP in 2015.

The duty of public enterprises to pay no less than 50% of profits generated in the previous year was stipulated in the 2016 Budget Law of the Republic of Serbia. On this basis alone, it was planned to have approximately RSD 5 billion paid into the budget. Instead, about RSD 6 billion was received.

Mitigation of potential risks that result as a consequence of public enterprise operations includes a series of measures related to accountability, profitability, and transparency in operations of these enterprises. Namely, in early 2016, a new Law on Public Enterprises was adopted, which is expected to strengthen the management and accountability structure of public enterprises in general. Restructuring processes have been initiated in JP EPS, JP Srbijagas, and Železnice Srbije a.d. Success of the restructuring processes and speed of implementation of adopted measures will determine the future efficacy of operations.

Banking system and deposit insurance. Deposit insurance is a mechanism set up to preserve financial stability and protect depositors. The deposit insurance system ensures that each protected depositor²⁷ shall have all his/her deposit paid out in each bank up to the insured amount of EUR 50,000 in the case of the bank's bankruptcy or liquidation. Deposit insurance is regulated under the Law on Deposit Insurance.

In the deposit insurance system, the Republic of Serbia is the ultimate guarantor for the payment of insured deposits. In order to secure funds for deposit insurance, the Agency charges a deposit insurance premium from banks, and deposits these amounts into the account of the Deposit Insurance Fund, manages the Fund assets and pays out deposits up to the insured amount in the case of a bank bankruptcy or liquidation. In the case that the Deposit Insurance Fund lacks the required resources, the Republic of Serbia shall provide for the payment either from the budget funds or by issuing a guarantee for a relevant Deposit Insurance Agency loan.

These guarantees of payment of insured deposits by the state, either directly from the budget funds, or indirectly by issuing guarantees for pertinent Deposit Insurance Agency loans, are

[1] In 2015, the total amount of profits of public enterprises, public agencies, and dividends of companies in which the state has equity interest, amounted to RSD 24.8 billion. We shall focus here only the profits of public enterprises from the standpoint of fiscal risk assessment.

²⁷ The protected depositors are natural persons (both residents and non-residents), entrepreneurs (residents only), micro, small and medium entities (residents).

a source of fiscal risks and possible fiscal expenditures. In 2014, this fiscal risk materialized when the state cover the shortfall of funds to pay out insured deposits of Univerzal Banka.

Mitigation of fiscal risks on this basis depends on stability and sustainability of the banking system. Supervision of the banking system, caution in placement of funds, and improved quality of bank assets, are the main pillars of a stable banking system.

In February 2015, a reform of regulations governing the Serbian financial system²⁸ was implemented. One of the features of this reform includes the transfer of competences for monitoring of operating results and management bodies in banks, insurance companies, and other financial institutions in which the Republic of Serbia is a shareholder, and organizing and conducting the sale of shares in them, from the Deposit Insurance Agency to the Ministry of Finance as of 1 April 2015. Also, the regulatory reform included transposition of the Bank Recovery and Resolution Directive – BRRD) entrusting the bank restructuring function to the NBS.

As at end of the fourth quarter of 2015, the results of the banking sector in Serbia suggested a trend of moderate profitability recovery of the banks. At end of 2015, at the banking sector level in Serbia, the positive net financial result before tax amounted to RSD 9.7 billion, i.e. RSD 6.2 billion more than the net profit before tax in the previous year²⁹.

The banking sector in Serbia is adequately capitalized, from the standpoint of capital adequacy indicators, and from the standpoint of regulatory capital structure. As at end of the fourth quarter of 2015, the capital adequacy ratio for the banking sector of Serbia reached 20.89%, by far exceeding the regulatory minimum (12%), as well as the minimum according to the Basel standards (8%)³⁰.

As at end of the second quarter of 2016, the results of the banking sector in Serbia suggest the continuation of the trend of bank profitability improvement. As at 30 June 2016, at the level of the Serbian banking sector, the net profit before tax amounted to RSD 20.4 billion, i.e. RSD 3.5 billion more than the net profit before tax earned in the same period of the preceding year³¹.

One of the limiting factors of credit activity growth is a relatively high level of non-performing loans. In August 2015, the Non-Performing Loan Resolution Strategy was adopted, and is implemented through two action plans: one prepared by the Government, and the other by the NBS. Both are aimed at reducing the level of NPLs. The key areas of implementation include capacity building to cope with NPLs, improvement of regulation for collateral valuation, development of NPL market, etc.

The implementation of the measures for resolving NPL issues has yielded good results. During the second quarter of 2016, the total gross NPLs in the banking sector were down by RSD 2.2 billion, amounting to RSD 404.3 billion as at end June. The reduction of the gross value by collection and assignment amounted to RSD 19.0 billion and RSD 5.1 billion, respectively³². Implementation of the measures laid down in the Non-Performing Loan Resolution Strategy significantly affected the change in the profile of NPL assignment transactions. The volume of assigned NPLs increased in relative terms, while the structure of entities to which the loans are assigned has substantially changed (moving them from the banking sector).

Mitigation of risks and fiscal expenditures related to the deposit insurance scheme implies complete harmonization with the European standards in this area.

Other fiscal risks. In addition to the aforementioned fiscal risks, there are some other circumstances that, if materialized, can also result in fiscal expenditures. Some risks are not substantiated with systematized data, but considering that some did materialize in recent past, their

²⁸ The National Parliament adopted amendments to the Law on National Bank of Serbia and the Law on Banks, as well as the new Law on Deposit Insurance Agency, Deposit Insurance Law, Law on Bankruptcy and Liquidation of Banks and Insurance Companies. The innovations in the set of financial law necessitated adoption of amendment to the Law on Ministries. .

²⁹ Banking sector in Serbia, Fourth Quarter Report 2015, NBS

³⁰ Banking sector in Serbia, Fourth Quarter Report 2015, NBS

³¹ Banking sector in Serbia, Second Quarter Report 2016, NBS

³² Banking sector in Serbia, Second Quarter Report 2016, NBS

impact on public finances can be assessed. Just identifying them helps understand a possible impact on fiscal standing of the country in the upcoming period.

Significant fiscal risks are associated with court rulings by domestic and foreign courts, fines, and compensation of damage by public bodies. In the period 2009–2015, the Republic of Serbia had to pay out the amount of RSD 47 billion from the budget on the basis of court rulings³³. The outstanding debt to military pensioners totalling RSD 10 billion was taken over in 2015, although according to the court rulings the debt was not recorded in these accounts. In accounting terms, this was treated as debt repayment, while in the report on fiscal aggregates of the general government, it was entered as expenditure for social protection (pensions). Regardless of the manner in which this expenditure was accounted for, it remains a materialized fiscal risk arising from court rulings. Potential liabilities can result from rulings of the International Court in Strasburg, on the basis of claims of workers of former state-owned enterprises (unpaid wages and contributions), for the payment of old foreign currency savings deposits to the citizens of Bosnia and Herzegovina, etc.

A permanently present risk of elements and natural disasters necessitate investment into prevention programmes to mitigate potential fiscal expenditures for compensation of damage in these cases. In 2014, Serbia was faced with catastrophic consequences of flooding. The total damage (including losses) was estimated at over EUR 1.7 billion³⁴. According to the Law on Eliminating the Consequences of Floods in the Republic of Serbia, the funds for recovery were provided from the budget sources at all levels of government, from donations, contributions and gifts, loans, EU financial aid etc. A grant in the amount of approximately EUR 220.7 million together with about USD 300 million from the World Bank loan for reconstruction were provided. Having in mind the permanently present risks of the elements, mitigation of fiscal risks that can materialize on this basis implies investment into prevention programmes. In December 2014, the Government adopted the National Program for Management of the Risk of Natural Disasters, which will be implemented in cooperation with the World Bank, UN and the EU. So far, the amount of EUR 70 million has been provided for the implementation of prevention programmes.

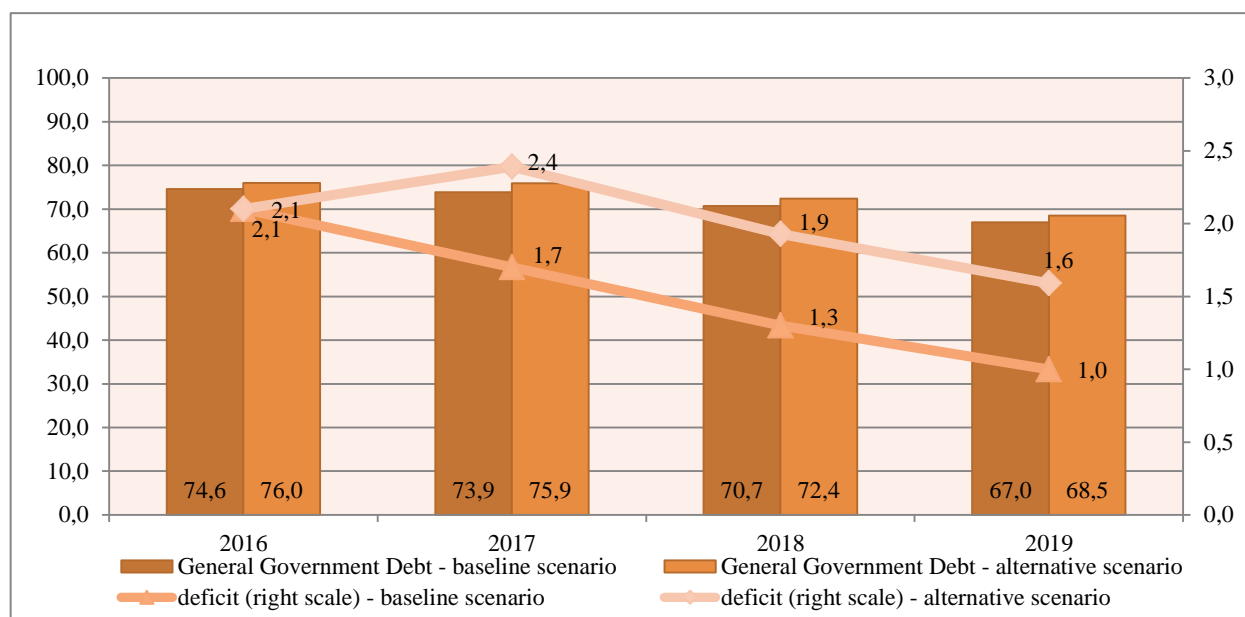
An Alternative Scenario of Fiscal Developments in the Period 2016- 2019

The following graph shows the developments related to the respective shares in GDP of the deficit and public debt under the alternative macroeconomic scenario, which implies growth rates of 1.2%, 1.9% and 2.0% in the next three-year period.

Graph 14. A Comparison of respective shares of public debt and fiscal deficit in Baseline and Alternative Scenarios, in % of GDP

³³ Expenditures recorded in the accounts for fines and penalties ruled by courts and judiciary bodies, and compensation of damage for injuries or loss inflicted by governmental bodies.

³⁴ <http://www.obnova.gov.rs/uploads/useruploads/Documents/Kancelarija-za-pomoc-poplavljenih-podrucja-infograf-15-04-2016-srb.pdf>



A slower GDP growth would also affect, through its components, the actual fiscal aggregates, primarily the revenue side, namely predominantly revenues from labour and consumption taxes. Such GDP dynamics would lead to a slower narrowing of the fiscal deficit and higher public debt levels. In 2017, deficit would grow compared to 2016, and public debt would stay at the same level. In the case of this or a similar scenario, or the materialisation of other negative risks for the achievement of the planned fiscal result, additional measures will be taken in the context of fiscal consolidation both on the revenue and the expenditure side.

Comparison with the Previous Programme

A comparison of total revenue, expenditure and the deficit of consolidated general government with the previous Economic Reform Programme (2016-2018) shows certain differences, both on the revenue and on the expenditure side of the general government budget. Reasons for discrepancies in the projections, compared to the previous programme, relate to, inter alia: different levels of nominal GDP, a change in the assumptions for real GDP growth, changes in policies that affect the revenue and expenditure sides, or a pace of the implementation of certain fiscal consolidation measures and structural reforms, which is different from the originally anticipated one.

Table 16. A comparison of fiscal indicators of the two Programmes, in % GDP

	2015	2016	2017	2018	2019
ERP 2016 - 2018					
Revenue	41.9	41.1	40.1	39.0	-
Expenditure	46.0	45.0	42.7	40.8	-
Deficit	4.1	3.9	2.6	1.8	-
ERP 2017 - 2019					
Revenue	41.9	43.3	42.4	41.6	41.1
Expenditure	45.6	45.4	44.1	42.9	42.1
Deficit	3.7	2.1	1.7	1.3	1.0
Difference					
Revenue	0.0	2.1	2.3	2.6	-
Expenditure	-0.4	0.4	1.4	2.1	-
Deficit	-0.4	-1.8	-0.9	-0.5	-

Source: MoF

The Economic Reform Programme (2016-2018) projected a growth of GDP in 2016 of 1.75%, and modest growth in 2017 of 2.2%, considering the continuation of fiscal consolidation, and only in 2018 significant real growth of 3.5%. Favourable macroeconomic circumstances resulted in GDP growth of 2.7% in 2016, and projected real growth of 3.0% in 2017, and 3.5% in 2018.

The increase in GDP growth projections resulted in an upward adjustment of revenue projections throughout the observed period. In addition, the improvement of operating results of public enterprises led to greater expectations with respect to budget revenue from profits and dividends.

On the expenditure side, budget execution was below plan during 2016, which created some room for one-off expenditure, such as the assumption of Petrohemija's debt, and the payment of bonus to pensioners. The resulting change affected the composition of expenditure more than it affected their level.

The projected growth of revenue allowed a relaxation of the expenditure side in the coming period. The largest portion of expenditure increase relates to the wages and pensions. The expectations of faster and more efficient implementation of infrastructure projects funded by loans are associated with higher capital expenditures. Also, the funds intended for the purchase of goods and services are increased, and interest expenses are decreased, in line with the reduction of the public debt.

Owing to a faster growth of revenue than expenditure throughout the period, the level of deficit has come down compared to the previous Programme, and such level could be even lower in the case of proper use of the fiscal room.

7. Institutional Framework

Reform efforts within different sub-systems of public finance management (PFM) are included in the Public Finance Management Reform Programme 2016-2020 (the PFM Reform Programme). The objective of the PFM Reform Programme is to provide a comprehensive and integrated framework for the planning, coordination, implementation, and monitoring of progress in the implementation of sustainable activities in order to improve macroeconomic stability, ensure efficient and appropriate allocation and use of public resources for the achievement of national priorities, and improve services provided by the public administration in the Republic of Serbia, while increasing transparency and the overall functionality of the public finance management, and the fulfilment of the necessary requirements for accession to the European Union (EU). Also, a Draft Strategy for the Development of Public Internal Financial Control for the period 2015-2019 has been prepared, while a Draft Anti-Fraud Strategy is being developed.

In the field of improving the budget system, the following activities are planned for the coming period:

1) Continuation of work on improving the programme budget. Further improvements are necessary in order to ensure the uniformity and stability among programme structures of all budget beneficiaries, and thus the desired quality of the budget document as a whole, as soon as possible. To that end, the latest amendments to the Budget System Law created conditions for the improvement of the budget program structure by regulating the process of monitoring and reporting on programme performance, which constitutes an upgrade of the system for program budget planning and preparation. The information of the actual performance of programmes will be used to improve effectiveness and efficiency of public spending, and to monitor the quality of public services.

Namely, monitoring and reporting provide key feedback on whether the activities of the users of budget funds are carried out in line with the set objective and the financial plan. And what impact the result achieved in the reporting period has on the performances and funds planned for the following period. If discrepancies are found, such information enable a timely modification of

programme activities or projects, or a reallocation of budget funds in the following period with the aim of achieving better results. The mandatory publication of programmes' performance allows the public to also have insight into the results achieved through budget spending. Moreover, the Law provides for the obligation of mandatory social insurance beneficiaries to abandon line budgeting model as from the adoption of financial plans for 2020.

In addition, in the following period, the complete procedure for integrating gender equality into the budget processes will be established by all users of budget funds at all levels of government.

2) Coordination of activities with relevant institutions aimed at the improvement of the implementation of capital projects.

3) Improvement of the form for the assessment of financial effects of a law, other regulation or act (the "PFE" Form), based on the weaknesses identified in the course its application in the previous period.

The temporary regime banning employment with the users of public funds without the approval of a Government body will remain in effect throughout 2017, as an assessment has been made that it is reasonable to keep this mechanism, especially in the context of the implementation of the Law on the Maximum Number of Public Sector Employees.

Within the framework of the EU accession process, one of the objectives is the shift to the ESA methodology of national accounts, which also include public finances. The classification of national accounts and reporting to the EU institutions are regulated in accordance with this methodology. The first (pilot) reports related to the deficit overrun procedure have been sent, and significant improvement in this segment is expected in the coming period.

The Tax Administration Transformation Programme for the period 2015-2020 was adopted in June 2015, and the priorities for further implementation of the Programme are: strengthening of TA management, streamlining of the organisational structure in the Head Office and branches or sub-branches, including the reduction of the number of main branches, implementation of a modern approach to risk management, strengthening of arrears management, including write-off procedures, modernisation of It and business processes, and improvement of coordination and exchange of information with other government agencies.

The Tax Administration branches need to improve their manner of work with taxpayers. The PFR Programme and the TA Transformation Programme provide for the formation of separate organisational units for taxpayer services, to improve the communication and interaction with taxpayers, including timely provision of updated information on changes to the laws and regulations. Bearing in mind that foreign economic relations are based on an open, export-oriented economy and active integration into the international economic flows, the customs system and policy will be designed in accordance with the above principles, in order to increase the competitiveness of the economy on the global market, and attract foreign investment. Further harmonization of regulations with the EU customs regulations and WTO rules is expected, hence it is planned to:

- Harmonize the Customs Law and relevant regulations with the new Customs Law of the Union (which entered into force in May 2016) and the secondary legislation for its implementation, as well as WTO rules;
- Align the Free Zones Law with the Customs Law;
- Adopt a new Law on Customs Tariffs after Serbia's accession to the membership of the World Trade Organization, in order to transpose the consolidated tariff schedules agreed in the negotiations with WTO members;
- Adopt a Decree on the Harmonization of the Customs Tariff Nomenclature (annually) for the purpose of harmonization with the Combined Nomenclature of the EU and transposition of preferential tariff rates in accordance with all free trade agreements that the Republic of Serbia has concluded.

IV. PRIORITY STRUCTURAL REFORMS FOR THE 2017 – 2019 PERIOD

1. Identification of Key Obstacles to Competitiveness and Inclusive Growth

Strong fiscal consolidation measures have stabilised the macroeconomic environment, and the implementation of structural reforms has started to produce results with the creation of a sustainable growth model. Economic growth has been based on stronger foundations, on the expansion of exports and investments. Progress has been made in addressing problems of state-owned enterprises under restructuring in a systemic manner, and in public administration reform. The business environment has improved, through the implementation of structural reforms in the areas of labour legislation and construction. However, the economy still faces significant challenges, and key obstacles in individual areas of importance for improving competitiveness have been identified, based on all available analyses and data.

Despite the improvement of tax policy and administration in achieving efficient and effective management of tax revenues, the still insufficiently efficient system of public finance management affects the efficiency of budget spending, particularly in the field of public investment, tax collection and the quality of services for businesses and individuals.

Transport and energy infrastructure, due to the fact that it has not been fully constructed or modernized, coupled with the existence of non-physical obstacles for trade within the regional market, limits the degree of integration with surrounding markets. Regarding the energy and transport markets, improvements are necessary with respect to energy efficiency, diversification of energy sources and the reduction in import dependence, as well as traffic management, maintenance of road infrastructure and road safety. In the domain of communication infrastructure, there is a lot of room for improving broadband internet coverage in Serbia.

Considering the favourable conditions for the development of agriculture in Serbia, activities are undertaken to boost the productivity of agricultural production, as one of the key sectors in the economy. The challenges in agriculture are related to the unfavourable structure of agricultural holdings (fragmented holdings without adequate incentives for land consolidation), an inadequate choice of crops and low yields as a result of technical and technological obsolescence of agricultural holdings engaged in extensive farming, as well as an insufficiently high level of processing in the existing food industry. A breakthrough has been made in targeted industrial development, and in efficient management of the state system for support to investment and export promotion, but industrial production is still suffering from structural weaknesses. The challenges associated with boosting industrial production, which is crucial for redressing the structural imbalance in Serbia's foreign trade, are related to the upgrading of production technology, particularly in the fields of discovered competitive advantage, and a focus on products with higher value added.

Serbia has improved the business environment and reduced the size of the shadow economy through electronic payment of taxes, increased efficiency of inspections and an improved work methodology of the Tax Administration, thus also achieving greater competitiveness and higher business conditions rankings according to international indices. However, many challenges for doing business persist, such as inadequate access to finance for small and medium-sized enterprises and entrepreneurs – both due to the financing conditions, as well as the insufficient investment readiness and underdeveloped financial mechanisms adapted to small and young enterprises, an inadequate corporate governance system in public enterprises, slow organizational and financial restructuring of a number of major public enterprises (EPS – Serbian Electric Power Industry, Železnice Srbije - Serbian Railways, Srbijagas – Serbian Natural Gas Provider). In addition, a lack of a coherent legal framework governing the types and amounts of charges for the

use of public goods and space has been identified. There is also room for improvement of the methodology and work methods in the field of inspection supervision. The heritage of excessive norms and intensive normative activities by the Government cause unnecessary administrative costs due to the time-consuming, cumbersome and non-transparent procedures related to the operations of economic entities and the use of public services.

The adoption of a strategic framework has produced guidelines for the establishment of an effective national research system, which should contribute to economic growth through a more merit based system of financing and adequate stimulations for innovation. Key issues in the field of research and innovation remain: low overall allocations for science and research, emigration of the highly educated population ("brain drain"), inadequate cooperation between science and the economy with regard to the commercialization of research and innovative projects, the uncertainty of funding for scientific research organizations.

The achieved macroeconomic stability has had a stimulating effect on investment activity, and led to a rise in the domestic economy's competitiveness on the global market, thus ensuring, in combination with improved terms for trade, export growth and the trade deficit narrowing. Serbia has aligned much of the legislation, standards and technical regulations in the field of quality infrastructure with the EU legislation. Despite the evident progress in foreign trade, challenges faced by Serbia are related to the low level of value added in manufacturing, further alignment of production with international quality standards, as well as an insufficient focus of producers on customers' demands.

The large discrepancy between the available human capital and economic needs, the mismatch between educational programs and the demand from the manufacturing sector, insufficient capacities and an inadequate local network of institutions, an unregulated system of qualifications acquired through education, constitute the biggest constraints on education.

Employment growth, against the backdrop of higher activation, and lower unemployment constitute positive trends; however, the labour market is still characterized by high structural unemployment (particularly youth unemployment that gives rise to the "brain drain") and a high share of the long-term unemployed in the total population of unemployed persons. Large numbers of employees working in the "grey" zone, gender inequality in the labour market, as well as the limited funds for active labour market measures constitute the main problems and challenges of the labour market in Serbia.

There is a considerable scope within the existing envelope to improve the quality of social protection. The main challenges for the social welfare system include prevalence of poverty, insufficient coverage and adequacy of cash benefits designed to protect the poor, the low quality of services coupled with weak mechanisms for oversight, regulation, monitoring and evaluation.

Based on the thus perceived key obstacles in the field of competitiveness, priority structural reforms have been defined, as summarized in Section 2, and elaborated in detail in Section 3.

Bearing in mind that the ERP is a rolling program which establishes a system for monitoring and reporting on the implementation of structural reforms whose implementation requires a longer period, in this year's cycle of the ERP drafting, the priorities have not changed significantly, i.e. the reforms presented within the 2017-2019 ERP are the slightly amended reforms set out in the 2016-2018 ERP, regarding their scope and objectives.

The selected priority structural reforms are in line with the three-year plan of total budget expenditures as laid down by the Budget Law, the macro-fiscal framework set out in the Fiscal Strategy and the arrangement with the IMF, the priorities defined in national documents, as well as with the constraints in terms of capacity of the administration for the consistent implementation of the reforms. In particular, the recommendations of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of May 2016, as well as the

recommendations and findings set out in the 2016 European Commission Progress Report, have been taken into account.

Support from the Instrument for Pre-Accession Assistance (IPA) was envisaged for the implementation of priority reform processes, as part of the annual IPA allocations for 2013, 2014, 2015, 2016 and subsequent years, based on the decentralized/indirect model of governance. The success of these reform processes requires ensuring full dedication and responsibility of the end users of IPA funds (competent public administration bodies, i.e. line ministries and Government services) in implementing all activities related to programming and implementing IPA projects.

2. Priority reforms summary

PSR No.	Name of area and PSR	Recommendations ³⁵	Reference documents
PUBLIC FINANCE MANAGEMENT			
1	Tax Administration transformation <i>Additional simplification and unification of tax procedure and better training of staff, as well as improvement of operational activities on suppression of informal economy</i>	ECOFIN R2 – Further improve collection of revenues in a systemic way, suitable for economy, by implementing the Tax Administration Transformation Programme. PR 2016, p. 55 – Continue implementing the Tax Administration Transformation Programme, particularly by simplifying tax procedure and allocating sufficient human and technological resources, in order to improve tax collection and fight against informal economy.	Public Financial Management Reform Programme, 2016-2020 Public Administration Reform Strategy of the Republic of Serbia Tax Administration Transformation Programme
2	Capital investment management improvement <i>Establishing of a single platform for capital investment planning and the methodology for analysis and planning of capital investments</i>	ECOFIN R4 – Address the issue of poor implementation of capital public expenditures by improving the setting of priorities and management in that area.	Public Financial Management Reform Programme, 2016-2020
ENERGY, TRANSPORT AND TELECOMMUNICATIONS MARKET			
3	Connection to the regional market <i>Establishing of the institutional framework for implementation and application of the Trans-European Networks regulations related to the issuing of permits, licencing and “one-stop shop” procedures, construction of the road-railway Corridor 10, Belgrade – Southern Adriatic Route 4, Niš – Dimitrovgrad trunk gas pipeline, the Trans-Balkans Corridor</i>	ECOFIN R4 – Complete the works on the construction of Corridor X by the end of 2017. ECOFIN R4 – Achieve a significant progress in the preparation of construction of the Bulgaria-Serbia gas interconnection. PR 2016, p. 53 – Improve harmonization with the EU <i>acquis communautaire</i> , undertake capacity building and promotion of investment in energy efficiency and renewable energy sources, as well as achieve electricity price that clearly reflects the costs thereof. PR 2016, p. 53 - Undertake measures to fully separate <i>Srbijagas</i> and develop competitiveness in the gas market PR 2016, p. 51 – Additionally improve traffic safety on roads by undertaking measures to reduce fatalities and to adopt legal regulations for intelligent transport systems. PR 2016, p. 51 – Public Companies Reform), in addition to the projects of improvement of infrastructure capacities, it is important for the improvement of the railway network and overall services of railway transport, and that is the recommendation at the same time. IMF – Ensure the competitiveness on the energy market, develop the electricity and natural gas markets and their connection with the EU single energy market, as well as more intensive regional interconnection of the energy system of the RS.	Plan of Development of Railway, Road, Waterway, Air and Intermodal Transport in the Republic of Serbia from 2015 to 2020. Energy Development Strategy of the Republic of Serbia up to 2025 with projections up to 2030. Berlin Process(<i>Connectivity agenda</i>) Energy Law Law on Establishing Public Interest and Special Expropriation Procedures and Obtaining of Documentation for the Purpose of Implementation of Construction of Electricity Transmission System of 400 kV Voltage Level of the Trans-Balkans Corridor Law on the Spatial Plan of the Republic of Serbia from 2010 to 2020.
4	Development and improvement of the national broadband communication infrastructure <i>Consolidation of the broadband network owned by the public sector, construction of broadband access networks in</i>		Strategy of Information Society Development in the Republic of Serbia up to 2020. Electronic Communication Strategy of the Republic of

³⁵ ECOFIN R1– Recommendations by the EU Economic and Financial Affairs Council for the Western Balkans and Turkey of May 2016 (R1 – Recommendation 1)

PR – The EC Republic of Serbia Progress Report for 2016 (Progress Report 2016)

IMF – Stand-by Arrangement

PSR No.	Name of area and PSR	Recommendations ³⁵	Reference documents
	<i>municipalities across the country</i>		Serbia, 2010-2020.
SECTORAL DEVELOPMENT			
Development of the Agricultural Sector			
5	Improvement of competitiveness and the position of agricultural holdings <i>Establishing of institutional framework for implementation of the IPARD Programme, 2014-2020, implementation of national reforms for improvement of competitiveness of holdings</i>	IMF – Adjust the amount of subsidies per hectare to the total number of applications submitted by the expiry of the deadline on 30 June.2016, whereby total subsidy payments should remain within the limits of the allocated budgetary resources. PR 2016, p. 48 – Take all the necessary steps to meet the requirement in order to be entrusted with the tasks of budget execution for the IPARD II Programme, including allocation of relevant resources and capacity building of all the bodies of the IPARD Programme and improvement of the implementation procedures; adopt the action plan for harmonization with the EU <i>acquis communautaire</i> in the area of agriculture and rural development and start its implementation.	Law on Agriculture and Rural Development Agriculture and Rural Development Strategy of the Republic of Serbia, 2014–2024; National Agriculture Programme, 2017–2020. National Rural Development Programme, 2017–2020.
Industry Sector Development			
6	Increasing competitiveness of the processing industry <i>Prioritization of industrial branches with the highest growth and development potential, formulation of action plans for priority branches of industry</i>	ECOFIN R5 – Improve business environment and encourage private investments. PR 2016, p. 61 – Make efforts in order to improve predictability of the business environment and SMEs support programmes, with the stress on reduction in costs of access to finance.	Strategy and Policy of Industry Development of the Republic of Serbia, 2011-2020.
Development of the Services Sector			
BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY			
7	Package of measures to improve access to financial resources for SMEs <i>Improvement of the quality of offer of the banking sector, development of new financial instruments, as well as improvement of readiness of SMEs to access different sources of financing.</i>	ECOFIN R5 – Introduce the programme of guarantees for loans to SMEs. PR 2016, p. 35 – Better regulate and reduce the volume of parafiscal levies, particularly for SMEs. PR 2016, p. 61 – Make efforts to improve predictability of business environment and SMEs support programmes, with the emphasis on reduction in costs of access to finance.	Strategy for Support of Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the Period of 2015-2020.
8	Reform of public enterprises <i>4 measures: 1. Introduction of corporate governance in public enterprises; 2. Railway reform; 3. Reform of the PC EPS; 4. Reform of the PC Srbijagas</i>	ECOFIN R2 – Support the fiscal consolidation by taking steps to find sustainable solutions for the remaining state-owned enterprises and continued organizational and financial restructuring of large public enterprises. PR 2016, p. 28 – Further restructure and privatize state-owned enterprises and deal with non-performing loans (NPL). PR 2016, p. 51 – Continue to focus on the railway reform. IMF – Proceed with the restructuring of public utility and transport enterprises; Ensure corporate and financial restructuring of state-owned enterprises.	Law on Public Enterprises Railway Reform Plan, 2016-2020 Programme of Reorganization of the PC EPS Plan of Financial Consolidation of the PC EPS Plan of Financial Consolidation of the PC <i>Srbijagas</i>
9	Simplification of procedures for business entities <i>Establishing of a single public register of administrative applications and procedures and setting up of the portal of the Single Electronic Contact Point (SECP), on which information important to service providers can be found</i>	ECOFIN R2 – Proceed with the reform of the government administration as planned. ECOFIN R5 – Improve business environment and encourage private investments by developing more transparent and less burdening system of parafiscal levies, introduce the programme of guarantees for loans to SMEs and re-launch the „guillotine of regulations“.	Strategy for Support of Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness for the Period of 2015-2020. The Strategy of Regulatory Reform and Improvement of the Public Policy Management System for the period 2016-2020 National Programme for Suppressing the Grey Economy
10	Establishing of the common information platform for all the inspectorates on the Republic level (e-inspection) <i>Improvement of coordination of inspectorates, legal regulation and establishing of the information system</i>	ECOFIN R2 - Proceed with the reform of the public administration as planned. PR 2016, p. 40 – Build capacities and independence of inspectors.	Public Administration Reform Strategy of the Republic of Serbia E-Government Strategy, 2015-2018.
RESEARCH-TECHNOLOGICAL ABSORPTION AND INNOVATIONS			
11	Programme to support innovations and technological development in the public and private sectors <i>Support to innovation and technological projects in scientific and research organizations and the private sector; establishing of the technology transfer</i>	PR 2016, p. 86 – Adopt the action plan in order to implement the strategy and the road map of the scientific and research infrastructure, to encourage cooperation between industry and academic community and to increase the level of investments in research.	Scientific and Technological Development Strategy of the Republic of Serbia, 2016-2020.

PSR No.	Name of area and PSR	Recommendations ³⁵	Reference documents
	<i>system.</i>		
TRADE INTEGRATION			
12	Improvement of the national quality infrastructure system <i>Reaching of a high development level of key elements of the quality infrastructure system: metrology, standardization, accreditation and compliance evaluation; efficient application of regulations related to the free movement of goods</i>	<p>PR 2016, p. 37 – Carry out further harmonization of the sectoral legislation and ensure better application of technical requirements and standards.</p> <p>PR 2016, p. 38 – Strengthen administrative capacities for exercising market supervision.</p> <p>PR 2016, p. 38 - Provide adequate administrative and oversight capacities for the purpose of implementation of the EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH).</p> <p>PR 2016, p. 93 – Strengthen the capacities for control of dual-use goods export.</p>	Quality Infrastructure System Improvement Strategy for the Period of 2015-2020
EDUCATION AND SKILLS			
13	Qualifications oriented to the labour market requirements <i>Adoption of the integrated NQF and the Law on the NQF, establishing of the Register of Qualifications and sectoral councils, as well as qualification standards</i>	<p>PR 2016, p. 87 - Proceed with the implementation of the Action Plan for education reform in line with the schedule.</p> <p>PR 2016, p. 87 – Set up the National Agency for Erasmus + Programme.</p>	Education Development Strategy until 2020.
EMPLOYMENT AND LABOUR MARKET			
14	Improvement of effectiveness of measures of active employment policy with special focus on the young, redundant workers and the long-term unemployed <i>Development of the system of early screening of unemployed persons and their inclusion in active employment policy measures (AEP) through a package of services, and according to the requirements of the labour market and characteristics of the unemployed person</i>	<p>ECOFIN R6 – Improve implementation of targeted AP3 measures, particularly in order to enable reintegration of the workers who will be declared redundant in the course of resolving of the issue of state-owned enterprises and rightsizing of the government administration. Increase the capacities of the NEA to extend the implementation of such measures in order to include a greater number of beneficiaries.</p> <p>PR 2016, p. 59 - Provide financial and institutional resources for employment in order to guide the young and long-unemployed persons in a more systematic way.</p> <p>PR 2016, p. 59 – Considerably strengthen two-party and three-party social dialogues at all the levels, including consultations on draft legislation.</p> <p>PR 2016, p. 59 – Additionally increase administrative capacities of the Labour Inspectorates, in order to support the implementation of the national programme for combat against informal economy.</p>	<p>National Employment Strategy for the Period of 2011-2020.</p> <p>Annual National Employment Action Plans.</p> <p>Employment and Social Reform Programme-ESRP</p>
SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES			
15	Improved adequacy, quality and targeting of social protection <i>Increase of adequacy of cash payments and improvement of availability and quality of social welfare services through amendments in the legislation; IT interconnection of different sectors</i>	<p>PR 2016, p. 59 - Provide financial and institutional resources for the social policy in order to guide the young and long-unemployed persons in a more systematic way.</p> <p>PR 2016, p. 59 – Increase efficiency of social benefits for people below the poverty line.</p> <p>PR 2016, p. 73 – A sustainable institutional setup is needed for promotion of gender equality (with adequate resources).</p>	<p>Law on Social Welfare</p> <p>Employment and Social Reform Programme-ESRP</p>

3. Analysis per area and the priority structural reform measures

3.1. Area PUBLIC FINANCE MANAGEMENT

Despite the improvement in tax policy and administration aimed at achieving efficient and effective management of tax revenue, key challenges in the area of public finance management (PFM) still include: tax evasion as a result of the inefficient mechanism for auditing, assessing and collecting taxes and other public revenues, the implementation of planned capital investments. There is also room for more efficient management of other budget funds, as a consequence of the lack of a comprehensive planning and budget system at the level of the public administration, and assessments of project feasibility, project preparation, planning and monitoring.

Serbia's total tax revenue has substantially increased during the previous period (by more than EUR 560 million in 2016, according to the estimate of the Ministry of Finance), *inter alia*, as a result of increased efficiency in the tax revenue collection and a higher number of electronic services provided by the Tax Administration, as well as of the work of other inspection services in combating the grey economy. Efforts made to combat operating in the informal economy have led to an increase in the coefficient of efficiency in the VAT revenue collection from 70% in 2015 to 75% in 2016³⁶. Improved performance of the Tax Administration and its processes, reflected in the gradual change in the size and structure of human resources and establishment of an appropriate risk assessment system, will make it possible to direct limited resources towards taxpayers who are most likely to be non-compliant.

Although the realization of capital investments has increased (from 40% to 65% planned by programmes) deficiencies remain reflected in the existence of: inadequate project documentation, difficulties in land expropriation, insufficient control of contractors resulting not only in missing the contractual deadlines, but also in rises in the cost of works during implementation, slow issuing of various licenses, etc.

Implementation of ECOFIN recommendations: Through the implementation of *Priority Structural Reform (PSR) 1. Tax Administration Transformation*, the ECOFIN recommendation 2 of May 2016 is being implemented (*Further improve revenue collection in a systematic and business friendly way by implementing the tax administration transformation programme*). The application of the detailed plan for reform of the Tax Administration has led to the integration and simplification of tax procedures, which is also in line with the recommendations of the European Commission (2016 EC Progress Report for Serbia, p. 55). During 2016, the 2017 Tax Compliance Plan was drafted based on the tax compliance risk map. Training courses were held for tax compliance risk management. A draft of a new organizational structure at all levels of the Tax Administration has been prepared.

The planned reform will also result in less cumbersome procedures for paying taxes, thus improving this component important for improving the conditions for doing business (more details in the section on the area Business Environment). New electronic tax returns and services are continuously introduced with a view to fully implementing e-business of the Tax Administration by 2018. A project team has been set up to establish the organizational unit for providing services to taxpayers, who has prepared the draft Taxpayer Services Strategy.

ECOFIN Recommendation 4. (*Address the under-execution of public capital expenditure by improving its prioritisation and management*) is implemented through *PSR 2. Improved management of capital investments*. Based on the analysis of the current state of planning capital projects from all funding sources, a report has been prepared with recommendations for improving the system of capital investment management. Coordination activities between

³⁶Fiscal Council, Assessment of Fiscal Trends and Structural Reforms in 2016

relevant institutions are currently being finalised to improve the system of managing capital investments.

Priority structural reform 1. TAX ADMINISTRATION TRANSFORMATION

Structural reform outline

The reform envisages further simplification of integrated tax procedures, training of employees and enhancement of operational activities to combat the grey economy, which should contribute to lower compliance costs (easier and fairer conditions for doing business) and improved tax collection (stability of public finances). Likewise, the reform includes the development of a tax compliance plan and a plan for quality employee retention, the adoption of a new organizational structure and redesigning of the system for human resources management, as well as the establishment of a new risk management system. Activities are also envisaged for improving the audit and collection functions, tax and legal affairs and non-tax functions, as well as for more efficient management of material and IT resources. The measures are carried out in accordance with the 2016-2020 Public Financial Management Reform Programme and the Strategy for Public Administration Reform of the Republic of Serbia.

Current structural reform preparation status and implementation plan

In 2016, training courses in tax compliance risk management were organized. The text of the 2017 Tax Compliance Plan was prepared. The proposal of a new organizational structure at all levels of the Tax Administration was made, whose implementation should commence in 2017, and which provides for the establishment of an organizational unit for taxpayer services and the establishment of a system for efficient management of seized goods. The introduction of new systems for electronic returns and services will continue, while full implementation of electronic operations of the Tax Administration is planned for 2018. The establishment of a single data warehouse and automation of communications between the Tax Administration and other state bodies will be continued.

Budgetary implications of the structural reform

The Budget Law for 2017 envisages EUR 4,585,663 for the implementation of the structural reform. The positive impact on the budget will be reflected through improved tax collection, particularly for indirect forms of tax, due to a decrease in the informal economy (estimates of additional annual income are around 0.25% GDP), providing estimated positive effects of around EUR 65 million per year.

Risks in priority structural reform implementation

Concerning the Tax Administration transformation the following key risks have been identified: limited financial resources for the implementation of the transformation programme, inadequate professional competence of employees for the implementation of reforms. A particular challenge is to maintain the headcount in the information technology department due to competitive salaries in the private sector.

Expected impact on competitiveness

By improving the efficiency and effectiveness of core business processes, raising the quality of services and reducing tax compliance costs, the process of assessing and paying taxes for taxpayers will be simpler, more predictable and cheaper, thus lowering operating costs and boosting competitiveness. Simplified procedures for starting a business will encourage the setting up of new enterprises and in particular start-up companies. A modern and efficient tax administration will contribute to the stability of public finances and widening the fiscal space for investment. The reform is implemented while accepting international best practices and norms of European *acquis*, making Serbia more attractive for investment.

Expected social impact

Improving the efficiency of the Tax Administration will make the process of assessing and paying taxes simpler, more predictable, more consistent and cheaper, thus improving the equality of participants in the market. Clear tax rules encourage citizens to start their own businesses and thus increase employment and the overall economic growth. Better collection of taxes improves capacity to make budget allocations for social welfare, education and health.

Indicator for monitoring the structural reform implementation

	2015/2014 (BLV)	2016/2015
Ratio of newly registered taxpayers in two consecutive years - TV: 92.48 (2018/2017)	112.9	106.46
Ratio of newly identified revenue ³⁷ in two consecutive years - TV: 100.5 (2018/2017)	100.6	87.93
Collection rate relative to the target level ³⁸ - TV: 100.3 (2018/2017)	103.9	107.1

Priority structural reform 2. IMPROVED CAPITAL INVESTMENT MANAGEMENT

Structural reform outline

The establishment of a single platform for capital investment planning and a methodology for the capital investment analysis and planning is geared to strengthening the mechanism for capital investment management. This platform implies subjecting all potential projects to a cost-benefit analysis for the purpose of their prioritization. Public investment planning includes: assessment of capital projects proposed by budget beneficiaries and development of the implementation plan, coordination of planning and selection of capital projects/investments regardless of the funding source (central or local government budgets, EU funds and other sources) and finally, monitoring of the implementation of approved capital projects in order to timely detect and remove obstacles and manage risks more efficiently. Capital project management is covered by *the Public Financial Management Reform Programme 2016-2020* as part of the reform measures under Pillar II 'Public Expenditure Planning and Budgeting'. The process also takes into account the activities of the National Investment Committee (NIC) and the Single Project Pipeline, i.e. the Methodology for the selection and prioritization of infrastructure projects established in the Republic of Serbia in 2014.

Current structural reform preparation status and implementation plan

A unit for capital project evaluation has been set up at the Ministry of Finance, which improved the institutional framework. A report with recommendations for improving the system for capital investment management has been prepared based on an analysis of the current status of capital project planning from all funding sources. Finalisation of the methodology for improving capital investment management will be carried out in 2017, while the implementation and updating of a single information database of capital projects and assessment of capital projects by budget beneficiaries and the Ministry of Finance is envisaged for the coming three-year period.

Budgetary implications of the structural reform

The reforms are funded from the regular budget expenditures of the Ministry of Finance. Improved management of capital investment implementation will produce an indirect positive impact on the budget coming from public revenue, as well as from savings in the budget arising from lower expenses for commitment charges on approved loans and lower additional contingency expenditure for the performance of works.

Risks in priority structural reform implementation

³⁷ Tax revenues collected on the basis of audits by tax inspectors.

³⁸ It shows the ratios in the collection of the most important budget revenues in a given year (personal income tax, corporate income tax, VAT and excises) to the budgeted amounts.

The lack of a modern human resource management system, which results in an outflow of expert staff for the assessment and prioritisation of proposed projects and subsequent investment project management constitute the key risk for reforms in the area of public financial management.

Expected impact on competitiveness

The more efficient implementation of capital/public investments is an anti-recession and developmental economic policy measure that produces significant positive effects in the short run and has a positive impact on economic growth, more than other public expenditures. In addition to direct effects of the capital project implementation on employment and growth, the upgraded quality of physical capital, especially transport and communication infrastructure reduces the time of transport, cuts costs, reduces trade barriers, boosts competitiveness of the national economy and creates conditions for its quicker recovery (for more details see the section on Infrastructure).

Expected social impact

More efficient planning, monitoring and implementation of capital, especially infrastructure projects, leads to an increase in overall trust in institutions, in the transparency of the process of spending funds and managing capital, and limits the room for corruption. Some positive, indirect social impact can be expected in terms of stronger local demand for certain profiles on the labour market and improved (geographical) distribution of goods and services. In regions where capital projects are implemented certain negative effects on public health can arise: a higher concentration of traffic, more pollution, a higher noise level.

Indicators for monitoring the structural reform implementation

	2015 (BLV)	2016
Implementation rate of planned investment within programmes - TV: 70% (2018)	40%	65%

3.2. Area ENERGY, TRANSPORT AND TELECOMMUNICATIONS MARKET

Despite the progress in the implementation of the priority infrastructure projects, key weaknesses in the areas of physical, telecommunications infrastructure, as well as in the energy system, are reflected on insufficient connection of these markets of Serbia with the markets of the countries in the region, an insufficient diversification of energy sources, import dependence, the long-term lack of investments in new capacities, high transportation costs, underutilised capacities for better communications links.

The electric power system is characterized as obsolete and having inefficient generation capacities (an average age over 25 years), as the consequence of long-term lack of investments in new energy capacities and preventive system protection. However, energy supply of Serbia is above the average in the region. In 2015, the total primary generation of energy amounted to 10.8 mill. Tonne of Oil Equivalent (hereinafter: TOE) – which is around twice more than the average of the countries in the region, while energy import of 5.578 mill. TOE in 2015 was somewhat below the average in the region. The total production of energy, i.e. the energy intensity of Serbia observed in terms of the GDP level, is along with Bulgaria the highest in the region, while the level of final energy consumption (without non-energy consumption) of 8.073 mill. TOE in 2015 is around 50% above the average in the region. According to the energy balance of Serbia we note a decrease or stagnation in energy use for the period 2009-2014.

The electric power system of the Republic of Serbia should be further developed and connected with the electric power systems of the countries in the region, and the construction of the electricity transmission system of 400 kV voltage level, the “Trans-Balkan Corridor”, which will interconnect the markets of the Eastern and Western Europe, will considerably

contribute to the improvement of energy stability, competitiveness and regional integration of the Serbian electric power industry.

The price of electricity needs to be established so as to clearly reflect the costs. The price of electricity in Serbia marks a mild growth in the 2013-2016 period. However, despite the price growth in the course of Q3 of 2016, Belgrade still has the lowest price of electricity as compared to other European cities, which for households and economy amounts to around €0.067 per KWh (the price varies depending on the category of consumption and daily tariff).

There is a lot of potential in the Republic of Serbia for improving energy efficiency, and thus increasing the competitiveness of the economy, i.e. reducing energy and fuel costs in the public sector and households. To this end, it is necessary to provide support for the implementation of the energy efficiency policy, primarily through **securing greater funds and strengthening capacities for improved operation of the Budget Fund for the Improvement of Energy Efficiency**, in order to enable greater incentives for investments in increasing energy efficiency. **It is also necessary to provide support for the introduction of the energy management system** in the private and public sector, in order to analyse the status regarding energy consumption and implement specific measures to improve energy efficiency. The system should encompass around 70% of primary energy consumption. Trainings have been implemented for energy managers in the field of municipal energy, industrial energy and building energy since June 2016. The trainings were completed by approximately 180 candidates, with licences issued for 21 energy managers. Serbia should continue harmonization with the EU acquis in the field of energy efficiency. Capacities should be significantly improved, particularly within the Department for Energy Efficiency of the Ministry of Mining and Energy. Achieving a price of electricity that clearly reflects the costs thereof is also one element that could contribute to increasing energy efficiency (*EC Progress Report for Serbia, p. 54 and 55*).

The gas infrastructure is characterized by the linear natural gas transport system with only one inlet into the country, which is unfavourable from the aspect of energy security and market development. It is necessary to provide gas interconnection with adjacent countries, which would open up the possibility of supplying natural gas from other supply routes as well, first of all from the direction of Bulgaria.

The domestic natural gas market is small in size and has been fully open since 2015. All the natural gas end buyers are entitled to freely select their supplier in the market. For the purpose of ensuring security of supply, all the facilities of end consumers connected to the natural gas distribution system, if they do not select another supplier, are entitled to public supply at regulated prices. It is necessary for Serbia to undertake measures in order to fully separate *Srbijagas* and develop competitiveness in the gas market (*EC Progress Report for Serbia, p. 53*).

The share of crude oil from local production in processing in refineries amounted to 24% in 2015, which makes the economy highly import-dependent on oil and oil derivatives. For the purpose of raising the level of security of supply to end consumers, as well as of meeting internationally assumed obligations, formation of mandatory reserves of oil and oil derivatives has been initiated in the event when safety of supply of Serbia is jeopardized due to disruptions in supply of energy and energy commodities.

Serbia belongs to the states that have well developed road network, of the total length of 40,845 km, which consists of public (state roads, municipal roads and streets) and uncategorized roads. **The quality of the network of state roads** (16,713 km, out of which 5,331 km of I category and 11,382 km of II category) **deteriorated in the period of 1990-2000 due to insufficient investments and maintenance**. The network has a sufficient capacity for the current and the volume of traffic assessed for the mid-term period. However, the network **is not fully constructed in terms of technical and exploitation performance, which has a negative effect**

on the competitiveness of the economy due to inability to provide the level of services at European standards. The reconstruction of 1,100 km of the state road network within the forthcoming five year period has been planned.

The overall road density, of 6.2 km per 1,000 inhabitants, considerably lags behind the EU-28 average (12.1 km) while, compared to the region, it is only higher than in Bosnia and Herzegovina and Albania. The number of vehicles is increasing on I and II category roads and, in 2015, it was 39,335,582 (2.3 million vehicles more than in 2014).

Non-modernized and worn-out road infrastructure and increase of the volume of road traffic have an impact on the **reduction in traffic safety** (a relatively high number of fatalities – 599 in 2015), increase of costs (due to reduced traffic throughput on main road routes) and increased negative impact on the environment. Serbia needs to additionally improve traffic safety on roads by undertaking measures for reduction of fatalities and to adopt legal regulations for intelligent transport systems (*EC Progress Report for Serbia, p. 51*). The MoI has been collecting data on traffic accidents since 2016, in accordance with CADAS (Common Accident Data Set) requirements and in accordance with EU regulations. Likewise, Serbia has started a Unified Database in the field of road safety, containing data related to traffic accidents, traffic safety indicators and opinions by traffic users, with the Road Traffic Safety Agency responsible for the development and use of this unified database. Serbia currently has ITSs (Intelligent Transport System) installed in 4 tunnels on the Belgrade bypass. A five-day training was held in Belgrade in 2016 for representatives of all SEETO countries regarding Road Safety Inspections (RSI).

On certain sections of the Corridor 10, collection of toll per kilometre travelled has started, which has been reflected on higher overall revenues, because the number of passenger vehicles has increased on those sections. With the increase of the toll rate of 10% from 1 January 2017 (toll rate has not been changed since 2008), more funds will be secured for adequate maintenance of roads. A possibility of securing concessions for construction and maintenance of Route 4 (Belgrade - Southern Adriatic) will be analysed.

The obsolete railway network enables quite modest passenger and freight traffic. Serbia has 3,739 km of railway network, out of which the total length of electrified tracks (without side tracks) is 1,275 km (the total length of tracks along electrified railway tracks is 2,263 km). The length of lines per 1,000 inhabitants amounts to 0.53 km, which is on the level of the average in the region. However, the passenger transport of 541 million passenger kilometres and the freight transport of 3.25 million freight kilometres are, judging by the volume, very much trailing behind the region. Bearing in mind that on certain lines, in the previous period, traffic was suspended and that, because of complete technical unreliability and lack of safety, investment of funds in the maintenance of those lines would be economically unjustified and inefficient, the Government issued the Resolution giving consent on the Decision on Suspension of Public Transport of Passenger and Goods on a Part of Railway Infrastructure – lines of the total length of 430.5 km (OG 80/2016). There is currently no ITS on the railways of Serbia, but current projects envisage the introduction of ERTMS. The drafting of the National Programme for the Development of Railway Infrastructure is under way. Access to railway infrastructure has been made possible for all railway transport companies if registered in Serbia, and the first contract between the infrastructure manager and a private operator was signed in June 2016. The reform of the railway sector on the principles of efficient and sustainable business operation (more in the Chapter Business Environment within Priority Structural Reform 8: Reform of Public Enterprises), apart from the projects of improvement of infrastructure capacities, is important for the improvement of the railway network and the overall service of railway transport, which is also a EC Recommendation (*EC Progress Report for Serbia, p. 51*).

The problem of unoptimal use of various modes of transport will be partially resolved through the construction of the first intermodal terminal in Batajnica, as a part of the logistic centre in Belgrade. This project will enable integration of all the transport sectors, increased mobility of freight, increased attractiveness and competitiveness of Serbia as a transit country with the reduced costs of transport of goods and impact of heavy-duty freight vehicles on the environment.

Corridor 10 (road - railway) and Corridor 7 (the Danube as a navigable waterway) are the basis of the transport system in Serbia. Both Corridors are parts of the Trans-European Transport Networks (TEN-T), which include road and intermodal transport, navigable waterways and sea ports and the European High-speed Rail Network. The SEETO organization, with headquarters in Belgrade, coordinates the cooperation in the development of the regional transport network (connectivity of the transport network of the Western Balkans and its inclusion in the European transport flows) and capacity building for implementation of investments.

Underdevelopment and traffic safety on inland navigable waterways reduces the utilization of economically favourable potential of this mode of transport in Serbia. The total volume of transport along interior waterways in Serbia varies year on year depending on hydro-meteorological and other navigation conditions, thus there was 8.1 mill. tons transhipped in 2012, 6.5 mill. tons in 2015, while there was 10 mill. tons transhipped in 2016. According to these data, Serbia is achieving medium results compared to other countries in the region. Hungary transhipped around 8.2 mill. tons in 2015, Bulgaria around 17.2 mill. tons, while Romania transhipped around 30 mill. tons. The River Information System RIS was fully implemented along the Danube and Sava rivers. The implementation of the project of hydro-technical and dredging works for the removal of 6 critical sectors along the Danube from Belgrade to Bačka Palanka was started, along with the project for the development and installation of a navigation monitoring system on the Danube (introduction of a system for marking waterways, i.e. installation of virtual buoys that emit digital information received from electronic equipment). After many decades, the first investments are planned in the development of port infrastructure, primarily regarding the expansion of the capacities of the Smederevo Port, as well as possibilities for the implementation of a new port in Belgrade with a free zone.

In addition to the development of transport infrastructure, particular attention is given to meeting the horizontal – soft measures intended to enable the more efficient implementation of infrastructural projects and improve the flow of goods and passengers in the Western Balkans region. The Berlin Process, established between regional participants and the European Commission, a number of national and regional measures has been defined and is currently under intense implementation and monitored year on year.

The TWG (Transport Facilitation Working Group) founded under the auspices of the European Commission and supervised by the Secretariat of the South East Europe Transport Observatory (SEETO), with participation of the Ministry of Construction, Transport and Infrastructure of the Republic of Serbia, is tasked with regular monitoring of the implementation of soft measures and reporting to SEETO on the progress achieved.

Regional soft measures include: 1. Opening the railway services market; 2. Defining the network for the implementation of EU freight corridors; 3. Adoption of the Road Safety Inspection (RSI) guidelines and training curriculum; 4. Development and implementation of the CEFTA agreement; 5. Defining a strategic framework for the implementation of Intelligent Transport Systems (ITS) along the Core Network, and 6. Adoption of the Maintenance Plan for 2016-2020 on the Core Network.

National soft measures encompass: 1. Implementation of the Agreement on railway transport between the Republic of Serbia and Macedonia for the border crossing Preševo-Tabanovce, and 2. Revision of the Agreement between Serbia and Bulgaria on cross-border railway transport.

During the past year and a half (since the WB6 Summit in Vienna in August 2015), Serbia made progress in meeting the soft measures, and based on these results the Western Balkans Investment Framework fund (WBIF Investment Grant, 2016) approved funds during 2016 for the project of the reconstruction and modernization of the railway Niš-Dimitrovgrad (a project the Republic of Serbia applied for aiming to secure financing for part of the works – phase one). Intensive activities will be continued during the coming period, aimed at further implementation of the prescribed soft measures.

The communications infrastructure in Serbia needs to be systemically improved – both the regulatory framework, and the area of investments. The communications infrastructure consists of electronic communications resources (technological, organizational and business ones, in public or private ownership), through which electronic communications services to citizens, economy and public sector are enabled.

Administrative costs and complexity of procedures for obtaining the necessary permits for construction of optical networks are some of the identified deterrents to the development of the communications infrastructure. Constructed networks of optical systems owned by the state are insufficiently utilized and, therefore, it is necessary to ensure more efficient use of the already existing capacities. The network of optical cables with 80 nodes, which has been constructed on a network of long-distance power transmission lines of the total length of 6,000 km, is unutilized, and it can be the backbone for the formation of the national broadband network.

The problem of a standardized communications infrastructure that would provide fast, reliable and secure connection to the Internet of all users within institutions can be resolved by using the *Academic Network of the Republic of Serbia (AMRES)*. The network has 150,000 users to date, encompassing faculties, institutes, university libraries, student dormitories and post-secondary schools, with 1,800 primary and secondary schools also becoming part of the network in 2016. In the forthcoming period, conditions should be created for connection of the student welfare facilities, museums, libraries, archives and other institutions to this network.

In 2015, 56% of Serbian households had broadband access to Internet (78% of the average in the EU - 28). Up to 2020, in this area, Serbia should reach the EU level, which is defined as a goal in the Digital Agenda for Serbia. The Digital Agenda for Europe envisages that, by the end of 2020, 100% of the EU population will have broadband access, with speeds in excess of 30 Mb/s, or that 50% of the population will have access to very fast broadband service connections (with speeds in excess of 100 Mb/s).

Implementation of the ECOFIN recommendations: By implementing the *PSR 3. Improvement of the physical infrastructure for better connection with the markets in the EU and the region, through the projects 3.1-3.4.*, which are related to the *construction of certain sections on Corridor 10*, Recommendation 4 of the ECOFIN of May 2016 has been implemented (*to complete works on construction of Corridor 10 by the end of 2017*).

On the southern leg (E-75) of the road Corridor 10 (Grabovnica - Levosoje, with a length of 74 km) 83.4% of the works have been completed while, on the eastern leg of E-80 (Niš - Bulgarian border with a length of 87 km), 57.5% of the works have been finished. On the railway Corridor 10, in April 2016, works started on the reconstruction and modernization of three sections that are 46 km long (Vinarci - Đorđevo 15 km, Vranjska Banja - Ristovac 17.7 km and Bujanovac - Bukarevac 13.7 km), which are financed from the Russian loan. Upon completion of the works, train speed will be increased from the current 40-50 km/h to 100 km/h.

The issues of financing and the schedule of implementation of the project of *Construction of the Bulgaria – Serbia gas interconnection (project 3.6. within the PSR 3)* were detailed at the meeting of the Ministries of Energy of Serbia and Bulgaria in April 2016, which is in line with Recommendation 4 of the ECOFIN of May 2016 (*to achieve significant progress in the preparation for the construction of the Bulgaria - Serbia gas interconnection*). The point of intersection with the section of the gas pipeline in the Bulgarian territory was changed (by the Bulgarian partner). Accordingly, the Government of the Republic of Serbia adopted a new SPSPA for the infrastructural corridor of the trunk pipeline Nis-Dimitrovgrad. A memorandum of understanding was prepared in cooperation with the Bulgarian side. A significant amount of grant funds for co-financing the project (EUR 49.6 mill.) was proposed as part of the National IPA Programme 2017. Consultations are under way to secure the remaining funds required for project implementation.

Priority structural reform 3. CONNECTION TO THE REGIONAL MARKET

Project 3.1. E-75 AND E-80 MOTORWAYS CONSTRUCTION (Corridor 10)

Structural reform outline

Construction of the E-75 and E-80 motorway will enable better connections of Southeast Serbia with Western, Central and Southern Serbia and the Danube Basin in the Timok region. The project implementation will enable more efficient transport and improved traffic safety on the designed sections.

Current structural reform preparation status and implementation plan

On the southern leg (E75), sections from Macedonia to Levosoje (21.5 km), then from Donji Neradovac to Srpska Kuća (26.3 km) and the Grabovnica - Grdelica (5.6 km) section have been completed. On the eastern leg (E80), the following profiles have been partly put in use: Čiflik – Staničenje, the left lane 12.2 km long (by the end of 2017, the completion of the right lane is expected), the Pirot - Dimitrovgrad (15.3 km) section and the Prosek – Crvena Reka (12.3 km) section. Completion of the construction of sections of E-75 and E-80 motorways is expected to be mostly complete by the end of 2017, after which the period of designing and installation of fittings in the tunnels on the southern leg will follow. The procedure of selection of the contractors for the designing and installation of fittings in the tunnels of the eastern leg is under way. Completion of the construction of the tunnels is planned for 2017. There is a problem with ground waters and geology.

Budgetary implications of the structural reform

The total loan debt for the implementation of the E-75 and E-80 projects is EUR 1,004,200,000. The estimated value of the works is EUR 872.5 million, while the costs of expert supervision, environmental supervision and occupational safety, as well as the costs of the financial audit, procurement of traffic safety equipment, etc. are covered from the remaining loan of EUR 131.7 million. The Budget Law for 2017 allocates EUR 2,400,000 for the construction of the section BC Kelebija –Subotica South loop, while non-budget funds are envisaged to the amount of EUR 122,448,000.

Risks in priority structural reform implementation

Problems related to the expropriation of land, problem in contracting the tunnel fittings.

Expected impact on competitiveness

The construction of the South and East leg of Corridor 10, in the short run, will increase the demand for labour while, in the long run, will reduce trade barriers and the price of transport of goods therefore improving the competitiveness of companies.

Expected social impacts

In the short run, the construction of the motorway will have a positive social impact through increased construction-related employment of the local population. In the long run, modern road infrastructure will ensure better geographical interconnectedness, availability of goods and services and mobility of labour. Safety in traffic will be improved and time of travel will be shortened.

Structural reform implementation monitoring indicators

	2015 (BV)	2016
Weighted percentage of physical implementation of the E-75 motorway – TV 100% (2017)	57.5%	83.4%
Weighted percentage of physical implementation of the E-80 motorway – TV 100% (2017)	49%	57.5%

Project 3.2. CONSTRUCTION OF THE ŽEŽELJ BRIDGE NEAR NOVI SAD INCLUDING ACCESS ROADS (Corridor 10)

Structural reform outline

The bridge is situated on the route of the Belgrade – Novi Sad - Subotica – state border with Hungary international railway line, from km 75+083 to km 75+557 (Corridor 10) and it is an integral part of the Project of reconstruction of the Belgrade – Budapest line. The designed bridge is to be 474 m long and is to contain two railway gauges enabling speeds of 160 km/h, two traffic lanes for road traffic 7.7 m wide and two cycling-pedestrian paths 2.5 m wide.

Current structural reform preparation status and implementation plan

The project is implemented through two contracts: the main Contract - Lot 1, which includes the procurement of materials, fabrication of all the steel elements and transport to the construction site in Novi Sad and the main Contract - Lot 2, which includes the construction of the foundations and piers, assembly of steel elements, installation of hangers, pushing of arches on the designed position on piers, construction of the concrete slab of the bridge, as well as dismounting of the temporary MD 88 bridge. The construction of access roads is implemented through a separate contract. The high water level of the Danube had resulted in the suspension of construction of the bridge for a total of 6 months, and hence the completion of the bridge is expected in the fourth quarter of 2017. As the consequence of the delay in construction of the bridge, i.e. inability to hand over the site for carrying out of the work contracted for, the planned activities on the construction of access roads have not been initiated.

Budgetary implications of the structural reform

The value of investment is EUR 45,310,001. The construction of access roads is financed from IPA 2011/IPA 2015 funds. The Budget Law for 2017 envisages EUR 6,400,000 for the construction of the railway traffic-road traffic bridge across the Danube in Novi Sad (Žeželj's Bridge).

Risks in priority structural reform implementation

Failure to ensure continuity in carrying out the works.

Expected impact on competitiveness

The bridge is going to speed up railway traffic, facilitate transport of goods on this route and reduce trade barriers whereby the competitiveness of companies will increase.

Expected social impacts

The key social impact is reflected on increased safety, and, in the short run, also on increased construction-related employment of the local population. In the long run, this project will have impact on a better geographical interconnectedness, availability of goods and services and mobility of labour.

Structural reform implementation monitoring indicators

	2016
Bridge built within the planned deadline – TV (2017)	0

Note: 0 – bridge not built; 1 – bridge built

Project 3.3. MODERNIZATION OF BELGRADE - SUBOTICA – KELEBIJA RAILWAY LINE (STATE BORDER WITH HUNGARY) (Corridor 10)

Structural reform outline

Modernization of the existing line upgrading it to a double-track electrified line for passenger and freight transport of speeds up to 200 km/h equipped with modern electrical equipment will ensure a high level of safety of services of transport of passengers and goods in local and international traffic. This line is part of the Trans-European Transport Networks. The governments of Hungary, PR China and the Republic of Serbia have signed a Memorandum of Understanding on the construction of the Hungary-Serbia Railway Line. The construction of the railway Belgrade-Novı Sad-Kelebija-Budapest was declared a priority project by the Government.

Current structural reform preparation status and implementation plan

The Commercial Contract on Modernization and Reconstruction of the Hungarian–Serbian Railway Line in the Territory of the Republic of Serbia has been signed for the Belgrade Centre - Stara Pazova line section between the Government of RS, *Infrastruktura Źeleznice Srbije a.d.* and the Joint Venture of China Railway International Co. Ltd. and China Communications Construction Company Ltd. to the value of EUR 319.9 mill. The Contract with the consortium of Chinese companies stipulates construction of a double-track line 34.5 km long from the Belgrade Centre station to Stara Pazova of the speed of 200 km/h. Phased implementation of the reconstruction and modernization of the Stara Pazova – Novi Sad section has been agreed (Annex 3 to the "Russian loan"), i.e. the works on the tunnel and viaduct (beginning in May 2017), as well as the works on the open line, for which the technical documentation needs to be completed. The technical documentation for the section Novi Sad – Kelebija is under consideration, with efforts being made for the Commercial Contract on construction for this section to be harmonized by the end of 2017.

Budgetary implications of the structural reform

The Budget Law for 2017 envisages funds to the amount of EUR 6,000,000 for the Hungarian-Serbian railway project. Non-budgetary funds have been envisaged to the amount of EUR 800,000. The project will generate significant savings in costs in passenger and freight transport, such as: savings in operating costs of trains as the consequence of reduction of the time of travel, reduced pollution of the environment, savings in costs of exploitation of road vehicles, reduced traffic accidents. The project implementation will also produce a series of indirect effects, harder to disclose in terms of money, such as: improved access to work centres enabling easier migration of the local population, increased reinvesting of revenues in the local economy, mitigated risk and elimination of consequences of chemical and other accidents.

Risks in priority structural reform implementation

Problems related to the expropriation of land.

Expected impact on competitiveness

Increased throughput and transportation power of the line will have direct effects on increased competitiveness of railway transport as compared to other modes, which will attract new users of railway services because of the quality of the provided services, redistribution of transport from roads to railway, increased economic sustainability of providers of railway services, etc.

Expected social impacts

Positive effects of the modernization of the line will be reflected on increased comfort, regularity of transport and shorter time of travel for users of services, as well increased safety of traffic participants (grade-separation of all the crossings of roads and the railway line is planned). Also, better integration of the labour market is expected due to easier mobility of labour, and increased employment of the local population.

Structural reform implementation monitoring indicators

	2016
Prepared design for obtaining a construction permit – TV (2017)	0

Note: 0 – design not prepared; 1 – design prepared

Project 3.4. MODERNIZATION AND REHABILITATION OF THE NIŠ - PREŠEVO SECTION OF THE NIŠ – BRESTOVAC SINGLE-TRACK RAILWAY LINE (Corridor 10)

Structural reform outline

The Niš – Preševo single-track line (151 km) is a part of the oldest railway line in Serbia and the main railway route interconnecting Macedonia and Greece with the rest of Europe. The Niš – Brestovac section (23.4 km) accounts for 15% of the length of the Niš – Preševo line. The project includes the reconstruction and modernization of the line for speeds up to 120 km/h, as well as the reconstruction and modernization of the all the elements of railway infrastructure (the track bed and permanent way, construction work, track gauge work and works on electrification, reconstruction of stations and signalling and telecommunications equipment).

Current structural reform preparation status and implementation plan

The Feasibility Study with the Preliminary Design and the Environmental Impact Assessment Study were made for the section of the Niš - Brestovac line in June 2013, financed from EU donations. The location requirements are being renewed because the previous ones have expired, after which the review of the Feasibility Study with the Preliminary Design by the Republic Review Committee (RRC) will follow. The project is an integral part of the Action Document IPA 2015. The signing of the contract with the most advantageous bidder and commencement of the work, which will last for three years, are planned for the beginning of 2018. In order to start with the preparation of the tender documents, the RRC needs to approve the preliminary design for this section.

Budgetary implications of the structural reform

The cost of works is EUR 59,818,282: the EU is participating with EUR 44,078,644, while the Republic of Serbia is co-financing with EUR 15,739,638. The price of works includes developing the design for obtaining a construction permit. The amount of financial supervision over the works is EUR 2,906,252, to be financed from EU assistance funds. The project implementation will produce positive effects on the budget, through increased flow of passengers and freight (an increase of up to 15%), as the result of increased speed of travel of trains and reduced time of transport in passenger and freight traffic, i.e. increased throughput and transportation power of the line. Also, the project will generate significant savings in costs of passenger and freight transport, which will appear as the consequence of the envisaged capital investments. Better railway infrastructure, in addition to increased quality of the level of services in railway traffic, will contribute to the economic development and will result in numerous indirect economic and financial benefits.

Risks in priority structural reform implementation

Failing to obtain all the location requirements, the review of the prepared documentation by the RRC.

Expected impact on competitiveness

In the short run, there will be increased construction-related employment, as well as opportunities to engage local companies. At the same time, the time of travel of passenger and freight trains along this section will be reduced, which will contribute to increased traffic volume and quality in the services of passenger and freight transport between Southern and Western Europe.

Expected social impacts

Positive effects of the line modernization will be reflected on increased comfort, regularity of transport and shorter time of travel for the users of services, as well as on increased safety of traffic participants (grade-separation of all the crossings of roads and the railway line is planned). Also, a better integration of the labour market is expected due to easier mobility of labour and increased employment of the local population.

Structural reform implementation monitoring indicators

	2016
Prepared design for obtaining a construction permit – TV (2019)	0

Note: 0 – design not prepared; 1 – design prepared

Project 3.5. ROUTE 4 (E-763 BELGRADE - SOUTHERN ADRIATIC MOTORWAY) CONSTRUCTION

Structural reform outline

The construction of the Belgrade – Southern Adriatic motorway (through Serbia from Belgrade to Boljare, the border with Montenegro, it is going to be 258 km long) will improve the road network of the Republic of Serbia by provision of better-quality and safer service, compatible in performance and functionally integrated in the Trans-European Transport Networks. Route 4 will interconnect Romania, Serbia, Montenegro and Italy. It will stretch from Timisoara, via Vršac, Belgrade, Čačak, Požega, Podgorica to Bar, and go seaborne, across the Adriatic, to be connected with Bari in Italy. The part of the Strategy of Development of Railway, Road, Waterway, Air and Intermodal Transport in the Republic of Serbia for 2008-2015, which is related to the development of the transport system (vision for 2015 – Long-term Development of the Public Road Network), stipulates the construction of the E-763 Belgrade – Southern Adriatic motorway, as the continuation of the motorway from the Romanian border – Vršac – Pančevo – Belgrade (E-70; M1.9).

Current structural reform preparation status and implementation plan

The sections: Ub - Lajkovac (12.5 km) and Ljig - Preljina (40.36 km) have been fully constructed and the construction of the sections Obrenovac – Ub (26.23 km) and Lajkovac - Ljig (24 km) is under way. The preliminary designs for the sections: Surčin - Obrenovac (17.6 km) and Preljina - Požega (30.96 km) have been prepared and a Memorandum of Understanding has been signed at the end of 2015 with the Government of China for the construction of these sections. The Contract on Financing of the construction of the Surčin - Obrenovac section was signed to the value of EUR 208 million (the deadline for the completion of the work is the end of 2019). The above sections (other than the section Preljina-Požega) comprise 47% of the total length of Route 4 and should be built by the end of 2019. Efforts are being made to find possibilities for the construction and financing of the section Preljina-Požega, so that the three year construction can begin as soon as possible. In 2018, preparation of the design documentation for the Požega - Boljare (107 km) section is planned, and the drawing up of the Special-purpose Area Spatial Plan (SPASP) for the infrastructure corridor and preparing the report on the strategic environmental impact assessment of the SPASP are under way.

Budgetary implications of the structural reform

The Budget Law for 2017 allocates EUR 40.4 million, with EUR 23.2 million for the section Obrenovac-Ljig, and EUR 17.2 million for the section Surčin-Obrenovac. Regarding the section Surčin-Požega, the Government opted to finance the project through a loan (EUR 1.2 billion), and expressed interest in cooperation with a Chinese company, under the condition that it meets the requirements to qualify as a contractor for the Project. The impact on the budget of the section from Požega to the border with the Republic of Montenegro is currently unknown.

Risks in priority structural reform implementation

Problems in contracting the construction of the section Preljina - Požega; Failing to find a method of financing the Požega - Boljare section; Problems related to expropriation.

Expected impact on competitiveness

Construction of this motorway will enable a better road connection of Serbia to Montenegro and the Port of Bar, as the ultimate destination, which will facilitate integration of Serbia in container flows and will attract international flows of goods and passengers. In the short run, it will give rise to increased construction-related employment. Additionally, engagement of local companies will increase and there will be higher employment of the local population.

Expected social impacts

Regions in which the road network is undeveloped or obsolete demographically wither away, and this has been evident in Serbia in the past several years. Therefore, the construction of the Belgrade – Southern Adriatic motorway will not only contribute to the economic development of the society, but also mitigate negative demographic trends and, therefore, contribute to the reduction in differences in regional development. Better interconnection of undeveloped and devastated southern regions with developed parts of Serbia, with shorter travel time, lower travel costs and higher traffic safety, will enable better living conditions for the local population, development of entrepreneurship and a higher standard of living. Moreover, the construction of the motorway will relocate transit flows from urban city zones, which will have a positive impact on the health of the population due to reduced pollution and noise in urban communities.

Structural reform implementation monitoring indicators

	2015 (BV)	2016
Percentage of implementation of construction of Route 4 Belgrade – South Adriatic – TV 47% (2019)	10.4	43.8%
No. of constructed kilometres in operation – TV 120.7 km (2018)	0	40.36 km

In with the area of the priority structural reform 3 (Connecting into a regional market) which consists of five transport projects 4 on Corridor 10 and one in Route 4 (Highway E763, Belgrade – Southern Adriatic), we also note the following additional projects aimed at connecting the Republic of Serbia into the regional market, from the aspect of transportation:

1. Completion of the bypass around Belgrade – Sector B (from Ostružnica to Bubanj Potok), with the Commercial Agreement with the Chinese company Synohydro valued at EUR 207 mill. signed in Riga in November 2016.
2. Continuation of the completion of the Bypass around Belgrade – Sector C (from Bubanj Potok to Pančevo) with a new road-railway bridge across the Danube, with no sources of financing secured.
3. “Fruškogorski corridor” (Novi Sad – Ruma) with the completion of the design-technical documentation envisaged by the end of 2017.
4. “Morava corridor” (E-763, Section: Pojate – Preljina), with the start of negotiations regarding the Commercial Agreement to follow.
5. Motorway Niš-Merdare (Priština) – completion of the design-technical documentation is envisaged mostly from WBIF funds by the end of 2018.

6. Electrification of the railway line Niš-Dimitrovgrad (Corridor 10), the start of works for the first phase of the project is expected in late 2017 or early 2018, to be financed from WBIF and EIB funds, as well as the budget of the Republic of Serbia.
7. The construction and expansion of border crossings aimed at reducing delays for freight and passenger vehicles therein – we note the expansion on the road border crossing Batrovci – Phase 2 (Corridor 10, border with Croatia), with the start of works expected in late February 2017.
8. Simplification of procedures along railway border crossings towards neighbouring countries (Hungary, Romania, Bulgaria, Macedonia, Montenegro) to reduce the duration of stops for trains on border crossings through the construction of common border railway stations.

The financial funds from the budget of the Republic of Serbia for the implementation of structural reforms in 2018 and 2019 must be planned in accordance with the awarded limits for the holders during the budget procedure. Due to the implementation of fiscal consolidation measures, securing additional financial funds for the implementation of structural reforms in 2018 and 2019 is not possible, having in mind the limited balance capabilities and limits determined by the Ministry of Finance.

Project 3.6. NIŠ – DIMITROVGRAD TRUNK GAS PIPELINE CONSTRUCTION

Structural reform outline

The construction of the Niš – Dimitrovgrad trunk gas pipeline (MG) 108 km long will provide diversification of routes and sources of supply, with the improvement of supply safety of Serbia, Bulgaria and the entire region. The northern part of the gas pipeline system will be significantly unburdened. In addition to the improvement of safety in supply of the Serbian natural gas market and further development of the distribution network through Serbia, the project enables integration of the existing and future natural gas storage capacities into a single energy system, which is key when establishing the integrated regional market and is in line with the provisions of the Treaty establishing the Energy Community. The introduction of new gas pipelines in Serbia is planned by the Energy Development Strategy of the Republic of Serbia up to 2025 with projections up to 2030 and the Law on the Spatial Plan of the Republic of Serbia from 2010 to 2020.

Current structural reform preparation status and implementation plan

The change of the point of intersection (by the Bulgarian partner) with the section of the gas pipeline in the Bulgarian territory, gave rise to the amendment of the Spatial Plan of the Area of Special Purpose (SPASP) of the infrastructural corridor of the Niš - Dimitrovgrad gas pipeline, adopted in December 2016. Obtaining of the building permit is expected in 2018, while the tender documentation is expected to be completed during the first quarter of 2019.

Budgetary implications of the structural reform

The investment value of the project is around EUR 85.5 million. The Ministry of Mining and Energy proposed securing an amount of EUR 7,355,600 for the expropriation of land in 2017 within the relevant account of the Ministry of Finance, to be realized once the conditions to implement the project are met. Likewise, PE “Srbijagas” will provide an additional amount of EUR 40,000 from their own funds for this project in 2017.

Risks in priority structural reform implementation

Possible risks in the implementation of the structural reform are related to Bulgaria’s possible withdrawal from the construction of the Bulgarian part of the gas pipeline, as well as to untimely allocations of financial resources for the project implementation. Problems are also possible in the tender procedure, delay in the preparation of the design and technical documentation and

obtaining the necessary permits, as well as problems in carrying out the expropriation of land in terms of identification of land owners.

Expected impact on competitiveness

The construction of the MG 10 Niš – Dimitrovgrad trunk gas pipeline will increase availability and safety in natural gas supply. Implementation of the project opens up the possibility of natural gas supply from Russia, but also from other supply routes, the so-called Southern Corridor (Azerbaijan, LNG from terminals in Greece, etc.). Through the availability and better price of natural gas as an energy commodity (which has an essential impact on the price of final products), production costs will be reduced and competitiveness of the regions that have gas pipelines will be increased (as well as their capacity to attract investments) and natural gas prices potentially reduced due to the reduction of transit taxes. Establishing of interconnections with the countries in the region is the precondition for creation of the regional natural gas market, which includes both the existing and planned natural gas storages in Serbia (Banatski Dvor and Itebej). Timely implementation of “soft measures” – transposing the directive on trans-European networks with relation to permits and licences, as well as ensuring “one-stop shop” procedures, will produce additional effects. The so-called TEN-E directive which was introduced in the process of adapting the acquis within the Energy Community, represents a means for accelerating the construction of infrastructure, applying cost sharing methods and reducing bureaucracy in obtaining permits.

Expected social impacts

Enabling introduction of gas pipelines in the regions of Eastern and Southern Serbia will increase competitiveness of this region with respect to capital investments, which will have impact on increased employment and development of the labour market. Increased employment will not be related to the energy sector only, but also to other branches of economy, which will be enabled to develop by natural gas supply as a competitive energy commodity. Groups in society, on which the implementation of this project may have a negative impact, have not been identified.

Structural reform implementation monitoring indicators

	2015 (BV)	2016
% of construction of the facility – TV 100% (2020)	0	25%

Project 3.7. TRANS-BALKAN CORRIDOR

Structural reform outline

The construction of the long-distance power transmission line and extension of the substations (SS) within the Trans-Balkan Corridor includes a set of projects for reconstruction of obsolete electricity transmission infrastructure, increase of cross-border transmission capacities, as well as raising of the level of safety in electricity supply to consumers in Serbia. The total length of the 400 kV long-distance power transmission line planned for construction in the first phase of the project of the Trans-Balkan Corridor in the forthcoming ten-year planning period is going to be around 320 km. This structural reform covers the following infrastructure facilities (electricity transmission sections): *Section 1*: 2×400 kV Pančevo – Rešita double-circuit transmission line, between Serbia and Romania; *Section 2*: SS Kragujevac 2 – SS Kraljevo 3 400 kV transmission line, including stepping up of the voltage level in SS Kraljevo 3 to 400 kV, which implies the construction of a 400 kV plant in SS Kraljevo 3; *Section 3*: Stepping up of the voltage level of the transmission grid of Western Serbia to 400 kV voltage level between SS Obrenovac and SS Bajina Bašta, which implies: a new SS Obrenovac – SS Bajina Bašta 2×400 kV double-circuit transmission line, reconstruction of the existing SS Obrenovac and SS Bajina Bašta, as well as potential stepping up of the voltage level to 400 kV in SS Valjevo 3, and *Section 4*: Bajina Bašta (Serbia) – Višegrad (B&H) – Pljevlja (Montenegro) 2×400 kV double-circuit transmission line. The strategic and legal framework that supports the construction of the corridor includes the Law

on Establishing Public Interest and Special Expropriation Procedures and Obtaining of Documentation for the Purpose of Implementation of Construction of 400 kV Voltage Level Electricity Transmission System of the Trans-Balkan Corridor – the first phase, and the Energy Development Strategy of the Republic of Serbia up to 2025 with projections up to 2030.

Current structural reform preparation status and implementation plan

Section 1: The construction contract has been signed in late 2015, envisaging the completion of construction by the end of 2017. The construction of the power line is under way, work on the construction of pylon foundations has been completed and the assembly of pylon bodies is under way. The work is on schedule for the planned completion of construction. The construction of this section is completely financed from the funds of EMS AD. The total investment value of Section 1 is EUR 25 million fully financed from the funds of the Transmission System Operator AD Elektromreža Srbije (AD EMS). The completion of works is expected at the latest in early 2018.

Section 2: The complete procedure of environmental impact assessment for the project was positively completed. The drafting of the technical documentation is in the final phase. The resolution of property and legal affairs is also nearing completion, i.e. the expropriation of land for pylon positions. The acquisition of a construction permit for building the power line is expected in Q4 2017. TS Kraljevo 3 – Completed preparatory procedure and obtained construction permit for the TS. A WBIF investment grant to the amount of EUR 5.6 million has been approved (linked to a KfW loan), along with EUR 1 million for technical assistance. In February 2016 the Government of Serbia established the negotiation bases with the German Development Bank KfW, Frankfurt am Main, regarding the approval of a loan for “Elektromreža Srbije” for the implementation of the project for the construction of the power transmission system “Trans-Balkans Corridor – Phase I”. The loan contract to secure credit funds to the amount of EUR 15 mill. for this section of the Project was prepared, with signing expected in late February 2017. The start of works is expected in 2018, and deployment in late 2020.

Section 3: A WBIF grant for technical assistance has been approved and utilized, within which the Preliminary Feasibility Study and the Feasibility Study have been made. The KfW grant has been approved amounting to EUR 250,000 for the harmonization of the existing Preliminary Design and the Environmental Impact Assessment Study with the provisions of the local legislation. The evaluation and selection of bidders for this harmonization has been finalized. Likewise, approval was provided for a WBIF grant for the technical assistance amounting to EUR 800,000 for the preparation of the Design for the building permit and the Detailed Design. The process of land expropriation has not been started yet, and its progress will impact the schedule during the coming period. The start of works is expected in 2020, and deployment in 2023.

Section 4: The WBIF grant for the technical assistance has been approved and utilized, within which the Preliminary Feasibility Study, the Feasibility Study, the Preliminary Design and the Environmental Impact Assessment Study have been made. The spatial plan of a special purpose area was drafted and passed technical control by the Ministry of Construction, Transport and Infrastructure. The public presentation of the plan is expected for Q1 of the current year. A WBIF grant was approved for technical assistance to the amount of EUR 800,000 for drafting the Construction Permit Design and Implementation Design. The expected start of works is in 2020, and expected deployment in 2023.

Budgetary implications of the structural reform

Financing of all the sections does not have impact on the Budget of the Republic of Serbia. The total assessed value of all the sections of the project of the Trans-Balkan Corridor – the first phase, is around EUR 156 mill. *Section 1* is fully financed from the funds of the EMS AD (Electricity Grid of Serbia). The total investment value of *Section 2* is EUR 29.6 mill. (EUR 16

mill. for the construction of the actual long-distance power transmission line and EUR 13.6 mill. for the works in SS Kragujevac 2 and on the stepping up of the voltage level in SS Kraljevo 3), out of that EUR 15 mill. will be financed from the loan of KfW Bank, EUR 6.6 mill. will be the donation of WBIF, and the remaining EUR 8 mill. are funds of EMS AD. The total investment value of *Section 3* is EUR 62 mill. and of *Section 4*, it is EUR 39 mill. The share of the loan, grant and own funds in the total value of the construction of Sections 3 and 4 will be decided upon subsequently. The following amounts are envisaged as potential non-budgetary financing of the reform: 2017 – EUR 17,212,500 (with EUR 990,000 from IPA), 2018 – EUR 13,125,000 (with EUR 3,300,000 from IPA), 2019 – EUR 9,188,000 (with EUR 2,310,000 from IPA).

Risks in priority structural reform implementation

The complexity of investment procedures, potential problems in the process of resolving property-rights relations, unacceptability of high-voltage lines for the local population.

Expected impact on competitiveness

The project of the Trans-Balkan Corridor – the first phase, will enable interconnection of the markets of Northeast Europe (Romania, Bulgaria, Ukraine and Moldova), where the price of electricity is relatively low, with the markets of Southern and Western Europe (such as Italy and Austria), where the price of electricity is relatively high. This reform will increase availability, quality (of voltage) and safety of electricity transmission (less down times), which is a key resource for industrial production and economic development and will reduce costs that companies currently incur due to supply down times. In the course of the implementation of the reform, small and medium-sized enterprises will be engaged to produce certain parts of the metal and construction structure of the long-distance power transmission line, as well as in the actual assembly. The reform will encourage additional foreign investments in renewable sources of energy, firstly in wind parks in the northeast part of Serbia, in the territory of Banat, by enabling evacuation of electricity from this area and its transmission to buyers in Southwest Europe.

Expected social impacts

Implementation of the project will have impact on the number of fixed-term employed workers during the actual construction of the long-distance power transmission line (about 300 workers) and on the number of those permanently employed for maintenance of the long-distance power transmission line within the EMS AD. It is also estimated that around 40 small and medium-sized enterprises will be engaged in the course of the implementation of this measure.

Structural reform implementation monitoring indicators

	2016
No. of kilometres of constructed power lines on annual level (km) – TV 323 km (2023)	0
Increase in the capacity of the regional transmission grid (MW) – TV 1,000 MW (2023)	0
Reduction in greenhouse gas emissions (t CO ₂) – TV 65,000 t CO ₂ (2023)	0

Priority structural reform 4. DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE

Structural reform outline

The implementation of this structural reform, in addition to enabling fast, reliable and safe connection to Internet, also includes consolidation of the broadband network owned by the public sector, as well as connection of public institutions to the national network. Adoption of the Law on Broadband Communications Infrastructure is also planned, which will provide conditions for and regulate the manner of development of broadband access to Internet. It is necessary to formulate and implement programmes encouraging and supporting investments in the

development of broadband communications infrastructure with access networks in small towns, particularly in poorly populated areas. By 2020, Serbia should be at the EU level with respect to access to broadband Internet as defined in the Digital Agenda for the Republic of Serbia, which consists of the Strategy for Information Society Development in the Republic of Serbia up to 2020 and the Electronic Communications Development Strategy of the Republic of Serbia, 2010-2020.

Current structural reform preparation status and implementation plan

The adoption of the Law on Broadband Communications Infrastructure, which is expected in the course of 2017, enables harmonization with the Directive 2014/61/EU on measures for reduction of costs of setting up high-speed electronic communications networks. The Ministry of Trade, Tourism and Telecommunications (MTTT) is implementing the procedure for the adoption of the Action Plan for efficient use of telecommunications infrastructure, which defines activities related to the utilization of resources of the state telecommunications infrastructure. For the purpose of analysis of availability and production of maps of availability of broadband access, as well as of the analysis of the offer of broadband services, the MTTT has collected data from mobile operators on the coverage by GSM, UMTS and LTE signals. With regards to the fixed network, data is being gathered from the operators on the availability of broadband access, in terms of present technologies, available flow rates, as well as on the offer of broadband services. The Ministry, with the support from the EBRD, has started the implementation of the project “National Broadband Network Implementation Plan”, which includes the analysis of, plans and costs for further development of broadband access. Within the next three years, it is expected to continue with the connection of institutions of education and culture to the AMRES, the construction of broadband access networks in municipalities across the country and to make the single national telecommunications network operational.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 1,076,368, while the planned costs of reform in 2018 amount to around EUR 1,476,368 and in 2019 to around EUR 1,476,368. Envisaged non-budgetary funds are: 2017 – EUR 50,000,000, 2018 – EUR 58,000,000, and 2019 – EUR 58,000,000.

Risks in priority structural reform implementation

Untimely identification of sources of financing, in order to comply with the defined deadlines, poor cooperation between institutions, as well as between institutions/companies that manage unutilized optical fibres.

Expected impact on competitiveness

Broadband access to Internet and ICT will have impact on faster, more secure and more efficient doing business, which will increase productivity of companies and reduce operating costs. In this way, small and medium-sized enterprises will increase their competitiveness in the local and international markets (particularly through access to e-business). This measure will have a particularly positive impact on the development of rural areas, interconnection of economic regions, as well as on the development of industrial zones and increased use of new technologies and innovations in doing business. The reform will also have a positive impact on the decisions of consumers. By enabling access to Internet, better access to products will be ensured, as well as access to information on price or quality, based on which a consumer can decide more easily.

Expected social impacts

The construction of broadband communications networks will enable employment, as well as work via Internet and increase in the number of jobs in practically all sectors, including the ICT sector. Increasing the level of knowledge, competences and skills in the area of IT technologies will contribute to job opportunities in the IT area, but also in other areas in which new

technologies are introduced or increasingly used. Implementation of the reform will provide the possibility of access to Internet to citizens, indiscriminately and with equal opportunities.

Structural reform implementation monitoring indicators

	2014 (BV)	2015
Percentage of households having broadband access to Internet – TV 70% (2018)	55%	56%

3.3. Area **SECTORAL DEVELOPMENT**

Development of the Agricultural Sector

Bearing in mind favourable conditions for the development of agriculture in Serbia, activities are being undertaken aimed at improving the productivity of agricultural production, as one of the key branches in the economic structure. However, problems in the agriculture sector are numerous, and they are related to the unfavourable structure of agricultural holdings, partial technical and technological underdevelopment of the agriculture sector, primarily medium and small holdings, their poor organization in cooperatives, as well as an insufficient degree of processing in the existing food industry.

The relatively **high share of GVA of the sector of agriculture and food industry in the total GDP** of Serbia (6.8% and 4.2% respectively in 2015) is partly a reflection of **favourable natural conditions and resources for agricultural production**, since the used agricultural land accounts for around 40% of the territory, but to a great extent it is also the consequence of the **low technological level of the remainder of the industry**. The share of the agriculture-food sector in the total export was 21.5% in 2016, with a growing surplus. In the structure of export, primary agricultural products are dominant, first of all cereals and fresh fruits (Serbia is among 15 biggest world producers of maize and among the leading three global producers of raspberries). Around 20% of the total number of employees are those working in the agriculture-food sector, but high informal employment is also present.

The number of registered agricultural holdings is in constant growth (in 2015, a total of 479,815 holdings, around 76% of the census figure), in view of the fact that registration is a precondition for receiving all forms of incentives. The total amount of subsidies in agriculture and rural development in 2016 amounted to EUR 193.8 mill. The current agricultural policy of Serbia does not favour large producers over small and medium ones, except in that agricultural producers engaged in the production in areas that are difficult to use for agriculture, are in a more favourable position when competing for incentives for certain measures (primarily rural development measures).

Most of the holdings are small or medium in size and are practicing extensive production. Out of the total number of holdings, 3.1% cover over 20 ha and account for 44% of the used agricultural land. On the other hand, the holdings of up to 5 ha account for 77.7% of the total number and use 25.2% of the land. Such farms are too small to be competitive, both for direct sales to the European markets, as well as for the sale of raw products to agricultural processing plants. An additional limiting factor is a lack of skill and knowledge among producers, reflected in low average yields, particularly in smaller holdings.

The disintegration and deterioration of agricultural producers' cooperatives was pronounced in previous decades. Agricultural producers need to pool better and to appear on the market in an organized way, as well as to ensure a better-quality, more efficient and more profitable operation of cooperatives. In the beginning of January 2016, the Law on Cooperatives (OG No. 112/2015) came into force, which resolves the issues of property-rights relations of the

founders, the ownership of cooperative assets, as well as the method of management. According to this Law, the registrar, within 90 days as of coming into force of this Law, *ex officio* and without passing any special act, has deleted, from the list of cooperative members, the data on the assets of the cooperative that is registered as the cooperative share or social and state capital, and/or the data on the assets of the cooperative that is not the share of cooperative members. The new Law also defines the ownership of cooperative headquarters, which are currently, in the privatization procedure, excluded from other assets of a cooperative and may not be privatized.

There is technical-technological underdevelopment in the agricultural sector. The share of irrigated areas is low (around 3% of the total surface area of the used agricultural land), and specialization in production is not sufficiently wide-spread. Regarding the average yield of cereals, Serbia is found among low-yield European countries (4.8 t/ha), with half the yield of those most successful (Belgium 9.2 t/ha), which points to low productivity. The potential of the food industry has not been sufficiently utilized if the strong raw products base, which is provided by the agricultural production, is taken into account, whereby the production diversification is also insufficient. Although certain foods sectors are highly developed (confectionery industry, production of juices) and have approved export to the EU market, low performance of the food industry, is an additional limiting factor for the chain of agricultural production and processing.

Serbian agriculture is well mechanised regarding the number and power of tractors, however, **tractors in medium and small holdings are predominantly second-hand ones and worn out, and a lack of specialised agricultural machinery is also noticeable.** The existence of equipment in cattle-farming facilities is very unequal and conditional, primarily, on the degree of specialisation and size of the herd. Major regional differences are also present. For the purpose of elimination of the above-mentioned problems, measures are implemented supporting the programmes for investments in agriculture aimed at improved competitiveness and reaching quality standards through support in primary production, for investment in the processing of agricultural products and marketing, as well as incentives focused on procurement of equipment and machinery. Subsidies amount up to 40-55% of the value of an investment, or up to 50-65% of the value of an investment for the users of PDO/PGI labels and for certified organic production.

Priority structural reform 5. IMPROVEMENT OF THE COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS

Structural reform outline

The improvement of competitiveness of agricultural production will be facilitated through measures for improving the competitiveness of agricultural holdings, defined by the established institutional framework for the implementation of the IPARD programme 2015-2020, the National Agriculture Programme 2017-2020 and the National Rural Development Programme 2017-2020, with adoption expected during Q1 2017. The IPARD Programme defines the priority sectors where the highest level of competitiveness can be achieved on the local and foreign markets (the sectors: milk, meat, fruits and vegetables, farm crops). The National Programmes and the IPARD Programme are complementary, whereby the IPARD measures are intended for economically more powerful holdings, while national measures are focusing on small agricultural producers, which has not been the case so far (national measures were used by all the registered agricultural holdings). The reform implementation is defined by the Law on Incentives in Agriculture and Rural Development through rural development measures, while the plan of their harmonisation with the Common Agricultural Policy is contained in the Action Plan for harmonization with the EU *acquis communautaire*, the adoption of which is expected.

Current structural reform preparation status and implementation plan

The establishment of the institutional framework is currently under way, which includes the IPARD operational structures in line with the obligations resulting from the Sectoral Agreement

between the European Commission and the Government of the RS. The Government, by the decision, designated the Payment Agency (the Directorate for Agrarian Payments) and the Administrative Body (the Rural Development Sector), integral parts of the relevant ministry. Finalization of the process of accreditation of all the structures in Serbia by the European Commission is expected in the course of 2017. In the period of 2017-2019, the envisaged activities, in each year, include the drafting, adoption and implementation of annual rulebooks and competitions for allocation of national resources.

Budgetary implications of the structural reform

The Budget Law for 2017 envisages funds to the amount of EUR 15.072 million, with funds for IPARD co-financing of 25% amounting to EUR 2 million, while funds for Support for the Improvement of Primary Agricultural Production and Processing will amount to EUR 13.072 mill. The envisaged increase of funds for 2018 and 2019 amounts to EUR 4 million annually (relative to 2017).

Risks in priority structural reform implementation

Lack of established relevant administrative structure in its full capacity (the managing body and the IPARD Agency); Unfavourable conditions for pre-financing investments; Insufficient use of funds.

Expected impact on competitiveness

Implementation of rural development measures from the national budget should result in strengthening of small holdings and raising of their economic viability since, at this moment, they are unable to be economically sustainable if they depend only on marketing with respect to the working capital, sales and investment business. Likewise, a set of measures from the national budget regarding the diversification of agricultural and non-agricultural activities in rural areas include the option of support for the development of other alternative activities that would impact the sustainability of such small holdings. Funds earmarked through the IPARD Programme are allocated to more advanced producers who, at the end of the investment, must meet all the national standards within their holding, and EU standards for the subject matter investment, whereby, with the incentive in the form of refunding of the investment funds, they would reach an enviable level of competitiveness. Through such support, the technological level of agricultural production will also be raised, productivity will increase, and therefore the competitiveness of producers will improve, both on the local and on international markets.

Expected social impacts

All the measures planned from the national budget, as well as from the pre-accession assistance, within specific ranking criteria, incorporate special points-systems for the beneficiaries who belong to the category of young farmers (up to 40 old), as well as if the holders of agricultural holdings are women. Such a system of support should increase economic activities of these population categories in rural areas of Serbia.

Structural reform implementation monitoring indicators

	2015 (BV)
Rate of utilization of funds from the IPARD Programme (%) - TV: 100% (2020)	0
No. of supported projects in the area of processing - TV: 463 (2020)	0
No. of companies investing in energy generation from renewable sources - TV: 46 (2020)	0
No. of newly created jobs in the area of processing - TV: 160 (2020)	0
No. of holdings that have modernized production in the primary production - TV: 600 (2020)	0
No. of holdings that are making progress towards meeting standards - TV: 843 (2020)	0

Industry Sector Development

A move has been made in the direction of targeted industrial development and efficient management of the state support system for promotion of investment and export, but industrial production is still burdened with structural weaknesses. The biggest limitations to industrial production are: low productivity, a high share of raw materials in production and export and underdeveloped market mechanisms.

The share of industry in the generation of the total GVA has been growing lately and, in 2015, it amounted to 25.7% (0.6 percentage points more than in 2014). The reindustrialisation trend was launched with an **influx of investments in the automotive industry and its suppliers** (Fiat Automobiles Serbia), whereby the commodity exchange deficit was narrowed, which was in 2015 on the level of 13% of the GDP (before the downturn in 2008, it had amounted to 25% of the GDP). **FDIs have contributed to the recovery of industry**, enabling technology transfer and growth of competitiveness. FDIs in the processing industry sector, in 2015, increased by 34% y-o-y, with the diversification of FDIs in different areas of the processing industry (source: the NBS). However, the productivity of the processing industry of Serbia (EUR 13,860 in 2015) has been four times lower compared to EU28 (EUR 58,480 in 2014).

Industrial development has not been sufficiently plan-based and, therefore, prioritization of industrial sectors has been made. Incentive industrial policy measures are focused on **priority areas having comparative advantages**: food industry, timber and furniture, rubber and plastics processing and production of machines and equipment. These sectors show a high correlation between the physical volume of production and exports (jointly they generate nearly 50% of GVA and 41% of the processing industry exports).

Due to insufficient correlation between the industrial, education policy and the policy in the area of research and development, the share of high-tech industries in the GVA of the processing industry has dropped by around 3 percentage points during 2009-2015 (from 7.2% to 4.4%).

The insufficient diversification of products and greater production of products with a lower added value is the consequence of slowed down technological restructuring of enterprises. Due to underdeveloped market mechanisms and lack of competition, companies are not encouraged to invest in and to innovate production processes. The consequence is that the local market cannot fully meet the requirements of potential investors.

Priority structural reform 6. RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY

Structural reform outline

The reform comprises a mix of legislative and administrative measures and activities and includes: the prioritisation of industrial branches with highest growth and development potential, mapping out of strategies for their development and action plans for implementation of such strategies, the development and adoption of laws and bylaws relevant to the implementation of new action plans, reforming the operations of agencies in the jurisdiction of the Ministry of Economy in charge of implementing programmes focusing on providing support for investments and exports in compliance with the principles of balanced regional development and the development of a monitoring and evaluation system. The reform will help create a focused and better coordinated industrial sector development policy, as well as enhance the efficiency of public institutions partaking in its implementation. Processing industry reforms are crucial, notably the reform of the system supporting investments and exports, as identified in the Industry Development Strategy and Policy of the Republic of Serbia until 2011-2020.

Current structural reform preparation status and implementation plan

In the course of 2016: (1) A conference was held aimed to promote the Law on Investments at the local level, 3 regional workshops were organized for the purpose of capacity building of local self-governments for implementation of the Law and they were provided support for the development of local acts, (2) The Development Agency of Serbia (DAS) started operating and, by the end of the year, the strategic framework and the action plan of the DAS are expected to be adopted, (3) The selection of the priority industrial branches with the highest export potential was completed, in consultations with the business sector. A roundtable for “Improving Competitiveness through the Application of Industrial Policy” was organized in January 2017, with the professional support of the OECD and in cooperation with the World Bank. The event hosted discussions on experiences and positive practices from developed and comparable countries, and the plans of the Government of the Republic of Serbia for supporting economic growth and employment, as part of the process of comprehensive economic reform. The areas of industry with the greatest potential for development through innovation will network with scientific research institutions through the process of smart specialization aiming to increase competitiveness (more under the section Research and Innovation under priority structural reform 11. Programme of support for innovation and technological development in the public and private sector). The adoption of amendments to the Company Law was planned for 2017. The DAS provides incentives to investors in the form of non-repayable funds or in the form of exemption from customs duties for investments in greenfield investments or in brownfield investments. Four sectors of the processing industry were selected: food industry, timber and furniture, rubber and plastics, machines and equipment (with the pronounced component of IT development as the horizontal component); they will be in the focus of formulation of policies and measures for promotion of investments, competitiveness and export. During coming years, new programmes of support for investments and export will be continuously implemented, their evaluation and, as required, improvement, will take place.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 6.4 mill., but a direct effect on the budgetary revenues amounting to about EUR 12 mill. is also expected, therefore the net direct effect on the budget will be positive and amount to around EUR 5.9 million. It is estimated that the direct effect on the budgets in 2018 and 2019 will also be positive, around EUR 8.6 million for every year, because despite the budgetary expenditures amounting to around EUR 6.4 million, budgetary revenues of about EUR 15 million are expected to be achieved.

Risks in priority structural reform implementation

Inadequate access to sources of financing; Inefficiency of the public administration; Limited effect of government programmes and programmes financed from foreign sources.

Expected impact on competitiveness

The stimulation of new production, procurement of new equipment and arrival of investors bringing along modern technologies, will improve technology and productivity of the economy. In addition, opening of the so-called joint-venture enterprises with internationally renowned producers will create opportunities for appearance on new markets and contribute to the strengthening of competitiveness, as well as to the transfer of new technologies and processes both to the enterprises that are the subject matter of joint investments, and to other local companies in the chain of results and generation of a higher added value in the country. Incentives for companies in the priority industrial branches will also enable companies to have an easier and more favourable access to other sources of financing.

Expected social impacts

Implementation of the reform will create conditions for new job creation, specifically in newly constructed factories or factories that have undergone major reconstructions. Thereby, in addition

to a positive impact on employment (specifically often in the regions in which employment is below the Republic average), there will also be an impact on working conditions (work in modern plants), as well as on the educational system, which is expected to meet the requirements for new education profiles.

Structural reform implementation monitoring indicators

	2014 (BV)	2015	2016
Annual rate of export growth of the processing industry, in % - TV: 5% of annual average in the period of 2015-2018 (export of the processing industry, in 2014, amounted to EUR 10,057.2 mill.)	2.2	8.0	10.5*
Share of the GVA of the processing industry in the GDP of Serbia – TV: 20% (2018)	15.7%	15.6%	15.8%
No. of new investment initiatives generated through reformed agencies for export and investment promotion - TV: 30 (2018)	/	20	22
No. of participants in export promotion programmes who are involved in new export activities -TV: 100 (2018)	/	85	90
No. of documented interest of investors - TV: 82 (2018)	/	61	67

* Assessment of the Republic Secretariat for Public Policy

** Indicator values are cumulative

Development of the Services Sector

Although quite a number of services have demonstrated positive trends and GVA growth (tourism, trade, transport, telecommunications and financial services), satisfactory progress has not been made in resolving of the key services sector problems: inability of small and medium enterprises to make use of the advantages of the internal market of the European Union, insufficient information on the conditions and procedures for obtaining approvals for the provision of services and starting business activities, low share of e-commerce, underutilised tourism potential.

Lack of skills and knowledge has been identified as one of the main obstacles to the development of more complex services, i.e. services with a higher added value. The services sector accounted for almost 50% of the GDP of Serbia in 2015, where knowledge-intensive services participated with only 23% of the GDP (36.5% in the EU - 28 in 2014), while less knowledge-intensive services created 26.9% of the GDP (29.5% in the EU - 28).

Small and medium-sized enterprises (SMEs) cannot fully utilise the advantages of the internal market of the European Union. It is necessary to promote programmes that will enable provision of knowledge and information to as many local exporters as possible. Aiming to harmonize domestic legislation in the field of business residence and freedom of cross-border provision of services, it is necessary to transpose the Services Directive 2006/123/EC. The draft Law on Services has been prepared. Having in mind that the adoption of this law is merely the first step towards full harmonization in this field, the government adopted the Programme of harmonization of domestic legislation with the Services Directive 2006/123/EC, identifying the services the Directive relates to and elaborating a plan to harmonize sectoral regulations pertaining to service activities. Additionally, aiming to facilitate doing business for companies, primarily service providers, the Services Directive envisages establishing a one-stop-shop where service providers can obtain all required information to start and perform their business activities. Establishing a Single Electronic Contact Point (SECP) is envisaged by the draft Law on Services. In addition to meeting the obligations as per the Stabilization and Association Agreement, the establishment of the SECP will lead to better transparency and the costs of starting business for local service providers will be reduced (*more in the description of PSR 9 Simplification of procedures for business entities*).

E-commerce is still at a low level, among other reasons, due to high fees for the services of payment via Internet that are the result of insufficient competition in that area of service provision. Among other reasons, we may note insufficient trust in this form of trade due to the inability of physical insight into the characteristics of the product, as well as insufficient growth of the number of domestic ICT users. In 2015, in Serbia, only 22.7% Internet users made orders/made purchases via Internet (53% in the EU - 28). The new Law on Payment Services and the Amendments of and Supplements to the Law on Foreign Exchange Operations considerably reduced the fees paid for e-commerce activities to companies, amounting to 2.5-3%, cancelling some one-off fees. The reason is that the above law provided for competition to banks in the provision of e-payment services, i.e. the foundation of new payment services providers, who additionally improved payments via Internet and mobile equipment. It also enables residents to make payment transactions abroad – for payment and collection based on electronic trade in goods and services, not only via a foreign, but also via a local issuer of electronic money. With the current level of development of the national ICT infrastructure (see details in the area of Telecommunications Market), companies have a potential for development of sales channels via e-commerce and an opportunity to increase competition, increase productivity, gender sensitization and to create more jobs.

Serbia has tourism potential that could be valorised better. This potential is based first of all on natural resources, favourable climate, thermal resorts, mountain (ski) centres, potential for health and rural tourism, as well as a favourable position to be the service centre in the region for development of conference tourism. The Tourism Development Strategy for the period 2016-2025 has been adopted, through the implementation of which a significant growth of revenues from tourism services and job creation in the tourism sector are expected. The difference in the occupancy rate³⁹ of Serbia (17.7%) and that of the EU - 28 (23.7%) in 2014 is 6 pp. However, in 2015 as compared to 2014, the number of tourists in Serbia is higher by as much as 11.2%, the number of overnight stays by 2.6%, while the foreign exchange inflow grew from 9.5% disclosed in Euro (this growth was additionally stimulated by special measures of the Government encouraging local tourism), while 2016 was a record year for tourism. According to the data published, the number of tourists in 2016 was greater by 13.1% compared to 2015, while the number of overnight stays rose by 12.9%.

Systemic guidance and improvement of health tourism is the basis for **development and modernization of spa health resorts**, so that spas can become not only modern sports and recreation, but also profitable centres. The privatization of 14 spa centres and special hospitals is planned for 2017 (their privatization was halted in 2015 due to court disputes with the Pension Fund and union objections). Likewise, it is necessary to prepare projects aimed at the improved utilization of the tourism potential of Serbia, through improving the infrastructure and modernizing capacities.

3.4. Area BUSINESS ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY

Serbia has recorded significant progress on competitiveness rating and business environment conditions according to international indexes and an improvement in credit rating. Further challenges for an improvement in business environment are: legal framework for doing business which also impacts hampered access of MSEs to financial resources, underdeveloped market of financial products and services for MSEs, inadequate level of corporate governance in public enterprises, absence of a single system law which prescribes types of fees for using public

³⁹ Occupancy rate is % of the total number of bed nights in one year out of the maximum possible number of bed nights (number of beds *365)

resources, as well as a unified method of determining such fees, underdeveloped concept of public-private partnership.

Serbia has significantly improved its ranking on the World Bank's international "Doing Business" list and ranked 47th out of 190 countries in 2017 (rank: 54th in 2016). Serbia has also recorded progress according to the *Global Competitiveness Index* (GCI) where it ranked 90th out of 138 countries in 2016 (score 4 has been the maximum so far), which is a leap of 4 positions up the ladder. **High tax rates and inefficient administration were quoted as major factors that weaken Serbia's competitiveness.**

Inadequate access to finance, as well as insufficient incentives for start-up companies are the key issues affecting the development of the SMEE sector in Serbia (the sector generates about two thirds of all jobs and around 34% of Serbia's GDP). The limitations in access to finance for SMEs are the following: inadequacy of banking products and services for SMEs and the banks' focusing on other market segments; lack of major alternative channels for access to finance for SMEs; limited impact of government programmes and programmes financed from foreign sources. On the other hand, the SMEE sector is faced with weak financial capacities and lack of skills for access to various sources of financing (the so-called *investment readiness*) which deteriorates the SMEs negotiating position in relation to the banks.

The main issues affecting functioning of public enterprises are related to aspects of inadequate corporate governance (management and control systems in public enterprises, i.e. a set of the most important rules by which the internal organisation of a public enterprise functions): lack of the planning function at strategic and operational level, low level of operational and financial performances, inefficiencies and low quality of services, lack of professionalism, lack of gender equality in management positions etc. Large public enterprises in transport and energy sectors have been inefficient for years, plagued by bad debts and cumulative losses. The business inefficiency of public enterprises determines the business performance of the entire business sector. A requirement has been introduced obliging the public enterprises on local, provincial and republic levels to submit business implementation reports on quarterly basis.

Along with the introduction of corporate governance in all public enterprises, there is an ongoing process of **reorganisation and comprehensive restructuring of the largest public enterprises**: PE Elektroprivreda Srbije (Electric Power Industry of Serbia), PE Srbijagas and Železnice Srbije AD (Serbian Railways) which affects their efficiency and financial discipline (details on conducted activities are provided under *PSR 8. Reform of Public Enterprises*). Subsidies to the public enterprises have been reduced and the Government has rigorously restricted issuance of new guarantees and granting of liquidity loans to these enterprises. The organisational reforms and more efficient controls over the implementation of annual business plans have increased profitability of public enterprises which had been founded by the Republic of Serbia: 39 public enterprises with about 80,000 employees generated a total net loss of EUR 29.9 million in 2015 (EUR 557.3 million in 2014).

The process of privatisation of enterprises from the portfolio of former Privatisation Agency is ongoing (by initiating bankruptcy proceedings, restructuring or finding a strategic partner), in accordance with the new Law on Privatisation and the Bankruptcy Law. Until October 2016, the status of about 330 enterprises has been resolved and severance payments amounting to EUR 100 million have been paid for about 24,500 employees, while some issues regarding 172 enterprises with 45,000 employees are still being resolved. Out of 17 strategic enterprises, until June 2016 the process was completed for 7 of them, while solutions for the outstanding 10 enterprises are still being sought. This should have a positive impact on public finances through reduced amount of budget allocations used as subsidies for enterprises incurring huge losses and in view of increased productivity of the privatised enterprises.

There is not a single law that would define types of fees for using public resources, taxpayers, amount, i.e. elements for determining the amount of fees, manner of determining and paying fees, allocation of revenues and authority for control and collection. Administrative burdens borne by business entities in Serbia are about 3.46% of the GDP (according to the USAID BEP project research for 2014), which is 15% less compared to 2010, and para-fiscal charges are 1.97% of the GDP (according to NALED 2014 research). **The Strategy for regulatory reform and improvement of the public policy management system** for the period 2016-2020 (adopted in January 2016) is of great significance for improving the business environment since, among other things, it provides for the simplification of sectoral regulations, introduction of standards for measuring the administrative burden, testing the impact on small and medium enterprises and introducing the portal for administrative requirements (for details see the PSR 9), with the ultimate **goal of achieving the level of administrative burden of 3.2% of GDP by the end of 2017** (in comparable countries, administrative burdens borne by business entities are at the level of 2-3% of GDP).

The unfettered functioning of the real-estate market in Serbia **requires improvements to the efficiency of doing business and decreasing the duration of the procedures required for the registration of real estate rights in the Real Estate Cadastre.** The conversion of all cadastral plans into digital (vector) form was completed in 2016,⁴⁰ facilitating and improving the efficiency of real estate management, increasing the quality of bases for drafting spatial and urban plans, important for local economic development and attracting investments. Likewise, the Register of Real Estate Prices has been established (database on real estate trade), serving as a basis for forming the model for the mass evaluation and indexing of real estate prices in the market. Since the publishing transactions and prices listed in contracts has begun, the trend for entering real prices in contracts has notably increased, due to the increasing transparency of the real estate market. One important effect is that banks choose, with increasing frequency, to give loans using agricultural land as a collateral, because they can now assess the market value of this land with greater certainty.

Systemic lack of order in the field of inspection oversight, including unreformed tax administration, adversely affects the domestic economy and limits the competitiveness of Serbia in the international market. **Efforts to combat informal operation provided results:** since the beginning of the application of the Law on Inspection Supervision⁴¹, Serbia marks an 18.8% increase in the number of newly registered business entities, while at the same time the number of unregistered companies was reduced by 17.3%. This led to a greater collection of income than expected, therefore the volume of the informal economy was reduced to around 25% of the GDP. Likewise, the Labour Inspectorate, acting under the procedure of inspection supervision, discovered 16,370 unregistered workers by December 2016 (a 17% increase compared to the same period in 2015), followed by 14,088 persons being registered for social insurance (a 55% increase compared to the same period in 2015).

A small number of public-private partnership (PPP) projects have been implemented, although there is a growing need and interest for its implementation, ever since the Law on Public-Private Partnership and Concessions was enacted in 2011, and the Public-Private Partnership Commission established in 2012. It is necessary to **develop capacities for assessing and reporting on fiscal risks associated with PPP projects**, bearing in mind that the existing

⁴⁰ The reform of doing business and the institutional development of the Republic Geodetic Authority are being implemented through the project "Improvement of Land Administration in Serbia", financed by a World Bank loan.

⁴¹ This law comes into force on the eighth day as of its publication in the Official Gazette of RS, i.e. on 29 April 2015, and it applies with the expiry of the term of 12 months as of the date of coming into force, i.e. as of 30 April 2016, except for provisions regulating unregistered entities and treatment of unregistered entities, applied as of the expiry of a three-month term as of the date of coming into force of this law, i.e. as of 30 July 2015.

capacities are inadequate. The Government has pledged to build capacity during the coming period in the Ministry of Finance, which will be able to understand, assess and report on fiscal implications, risks and long-term net benefits of PPP projects ('stand-by' arrangement with the IMF).

Implementation of ECOFIN recommendations: the implementation of the PSR 7: *Package of measures to improve access to finance for SMEs* means implementation of a part of the ECOFIN recommendation 5 of May 2016 (*putting in place a guarantee scheme for loans to small and medium-size enterprises*) through development of a Program of financial instruments for securing loans to SMEs, funded from bank credit lines, which is one of the measures defined in the Action Plan for the implementation of the *Strategy to support the development of small and medium enterprises, entrepreneurship and competitiveness for the period 2015-2020 (RS OG, 35/2015)*. In addition, the National Bank of Serbia has embarked on development of a regulatory framework for operation of non-depository financial institutions which will create additional potential for financing the SMEs, particularly in the micro-segment and for newly established start-up enterprises.

The implementation of the PSR 8: *Reform of public enterprises* means implementation of the ECOFIN recommendation 2 of May 2016 (*Support fiscal consolidation by taking steps to find a sustainable resolution of the remaining state-owned enterprises and continuing the organisational and financial restructuring of large utility companies*), namely out of 17 strategic enterprises at the end of 2015, until May 2016 the privatisation process ended for 7 enterprises and efforts for finding solutions for privatisation of the remaining 10 strategic enterprises are ongoing. Likewise, reorganisation and financial restructuring of the largest public enterprises *PE Elektroprivreda Srbije, PE Srbijagas and PE Železnice Srbije* is currently ongoing and corporate governance is being introduced in all public enterprises.

A part of the ECOFIN recommendation 2 of May 2016 (*to continue with public administration reform as envisaged and restart the "regulatory guillotine"*) is being implemented through the adopted *Regulatory Reform Strategy* and improvements in the public policy management, as well as by improving the rule of law and court efficiency in accordance with the Action Plan for Chapter 23: Judiciary and fundamental human rights.

The implementation of the PSR 9: *Simplification of procedures for business entities* means implementation of the ECOFIN recommendation 5 of May 2016 (*Improve the business environment and promote private investment by developing a more transparent and less burdensome system of para-fiscal charges*), through transposition of the EU Services Directive from 2016 into domestic legislation and preparations of the Law on Services (Draft Law on Services was endorsed by the Government in November 2016), establishment of a national list of services to which the Law shall apply and elaboration of a more precise plan of sectoral alignments of regulations in this area.

Priority structural reform 7. PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEs

Structural reform outline

Improved access to finance for SMEs means better quality of the banking sector offer for SMEs, development of new financial instruments, as well as improved ability of SMEs to access different sources of funding. The proposed reform is the implementation of the priority activities within the second pillar of the *Strategy to support the development of small and medium enterprises, entrepreneurship and competitiveness for the period 2015-2020*. Improving the predictability of the business environment and a support programme for SMEs, with an emphasis on the reduction of costs in access to financing is the recommendation from the EC 2015 Progress Report for R.

Serbia for 2016 (p. 61). Likewise, item 29 of the Memorandum on Economic and Financial Policy agreed upon under the current stand-by arrangement from precaution with the International Monetary Fund envisages that the Republic of Serbia will support loans for small and medium-sized enterprises through the Apex credit line of the European Investment Bank.

Current structural reform preparation/implementation status and implementation plan

The proposed reform is a continuation of the implementation of the reform from the NERP for 2015. A number of measures and activities for its implementation have been undertaken thus far. Following the successful realization of the first tranche of the “APEX loan for SMEs and other priorities III/A” of the European Investment Bank (EIB), in the amount of EUR 150 million, the financial agreement on the second tranche of the Apex loan III/B, with a value of EUR 150 million, was signed in mid-2016, while the National Assembly adopted the Law confirming this Agreement in November 2016. The funds from this loan will become operational during Q2 2017. The signing of the Financial Agreement on the third tranche of the Apex loan with a value of EUR 200 mill. is planned for the second half of 2017. In 2016, the Government adopted a Small Business Support Programme for purchasing equipment with a budget of EUR 4,000,000. Funds were requested from IPA 2016 to start the implementation of financial instruments under the Sector Planning Document for competitiveness. Small and medium-size enterprises have access to information about available funding sources through the web portal of the Serbian Chamber of Commerce (<http://poslovanje.rs/>), which is regularly updated. Dissemination of information, basic training, mentoring and consultancy services continue to be rendered free of charge in more than 15 regional development agencies, which is funded from the RS budget through a scheme of Standardized set of services for the SMEs.

In February 2016, the Government officially launched the initiative *The Year of Entrepreneurship 2016*, which joining the efforts of competent ministries and institutions in supporting the SMEs. These instruments were allocated an amount of EUR 128 million, which is significantly more than in previous years. The incentives are grouped in support to start-up companies and support for growth through investment, internationalization and innovations.

Regarding improvements in institutional framework for micro-financing, the National Bank of Serbia has continued analysing the options to improve the legal framework in the field of financial services, to enable the founding and operation of non-deposit financial institutions in the Republic of Serbia. With regards to this, the National Bank of Serbia formed the Working group for drafting proposals for the improvement of the legal framework in the field of financial services, to enable the founding and operation of non-deposit financial institutions in the Republic of Serbia. Activities on the needs assessment analysis for introducing these types of institutions are supported by the USAID Business Enabling Project (BEP).

Serbia has engaged the European Investment Bank (EIB), with EU financial support from IPA funds, to prepare an *ex-ante* study on introduction of financial instruments for SME in order to assess the real needs, deficiencies and propose an investment strategy.

Funds from IPA 2016 amounting to EUR 20 million have been allocated for guarantee schemes which will be implemented through the EDIF platform. There is a growing interest among banks for the guarantee schemes. Activities are ongoing under the PSR 11 Program for support to innovations and technological development in the public and private sectors, improving access of SMEs to finance. The objective of the *Western Balkans Enterprise Development & Innovation Facility (WB EDIF)* is improving access to finance for SMEs in the region as well as promoting the conditions for the development and launching of new innovative companies with high potential for growth, through stimulating the creation of venture capital funds. COSME and Horizon 2020 are interlinked and focused on the development of the small and medium-size enterprise sector, where Horizon 2020 is focused on start-up and innovative companies at the stage of establishment, while COSME is more focused on enterprises in growing and

development stage. Procredit Bank signed a contract under InnovFin program within Horizon 2020. At the end of November, Erste Bank signed a new contract on guarantees the objective of which is rendering support to micro-companies in Serbia under the EU Program for employment and Social Innovations (EaSI).

The activities planned for the period 2017-2019 include the implementation of the project for establishing financial instruments under IPA 2016, development of legal framework for establishing of microfinance non-deposit institutions, including further development of the market for these institutions.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 101,736,320, however, a direct impact is also expected on budget income to the amount of around EUR 12 million. A positive effect on the budget and increased budget revenues by around EUR 12 million per year is also expected in 2018 and 2019, due to increased output and employment. The Action plan for IPA 2016 allocated EUR 20 mill. to be realized in the form of a guarantee scheme for support to SMEs, implemented by select commercial banks in the Republic of Serbia.

Risks in priority structural reform implementation

Macroeconomic and fiscal instability; possible lack of cooperation and coordination between competent state bodies, organisations, and bodies; lack of interest and inactivity of the banking sector.

Expected impact on competitiveness

An improved financial support system will lead to the establishment of new enterprises/entrepreneurs, modernisation of existing production capacity, improved production processes, improved product quality and service, which will ultimately increase the volume of production, exports and employment, and improve the competitiveness of the SME sector. This measure also envisages improved quality of banking sector's services and products for SMEs, development of new financial instruments and improved capacity of SMEs to access various sources of finance (through the support rendered in preparation of business plans, training and mentorship) which is of particular importance for innovative and start-up companies.

Expected social impact

The introduction of new financial instruments which are currently accessible to start-up entrepreneurs and the SME sector will enable them to start their businesses using more favourable sources of finance, to achieve growth and development, but also to create new jobs. In addition, by creating the financial instruments due attention is paid to promotion of female entrepreneurship, young entrepreneurs and social entrepreneurship.

Structural reform implementation monitoring indicators

	<i>2013 (BV)</i>	<i>2014</i>	<i>2015</i>
Share of SME loans in total loans to business entities, in % (source NBS) - TV 30% (2020)	18.9%	22.7%	25.6%
Accessibility of financial services, ranking* (source:GCI) - TV: ranking <60 (2020)	112/148	110/144	111/140
<i>The total number of SMEs (source: SORS) - TV: 350,000 (2020)</i>	315,412	324,272	333,938

Priority structural reform 8. REFORM OF PUBLIC ENTERPRISES

Structural reform outline

The structural reform includes four measures:

Measure 8.1. The introduction of corporate governance in public enterprises;

Measure 8.2. The reform of railways;

Measure 8.3. Reform of PE EPS; and

Measure 8.4. Reform of PE Srbijagas.

The introduction of corporate governance in public enterprises is based on two key pillars: professionalization of management bodies and operations control system, which include activities pertaining to the development of legislative enactments and bylaws, introduction of a system for licensing of managers and members of supervisory boards, improvements in the oversight and accountability system for state-owned companies. Other measures include the reform of three major public enterprises in transport and energy sectors, which have been inefficient for years and are burdened by bad debts and cumulative losses. Within the arrangement with the IMF, Serbia committed itself to introducing the principle of 'hard budget constraints' in the operation of these enterprises. At the suggestion of the relevant ministries, the Government adopted programmes for the corporate and financial restructuring of these large systems: PE Elektroprivreda Srbije, PE Srbijagas and Železnice Srbije AD, in order to improve their organisational structure and management system, as well as to reduce the negative impact on public finances and the economy.

Current structural reform preparation status and implementation plan

In view of introduction of corporate governance in public enterprises, the Ministry of Economy set up a Department for control and oversight of operations of public enterprises. A systematic analysis of public enterprises' operations has been introduced. The new Law on Public Enterprises, which has been in force since 2016 stipulates the conditions and the procedure for the election of supervisory board members and directors. Activities related to the licensing system have been envisaged at the outset of the process, which will be followed by development and implementation of the procedures for monitoring and evaluation of the impact of corporate governance in public enterprises, and an analysis of the impact of the newly introduced corporate governance in public companies.

Three new railway enterprises have been separated from the enterprise Železnice Srbije A.D: infrastructure management; transport of passengers; transport of goods (since August 2015, this enterprise has been operating solely on commercial principles and received no subsidies). The Plan of corporate restructuring is based on misappropriation of assets, traffic network reoptimisation and rationalization of the number of employees. The contractual relationship between the state and railway enterprises has begun in 2016. The multi-annual infrastructure contract defines the level of financial assistance allocated by the state for maintenance, renovation and improvement of the public railway infrastructure, but it also determines the manner in which the enterprise for dealing with infrastructure management needs to provide its network management services, relying on the identification of result indicators (train speed and reliability, customer satisfaction, network capacity, the level of safety and environmental protection) to be met by the enterprise when carrying out maintenance and upgrading the networks. The Public Service Obligation Contract is an instrument of the Government for the purchase of socially necessary rail services, which will enable the Government to limit its support to the carrier of railway passengers, defining the extent and type of services which will be bought under the public transport obligation. In order to encourage competition on the market, all necessary enactments were adopted in February 2016 in order to provide private operators access to the network (the first contract with a private operator was signed in June 2016). In June 2016, the Steering Committee for the reform of Železnice Srbije adopted a plan for the rightsizing for 2016 (by mid-November, around 3,000 employees volunteered to terminate their employment

contracts). An inventory of assets and liabilities of Železnice Srbije has been prepared and their redistribution to the enterprises within the new corporate structure has been finished.

PE EPS adopted the Reorganization Program (in November 2014) and the Financial Consolidation Plan of PE EPS (in June 2015). After the implemented status changes in July 2015 and January and June 2016, a new organizational structure was established (involving the existence of PE EPS as the control company performing the activities of: electricity and coal production, wholesale supply of electricity and supply of electricity, and one dependent company Distribution System Operator “EPS Distribucija” – for the activity of electricity distribution and management of the distribution system. There is also one dependent company in Slovenia for the activity of electricity supply. The current process of corporate restructuring and financial consolidation will be followed by changes to the legal status of PE EPS, aiming to transform it into a joint stock company (by 1 July 2017) and the conditions will be created to analyse other options for the further development of the company with the aim of improving company performance and ensuring professional management. The plan of optimization of the number of employees was adopted for the period 2016-2019 (1,517 employees signed a contract on the voluntary termination of employment with payment of incentive severance pay in 2016). The closing of two inefficient production plants is planned by the end of 2017. The price of electricity was increased by 3.9% for buyers with guaranteed supply (households) as of October 2016, to reduce the financial gap and difference between the price levels on the domestic and regional markets. Changes to the Criminal Code, making theft of electricity punishable as a separate criminal act would contribute to reducing losses due to unauthorized consumption of electricity (theft).

The Baseline for the restructuring of PE Srbijagas was adopted (in December 2014) and a new organisational structure of this public enterprise was established in August 2015, including its subsidiaries for the transmission and management of the transmission system and for the distribution and management of natural gas distribution system, with the aim of finalizing the physical separation by the end of 2017. In February 2016, in collaboration with the World Bank, the Government adopted the PE Srbijagas financial consolidation plan, which improved the payment discipline. A plan for PE Srbijagas debt restructuring was prepared with the aim of terminating the practise of debt conversion to equity capital; improving payment collections in order to prevent further accumulation of arrears (among other things, switching off of supplies, but also using explicit state subsidies in cases of strategic importance where switching off is not an option); rationalization the investment plans (in consultations with the World Bank). These measures will contribute to financial viability of Srbijagas and will place the enterprise on a sustainable business operation path.

Budgetary implications of the structural reform

The Budget Law for 2017 secured funds to the amount of EUR 52,000 for the costs of introducing corporate governance for all public enterprises. In 2017, along with the European Bank for Reconstruction and Development (EBRD) loan for financial restructuring, a technical assistance (grant) was received from EBRD amounting to EUR 130,000 to engage an independent consultant to establish corporate governance and for legal issues at PE EPS.

Risks in priority structural reform implementation

The key risk is lack of the political support for the introduction of corporate governance in public enterprises. The other risks are: rescheduling of liabilities and claims, resolving property issues, lack of readiness on the part of educational institutions to offer adequate and good-quality programs focusing on corporate governance.

Expected impact on competitiveness

The reform should increase the efficiency of public enterprises by rationalizing the waste of resources, increasing the volume and improving the quality of services, modernizing technology and the like. Increased efficiency of public enterprises shall have a positive impact on increasing the efficiency of the overall economy, not only because of the great value of the services they deliver, but also because of a large part of the social wealth that is under their control. The aim is to prepare public enterprises for doing business in line with market conditions, without state aid and subsidies, which ultimately should have a positive effect on public finances and economic competitiveness.

Expected social impact

The introduction of corporate governance has a positive impact on improving the organisational structure, efficiency of the management and control process in public enterprises, as well as on adjustments to circumstances imposed by the business environment in which an enterprise operates. Good quality corporate governance is a precondition for initiating and successful completion of the restructuring, thereby reducing irrational and unreasonable spending of taxpayers' money. On the other hand, the restructuring of the three major state-owned infrastructure enterprises will result in a certain number of employees being laid off. In addition, in order to promote gender equality, there should be a certain number of women on managerial positions in these enterprises.

Structural reform implementation monitoring indicators

	<i>2014 (BV)</i>	<i>2015</i>	<i>2016</i>
<i>% of women directors and members of managing boards of public enterprises out of the total number of directors and members of managing boards of TV: 30% (2020)</i>	-	13	22
<i>Number of public enterprises established by the Republic of Serbia, which incurred losses – TV: 0 (2020)</i>	9	7	8
<i>The total net loss of public enterprises that incurred losses, in mill. EUR, - TV: 0 (2020)</i>	640,5	186.7	25.5*

**Achieved total net value of losses of public enterprises that incurred losses for the period January-September 2016.*

Priority structural reform 9. SIMPLIFICATION OF PROCEDURES FOR BUSINESS ENTITIES

Structural reform outline

The establishment of the single public registry of administrative procedures and other business conditions (further in the text: the registry) will provide the business entities and citizens with a transparent overview of all the administrative procedures and other business conditions that need to be met and realised in order to be able to deliver a service, including the list of all the costs like duties, fees, etc. The establishment of the registry is envisaged in the *Strategy for the Support to the Development of Small and Medium-Sized Enterprises, Entrepreneurship and Competitiveness 2015-2020* and its *Action Plan*, the *Strategy for Regulatory Reform and Improvement of the Public Policy Management System 2016-2020* (SO 8/16), and the *National Programme for Countering Shadow Economy* (SO 110/15). The Proposal of the law on services envisages the establishment of a single electronic contact point (SECP), this being one of the obligations assumed through the Directive on Services 2006/123/EC whose transposition is laid down in Article 59 of the SAA. Service providers will thus be able to obtain all the information they need to start and conduct their business from a single source, while some of the business procedures

will be completely electronically-based. This would altogether shorten the period necessary to start a service activity.

Current structural reform preparation/implementation status and implementation plan

The Public Policy Secretariat initiated the project of establishing the single public registry of administrative procedures and other business conditions as well as the preparation of all the required documents for this activity so that the stage of making the inventory of administrative procedures could begin. In 2016 the following pertinent activities were completed: the Government Task Force for the pursuit of activities was formed; the Operational Plan of Activities with precisely defined institutions responsible for the implementation of activities and the deadlines for their implementation was adopted; the analysis of the current state with a comparative overview of successful examples from various European countries was prepared – the problem was defined; all the institutions that would take part in the process of making the inventory of administrative procedures and other business conditions were listed; a Decision was adopted delineating duties of all the institutions in the fulfilment of commitments set out in the Operational Plan of Activities. The Law on e-document, e-identification, and confidential services in e-business was prepared. The Government adopted the Proposal of the law on services and the Programme of alignment of domestic legislation with the Directive on Services 2006/123/EC. The Ministry of Trade, Tourism and Telecommunications prepared the proposal of the project aimed at the setting up of the SECP that would be funded from the IPA funds, it being in the approval stage now. Activities relating to the registry that are planned for the forthcoming period are: the preparation of a digitalised form containing instructions for making the inventory of administrative procedures; the training of trainers and the trainings of civil servants that will take part in making the inventory of administrative procedures; making the inventory of administrative procedures; the analysis of all the listed administrative procedures; simplification and optimisation of administrative procedures; adoption of the legal framework for the establishment of the registry; establishment of the registry; continued simplification and optimisation of administrative procedures relating to the business sector. Part of the realisation of the project aimed at the establishment of the SECP will also be the adoption of the Regulation on the means of communication among institutions and the stages of establishment of the SECP, the establishment of the portal, and the completion of the alignment of sector regulations with the Directive on Services. The adoption of the Law on fees for the usage of public goods has been planned as well, and its preparation is already underway.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 249,672 (items under the Ministry of Economy – EUR 54,736, Ministry of Trade, Tourism and Telecommunications – EUR 191,912 and the Republic Secretariat for Public Policy – EUR 3,024), while the projected costs of reform in 2018 amount to around EUR 185,000 (only item under the Ministry of Trade, Tourism and Telecommunications). Funds envisaged as potential non-budget financing of the reform (all funds from IPA funds) amount to: 2017 – EUR 1,742,840 and 2018 – EUR 2,086,280 (items under the Ministry of Trade, Tourism and Telecommunications: 2017 and 2018 – EUR 1,295,000; items under the Ministry of Economy: 2017 – EUR 447,840, 2018 – EUR 791,280).

Risks in priority structural reform implementation

Inadequate cooperation and coordination among competent Republic bodies, organisations and other institutions in terms of the enumeration of administrative procedures and other requirements for doing business; discontinuity of keeping already established registry; inability to engage the necessary human resources.

Expected impact on competitiveness

The establishment of the registry is expected to result in the reduction of the administrative burden the business sector faces by the minimum of 20%, as well as in a greater transparency and predictability of the business environment. Apart from that, the inventory of procedures will help ascertain which procedures can be simplified and, consequently, help reduce administrative costs of the functioning of the business sector. The setting up of the SECP will facilitate and diminish the costs of starting and pursuing a service activity, which will directly boost the setting up of new enterprises and competitiveness in the service sector. The objective of the setting up of the portal is to ensure easier access to information on starting and doing a service activity for service providers. The opportunity to find in one place all the required information shortens the time needed to meet the required conditions, which in turn leads to reduced business costs. Besides, the making of the inventory of procedures will help ascertain which procedures can be simplified and thus diminish administrative costs of the operating of the business sector.

Social impact

The pursuit of this structural reform will positively affect the legal security of interaction with state administration bodies owing to greater transparency of the work of state administration bodies, reduction of administrative barriers for the provision of services, as well as a better information of both the employers and the employees. The boosting of competitiveness and efficiency of overall economy will directly lead to an increase in the number of opened new enterprises, and thus to the creation of new jobs.

Structural reform implementation monitoring indicators

	2012 (BV)	2014
<i>The administrative burden on businesses in % GDP - TV: 3% (2020).</i>	3.7	3.46

Priority structural reform 10. ESTABLISHING A COMMON INFORMATION PLATFORM FOR ALL INSPECTORATES AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)

Structural reform outline

The implementation of a unified inspection information system- e-Inspector is related to the activity contained in the Draft Action Plan for the implementation of the Strategy for the Development of e-Government 2017-2018. This reform will improve the coordination of inspections, introduce legal regulations and establish an information system in order to effectively exchange data and electronic documents for planning and conducting of inspection oversight, which is the goal of the Public Administration Reform Strategy in the Republic of Serbia and the Law on Inspection Oversight.

Current structural reform preparation status and implementation plan

An activity was introduced that envisages the development of all business procedures and preparation of tender documents for the establishment of an information platform - e-Inspector. Business processes were listed in all 36 inspectorates at the national level. An assessment was made of the hardware infrastructure necessary for the overall information system. Pursuant to the Law on inspection oversight, a unified legal framework for functioning of all inspection services has been established, the preventive role of inspection oversight has been reinforced, and a mechanism for cooperation among various inspections has been established. Aiming to improve competitiveness and increase business activity, it is necessary to undertake a number of activities that would lead to improving inspection capacities – increasing the number of employees, as well as securing the technical conditions for the implementation of full inspection oversight. To

achieve adequate improvements, plans are under way to develop a functional and comparative analysis of human resources in inspections, to be adopted by the Council of the Coordination Commission, in accordance with the provisions of the Law on Inspection Oversight. Of particular importance is the process of harmonization of separate laws regulating inspection oversight under certain areas, in order to create a functional legal framework for the implementation of inspection oversight in all areas. Having in mind that the nature of inspection work is very diverse and demands the existence of separate laws, as well as that the Law on Inspection Oversight is a law of a systemic, “umbrella” character containing contemporary inspection standards and rules of work and conduct, filling in legal gaps in inspection oversight, the importance of successful implementation and finalization of the process of harmonization is undisputable. The activities planned for the forthcoming period include development of both a central and respective individual modules for inspection bodies, in addition to communication with external partners. This will be followed by development of the unified information system, adjusted to suit the needs of individual inspectorates and training of inspectors in using the new information system.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 560,000, while the envisaged costs of the reform in 2018 amount to around EUR 640,000.

Risks in priority structural reform implementation

High costs of establishing the information platform e-Inspector; late or insufficient provision of funds in the RS budget for financing the implementation of e-Inspector; implementation of parallel reform processes for improving inspection oversight, particularly in relation to the development of inspection capacity, and inadequate coordination of these efforts; lack of adequate personnel and technical equipment in inspectorates.

Expected impact on competitiveness

Consolidating the operations of market inspectorate, labour inspectorate, communal police, etc., as well as their improved coordination with the Tax Administration, through development of the unified information system will enable more efficient and effective work of all inspectorates. Targeted controls that the inspectorates carry out should result in a safer business environment due to better enforcement of regulations and reduced burden of unnecessary and frequent inspections to bona fide business entities. This reform should also contribute to the reduction of the informal economy, increase budget revenues from taxes and contributions, and improve formal employment opportunities.

Expected social impact

The effects of the implementation of this reform are reflected in: the reduction of the number of workers in the informal economy and better functioning of the labour market as a result of improved quality of oversight and better work coordination between inspection services; better-quality monitoring of compliance with labour contracts and rights of employees which will be provided by improved efficiency of labour inspectorates; better dissemination of information to the public and greater visibility of the work of inspectors in the field, provided by a quality information system; better qualifications of inspectorate services staff.

Structural reform implementation monitoring indicators

	2015(BV)	2016
<i>All inspection services at the republic level will be using the e-Inspector system, in % - TV: 100% (2018)</i>	0	0

3.5. Area RESEARCH AND INNOVATION

The adopted strategic framework established the guidelines for an effective national research system which, through a more merit based system of financing and adequate stimulation to innovation, should contribute to economic growth. The key issues in the field of research and innovations still remain: low total expenditures on account of science and research, the emigration of the highly educated population ('brain drain'), and insufficient collaboration between the science and business sectors with regard to commercialisation of research and innovation projects, lack of an institutional framework supporting innovations, insecure financing of scientific and research organisations.

Low expenditures and a small number of financial instruments rendering support to technological absorption and innovations. The total expenditures for science in Serbia in 2015 amounted to 0.87% of the GDP which was below the EU-28 average (2.03% of the GDP). Although investments in science by the private sector have increased to 12.8% in 2015 (8.2% during the past year), this is still considerably below the EU-28 average, where private sector investments account for as much as 55% of all investments in science. By the end of 2020, Serbia should increase the investments in research, development and innovations up to 1.5% of the GDP (out of which 0.6% from the budget), in order to come closer to European standards and integrate more strongly into the European technological absorption space. According to the *2016 Global Innovation Index (GII)* Serbia ranked 65th (out of 128 countries), and its worst ranking is in the pillar of market sophistication (109th) which includes access to loans, protection of investors and the number of projects funded by venture capital.

Every year over 32,000 people leave Serbia (according to SORS estimates). The main reasons for **emigration** are work and professional development. The main reason for the emigration of scientists, in addition to higher salaries, was better opportunities for scientific and research work, while a large number of students leaving Serbia do so to complete their master and doctoral studies abroad (14% of highly educated emigrants). According to the country's capacity to "hold" and "attract" talents, Serbia ranked second to last in 2016 (out of 138 countries) and it only ranked better than Venezuela.⁴² In Serbia, there are 2,800 employees in the research and development sector per million inhabitants (Source: SORS), which is insufficient compared to the 5,000 in the EU-28 (Source: Eurostat). Out of 14,643 researches (59% or 8,620 with PhD degree) only 3% is employed in the non-financial sector. Lack of "research visa" and unregulated reintegration of researchers – returnees are some of the reasons for low competitiveness of Serbia in the area of science.

Mobility of researchers between scientific and research organisations and the private sector is limited due to a lack of joint doctoral studies, joint projects, opportunities for researchers to spend a period of time in the private sector, etc. This type of mobility virtually does not exist in our country. In the forthcoming period, active steps will be undertaken regarding alignment of policies on employment, education and scientific-technological development in order to make knowledge and skills better suited to the needs of the economy.

In Serbia there are no financial instruments and mechanisms to spur the demand for innovations. There are also no tax reliefs for enterprises which implement research and innovation projects nor credit lines for innovative projects of enterprises. **There is insufficient collaboration between the academic community and the business sector**, including commercialisation of research, which significantly reduces the potential of science to improve the competitiveness of the private sector. In the scope of a three-year Project for the promotion of competitiveness and employment funded by the World Bank (*Competitiveness & Jobs*), in addition to the IPA 2014 Innovation Serbia Project's direct grant for the Innovation Fund – the Programme of early-stage

⁴² Competitiveness Report , World Economic Forum

research and co-financing of innovations, it has been envisaged to increase the number of companies supported under collaborative research grant scheme.

It is necessary to establish an institutional and legal framework supporting innovations and provide long-term sources of funding. The Law on Higher Education and the Law on Innovation Activity do not define the establishment of knowledge-based innovative companies. Financing under venture capital (VC) funds is also not regulated. Most universities in Serbia have established some kind of a technology transfer facility, which do not have sufficient human or financial resources to identify innovations within scientific and research organisations and support their commercialization. The eight business and technological incubators in Serbia and four scientific-technological parks (in Belgrade, Novi Sad, Niš and in Kragujevac) have largely been established as a result of donor projects and are facing sustainability issues i.e. are left without support from scientific and research organisations or budget funds.

Priority structural reform 11. PROGRAMME SUPPORTING INNOVATION AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS

Structural reform outline

In addition to support for innovation and technological development projects in scientific and research organisations and the private sector, the reform implies the establishment of a technology transfer system, implementation of joint projects by public scientific and research organisations and private companies, and financing innovation projects in the private sector through the Innovation Fund. Independent international evaluation of Serbian public research and development institutes will be conducted in the course of 2017, to enhance their efficiency and capacities for collaboration with the private sector through technological projects. The Strategy of Scientific and Technological Development 2016-2020 – *Research for innovations* was adopted in March 2016 and a draft action plan for the implementation of the Strategy was prepared.

Current structural reform preparation status and implementation plan

The agreement on a direct grant for the implementation of the collaborative research grant scheme (Program of collaboration between science and the industry) has been signed between the Innovation Fund and the Ministry of Finance – under IPA 2013, a public announcement has been published, *Info Days* have been held in 6 cities in Serbia and 10 workshops have been held to support the applicants to submit their applications. The control of the eligibility of received applications, assessment of received applications by international reviews, decision on the shortlist and adoption of the final decision on financing by an international independent expert commission have been implemented during the period from late September to early December 2016. The Fund for Innovation Activities published the names of 14 projects on 9 December 2016, the recipients of financing to a total amount of EUR 3 million. Following the announcement of the winners, the Fund organized an “Info Day” in December 2016, where the recipients of financing were introduced to the principles of implementation within the grant scheme, the method of reporting and implementing procurement procedures. The signing of the contracts with the recipients of financing and the start of project implementation is expected in Q1 2017. Plans for the next three-year period are for the implementation of the Programme of collaboration between science and the industry to be supported from IPA 2013. In addition to this, the Fund will publish public calls for the Programme of Early Development and the Programme of Co-Financing within the Competitiveness & Jobs project of the World Bank, implementing these two programmes, along with a planned evaluation of public research-development institutes, the implementation of projects selected within the Programme of Research in Technological Development by the MESTD, as well as the establishment and implementation of service lines for technology transfer in the Technology Transfer Facility. The Strategy of Research and Innovation for Smart

Specializations of the Republic of Serbia RIS 3 is also being developed in parallel, with the intersectoral working body (IWB) formed and already having drafted the first working version of the roadmap for the development of the Strategy. Thus, Serbia is the first non-EU member state that has begun the process of designing smart specialization at the national level.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the amount of EUR 42,251,064, while the same amount is envisaged for the costs of the reform in 2018 and 2019, from the budget of RS. The following funds have been provided as potential non-budgetary financing for the reform: 2017 – around EUR 2 million (with EUR 1.5 million from IPA funds); 2018 – around EUR 1.9 million (with EUR 1.4 million from IPA funds); 2019 – EUR 960,833 from IPA funds.

Risks in priority structural reform implementation

The following key risks have been identified with regard to the implementation of the reform: delays in implementation of other foreseen reforms in the science and innovation sector, weak interest in cooperation between the business and science sectors, lack of potential technologies to be commercialised in scientific and research organisations, insufficient interest of researchers in partaking in the commercialisation process, the resistance of employed researchers during evaluations of scientific institutes.

Expected impact on competitiveness

The structural reform has a positive impact on competitiveness because it encourages innovation activities in the private sector through raising the capacity of a company to develop innovative products and services with a high value added. In addition, the technology transfer program creates the conditions for commercialisation of existing knowledge and scientific results on the market. The capital cost is reduced through the financial instruments of the Innovation Fund and the companies' ability to access other forms of financing, e.g. venture capital funds is improved.

Expected social impact

The reform will have a positive impact on creating sustainable and well paid jobs in the long run. Successful examples of innovative companies supported through the programs of the Innovation Activity Fund shall enhance social awareness of the importance of entrepreneurship, science and innovations. The impact of the *brain drain* shall be reduced by the creation of new jobs for highly educated staff (primarily youth) and/or through joint projects of the private sector and the academic community. Furthermore, the reform will contribute to promoting an innovation culture in society, increased absorption of new technologies and, therefore, an increased level of general education in society.

Structural reform implementation monitoring indicators

	2015(BV)	2016
Number of conducted self-evaluations of institutes - TV: 50 (2018)	0	0
Number of newly established project partnerships between the private and academic sectors - TV: 42 (2018);	22	14
Number of newly established innovative companies - TV: 296 (2018);	156	0
Number of registered patents - TV: 103 (2018);	58	0
Number of highly qualified staff employed through the supported projects - TV: 584 (2018).	324	0

*Projects funded under Mini and Matching Grants have not been implemented in 2016.

3.6. Area EXTERNAL TRADE AND INVESTMENT FACILITATION

The achieved macroeconomic stability had a favourable effect on the investment activity and increased competitiveness of local economy on international market which, in addition to improved trade opportunities, increased exports and reduced foreign trade deficit. Serbia has aligned most of the legislation with the EU acquis, standards, and technical regulations in the quality infrastructure area. Notwithstanding the evident progress in the area of foreign trade, the challenges that Serbia is faced with refer to a low value added in manufacturing, further alignment of manufacturing with international quality standards, non-diversified exports, as well as insufficient focus of manufacturers on customers' demands.

Exports and foreign trade volume growth is not accompanied by an improved structure of exports. The expansive nature of exports may be explained by completed privatisation and restructuring of enterprises until present, by signing and ratification of free trade agreements, as well as increased exports of passenger cars, food and finished textile products. The exchange ratio has been improved (indicator of export purchase power per import unit) from 2.2% in 2015 to 14.7% during the first half of 2016. Diversification of foreign direct investments (FDIs) in a number of manufacturing sectors of tradable goods has ensured wide dispersion in exports, and reduced the risk of its slowdown in the medium term. Serbia's rising export coefficient (exports in terms of GDP percentage) from 20.7% in 2009 to 36.2% in 2015 contributed to a decrease in negative foreign trade balance in the same period (by 21.8%). Imports activity is determined by economy needs in capital goods and raw materials and is therefore in correlation with exports growth. Serbia is achieving 60% of the overall trade volume in the EU market. Serbian economy materializes its comparative advantages primarily in primary and products of lower stages of processing, which are predominant in the Serbian exports structure (50% of Serbia's exports compared to 30% exports in the EU-28). The share of *high-tech* products of barely 9% in overall Serbia's exports in 2015 is far below an average level in the EU-28 (26%).

Although the current level of investment activity in Serbia is close to the level of the EU-28 or Germany (at the end of 2015, investments accounted for 18.1% of the GDP in Serbia; 19.6% in the EU-28; 19.9% in Germany), the investment structure differs: while 10.2% of investments in Germany account for high-tech industries (manufacturing of basic pharmaceutical products and preparations, computers, electronic and optical products), in Serbia only a 2.7% of total investments account for these sectors, which is insufficient for a long-term and sustainable industry growth and development. **The business environment reforms, together with improved financial position of enterprises, have reflected on the growth of total investments** amounting to 5.4% y-o-y in 2015. Still, experiences of developed countries demonstrate that the investment level must be at a much higher level (around 25% of the GDP) for sustainable and higher economy growth rates.

The growth and diversification of the FDIs in Serbia have led to the growth of the manufacturing intended for exports. The overall net FDIs in Serbia amounted to EUR 1.8 billion in 2015 (5.5% of the GDP), which is a growth of approximately 46% compared to 2014. On the other hand, green-field investments in 2014 were at the lowest level since the beginning of the economic crisis and the investments were more frequently made for the sake of market penetration and market expansion than for the sake of enlargement of manufacturing capacities. Stimulating private and public investments is a recommendation from the *EC 2016 Progress Report for Serbia*.

In the area of goods market efficiency (in the scope of the *Global Competitiveness Index*) **Serbia ranks poorly** (rank: 121st out of 138 countries) in spite of a competitive ranking in the segment of the number of procedures for commencement of business operations (rank: 54th on the List) and import coefficient of 59.4% of the GDP (rank: 37th). In the pillar of customers' sophistication, Serbia has kept a very low ranking (rank: 133rd). Buyers' decisions on purchase of goods are

commonly guided solely by low price, because manufacturers pay little attention to demands of their customers who, either for cultural or historical reasons, differ from one country to another. Companies are neither innovative enough nor customer-oriented, which limits increase in the efficiency on the goods market.

The finalisation of Serbia's accession to the World Trade Organization (WTO) depends on the **alignment of domestic legislation with the WTO rules** - in our case, this concerns the enactment of the Law on Genetically Modified Organisms consistent with the WTO rules regarding GMO trade: this is a systemic issue, rather than a bilateral requirement on the part of any member country. In addition, within the accession process bilateral negotiations are still ongoing with the USA, Brazil (agriculture), Ukraine (goods and services) and the Russian Federation (goods and services).

Serbia is party to a range of free trade agreements with the Russian Federation (2000), CEFTA (2006), with the EU (2008), Belarus (2009), Turkey (2009), EFTA (2009) and Kazakhstan (2010), while a free trade agreement is still being negotiated with Ukraine.

The European Union recognises technical regulations as a prerequisite for pursuing the international and European integration path and ensuring free movement of goods and services. **Serbia has aligned with the EU *acquis* most of its legislation, standards and technical regulations in the area of quality infrastructure** (until present, the transposition of 97% of standards and about 75% of technical regulations has been completed). Further alignment is needed in the field of sectoral regulations that would ensure better implementation of the technical requirements and standards (*EC 2016 Progress Report for Serbia, p. 37*).

On the *Doing Business List*, according to the indicator on foreign trade volume, Serbia ranked 23rd out of 190 countries on the list, which is also the most important ranking within the composite indicator of Business environment. The most important activity for the good ranking in this pillar is an efficient implementation of the New Computerised Transit System (NCTS) by the Customs Administration, as well as introduction of an electronic customs clearance system.

Priority structural reform 12. IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM

Structural reform outline

An efficient and internationally recognised quality infrastructure (QI) system is aimed at providing safe and good-quality products on the market, which is among the key prerequisites for improving the competitiveness of the Serbian economy, exports and economic growth. An efficient QI system will ensure for the Serbian enterprises and industry a framework for the implementation of technical regulations and standards for products and management control systems (safety, quality, environmental protection, etc.). This reform is focused on attaining a high development level of key elements of the QI system: metrology, standardisation, accreditation and conformity assessment, as well as the full and efficient implementation of the legislation applicable to free movement of goods, without unnecessary technical barriers to trade (Negotiating group 1). The reform is consistent with the goals of the 2015-2020 *Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia (QI Strategy)* and includes 3 measures: (1) harmonising the legislation with the EU regulations; (2) regulating the non-harmonised area (3) an internationally recognized QI framework.

Current structural reform preparation status and implementation plan

The implementation of the structural reform started with harmonising the key regulations i.e. by enacting and review of 4 umbrella laws in the areas of: standardisation, accreditation, metrology and technical requirements for products and conformity assessment, as well as by enacting the QI

Strategy (more detailed in the annex, Table 12). The implementation of the mentioned statutory documents is conducted through three measures: (1) *Harmonising the legislation with the EU acquis* – over 75% of the legislation for regulating various areas has been harmonised (elevators, electrical equipment, electromagnetic compatibility, etc.), and transposition of approximately 97% of European Standards has been completed by the Serbian Standardisation authority, in addition to a Draft Strategy Paper and an Action Plan on complete transposition and implementation of the *EU acquis* included in the negotiating Chapter 1 - Freedom of movement of goods (AP for the harmonised area); (2) *Regulating of non-harmonised area* – which refers to the products for which there are no harmonised *EU acquis* and for which national technical regulations and standards are applied instead. An Action Plan with over 150 technical and other regulations, which are a potential obstacle for free trade (AP for the non-harmonised area) has been prepared, a legal framework for the preventive action i.e. safeguards against new trade barriers have been established (in line with the requirement under EU Directive 2015/1535 and the TBT/WTO agreement) and updating the outdated technical regulations has been initiated with the objective of repealing the technical regulations which have been recognised as potential trade barriers; (3) *Internationally recognized QI institutional framework* – all requirements have been fulfilled and the Institute for Standardisation of Serbia has become a full-fledged member of CEN/CENELEC, the European organizations for standardization, on 23 November 2016, the Accreditation Body of Serbia is a member of the European Accreditation Organisation (EA), International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF) and it is a signatory to multilateral agreements on mutual recognition of accreditation systems (EA MLA, ILAC MRA, IAF MLA); the Directorate of Measures and Precious Metals is a member of international metrology organizations (OIML, BIPM, WELMEC, EURAMET, EMLMF); promotional and educational activities on standardization, accreditation, metrology and conformity assessment issues targeting general public and relevant stakeholders have been implemented (using, as support for the implementation of the above activities, expert services rendered by the Project “Strengthening of Capacities of the National QI System and Conformity Assessment in Serbia”, IPA 2013 – Twinning project in the following areas: toys, aerosols, cosmetics, construction products, etc.).

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds to the total amount of EUR 9,6 million. Non-budgetary financing has also been provided in 2017 to a total amount of EUR 5.3 million, for: the Project *Strengthening Capacities of National Quality Infrastructure (NQI) and Conformity Assessment (CA) Services in the Republic of Serbia (IPA 2013 – Twinning)* - EUR 300,000 and for the Project *Supply of Equipment Necessary for Conformity Assessment (CA) Services in the Republic of Serbia (IPA 2013 – Supply Contract)* – EUR 5,000,000. The estimated value of own funds of the Institute for Standardisation of Serbia and the Accreditation Body of Serbia for the period 2017-2019 amounts to EUR 6.6 million.

Risks in priority structural reform implementation

Insufficient intensity of harmonising the regulations, as well as insufficient capacities for the preparation and implementation of the technical regulations in line ministries represent a potential risk for adequate implementation of the structural reform, in addition to the expiry of full membership of the national institutions in European and international organizations for standardization, accreditation and metrology and in mutual recognition cooperation agreements.

Expected impact on competitiveness

Implementation of aforementioned measures shall have a direct impact on creating an environment for placing safe and good-quality products on the market and on increased competitiveness of local economy by reducing the costs of tests and certification, improving market surveillance and

aligning the legal framework and technical regulations with demands of the EU market, thus removing the technical barriers for manufacturing, import and export of products.

Expected social impact

The implementation of this structural reform directly ensures high level of protection of human safety and health owing to using safer and better quality products, as well as the protection of property, the environment and other public interests. In addition, the protection of consumers' and end-users' interests is improved and awareness is raised about the importance of technical regulations and standards.

Structural reform implementation monitoring indicators

	2014 (BV)	2015	2016
Implementation index of EU single market rules and principles and WTO/TBT agreement – TV: 54 (2019)	/	48	50
Share of exporters in the total number of the SMEs – TV: 7% (2020)	4.3%	4.3%	4.5%
Share of exports in the total turnover of the SMEs Sector – TV: 14% (2020)	9.1%	9.1%	9.5%

3.7. Area EDUCATION AND SKILLS

The biggest obstacles in the area of education and skills development include the mismatch between human capital and social and economic needs, insufficient capacity and an inadequate local network of institutions, insufficient coverage of children, a low share of population with university degrees, an unregulated system of qualifications acquired through education, low labour mobility.

The curricula at all levels of education are extensive and inflexible. Human capital is a resource for the economy only if people have appropriate education, knowledge, skills and competences, which the Serbian education system does not provide.

The main challenges in social care for preschool children (children aged from 0.5 to 3 years) **and preschool education** (children aged from 3 to 5.5 years and children aged from 5.5 to 6.5 years for whom the preparatory preschool program is mandatory) **include inadequate system capacities from the standpoint of the number of children and the network of preschool education institutions and facilities** (the current system consists of a network of 271 preschool institutions with 2,555 facilities). The ratio between the number of children and institutions is even more unfavourable when it comes to rural and urban communities. Coverage of children stands at around 43% (disaggregated by age: up to 3 years 19%, from 3 to 5.5 years 38%, from 5.5 to 6.5 years, 95%⁴³).

Students in primary schools are overburdened with mandatory classes, the *ex-cathedra* teaching method still prevails, active learning methods are still insufficiently applied, research methods and other student-oriented methods that enable their greater participation in the process of instruction and develop their motivation to study and apply their knowledge. The incomplete coverage of children with primary education (the net coverage rate is 97.5%). According to the 2011 census, 22% of citizens **have not completed primary education**, although primary education in Serbia is compulsory and free of charge for more than 50 years. The dropout rate among children when transferring to the fifth grade has fallen below 1% in recent years, while in 2014, the primary education completion rate was 99.6% (i.e., the dropout

⁴³ Source: Education Statistics, 2014, SORS

rate in primary education is 0.4%). Modernization of instruction for students from 5th to 8th grade is implemented by introducing activities of cross-subject networking of contents as support to entrepreneurial education, aiming to stimulate children towards creative, process-based and project-based thinking.

The quality of primary education in Serbia is lower than the average in OECD countries, as measured by the PISA test. Compared to the OECD average of 500, fifteen-year olds from Serbia scored on average by 60 points less in the 2012 testing, this being equal to the effects of slightly more than one year of schooling in OECD countries. However, according to the results of the 2015 TIMSS⁴⁴ study, which is a test of achievement levels in mathematics and science, students in Serbia scored above-average results - the average score for Serbia is 518 points, 18 points higher than the international average.

The enrolment plan and educational profiles in secondary vocational schools are not in tune with the needs of the economy and the labour market; instead, they are focused on acquiring theoretical - academic and technical knowledge; hence, high unemployment prevails among persons with secondary vocational education (out of the total number of the unemployed in Q2 2016, 64.5% have completed secondary school, according to the Labour Force Survey, SORS). The dual education model that which would enable high school students to have intensive practical induction in companies where would be subsequently employed, is not sufficiently prevalent. The system of learning through a dual education model is applied in about 30% of educational profiles provided in secondary vocational schools (59 programs).

The coverage of students by secondary education in the 2014/2015 school year was **88.7%**, while the **dropout rate** was **1.3%**, according to the SORS. In 2016, about 95% of students who completed primary education enrolled in general and vocational secondary schools. Serbia is one of the few countries where secondary education is not yet compulsory, although the Education Development Strategy provides for the introduction of compulsory secondary education. Work has started in 2016 on the programme of so-called state (national) graduation, involving the definition of the concept of National Graduation, key contents and deadlines.

High diversification of study programs in higher education is just one of the reasons why young people cannot get a job after completing their education (the unemployment rate among young graduates aged between 25 and 29 years is 28.7% according to the 2015 Labour Force Survey, SORS). The share of the population with higher education in Serbia (10.6% according to the 2011 census) is low compared to the EU-28 average (23.7%). In 2012, one in four people in the 25-34 age bracket has completed some form of higher education (24.9%), which is still a significantly lower percentage than the EU-28 average (35.2%). There is no systemic monitoring and more reliable identification of the current mismatches between the qualification structure of university graduates and qualifications required, and forecasts of labour market needs in Serbia for staff.

Priority structural reform 13. LABOUR MARKET NEEDS ORIENTED QUALIFICATIONS

Structural reform outline

Reform processes are under way, focused on secondary vocational education, aiming to improve the educational system so that it produces competent individuals capable of responding to the needs of the labour market, society as a whole, but also of meeting their own personal needs,. Since technology today is progressing rapidly, and schools cannot keep up with these technological changes, it is imperative for part of the professional and practical education to be

⁴⁴ Trends in International Mathematics and Science Study, http://www.ipisr.org.rs/timss/o_istrazivanje_timss - The project of the International Association for the Evaluation of Educational Achievement is carried out once in 4 years, with fourth-grade and eighth-grade students.

displaced towards companies. This will enable students, having completed a secondary vocational school, to have functional, usable and applicable knowledge to immediately join the work process. The dual system of education, in Serbia involving the model of dual and entrepreneurial education, will make secondary school students more entrepreneurial, and even motivate them to open their own companies and actively participate in the production process immediately after formal education. The National Qualifications Framework (NQF) in Serbia should benefit students as well as the economy, and provide for compatibility with the European education area. Qualifications should show what a given person can do, not just what diploma or certificate they have and what school they have completed.

Current structural reform preparation status and implementation plan

Activities on the drafting of the NQF, establishing all the elements of the system (competent bodies and institutions, legal and financial framework), are in the final phase. The Vocational and Adult Education Council and the National Council for Higher Education have adopted the main elements of the NQF. Qualifications have been sorted into eight levels of qualification with sublevels at the sixth, seventh and eighth level. All levels have established descriptions, as well as a method for sorting previously acquired and current qualifications in accordance with the NQF. A document on the NQF is being prepared, along with reports on Connecting to the European Qualifications Framework and Self-Evaluation in accordance with the European Higher Education Area, and the establishment of the unified base of qualifications that can be acquired in the Republic of Serbia is also under way. The focus in 2017 will be on drafting the qualifications standards in 2 sectors and their accreditation (entry into the database), drafting the programme of education/study programmes based on standards of qualifications, the preparation of a new national qualification of occupations, the further strengthening of the institutional framework for the implementation of the NQF, as well as establishing a system for the validation of non-formal and informal learning.

A draft “National Model of Dual and Entrepreneurial Education” has been created as part of the reform of vocational education in 2016, and the analysis of their implementation has been initiated at all educational levels across 28 towns in municipalities at various levels of development. The number of students has been increased within the pilot projects for the development of dual and entrepreneurial education in Serbia, from 510 to around 1,000 students, while the number of companies was increased from 40 to 62 (small and medium-sized enterprises have been included). A model was established for developing educational programmes where company needs have been identified, while existing programmes are being adapted and modernized for implementation using the dual model in accordance with company requirements. Likewise, the number of educational profiles in secondary vocational education was reduced from 270 to 186, both those lasting for three years (74 profiles) and four years (112 profiles), and the identification of regional needs for profiles is under way, with the assistance of companies, to be used in drafting the plan of enrolment for the next school year. A study has also been prepared for the introduction of entrepreneurial education as of the fifth grade of primary school, with a particular emphasis on the development of work ethics and entrepreneurial spirit, creative and project-based thinking, assumed to stimulate maturity in the selection of future employment, as well as an impact on the self-employability of youth and their independence and provision of economic security. The emphasis in 2017 and 2018 will be on adopting the Law on Dual Education, its promotion and implementation, forming the Office for Dual Entrepreneurial Education, the application of the methodology of enrolment in secondary schools including the harmonization of the curriculum of the educational system with the needs of the labour market, as well as forming and opening an interregional information centre in Valjevo.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds for NQF and the introduction and promotion of dual education to the amount of EUR 682,728. Non-budgetary financing has also been provided for NQF in 2017 to the amount of EUR 1.5 million from IPA 2014, while funds to the amount of around EUR 75,000 for the period 2017-2019 have been secured as part of the project “Support to the Implementation of the Employment and Social Policy Reform Programme in the Republic of Serbia with Focus on Youth Employment”, sub-component 2 (financially supported by the Swiss Agency for Development and Cooperation).

Risks in priority structural reform implementation

The risk for the introduction of models of dual and entrepreneurial education is insufficient cooperation of local self-government units and economic entities with secondary vocational schools and other stakeholders; Insufficient number of companies that can respond to the requirements of secondary vocational schools; The inability to establish an institutional framework, as well as insufficient administrative capacity of existing institutions and bodies; A challenge in the adoption of NQF and establishment of sectoral councils is inadequate support by social partners.

Expected impact on competitiveness

Competent human capital is one of the essential prerequisites for attracting investment in certain areas of the economy. The matching of needs for competences to education programmes/study programmes enables faster and more efficient inclusion of qualified individuals in work processes, thus cutting back the costs of adaptation, increasing the efficiency of the process, boosting the availability of appropriate labour force and attracting foreign investment. By creating competent staff, capacity of local companies to create innovative products and services will also be increased. The establishment of an NQF system provides mechanisms for social partnership among all stakeholders on the labour market: the educational system redefines its offer on the labour market when it comes to formal education, while on the other hand, non-formal education service providers can intervene in the market of competences in a fast and efficient manner with an offer of accredited training programs. By establishing a link with the EQF, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily the EU.

Expected social impact

The identification of the necessary competences and qualifications on the labour market will enable each individual-holder of such a qualification to find a rewarding and suitable job more easily. Employers hire skilled labour force according to their requirements because they are involved in all phases of the process of identification, development, and implementation of qualifications, i.e., education programmes/study programmes. Education, besides being a process of acquiring knowledge and skills to perform certain precisely defined tasks, also contributes to making each individual ready to respond to the needs of society as a whole; consequently, the establishment of an educational system that will respond to these needs contributes to the further development of society in all aspects. Qualifications based on needs identified on the labour market, enable each individual to acquire appropriate competences in an adequate manner for both work and further learning, and daily life and allow for full recognition of each individual.

Indicators for monitoring the structural reform implementation

	2015 (BV)	2016
Number of accredited qualifications in the qualifications register (based on qualifications standard and learning outcomes) – TV: 70 (2018.)	0	59
Number of functioning sector councils – TV: 12 (2018.)	0	1
Number of established contracts between schools and companies	40	62
Number of students attending the dual system	510	1,000

3.8. Area EMPLOYMENT AND LABOUR MARKETS

A rise in employment, against the backdrop of intensified activation, and declining unemployment constitute positive trends in the labour market⁴⁵ in Serbia. However, the labour market is still characterized by a large share of the informally employed in total employment, high structural unemployment (long-term unemployment leading to labour market exclusion, high youth unemployment resulting in “brain drain”, redundancies), gender inequality in the labour market, as well as limited resources for active labour market measures.

The **employment rate** of the population aged 15 and over was **46.8%** in Q3 2016, which is a rise of 3.4 pp compared to the same quarter for 2015. The number of employees has gone up to more than 2.8 million, but **a large number of employees work in the "grey" economy** (more than 677 thousand), bringing the informal employment rate to 24.1%. Strong growth of informal employment in 2016 is largely a result of greater engagement of seasonal workers in agricultural production due to the good agricultural year. **The employment rate of women** of 39.5% is still **significantly lower than that of men** (54.7%, a difference of as much as 15 pp). The employment rate in Serbia is significantly lower than the EU-28 average (58.9% in Q2 2016, Eurostat).

The **unemployment rate** of the population aged 15 and over was **13.8%** in Q3 2016, which is a decline of 2.8 pp compared to the same quarter for 2015. **Unemployment has a long-term character**, because a large number of unemployed persons have been looking for a job for more than a year (the long-term unemployment rate of 9.0%). Long-term unemployment leads to the obsolescence of knowledge, and since the probability of finding a job decreases commensurate with the length of the unemployment period, it can lead to permanent exclusion from the labour market. The unemployment rate in Serbia is higher than the EU-28 average (8.6% in Q2 2016 according to Eurostat).

The youth unemployment rate (for the 15-24 age bracket) of **28.5%** in Q3 2016 was **two times higher than the overall unemployment rate**. Young people leaving Serbia after receiving their university degree studies is one of the consequences of the inability to get a job. **A high youth inactivity rate** of **68.7%** further aggravates challenges in this segment of the labour market. Almost **one in five young people in the 15-24 age bracket** (18.2%) belongs to the so-called NEET category (**not in education, employment, or training**) which poses a significant economic and social challenge for the country.

A large number of employees are laid off. By funding social programs for redundant workers (in 307 enterprises from the portfolio of the Privatization Agency) 25,378 employees were declared redundant in 2015 and 2016. The total decrease in the number of employees in the public sector, compared to the end of 2014, is about 22,000 (mainly due to attrition), while the heaviest burden in this process was shouldered by health, police, and education. However, a large influx of unemployed persons is still anticipated as a result of resolving the issue of companies in restructuring which the state will cease to subsidize, as well as of an announced further downsizing in the public sector.

Employment policy funds are being earmarked in the budget of RS and the Budget Fund for the Professional Rehabilitation and Employment of Persons with Disabilities, further distributed to AEP measures. The period 2013-2015 is characterized by oscillations in the amounts of planned and/or earmarked funds for AEP measures in the RS budget: 2013 – EUR 10.4 million (0.03% GDP), 2014 – EUR 5 million (0.02% GDP) and 2015 – EUR 23 million (0.07% GDP). This is not the case with funds from the Budget Fund for the Professional Rehabilitation and

⁴⁵ The source of data for labour market indicators is the Labour Force Survey, SORS

Employment of Persons with Disabilities, remaining at a relatively constant level during this period: 2013 – EUR 6 million, 2014 – EUR 4.4 million and 2015 – EUR 4 million.

In the programs and measures of active labour market policies (ALMPs), implemented by the National Employment Service (NES), 150,953 unemployed persons were included in 2015, i.e. 146,624 unemployed persons in 2016 (**which is a coverage of 20% of the registered unemployed**). As the number of persons included in ALMPs depends on the amount of allocations for their implementation, it is crucial to improve methods and techniques of counselling work with the unemployed and to assess employability of each person in accordance with their characteristics (level of education, work experience, additional knowledge and skills, gender, etc.) as well as with the characteristics of the labour market, and **targeted inclusion in those ALMPs** that will contribute the most to the more competitive status of persons in the labour market.

Implementation of ECOFIN recommendations: Through the implementation of PSR 14. *Improving the effectiveness of active labour market policies with special emphasis on youth, the long-term unemployed and redundant workers*, part of ECOFIN recommendation no. 6 of 6 May 2016 has been implemented (*Step up the provision of targeted active labour market policies to facilitate in particular the reintegration of workers made redundant in the resolution of state-owned enterprises and public administration rightsizing*) by preparing a set of services in the 2016 National Employment Action Plan for redundant employees, who are expected to register as unemployed in larger numbers, due to both the completion of the restructuring process and the public sector rightsizing. This set covers several steps, depending on whether activities in question are pre-emptive, implemented before the termination of employment, or activities with persons after their registration with the NES. The implementation of the second part of ECOFIN recommendation 6 (*Increase the capacity of the National Employment Services to roll out such measures to larger numbers of beneficiaries*) is ongoing, carried out through the World Bank Project ‘Competitiveness and Jobs’ (2016-2018). Within the component of the project related to the reform of the labour market and the social protection system, capacity building work is being performed at the NES by establishing a system of internal certification and training for case workers, thereby overcoming the obstacles related to increasing the capacity of the NES created by the provisions of the Law on the Method for Determining the Maximum Number of Public Sector Employees (RS OG 68/15) and the Decision on the Maximum Number of Permanently Employed Persons in the System of State Bodies, the Public Service System, the System of the Autonomous Province of Vojvodina and the Local Self-Government System for 2015 (RS OG 101/15).

Priority structural reform 14. IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES WITH SPECIAL EMPHASIS ON YOUTH, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED

Structural reform outline

The promotion of efficiency and effectiveness of active labour market policies (ALMPs) based on an analysis of labour market needs and the status of certain categories of unemployed persons, as well as the effects of implemented ALMPs, should contribute to a timely, adequate, and proper integration or reintegration of the unemployed in the world of labour. The development of a system of early profiling of the unemployed as an integral part of the NES reform (by improving counselling methods and techniques and employability assessments) and inclusion of youth, redundant workers and the long-term unemployed in ALMPs through service packages contributes to higher employability and employment, i.e., to a more competitive appearance on the labour market. The ALMPs are implemented in conformity with the annual National Employment Action Plan (NEAP), as the core instrument for operationalizing strategic goals set

out in the National Employment Strategy for the 2011-2020 period. This reform is also aligned with the objectives defined in the Employment and Social Reform Programme (ESRP).

Current structural reform preparation status and implementation plan

The National Employment Action Plan for 2017, which defines concrete programs and ALMPs to be implemented during the year, has been adopted. This document is based on the situation and trends in the labour market, the results in the implementation of ALMPs in the previous period⁴⁶, while being aligned with relevant policies and ongoing reform processes of significance influencing the employment policy. Novelty brought by this document relate to the fact that new categories of unemployed persons have been included into the group of more difficult-to-employ persons who have priority for inclusion in ALMPs, while for certain measures the categories of unemployed to be included in those measures have been clearly defined. These new arrangements help to achieve better targeting of the unemployed to be included in the measures, and/or tailor ALMPs to target groups of unemployed persons. The evaluation of the performance of the National Employment Strategy for the period 2011-2020 is being finalized, for the first five years of implementation, and directions for development by 2020 are being set. The employment policy in the coming period will be implemented in accordance with the adopted NEAP for a given year.

The activities set out in the Action Plan for the implementation of the National Youth Strategy (NYS) for the period 2015-2017 are continuously implemented. In 2016, based on 4 published calls for proposals, funds were allocated for the implementation of 46 projects implemented by associations and local self-government units, which are aimed at encouraging and incentivising different types of youth employment, self-employment, and entrepreneurship. The preparation of the Action Plan for the implementation of the NYS for 2018-2019 will begin in 2017.

In 2016, as part of activities for the implementation of ESRP and based on calls for proposals for allocation of grants 10 projects of citizens' associations were implemented with a view to developing innovative models and services to support youth employment at the local level through the partnership between local partners, the public, business and civil sectors⁴⁷.

Budgetary implications of the structural reform

The Budget Law for 2017 provides funds for the professional rehabilitation and employment of persons with disabilities to the amount of EUR 4.4 million (from the Budget Fund for the Professional Rehabilitation and Stimulation of Employment of Persons with Disabilities) with the same amount for the envisaged costs of reform in 2018 and 2019 per year. Increased collection of contributions created the conditions for AEP measures to be financed from contributions, thereby providing an indirect positive effect on the 2017 budget to the amount of EUR 22.4 million.

Note: Transfers of funds to the National Employment Service for AEP measures have been terminated, thereby alleviating the pressure on the budget of RS without reducing the amount of funds for implementing AEP measures with priority aimed at stimulating youth employment and improving the labour market status of persons from difficult-to-employ categories. Funds for active policy measures for 2017 have been planned to the amount of EUR 22.4 million and provided for in the Financial Plan of the National Employment Service for 2017, to be financed through funds from the contributions for mandatory unemployment insurance, in accordance with Article 59 of the Law on Employment and Unemployment Insurance.

The Budget Law for 2017 provides funds to the amount of EUR 760,000, to be used by the MYS for the implementation of activities related to the financing of programs and projects of local self-

⁴⁶ In 2016, the following evaluations of ALMPs were made: of the service packages for young people, of the internship programme and practical skills programmes, labour market training, training at the request of the employer, labour market training for persons with disabilities.

⁴⁷ The ESRP project in the Republic of Serbia is implemented by the Social Inclusion and Poverty Reduction Unit of the Government and the Ministry of Education, Science and Technological Development, and financially supported by the Swiss Agency for Development and Cooperation.

government units aimed at developing youth employment services and youth services at the local level, as well as for the creation of mechanisms fostering employability and employment of young people through inter-agency and international cooperation, and financing and co-financing of associations' projects aimed at encouraging and incentivising different types of employment, self-employment and entrepreneurship of young people. The costs envisaged in the Budget of RS for these purposes in 2018 and 2019 amount to around EUR 760,000 per year.

Risks in priority structural reform implementation

The inactivity of the unemployed in the labour market; the mismatch between supply and demand, i.e., the mismatch between knowledge, skills, and competences of the unemployed and the demands of employers; lack of interest on the part of employers for employing/engaging persons from the hard-to-employ category.

Expected impact on competitiveness

This reform will result in higher employment and job creation, through programs of financial support to existing employers or through launching own businesses, a rise in demand for different types of funding for self-employment, boosting of demand for labour and formal employment by improving the quality of the workforce in line with the needs of employers. The reform also enhances innovation capacity through acquisition of managerial, organizational, and other skills, especially by young people, and through the creation of innovative products through the development of entrepreneurship with the support of business and technological incubators.

Expected social impact

Increasing the employability of unemployed persons through continued investment in knowledge, skills and competences; support for gaining first work experience and learning about the real world of labour; additional training for unemployed who are not competitive on the labour market to perform specific tasks for which there is a need expressed by the business sector; improvement of the position of especially vulnerable groups of unemployed persons in the labour market and persons in need through affirmative action measures; a rise in efficiency of the NES in providing services to the unemployed and employers, resulting in an increase in the number of employees.

Indicators for monitoring the structural reform implementation

	2014 (BV)	2015	2016
Long-term unemployment rate (the share of the unemployed seeking a job for one year or longer in the total active population, in percent) – TV 7% (2018)	12.8%	11.3%	9% *
Number of people employed/engaged through active labour market policies – TV 30,000 (2018)	16.800	41.891 **	40.918 ***
Long-term youth (15-29) unemployment rate (the share of unemployed young people seeking a job for one year or longer in the total active population, in percent) – TV 7% (2018)	21.1%	18.9%	14.5% *

* LFS, Q3 2016, SORS

** Agreement on the National Employment Service Performance/Implementation Report

*** Agreement on the National Employment Service Performance/Plan

3.9. Area SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES

There is significant room to improve the availability and quality of the social protection being provided through the existing financial framework. The main problems and challenges for the social protection system in Serbia remain the prevalence of poverty, insufficient coverage and adequacy of cash benefits designed to protect the poor and the insufficient number of social protection services coupled with weak mechanisms for control, regulation, monitoring and evaluation.

In 2015, **41.3% of the population** (2.9 million people) **were exposed** to the risk of poverty or **social exclusion**⁴⁸. The **at-risk-of-poverty rate** stood at **25.4%**, meaning that 1.8 million people are not necessarily poor, they are rather at a higher risk of being poor. In terms of age groups, those most exposed to the risk of poverty are persons in the 18-24 age bracket and persons under 18 years of age, while in the group of persons aged 18 and over, depending on their employment status, the most exposed are the unemployed. The at-risk-of-poverty threshold (the relative poverty line) was RSD 14,920.00 on average per month for a one-member household (EUR 123.5). **Inequality of income distribution is high**, as shown by the indicator of quintile distribution - **20% of the most affluent population had nine times higher equivalent income compared to 20% of the poorest**, and **Gini coefficient** of 38.2 which is above the EU-28 average (31). Poverty mapping has been implemented for the first time in 2016⁴⁹, with the report containing poverty rates and related indicators at the national, regional, district and municipal levels.

Expenditure for social protection and security in Serbia amounted to **about 24% of GDP** in recent years, however, expenditure in absolute terms in Serbia amounted to a mere 2,350 PPS per capita, PPS, which is 3 times lower than in the EU-28 (Eurostat, 2012). Bulgaria, Romania, and Latvia had lower per capita expenditures in PPS than Serbia. The structure of expenditures for social protection and security **is dominated by expenditures for net pensions**, with their share in the GDP decreasing from 12.1% in 2015 to below 12% in 2016.

Coverage of socially vulnerable population segments by cash benefits is not adequate, as indicated by the data on the number of individuals and children from the poorest consumption quintile, entitled to financial social assistance and child allowances. **Financial social assistance (FSA)**, in addition to child allowances, is a scheme in the social welfare system in Serbia **aimed at poverty reduction**. FSA is granted after a means test, making it the **best targeted scheme**⁵⁰. However, the **coverage** by FSA is **low**, a mere **3.7% of the population** (263,000 beneficiaries on average) in 2015. The base for FSA in December 2015 amounted to EUR 65, the same as in December 2016.

The adequacy of social benefits is unsatisfactory when assessing the level of assistance from the standpoint of meeting essential needs, i.e., leaving absolute poverty in terms of consumption. Another challenge in the field of social protection include the **continuous improvement of service quality, strengthening of oversight and regulatory mechanisms, monitoring and evaluation**. The social protection inspection prohibited the operation of 69 retirement homes during the period 2014 - 2016 (in 2016 only there were 31 prohibitions for the operation of illegal retirement homes).

Gender equality in Serbia is still **not at a satisfactory level**. Even though women accounted for 51.3% of the overall population in 2015, they are still a minority in decision-making and managerial positions. Main domains of the gender equality index⁵¹ show that the biggest gap in gender equality between Serbia and the EU is in the areas of work and money. Women hold 33.3% of the seats in the parliament, and 26% of offices in the Government. When it comes to managerial positions in public enterprises, the situation improved, because in 2016, as much as 22% of women have been in positions of general managers and board members, which is an increase of 9 pp against 2015 (one of the indicators for *PSR 8. Public Enterprise Reform*).

⁴⁸ Survey on income and living conditions, SORS

⁴⁹ <http://socijalnoukljucivanje.gov.rs/wp-content/uploads/2016/10/Mapa-siromastva-u-Srbiji.pdf>

⁵⁰ According to the World Bank Report, 74% of FSA beneficiaries are in the poorest quintile.

⁵¹ The 2016 Gender Equality Index - Measuring gender equality in Serbia 2014, Social Inclusion and Poverty Reduction Unit

Priority structural reform 15. IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES

Structural reform outline

Includes two measures:

Measure 1. Increasing the adequacy of cash benefits and improving the accessibility and quality of social services by amending the legislation; and

Measure 2. Linking information systems of the different sectors to ensure that beneficiaries of the measure can exercise their social rights without administrative barriers, thus ensuring better targeting of overall social assistance.

Prerequisites for increasing the adequacy of cash benefits are: higher weights (benefits) for children and youth with disabilities, loosening asset-related requirements, primarily by increasing the maximum amount of land, depending on the soil quality for old people's households, increasing the adequacy of the child allowance programme for children with disabilities and increasing the coverage of destitute children, linking cash benefits to corresponding services, a review of the eligibility for assistance and care benefits from two systems (the system of pension and disability insurance and the system of social welfare) and an analysis of the amount of the basic allowance for assistance and care of another person.

The activities contributing to the accomplishment of the objectives (standardized and high-quality social services falling within the purview of local self-governments) include: amendment of current and adoption of new regulations in the field of control and regulatory mechanisms, strengthening of control services (in terms of headcount and expertise), a review of standards and criteria for determining prices of social services, harmonization of social services standards with the European Quality Framework for Social Services, the application of the mechanism of earmarked transfers for financing social services to underdeveloped municipalities in accordance with the Budget System Law, as well as the further involvement of as many different actors as possible, including civil society organizations, with the system of social service providers, while paying attention to quality, through the strengthening of social protection inspection and the establishment of oversight of the professional work of social service providers.

Linking information systems of the different sectors within the MoLEVSA, as well as between institutions of importance, will reduce administrative obstacles to beneficiaries of social protection entitlements, reduce the period for exercising the rights and enhance the analytical capabilities; secure access for social welfare centres to the records of other state administration bodies in the procedures for deciding on entitlement recognition applications and provide an opportunity for them to obtain certain proof in the procedure by themselves, which shortens the process and thus facilitates access, while at the same time being a control mechanism. This will also shorten the procedures, and simplify administrative obstacles, while narrowing the space for potential abuse.

Current structural reform preparation status and implementation plan

Earmarked transfers as laid down by the Law on Social Protection have been introduced with a view to supporting local self-governments whose level of development is below the national average (in 2016, RSD 400 mill. was transferred to 122 local self-governments). Existing non-institutional social services in the competence of local self-governments were mapped. The line ministry has issued 213 licenses to social welfare organizations, while another 280 applications are still pending. The first phase of licensing all professional workers in the social protection system has been completed (licensing is a continuous process that requires periodic renewal of licenses). The public consultations phase for the Draft law on financial support to families with children is concluded. A rise in weights (benefits) is conditional upon the amendments to the Law on Social Protection, and the deadline for the adoption has been postponed to 2017 due to the magnitude of changes, the need to make additional analyses and the need for alignment with other regulations whose drafting is in progress (Law on Pension and Disability Insurance).

The following has been planned for the next three-year period: a review of standards and criteria for setting the prices of social services; increasing the adequacy of the child allowance programme for children with disabilities and increasing the coverage of destitute children, increasing weights (benefits) for children and youth with disabilities, the completion of the process for standardization of services and licensing social welfare organizations, linking cash benefits to corresponding services, a review of the eligibility for assistance and care benefits from two systems (the system of pension and disability insurance and the system of social welfare) and an analysis of the amount of the basic allowance for assistance and care of another person; improving the quality of social services; shortening the time limits for exercising rights in the field of social protection; harmonization of social protection legislation in order to connect information systems of different sectors; connecting social welfare centres into a single network (by using software) and different sectors and databases that exist in the ministry responsible for social affairs; strengthening of inspection services (in terms of staffing levels and expertise).

Budgetary implications of the structural reform

The social protection system tends to remain in the same financial framework, but the goal is a more just and improved distribution of funds, better coverage of socially vulnerable persons, without the potential for duplication of rights or their unfounded use. The implementation of social protection measures during the 2017-2019 period envisages funds from the budget of Serbia to the amount of EUR 755,909,752, i.e. by year: 2017 – EUR 229,613,488, 2018 – EUR 246,356,968, 2019 – 279,939,296.

Risks in priority structural reform implementation

The postponing of the adoption of the Law on financial support to families with children, and amendments to the Law on Social Protection, as well as reducing the overall envelope for these purposes. In order to establish a single social protection information system, it is necessary to connect a number of institutions, as well as to open their bases, which is one of the largest potential risks for the implementation of this measure.

Expected impact on competitiveness

This reform is primarily social in its character; however, the improvement of social services helps reducing the costs of exercising these rights for beneficiaries and companies, thus cutting back administrative costs. Likewise, the development of innovative social services is expected, as a result of raising the quality of services in this area.

Expected social impact

The accessibility of social services to a large number of beneficiaries (particularly children, persons with disabilities, the elderly) as a result of improving the adequacy of cash benefits and raising the quality of social services; job creation and establishment of control mechanisms in the social welfare system as a result of the conclusion of the service standardization process and of the licensing of new social protection institutions and professionals; through continuous attendance of accredited employee training programs, social welfare centres' work efficiency and time savings will be increased; a positive impact on the health status of the most vulnerable population segments, through better housing, living, working, eating conditions.

Indicators for monitoring the structural reform implementation

	2014 (BV)	2015
Share of net income of FSA beneficiaries in the at-risk-of-poverty threshold for a single-person household– TV 80% (2020)	57%	53%
Share of net income of FSA beneficiaries in the at-risk-of-poverty threshold for a household with two adults and two children– TV 80% (2020)	69%	68%

A detailed overview of priority reforms has also been provided in Table 11 in the Annex.

V. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

The costs of implementing structural reforms in 2017 are planned at EUR 483 million and the estimated positive effects on the budget revenues in the same period (based on the increase in output and employment, more efficient administrative processes, better revenue collection, lower allocations from the budget due to increased efficiency and liquidity of state-owned enterprises) amount to about EUR 46 million. The total net impact on the budget in 2017 is estimated at EUR -436 million.

The financial funds for the implementation of structural reforms in 2017 have been planned in accordance with the Budget Law for 2017 (OG 99/16), budget funds and loans, inflows from donations, or from other sources. Due to the fact that in 2016 the net impact on the budget was negative, it should be taken into account that a smaller direct impact is expected on budget expenditures than the recorded ones, as the described effects are intended for implementing reforms and regular activities that are the basis for their implementation. Funds from the budget of the Republic of Serbia for the implementation of structural reforms in 2018 and 2019 must be planned in accordance with the assigned limits for the holders during the budget procedure. Due to the implementation of fiscal consolidation measures the provision of additional financial funds for the implementation of structural reforms in 2018 and 2019 is not possible, having in mind the limited balance capabilities and limits established by the Ministry of Finance for the holders thereof.

Direct effects of each individual reform on budget expenditures are reported in accordance with the Law on Budget for 2017. The reported positive effects on the budget are estimated and represent positive risks, and are not an integral part of the scenario from the medium-term macroeconomic framework (Chapter 2 of the ERP). In addition, for each structural reform, the allocated funds from other sources are shown such as the EU IPA funds, loans, grants from international financial institutions.

Detailed information on the budgetary implications of the structural reforms and possible non-budget financing is given in Table 10 in the Annex.

VI. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The activities on the development on the Economic Reform Programme for the period 2017-2019 (ERP) started on 6 July 2016, with a meeting of ERP coordinators from line ministries and other relevant institutions of the Republic of Serbia (NBS, NES, SORS), representatives of EC, OECD and the EU Delegation to Serbia, chaired by the Minister of Finance. The meeting served to present the result achieved during the preceding period, EC guidelines for developing economic reform programmes and changes to the methodology for this cycle. Representatives of the Republic of Serbia reported a large number of the recommendations from the Economic and Financial Dialogue of EU Member States **and the Western Balkans and Turkey from May 2016 had already been implemented, or implementation had started** (Appendix 3 of the Annex).

The Republic of Serbia has a developed structure for intersectoral coordination of the ERP, and the ERP coordinators have been appointed at the highest level, showing significant dedication and ownership over the process of drafting the document (the list of institutions from which ERP coordinators are nominated can be found in Appendix 2 of the Annex).

In accordance with the established practice, the first part of the document (Chapters 1-3), regarding the macro-fiscal framework, have been developed by the Ministry of Finance and the National Bank of Serbia. The findings of this section mostly rely on the Fiscal Strategy for 2017 with Projections for 2018 and 2019.

Work on the preparation of Chapter 4, Priority Structural Reforms for the Period 2017-2019 and Chapter 5, Budget Implications of the Implementation of Reforms, has been coordinated by the Republic Secretariat for Public Policy and the Ministry of Finance. Activities were undertaken in the form of an exchange of contributions, discussion at individual meetings with ministries and institutions relevant for certain areas of structural reform.

The Directorate General for Neighbourhood and Enlargement Negotiations of the European Commission (DG NEAR) organized two regional seminars (TAIEX workshops) for representatives of Western Balkans countries and Turkey, with the aim of support and improvement of the capacities of line ministries to formulate reform measures. During drafting, certain versions of the draft document were used to consult representatives of the OECD and the Directorate General for Neighbourhood and Enlargement Negotiations (DG NEAR). Likewise, the assessments of the European Commission 2016 Progress Report for the Republic of Serbia were also taken into consideration, as published on 9 November 2016.

The consensus achieved on which macroeconomic and sectoral structural reforms have a priority for improving competitiveness and growth in the short and medium term confirms the efforts of the Republic of Serbia to provide for sustainable growth, improve competitiveness and accelerate economic approximation with the EU. The prioritization of structural reform within a single Government document, with centrally coordinated drafting, contributes additionally to the efficiency and effectiveness of the entire process.

By late September 2016 updated diagnostics were published for each area, information was collected on the implementation of priority structural reform for the period 2016-2018 and a Preliminary List of Structural Reforms for 2017-2019 was formed. The draft Chapter 4 Priority Structural Reforms was drafted by December 2016, while the macroeconomic part of the document was finalized in early January 2017.

Particular attention was given to consultation with representatives of the civil sector and professional public, undertaken in two cycles this year. The first cycle of public consultations was completed after the forming of the Preliminary List of Structural Reform from 18 October to 1 November 2016, by publishing the list on the websites of the Ministry of Finance, Republic Secretariat for Public Policy and the Office for Civil Society. Thereafter, in January 2017 a second cycle of public consultations was published for the draft ERP documents. In addition to civil society, gathered under the National Convention for the European Union, representatives of local self-governments have also been consulted through the Standing Conference of Towns and Municipalities (SCTM), through the participation of the Minister of Finance Dr Dušan Vujović at the Annual Assembly of SCTM on 24 November 2016. Finally, the ERP document was published on the website of the Ministry of Finance, Republic Secretariat for Public Policy and the Office for Civil Society during the period 9-23 January 2017.

Each new cycle of the drafting of the ERP shows an increase in transparency and inclusiveness of the process itself. In parallel with raising the capacities of state institutions prepared for dialogue with stakeholders, the capacity of civil society itself for understating the process and providing significant contributions to the quality of document is also increasing, leading to their active participation in the creation of public policy.

Comments by stakeholders, as well as the EC and OECD, have been largely integrated in the final draft ERP, containing the final list of 15 priority reforms. The table with comments and the list of civil society organizations consulted and whose comments were presented at the meeting is found in Appendix 1 of the Annex.

The draft ERP for the period 2017-2019 was submitted to all relevant institutions for opinions. The received opinions were taken into consideration for the preparation of the final version of the

ERP, adopted by the Government of RS in February 2017. The economic reform programme for the period 2017-2019 in the English language was submitted to the EC.

Table 10. Budgetary Implications of Structural Reforms

Policy outline	2016	2017	2018	2019
Priority structural reform 1. TAX ADMINISTRATION TRANSFORMATION				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	13,201,650	-4,585,664		0
B.1. Direct impact on budgetary revenue, in EUR	17,000,000			
B.2. Direct impact on budgetary expenditure, in EUR	3,798,350	4,585,664		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 2. IMPROVED MANAGEMENT OF CAPITAL INVESTMENTS				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	0	0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	0	0		
C. Possible non-budgetary financing, in EUR	161,626			
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 3. CONNECTION WITH THE MARKETS IN THE REGION (3.1. + 3.2. + 3.3. + 3.4. + 3.5. + 3.6. + 3.7.)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-39,085,920	-62,555,600	-7,869,819	-7,869,819
B.1. Direct impact on budgetary revenue, in EUR	0	0	0	0
B.2. Direct impact on budgetary expenditure, in EUR	39,085,920	62,555,600	7,869,819	7,869,819
C. Possible non-budgetary financing, in EUR	53,599,044	140,500,500	41,057,448	33,680,448
C.1. Of which committed IPA funding including WBIF funding, in EUR	44,078,644	990,000	26,792,448	25,802,448
Project 3.1. E-75 AND E-80 MOTORWAY CONSTRUCTION (Corridor 10)				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-12,008,130	-2,400,000	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	12,008,130	2,400,000		
C. Possible non-budgetary financing, in EUR		122,448,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.2. CONSTRUCTION OF THE ŽEŽELJ BRIDGE NEAR NOVI SAD WITH SLIP ROADS (Corridor 10)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-4,878,049	-6,400,000	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	4,878,049	6,400,000		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.3. BELGRADE-SUBOTICA-KELEBIJA (STATE BORDER WITH HUNGARY) RAILWAY LINE MODERNISATION (Corridor 10)				

A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-9,064,862	-6,000,000	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	9,064,862	6,000,000		
C. Possible non-budgetary financing, in EUR		800,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.4. MODERNISATION AND REHABILITATION OF THE NIŠ-BRESTOVAC SECTION OF THE NIŠ-PREŠEVO SINGLE-TRACK RAILWAY LINE (Corridor 10)				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	0	0	-7,869,819	-7,869,819
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	0	0	7,869,819	7,869,819
C. Possible non-budgetary financing, in EUR	44,078,644		23,492,448	23,492,448
C.1. Of which committed IPA funding including WBIF funding, in EUR	44,078,644		23,492,448	23,492,448
Project 3.5. CONSTRUCTION OF ROUTE 4 (E-763 BELGRADE-SOUTH ADRIATIC MOTORWAY)				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-12,991,455	-40,400,000	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	12,991,455	40,400,000		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.6. NIŠ-DIMITROVGRAD TRUNK GAS PIPELINE CONSTRUCTION				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-143,424	-7,355,600	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	143,424	7,355,600		
C. Possible non-budgetary financing, in EUR		40,000	4,440,000	1,000,000
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Project 3.7. TRANS-BALKAN CORRIDOR				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	0	0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		0		
C. Possible non-budgetary financing, in EUR	9,520,400	17,212,500	13,125,000	9,188,000
C.1. Of which committed IPA funding including WBIF funding, in EUR		990,000	3,300,000	2,310,000
Priority structural reform 4. DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-699,187	-1,076,368	-1,476,368	-1,476,368
B.1. Direct impact on budgetary revenue, in EUR				

B.2. Direct impact on budgetary expenditure, in EUR	699,187	1,076,368	1,476,368	1,476,368
C. Possible non-budgetary financing, in EUR	400,000	50,000,000	58,000,000	58,000,000
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 5. IMPROVEMENT OF THE COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-15,018,699	-15,072,000	-19,072,000	-19,072,000
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	15,018,699	15,072,000	19,072,000	19,072,000
C. Possible non-budgetary financing, in EUR	20,000,000	13,700,000	18,000,000	19,312,500
C.1. Of which committed IPA funding including WBIF funding, in EUR	20,000,000	13,700,000	18,000,000	19,312,500
Priority structural reform 6. RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	3,720,326	5,800,000	8,600,000	8,600,000
B.1. Direct impact on budgetary revenue, in EUR	10,200,000	12,000,000	15,000,000	15,000,000
B.2. Direct impact on budgetary expenditure, in EUR	6,479,674	6,400,000	6,400,000	6,400,000
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 7. PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEs				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	7,934,959	-89,736,320	12,000,000	12,000,000
B.1. Direct impact on budgetary revenue, in EUR	12,000,000	12,000,000	12,000,000	12,000,000
B.2. Direct impact on budgetary expenditure, in EUR	4,065,041	101,736,320		
C. Possible non-budgetary financing, in EUR	150,000	20,000,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR	150,000	20,000,000		
Priority structural reform 8. REFORM OF PUBLIC ENTERPRISES (8.1. + 8.2. + 8.3. + 8.4.)				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-155,623,414	-52,000	0	0
B.1. Direct impact on budgetary revenue, in EUR	64,000,000			
B.2. Direct impact on budgetary expenditure, in EUR	219,623,414	52,000		
C. Possible non-budgetary financing, in EUR	20,000	14,944,815	14,814,815	14,814,815
C.1. Of which committed IPA funding including WBIF funding, in EUR		0	0	0
Measure 8.1. THE INTRODUCTION OF CORPORATE GOVERNANCE IN PUBLIC ENTERPRISES				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-45,891,707	-52,000		
B.1. Direct impact on budgetary revenue, in EUR	64,000,000			
B.2. Direct impact on budgetary expenditure, in EUR	109,891,707	52,000		
C. Possible non-budgetary financing, in EUR	20,000	130,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR				

Measure 8.2. THE REFORM OF RAILWAYS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	-109,731,707	0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	109,731,707	0		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Measure 8.3. REFORM OF PE EPS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	0	0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	0	0		
C. Possible non-budgetary financing, in EUR		14,814,815	14,814,815	14,814,815
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Measure 8.4. REFORM OF PE SRBIJAGAS				
A. Duration of the reform*				
B. Net direct budgetary impact (if any), in EUR	0	0	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR		0		
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 9. SIMPLIFICATION OF PROCEDURES FOR BUSINESS ENTITIES				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-22,000	-249,672	-185,000	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	22,000	249,672	185,000	
C. Possible non-budgetary financing, in EUR		1,742,840	2,086,280	
C.1. Of which committed IPA funding including WBIF funding, in EUR		1,742,840	2,086,280	
Priority structural reform 10. ESTABLISHING A COMMON INFORMATION PLATFORM FOR ALL INSPECTIONS AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	159,911	-560,000	-640,000	0
B.1. Direct impact on budgetary revenue, in EUR	406,504			
B.2. Direct impact on budgetary expenditure, in EUR	246,593	560,000	640,000	
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 11. PROGRAMME SUPPORTING INNOVATIONS AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-40,000,000	-45,251,064	-45,251,064	-45,251,064

B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	40,000,000	45,251,064	45,251,064	45,251,064
C. Possible non-budgetary financing, in EUR	767,238	2,001,072	1,913,572	960,833
C.1. Of which committed IPA funding including WBIF funding, in EUR	767,238	1,501,072	1,413,572	960,833
Priority structural reform 12. IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-234,250	-9,614,424		
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	234,250	9,614,424		
C. Possible non-budgetary financing, in EUR	2,108,250	5,300,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR	2,108,250	5,300,000		
Priority structural reform 13. QUALIFICATIONS AIMED TOWARDS THE NEEDS OF THE LABOUR MARKET				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-16,260	-682,728	0	0
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	16,260	682,728	0	0
C. Possible non-budgetary financing, in EUR	1,500,000	1,500,000		
C.1. Of which committed IPA funding including WBIF funding, in EUR	1,500,000	1,500,000		
Priority structural reform 14. IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES WITH SPECIAL EMPHASIS ON YOUTH, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-27,991,870	17,240,000	-5,160,000	-5,160,000
B.1. Direct impact on budgetary revenue, in EUR		22,400,000		
B.2. Direct impact on budgetary expenditure, in EUR	27,991,870	5,160,000	5,160,000	5,160,000
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Priority structural reform 15. IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES				
A. Duration of the reform*	X			
B. Net direct budgetary impact (if any), in EUR	-223,557,862	-229,613,488	-246,356,968	-279,939,296
B.1. Direct impact on budgetary revenue, in EUR				
B.2. Direct impact on budgetary expenditure, in EUR	223,557,862	229,613,488	246,356,968	279,939,296
C. Possible non-budgetary financing, in EUR				
C.1. Of which committed IPA funding including WBIF funding, in EUR				
Total budget net impact	-477,232,616	-436,209,328	-305,411,219	-353,168,547
Total impact on budget revenues	103,606,504	46,400,000	27,000,000	12,000,000
Total impact on budget expenditures	580,839,120	482,609,328	332,411,219	365,168,547

* Indicate start (and, if needed, end) with an 'X' mark

** Repayment of the principal of the EBRD loan (EUR 200 million) for the reform of PE EPS

Table 11. Overview of Priority Structural Reforms

PSR 1.	TAX ADMINISTRATION TRANSFORMATION
Outline	The reform envisages further simplification of integrated tax procedures, training of employees and enhancement of operational activities to combat the grey economy, which should contribute to lower compliance costs (easier and fairer conditions for doing business) and improved tax collection (stability of public finances). Likewise, the reform includes the development of a tax compliance plan and a plan for quality employee retention, the adoption of a new organizational structure and redesigning of the system for human resources management, as well as the establishment of a new risk management system. Activities are also envisaged for improving the audit and collection functions, tax and legal affairs and non-tax functions, as well as for more efficient management of material and IT resources. The measures are carried out in accordance with the 2016-2020 Public Financial Management Reform Programme and the Strategy for Public Administration Reform of the Republic of Serbia.
Annual timeline	<p>By the end of 2017 the final preparations will be completed for the implementation of the proposed new organizational structure of the TA; an organizational unit will be established for providing services to taxpayers, along with a system of efficient management of seized goods.</p> <p>During 2018 activities will be undertaken related to improvement of the control and collection function, tax-legal affairs and non-tax functions, more efficient management of material and IT resources, upgrade of electronic services and development of services to taxpayers</p> <p>During 2019 the implementation of the automation of the process of regular and enforced collection of taxes will proceed; the construction of a unified data warehouse will be continued, along with the automation of the communication of the Tax Administration with other state bodies.</p>
Costs of implementation and implications for the annual budget	The Budget Law for 2017 envisages EUR 4,585,663 for the implementation of the structural reform. The positive impact on the budget will be reflected through improved tax collection, particularly for indirect forms of tax, due to a decrease in the informal economy (estimates of additional annual income are around 0.25% GDP), providing estimated positive effects of around EUR 65 million per year.
Expected impact on competitiveness	By improving the efficiency and effectiveness of core business processes, raising the quality of services and reducing tax compliance costs, the process of assessing and paying taxes for taxpayers will be simpler, more predictable and cheaper, thus lowering operating costs and boosting competitiveness. Simplified procedures for starting business will encourage the setting up of new enterprises and in particular start-up companies. Modern and efficient tax administration will contribute to the stability of public finances and widening the fiscal space for investment. The reform is implemented while accepting international best practices and norms of European acquis, making Serbia more attractive for investment.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Improving the efficiency of the Tax Administration will make the process of assessing and paying taxes simpler, more predictable, more consistent and cheaper, thus improving the equality of participants in the market. Clear tax rules encourage citizens to start their own businesses and thus create employment and the overall economic growth. Better collection of taxes improves capacity to make budget allocations for social welfare, education and health.
PSR 2.	IMPROVED CAPITAL INVESTMENT MANAGEMENT
Outline	The establishment of a single platform for capital investment planning and a methodology for the capital investment analysis and planning is geared to strengthening the mechanism for capital investment management. This platform implies subjecting all potential projects to a cost-benefit analysis for the purpose of their prioritization. Public investment planning includes: assessment of capital projects proposed by budget beneficiaries and development of the implementation plan, coordination of planning and selection of capital projects/investments regardless of the funding source (central or local government budgets, EU funds, PPPs, concessions and other sources) and finally, monitoring of the implementation of approved capital projects in order to timely detect and remove obstacles and manage risks more efficiently. Capital project management is covered by the

	Public Financial Management Reform Programme for 2016-2020 as part of the reform measures under Pillar II 'Public Expenditure Planning and Budgeting'. The process also takes into account the activities of the National Investment Committee (NIC) and the Single Project Pipeline, i.e. the Methodology for the selection and prioritization of infrastructure projects established in the Republic of Serbia in 2014
Annual timeline	<p>2017: Preparation and adoption of the methodologies for improving the system of managing capital investments; Preparation of the training module for budget beneficiaries regarding the application of improved system of managing capital investments; Pilot phase of assessment of capital projects by budget beneficiaries and the Ministry of Finance; Adoption of the remaining methodologies for improving system of managing capital investments; Implementation of trainings for budget beneficiaries regarding the application and use of methodologies and instructions; Drafting the terms of reference and procurement of a unified information database of capital projects; Analysis and proposals for the improvement of methodologies;</p> <p>2018: Adoption of the remaining methodologies for improving the system of managing capital investments; Implementation of trainings for budget beneficiaries regarding the application and use of methodologies and instructions; Implementation and updating of the unified information database of capital projects; Assessment of capital projects by budget beneficiaries and the Ministry of Finance</p> <p>2019: Implementation and updating of the unified information database of capital projects; Assessment of capital projects by budget beneficiaries and the Ministry of Finance</p>
Costs of implementation and implications for the annual budget	The reforms are funded from the regular budget expenditures of the Ministry of Finance. Improved management of capital investment implementation will produce an indirect positive impact on the budget coming from public revenue, as well as from savings in the budget arising from lower expenses for commitment charges on approved loans and lower additional contingency expenditure for the performance of works.
Expected impact on competitiveness	The more efficient implementation of capital/public investments is an anti-recession and developmental economic policy measure that produces significant positive effects in the short run and has a positive impact on economic growth, more than other public expenditures. In addition to direct effects of the capital project implementation on employment and growth, the upgraded quality of physical capital, especially transport and communication infrastructure, it reduces the time of transport, cuts costs, reduces trade barriers, boosts competitiveness of the national economy and creates conditions for its quicker recovery (for more details see the section Infrastructure).
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	More efficient planning, monitoring and implementation of capital, especially infrastructure projects, leads to an increase in overall trust in institutions, in the transparency of the process of spending funds and managing capital, and limits the room for corruption. Some positive, indirect social impact can be expected in terms of stronger local demand for certain profiles on the labour market and improved (geographical) distribution of goods and services. In regions where capital projects are implemented certain negative effects on public health can arise: a higher concentration of traffic, more pollution, a higher noise level.
PSR 3.1	E-75 AND E-80 MOTORWAYS CONSTRUCTION (Corridor 10)
Outline	Construction of the E-75 and E-80 motorway will enable better connections of the Southeast Serbia with the Western, Central, Southern Serbia and the Danube Basin in the Timok region. The project implementation will enable more efficient transport and improved traffic safety on the designed sections.
Annual timeline	2017: Completion of the construction of the sections of the E-75 and E-80 motorways is expected to be mostly completed by the end of 2017, to be followed by a period of design and installation of equipment in tunnels along the South Branch. The procedure for the selection of contractors for designing and installing equipment in the tunnels of the Eastern Branch is currently under way. Completion of tunnel construction is planned for 2017.

Costs of implementation and implications for the annual budget	The total loan debt for the implementation of the E-75 and E-80 projects is EUR 1,004,200,000. The estimated value of the works is EUR 872.5 million, while the costs of expert supervision, environmental supervision and occupational safety, as well as the costs of the financial audit, procurement of traffic safety equipment, etc. are covered from the remaining loan of EUR 131.7 million. The Budget Law for 2017 allocates EUR 2,400,000 for the construction of the section BC Kelebija –Subotica South loop, while non-budget funds are envisaged to the amount of EUR 122,448,000.
Expected impact on competitiveness	The construction of the South and East leg of Corridor 10, in the short run, will increase the demand for labour while, in the long run, will reduce trade barriers and the price of transport of goods whereby competitiveness of companies will be improved.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	In the short run, the construction of the motorway will have a positive social impact through increased construction-related employment of the local population. In the long run, modern road infrastructure will ensure better geographical interconnectedness, availability of goods and services and mobility of labour. Safety in traffic will be improved and time of travel will be shortened.
PSR 3.2	CONSTRUCTION OF THE ŽEŽELJ BRIDGE NEARBY NOVI SAD INCLUDING ACCESS ROADS (CORRIDOR 10)
Outline	The bridge is situated on the route of the Belgrade – Novi Sad - Subotica – state border with Hungary international railway line, from km 75+083 to km 75+557 (Corridor 10) and it is an integral part of the Project of reconstruction of the Belgrade – Budapest line. The designed bridge is to be 474 m long and is to contain two railway gauges enabling speeds of 160 km/h, two traffic lanes for road traffic 7.7 m wide and two cycling-pedestrian paths 2.5 m wide.
Annual timeline	2017: The completion of the bridge and slip roads is expected in Q4 2017.
Costs of implementation and implications for the annual budget	The value of investment is EUR 45,310,001. The construction of access roads is financed from IPA 2011/IPA 2015 funds. The Budget Law for 2017 envisages EUR 6,400,000 for the construction of the railway traffic-road traffic bridge across the Danube in Novi Sad (Žeželj's Bridge).
Expected impact on competitiveness	The bridge is going to speed up the railway traffic, facilitate transport of goods on this route and reduce trade barriers whereby the competitiveness of companies will increase.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The key social impact is reflected on increased safety, and then, in the short run, also on increased construction-related employment of the local population. In the long run, this project will have impact on a better geographical interconnectedness, availability of goods and services and mobility of labour.
PSR 3.3	BELGRADE - SUBOTICA – KELEBIJA RAILWAY LINE (STATE BORDER WITH HUNGARY) (CORRIDOR 10) MODERNIZATION
Outline	Modernization of the existing line upgrading it to a double-track electrified line for passenger and freight transport of speeds up to 200 km/h equipped with modern electrical equipment will ensure a high level of safety of services of transport of passengers and goods in the local and international traffic. This line is a part of the Trans-European Transport Networks. The governments of Hungary, PR China and the Republic of Serbia have signed a Memorandum of Understanding on the construction of the Hungary-Serbia Railway Line. The construction of the railway Belgrade-Novı Sad-Kelebija-Budapest was declared a priority project by the Government.

Annual timeline	Contracting in accordance with the defined financing model is envisaged for the first half of 2017. The realization of the “Russian Loan” - section Stara Pazova - Novi Sad is envisaged for Q4 2017.
Costs of implementation and implications for the annual budget	The Budget Law for 2017 envisages funds to the amount of EUR 6,000,000 for the Hungarian-Serbian railway project. Non-budgetary funds have been envisaged to the amount of EUR 800,000.
Expected impact on competitiveness	Increased throughput and transportation power of the line will have direct effects on increased competitiveness of railway transport as compared to other modes, which will attract new users of railway services because of the quality of the provided services, redistribution of transport from roads to railway, increased economic sustainability of providers of railway services, etc.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Positive effects of the modernization of the line will be reflected on increased comfort, regular transport and shorter time of travel for users of services, as well increased safety of traffic participants (it has been planned to grade-separate all the crossings of roads and the railway line). Also, better integration of the labour market is expected due to easier mobility of labour, and increased employment of the local population.
PSR 3.4	MODERNIZATION AND REHABILITATION OF THE NIŠ - PREŠEVO SECTION OF THE NIŠ – BRESTOVAC SINGLE-TRACK RAILWAY LINE (CORRIDOR 10)
Outline	The Niš – Preševo single-track line (151 km) is a part of the oldest railway line in Serbia and the main railway route interconnecting Macedonia and Greece with the rest of Europe. The Niš – Brestovac section (23.4 km) accounts for 15% of the length of the Niš – Preševo line. The project includes the reconstruction and modernization of the line for speeds up to 120 km/h, as well as the reconstruction and modernization of the all the elements of railway infrastructure (the track bed and permanent way, construction work, track gauge work and works on electrification, reconstruction of stations and signalling and telecommunications equipment).
Annual timeline	2018: The contract with the most favourable bidder will be signed in Q1 2018. The works will commence during the same quarter.
	2019: Continuation of works started in 2018.
Costs of implementation and implications for the annual budget	The cost of works is EUR 59,818,282: the EU is participating with EUR 44,078,644, while the Republic of Serbia is co-financing with EUR 15,739,638. The price of works includes developing the design for obtaining a construction permit. The amount of financial supervision over the works is EUR 2,906,252, to be financed from EU assistance funds.
Expected impact on competitiveness	In the short run, there will be increased construction-related employment, as well as opportunities to engage local companies. At the same time, the time of travel of passenger and freight trains along this section will be reduced, which will contribute to increased traffic volume and quality in the services of passenger and freight transport between the Southern and Western Europe.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Positive effects of the line modernization will be reflected on increased comfort, regular transport and shorter time of travel for the users of services, as well as on increased safety of traffic participants (it has been planned to grade-separate all the crossings of roads and the railway line). Also, a better integration of the labour market is expected due to easier mobility of labour and increased employment of the local population.
PSR 3.5	ROUTE 4 (E-763 BELGRADE - SOUTHERN ADRIATIC MOTORWAY) CONSTRUCTION

Outline	The construction of the Belgrade – Southern Adriatic motorway (through Serbia from Belgrade to Boljare, the border with Montenegro, it is going to be 258 km long) will improve the road network of the Republic of Serbia by provision of better-quality and safer service, compatible judging by performance and functionally, integrated in the Trans-European Transport Networks. The Route 4 will interconnect Romania, Serbia, Montenegro and Italy. It will stretch from Timisoara, via Vršac, Belgrade, Čačak, Požega, Podgorica to Bar, and go seaborne, across the Adriatic, to be connected with Bari in Italy. The part of the Strategy of Development of Railway, Road, Waterway, Air and Intermodal Transport in the Republic of Serbia for 2008-2015, which is related to the development of the transport system (vision for 2015 – Long-term Development of Public Road Network), stipulates the construction of the E-763 Belgrade – Southern Adriatic motorway, as the continuation of the motorway from the Romanian border – Vršac – Pančevo – Belgrade (E-70; M1.9).
Annual timeline	2017: Continued construction of the sections Surčin - Obrenovac, Obrenovac - Ub, Lajkovac - Ljig. Completion of the Obrenovac-Ub and Lajkovac-Ljig sections.
	2018: Preparation of the project documentation for the section Požega - Boljare (107 km), while the drafting of the Spatial Plan of a Special Purpose Area (SPSPA) of the infrastructural corridor and the strategic environmental impact assessment of the SPSPA is under way.
Costs of implementation and implications for the annual budget	The Budget Law for 2017 allocates a total of EUR 40.4 million, with EUR 23.2 million for the section Obrenovac-Ljig, and EUR 17.2 million for the section Surčin-Obrenovac. Regarding the section Surčin-Požega, the Government opted to finance the project through a loan (EUR 1.2 billion), and expressed interest in cooperation with a Chinese company, under the condition that it meets the requirements to qualify it as a contractor for the Project.
Expected impact on competitiveness	Construction of this motorway will enable a better road connection of Serbia to Montenegro and the Port of Bar, as the ultimate destination, which will facilitate integration of Serbia in container flows and attraction of international flows of goods and passengers. In the short run, it will give rise to increased construction-related employment. Additionally, engagement of local companies will increase and there will be higher employment of the local population.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The regions, in which the road network is undeveloped or obsolete, demographically wither away, which characterized Serbia in the past several years. Therefore, the construction of the Belgrade – Southern Adriatic motorway will not only contribute to the economic development of the society, but also mitigate negative demographic trends and, therefore, contribute to the reduction in differences in regional development. Better interconnection of undeveloped and devastated southern regions with developed parts of Serbia, with shorter travel time, lower travel costs and higher traffic safety, will enable better living conditions for the local population, development of entrepreneurship and higher standard of living. Moreover, the construction of the motorway will relocate transit flows from urban city zones, which will have a positive impact on the health of the population due to reduced pollution and noise in urban communities.
PSR 3.6	NIŠ – DIMITROVGRAD TRUNK GAS PIPELINE CONSTRUCTION
Outline	The construction of the Niš – Dimitrovgrad trunk gas pipeline (MG) 108 km long will provide diversification of routes and sources of supply, with the improvement of supply safety of Serbia, Bulgaria and the entire region. The northern part of the gas pipeline system will be significantly unburdened. In addition to the improvement of safety in supply of the Serbian natural gas market and further development of the distribution network through Serbia, the project enables integration of the existing and future natural gas storage capacities into a single energy system, which is the intent of establishing the integrated regional market and of the provisions of the Treaty establishing the Energy Community. The introduction of new gas pipelines in Serbia is planned by the Energy Development Strategy of the Republic of Serbia up to 2025 with projections up to 2030 and the Law on the Spatial Plan of the Republic of Serbia from 2010 to 2020.

Annual timeline	2017: Implementation of survey works, drafting the concept design, feasibility study and environmental impact assessment study, resolving property-legal affairs and obtaining the energy permit and local requirements.
	2018: Drafting the design for the building permit and implementation design, obtaining the building permit, resolving property-legal affairs, tender procedure.
	2019: Tender procedure and start of the implementation of works.
Costs of implementation and implications for the annual budget	The investment value of the project is around EUR 85.5 million. The project was proposed for implementation through the IPA 2017 Action Document. The Ministry of Mining and Energy proposed securing an amount of EUR 7,355,600 for the expropriation of land in 2017 within the relevant account of the Ministry of Finance, to be realized once the conditions to implement the project are met. Likewise, PE “Srbijagas” will provide an additional amount of EUR 40,000 from their own funds for this project in 2017.
Expected impact on competitiveness	The construction of the MG 10 Niš – Dimitrovgrad trunk gas pipeline will increase availability of and safety in natural gas supply. Implementation of the project opens up the possibility of natural gas supply from Russia, but also from other supply routes, the so-called Southern Corridor (Azerbaijan, LNG from terminals in Greece, etc.). Through the availability and bargain price of natural gas as an energy commodity (which have essential impact on the price of the final products), production costs will be reduced and competitiveness of the regions that have gas pipelines will be increased (as well as their capacity to attract investments) and natural gas prices potentially reduced due to the reduction of transit taxes. Establishing of interconnections with the countries in the region is the precondition for creation of the regional natural gas market, which includes both the existing and planned natural gas storages in Serbia (Banatski Dvor and Itebej). The timely implementation of a “soft measure” – transposition of the provisions on the Trans-European Network regarding licences and permits, as well as enabling one-stop-shop procedures, will achieve additional effects. The so-called TEN-E regulation, adopted under the procedure of adapting to the acquis within the Energy Community, represents a means to accelerate the construction of infrastructure, apply the methods of division of cost, as well as to reduce bureaucracy for the permit procedures.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Enabling introduction of gas pipelines in the regions of Eastern and Southern Serbia will increase competitiveness of this region with respect to capital investments, which will have impact on increased employment and development of the labour market. Increased employment will not be related to the energy sector only, but also to other branches of economy, which will be enabled to develop by natural gas supply as a competitive energy commodity. Groups in the society, on which the implementation of this project may have a negative impact, have not been identified.
PSR 3.7	TRANS-BALKAN CORRIDOR
Outline	The construction of the long-distance power transmission line and extension of the substations (SS) within the Trans-Balkan Corridor includes a set of projects for reconstruction of obsolete electricity transmission infrastructure, increase of cross-border transmission capacities, as well as raising of the level of safety in electricity supply to consumers in Serbia. The total length of the 400 kV long-distance power transmission line planned for construction in the first phase of the project of the Trans-Balkan Corridor in the forthcoming ten-year planning period is going to be around 320 km. This structural reform covers the following infrastructure facilities (electricity transmission sections): Section 1: 2×400 kV Pančevo – Rešita double-circuit transmission line, between Serbia and Romania; Section 2: SS Kragujevac 2 – SS Kraljevo 3 400 kV transmission line, including stepping up of the voltage level in SS Kraljevo 3 to 400 kV, which implies the construction of a 400 kV plant in SS Kraljevo 3; Section 3: Stepping up of the voltage level of the transmission grid of Western Serbia to 400 kV voltage level between SS Obrenovac and SS Bajina Bašta, which implies: a new SS Obrenovac – SS Bajina Bašta 2×400 kV double-circuit transmission line, reconstruction of the existing SS Obrenovac and SS Bajina Bašta, as well as potential stepping up of the voltage level to 400 kV in SS Valjevo 3, and Section 4: Bajina Bašta (Serbia) – Višegrad

	(B&H) – Pljevlja (Montenegro) 2×400 kV double-circuit transmission line. The strategic and legal framework that supports the construction of the corridor includes the Law on Establishing Public Interest and Special Expropriation Procedures and Obtaining of Documentation for the Purpose of Implementation of Construction of 400 kV Voltage Level Electricity Transmission System of the Trans-Balkan Corridor – the first phase, and the Energy Development Strategy of the Republic of Serbia up to 2025 with projections up to 2030.
Annual timeline	<p>2017: Continuation of the construction of the Pančevo-Reșița transmission line. Reconstruction of the Pančevo 2 transformer station, required to install the new Pančevo-Reșița double-circuit transmission line. Obtain the building permit for the Kragujevac-Kraljevo transmission line.</p> <p>2018: Deployment of Section 1 (Double-circuit power line 2×400 kV between Serbia and Romania). Start of works on Section 2 (PL 400 kV Kragujevac 2 - Kraljevo 3).</p>
Costs of implementation and implications for the annual budget	Financing of all the sections does not have impact on the Budget of the Republic of Serbia. The total assessed value of all the sections of the project of the Trans-Balkan Corridor – the first phase, is around EUR 156 mill. Section 1 is fully financed from the funds of the EMS AD (Electricity Grid of Serbia). The total investment value of Section 2 is EUR 29.6 mill. (EUR 16 mill. for the construction of the actual long-distance power transmission line and EUR 13.6 mill. for the works in SS Kragujevac 2 and on the stepping up of the voltage level in SS Kraljevo 3), out of that EUR 15 mill. will be financed from the loan of KfW Bank, EUR 6.6 mill. will be the donation of WBIF, and the remaining EUR 8 mill. are own funds of the EMS AD. The total investment value of Section 3 is EUR 62 mill. and, of Section 4, it is EUR 39 mill. The share of the loan, grant and own funds in the total value of the construction of Sections 3 and 4 will be decided upon subsequently. The following amounts are envisaged as potential non-budgetary financing of the reform: 2017 – EUR 17,212,500 (with 990,000 from IPA), 2018 – EUR 13,125,000 (with 3,300,000 from IPA), 2019 – EUR 9,188,000 (with 2,310,000 from IPA).
Expected impact on competitiveness	The project of the Trans-Balkan Corridor – the first phase, will enable interconnection of the markets of Northeast Europe (Romania, Bulgaria, Ukraine and Moldova), where the price of electricity is relatively low, with the markets of the Southern and Western Europe (such as Italy and Austria), where the price of electricity is relatively high. This reform will increase availability, quality (of voltage) and safety of electricity transmission (less down times), which is the key resource for industrial production and economic development and will reduce costs that companies currently incur due to supply down times. In the course of the implementation of the reform, small and medium-sized enterprises will be engaged to fabricate certain parts of metal and engineering structure of the long-distance power transmission line, as well as in the actual assembly. The reform will encourage additional foreign investments in renewable sources of energy, firstly in wind parks in the northeast part of Serbia, in the territory of Banat, by enabling evacuation of electricity from this area and its transmission to the buyers in the Southwest Europe.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Implementation of the project will have impact on the number of fixed-term employed workers during the actual construction of the long-distance power transmission line (about 300 workers) and on the number of those permanently employed for maintenance of the long-distance power transmission line within EMS AD. It is also estimated that around 40 small and medium-sized enterprises will be engaged in the course of the implementation of this measure.
PSR 4.	DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE
Outline	The implementation of this structural reform, in addition to enabling fast, reliable and safe connection to Internet, also includes consolidation of the broadband network owned by the public sector, as well as connection of public institutions to the national network. It has also been planned to adopt the Law on Broadband Communications Infrastructure, which will provide conditions for and regulate the manner of development of broadband access to Internet. It is necessary to formulate and implement programmes encouraging and supporting investments in the development of broadband communications infrastructure with access networks in settlements, particularly in poorly populated areas. By 2020, Serbia should reach and become level with the EU level with respect to the access to broadband Internet as defined in the Digital Agenda for the Republic of

	Serbia, which consists of the Strategy for Information Society Development in the Republic of Serbia up to 2020 and the Electronic Communications Development Strategy of the Republic of Serbia, 2010-2020.
Annual timeline	<p>2017: Adoption of the Law on Broadband Communications Infrastructure; Connection of educational and cultural institutions to the ANRS; Preparation and planning for the establishment of a unified national telecommunications network; Analysis, preparation and design of pilot projects</p> <p>2018: Developing access broadband networks in municipalities across the country; Connection of educational and cultural institutions to the ANRS; Operational establishment of a unified national telecommunications network</p> <p>2019: Construction of access broadband networks in municipalities across the country; Connection of educational and cultural institutions to the ANRS;</p>
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 1,076,368, while the planned costs of reform in 2018 amount to around EUR 1,476,368 and in 2019 to around EUR 1,476,368. Envisaged non-budgetary funds are: 2017 – EUR 50,000,000, 2018 – EUR 58,000,000, and 2019 – EUR 58,000,000.
Expected impact on competitiveness	Broadband access to Internet and the ICT will have impact on faster, more secure and more efficient doing business, which will increase productivity of companies and reduce operating costs. In such a way, small and medium-sized enterprises will increase their competitiveness in the local and international markets (particularly through access to e-business). This measure will have a particularly positive impact on the development of rural areas, interconnection of economic regions, as well as on the development of industrial zones and increased use of new technologies and innovations in doing business. The reform will also have a positive impact on the decisions of consumers. By enabling access to Internet, a better access to products will be ensured, as well as access to information on price or quality, based on which a consumer can bring a decision more easily.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The construction of broadband communications networks will enable employment, as well as work via Internet and increase in the number of jobs in practically all the sectors, including the ICT sector. Increasing the level of knowledge, competences and skills in the area of IT technologies will contribute to job opportunities in the IT area, but also in other areas in which new technologies are introduced or increasingly used. Implementation of the reform will provide the possibility of access to Internet to citizens, indiscriminately and with equal opportunities.
PSR 5.	IMPROVEMENT OF THE COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS
Outline	The improvement of the competitiveness of agricultural production will be facilitated through measures for improving the competitiveness of agricultural holdings, defined by the established institutional framework for the implementation of the IPARD programme 2015-2020, the National Agriculture Programme 2017-2020 and the National Rural Development Programme 2017-2020, with adoption expected during Q1 2017. The IPARD Programme defines the priority sectors where the highest level of competitiveness can be achieved on the local and foreign markets (the sectors: milk, meat, fruits and vegetables, farm crops). The National Programmes and the IPARD Programme are complementary, whereby the IPARD measures are intended for economically more powerful holdings, while national measures are focusing on small agricultural producers, which has not been the case so far (national measures were used by all the registered agricultural holdings). The reform implementation is defined by the Law on Incentives in Agriculture and Rural Development through rural development measures, while the plan of their harmonisation with the Common Agricultural Policy is contained in the Action Plan for harmonization with the EU acquis communautaire, the adoption of which is expected.
Annual timeline	2017: Drafting, adoption and implementation of rulebooks and competitions (national funds); Implementation of the IPARD programme (EC pre-accession assistance)

	2018: Drafting, adoption and implementation of rulebooks and competitions (national funds); Implementation of the IPARD programme (EC pre-accession assistance)
	2019: Drafting, adoption and implementation of rulebooks and competitions (national funds); Implementation of the IPARD programme (EC pre-accession assistance)
Costs of implementation and implications for the annual budget	The Budget Law for 2017 envisages funds to the amount of EUR 15.072 million, with funds for the IPARD co-financing of 25% amounting to EUR 2 million, while funds for Support for the Improvement of Primary Agricultural Production and Processing amounting to EUR 13.072 million. The envisaged increase of funds for 2018 and 2019 amounts to EUR 4 mill. per year (compared to 2017).
Expected impact on competitiveness	Implementation of rural development measures from the national budget should result in strengthening of small holdings and raising of their economic viability since, at this moment, they are unable to be economically sustainable if they depend only on marketing with respect to the working capital, sales and investment business. Likewise, a set of measures from the national budget regarding the diversification of agricultural and non-agricultural activities in rural areas include the option of support for the development of other alternative activities that would impact the sustainability of such small holdings. Funds earmarked through the IPARD Programme are allocated to more advanced producers who, at the end of the investment, must meet all the national standards within their holding, and EU standards for the subject matter investment, whereby, with the incentive in the form of refunding of the investment funds, they would reach an enviable level of competitiveness. Through such support, the technological level of agricultural production will also be raised whereby productivity will increase, and thereby the competitiveness of producers as well, both on the local and on the international markets.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	All the measures planned from the national budget, as well as from the pre-accession assistance, within specific ranking criteria, incorporate special points-systems for the beneficiaries who belong to the category of young farmers (up to 40 old), as well as if the holders of agricultural holdings are women. Such a system of support should increase economic activities of such population categories in rural areas of Serbia.
PSR 6.	RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY
Outline	The reform comprises a mix of legislative and administrative measures and activities and includes: the prioritisation of industrial branches with highest growth and development potential, mapping out of strategies for their development and action plans for implementation of such strategies, the development and adoption of laws and bylaws relevant to the implementation of new action plans, reforming the operations of agencies in the jurisdiction of the Ministry of Economy in charge of implementing programmes focusing on providing support for investments and exports in compliance with the principles of balanced regional development and the development of a monitoring and evaluation system. The reform will help create a focused and better coordinated industrial sector development policy, as well as enhance the efficiency of public institutions partaking in its implementation. Processing industry reforms are crucial, notably the reform of the system supporting investments and exports, as identified in the Industry Development Strategy and Policy of the Republic of Serbia until 2011-2020.
Annual timeline	2017: By the end of Q1 2017 the draft Law on Amendments to the Law on Investments will be submitted to the Government, implementing, inter alia, full equalization of the rights of domestic and foreign investors and harmonization with the proposed amendments to the Customs Law, whereas by the end of Q2 the draft Law on Amendments to the Company Law will also be submitted to the Government; The following activities will also be implemented, in addition to the legislative activities: implementation of new support programmes; review of the industrial policy, evaluation of the effects of implemented programmes and support to investments and export, as well as an improvement of the programme of support to investments and export and the development of new programmes (as needed).

	<p>2018: Implementation of new programmes of support to investments and export; Evaluation of the effects of implemented programmes and support to investments and export; Improvement of the programme of support to investments and export and the development of new support programmes (as needed).</p> <p>2019: Drafting the analysis of the effects achieved by the implementation of the four strategies and action plans for priority industries, i.e. the establishment of the degree of their implementation, as well as an impact analysis on the development of other sectors and drafting of strategic documents to establish the industry development policy for the next period;</p>
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 6.4 mil, whereby it is also expected to have the direct effect on the budgetary revenues amounting to about EUR 12 mill. therefore the net direct effect on the budget will be positive and amount to around EUR 5.9 mill. It is estimated that the direct effect on the budgets in 2018 and 2019 will also be positive, around EUR 8.6 mill. for every year, because despite the budgetary expenditures amounting to around EUR 6.4 mill. budgetary revenues of about EUR 15 mill. are expected to be achieved.
Expected impact on competitiveness	The stimulation of new production, procurement of new equipment and arrival of investors bringing along modern technologies, will improve technology and productivity of economy. In addition, opening of the so-called joint-venture enterprises with internationally renowned producers will create opportunities for appearance on new markets and contribute to the strengthening of competitiveness, as well as to the transfer of new technologies and processes both to the enterprises that are the subject matter of joint investments, and to other local companies in the chain of results and generation of a higher added value in the country. Incentives for companies in the priority industrial branches will also enable that companies have an easier and more favourable access to other sources of financing.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	Implementation of the reform will create conditions new job creation, specifically in newly constructed factories or factories that have undergone major reconstructions. Thereby, in addition to a positive impact on employment (specifically often in the regions in which employment is below the Republic average), there will also be an impact on the working conditions (work in modern plants), as well as on the educational system, which is expected to meet the requirements for new education profiles.
PSR 7.	PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEs
Outline	Improved access to finance for SMEs means better quality of the banking sector offer for SMEs, development of new financial instruments, as well as improved ability of SMEs to access different sources of funding. The proposed reform is the implementation of the priority activities within the second pillar of the Strategy to support the development of small and medium enterprises, entrepreneurship and competitiveness for the period 2015-2020. Improving the predictability of the business environment and a support programme for SMEs, with an emphasis on the reduction of costs in access to financing is the recommendation from the EC 2015 Progress Report for R. Serbia for 2016 (p. 61). Likewise, item 29 of the Memorandum on the Economic and Financial Policy agreed within the current precautionary stand-by arrangement with the International Monetary Fund, envisages that the Republic of Serbia will support crediting small and medium-sized enterprises by way of the Apex credit lines of the European Investment Bank.
Annual timeline	<p>2017: Realization of the second tranche of the Apex loan III/B of EUR 150 mill. and the signing of the Financial Agreement on the third tranche of the Apex loan of EUR 200 mill. Implementation of projects for the establishment of financial instruments financed from IPA 2016. Drafting the legislative framework for establishing microfinance non-deposit institutions.</p> <p>2018: Implementation of projects for the establishment of financial instruments financed from IPA 2016. Realization of the third tranche of the Apex loan of EUR 200 mill. Development of the legislative framework for establishing microfinance non-deposit institutions. Development of the market of microfinance non-deposit institutions.</p>

	2019: Implementation of projects for the establishment of financial instruments financed from IPA 2016. Development of the market of microfinance non-deposit institutions.
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 101,736,320, however, a direct impact is also expected on budget income to the amount of around EUR 12 million. A positive effect on the budget and to increase budget revenues by around EUR 12 million per year is also expected in 2018 and 2019, due to increased output and employment. The Action IPA programme for 2016 allocated EUR 20 mill. to be realized in the form of a guarantee scheme for support to SMEs, realized by way of select commercial banks in the Republic of Serbia.
Expected impact on competitiveness	Improved financial support system will lead to the establishment of new enterprises/entrepreneurs, modernised existing production capacity, improved production processes, improved product quality and service, which will ultimately increase the volume of production, exports and employment, and improve the competitiveness of the SME sector. This measure also envisages improved quality of banking sector's services and products for SMEs, development of new financial instruments and improved capacity of SMEs to access various sources of finance (through the support rendered in preparation of business plans, training and mentorship) which is of particular importance for innovative and start-up companies.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The introduction of new financial instruments which are currently accessible to start-up entrepreneurs and the SME sector will enable them to start their businesses using more favourable sources of finance, to achieve growth and development, but also to create new jobs. In addition, by creating the financial instruments due attention is paid to promotion of female entrepreneurship, young entrepreneurs and social entrepreneurship.
PSR 8.	REFORM OF PUBLIC ENTERPRISES
Outline	<p>The introduction of corporate governance in public enterprises is based on two key pillars: professionalization of management bodies and operations control system, which include activities pertaining to the development of legislative enactments and bylaws, introduction of a system for licensing of managers and members of supervisory boards, improvements in the oversight and accountability system for state-owned companies. Other measures include the reform of three major public enterprises in transport and energy sectors, which have been inefficient for years and are burdened by bad debts and cumulative losses. Within the arrangement with the IMF, Serbia committed itself to introducing the principle of 'hard budget constraints' in the operation of these enterprises. At the suggestion of the relevant ministries, the Government adopted programmes for the corporate and financial restructuring of these large systems: PE Elektroprivreda Srbije, PE Srbijagas and Železnice Srbije AD, in order to improve their organisational structure and management system, as well as to reduce the negative impact on public finances and the economy.</p> <p>The structural reform includes four measures: Measure 8.1. The introduction of corporate governance in public enterprises; Measure 8.2. The reform of railways; Measure 8.3. Reform of PE EPS; and Measure 8.4. Reform of PE Srbijagas.</p>
Annual timeline	<p>2017: Capacity analysis of educational institutions for providing training services in the field of corporate governance; Establishment and operation of the working group on defining the licensing system; Development of regulations for the introduction of the licensing system and training needs analysis for management bodies in public enterprises</p> <p>2018: Implementation of trainings in the field of corporate governance in public enterprises; Development of procedures at the Ministry of Economy for monitoring and evaluation of the effects of corporate governance in public enterprises and implementation of procedures; Analysis of the effects of introducing corporate governance systems in public enterprises</p> <p>2019: Correction of activities based on the analysis; Implementation of procedures at the Ministry of Economy for monitoring and evaluation of the effects of corporate governance in public enterprises; Analysis of the effects of introducing the corporate governance system in public enterprises</p>

Costs of implementation and implications for the annual budget	The Budget Law for 2017 secured funds to the amount of EUR 52,000 for the costs of introducing corporate governance for all public enterprises. In 2017, along with the European Bank for Reconstruction and Development (EBRD) loan for financial restructuring, a technical assistance (grant) was received from EBRD amounting to EUR 130,000 to engage an independent consultant to establish corporate governance and for legal issues at PE EPS.
Expected impact on competitiveness	The reform should increase the efficiency of public enterprises by reducing the waste of resources, increasing the volume and improving the quality of services, upgrading technology and the like. Increased efficiency of public enterprises shall have a positive impact on increasing the efficiency of the overall economy, not only because of the great value of the services they deliver, but also because of a large part of the social wealth that is under their control. The aim is to prepare public enterprises for doing business in line with market conditions, without state aid and subsidies, which ultimately should have a positive effect on the public finance and economic competitiveness.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The introduction of corporate governance has a positive impact on improving the organisational structure, efficiency of the management and control process in public enterprises, as well as on adjustments to circumstances imposed by the business environment in which an enterprise operates. Good quality corporative governance is a precondition for initiating and successful completion of the restructuring, thereby reducing irrational and unreasonable spending of taxpayers' money. On the other hand, the restructuring of the three major state-owned infrastructure enterprises will result in a certain number of employees being laid off. In addition, in order to promote gender equality, there should be a certain number of women on managerial positions in these enterprises.
PSR 9.	SIMPLIFICATION OF PROCEDURES FOR BUSINESS ENTITIES
Outline	The establishment of the single public registry of administrative procedures and other business conditions (further in the text: the registry) will provide the business entities and citizens with a transparent overview of all the administrative procedures and other business conditions that need to be met and realised in order to be able to deliver a service, including the list of all the costs like duties, fees, etc. The establishment of the registry is envisaged in the Strategy for the Support to the Development of Small and Medium-Sized Enterprises, Entrepreneurship and Competitiveness 2015-2020 and its Action Plan, the Strategy for Regulatory Reform and Improvement of the Public Policy Management System 2016-2020 (SO 8/16), and the National Programme for Countering Shadow Economy (SO 110/15). The Proposal of the law on services envisages the establishment of a single electronic contact point (SECP), this being one of the obligations assumed through the Directive on Services 2006/123/EC whose transposition is laid down in Article 59 of the SAA. Service providers will thus be able to obtain all the information they need to start and conduct their business from a single source, while some of the business procedures will be completely electronically-based. This would altogether shorten the period necessary to start a service activity.
Annual timeline	<p>2017: The preparation of a digitalised form containing instructions for making the inventory of administrative procedures; the training of trainers and the trainings of civil servants that will take part in making the inventory of administrative procedures; making the inventory of administrative procedures; the analysis of all the listed administrative procedures; simplification and optimisation of administrative procedures; preparation of the legal framework for the establishment of the registry; promotional activities. Adoption of the Law on e-document, e-identification, and confidential services in e-business and the Law on services. Adoption of the Regulation on the means of communication among institutions and the stages of establishment of the SECP; the start of the realisation of the project aimed at the establishment of the SECT. The preparation and adoption of the Law on fees for the usage of public goods.</p> <p>2018: Adoption of the legal framework for the establishment of the registry; establishment of the registry; continued simplification and optimisation of administrative procedures relating to the business sector; promotional activities. The establishment of the portal of the Single Electronic Contact Point; the completion of the alignment of sector regulations with the Directive on Services.</p>

	2019: Continued simplification and optimisation of administrative procedures relating to the business sector.
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 249,672 (items under the Ministry of Economy – EUR 54,736, Ministry of Trade, Tourism and Telecommunications – EUR 191.912 and the Republic Secretariat for Public Policy – EUR 3,024), while the envisaged costs of reform in 2018 amount to around EUR 185,000 (only items under the Ministry of Trade, Tourism and Telecommunications). Potential non-budgetary financing of the reform envisages funds for 2017 and 2018 to the amount of around EUR 1,295,000 per year (all funds from IPA funds): 2017 – EUR 1,742,840 and 2018 – EUR 2,086,280 (items under the Ministry of Trade, Tourism and Telecommunications: 2017 and 2018 – EUR 1,295,000; items under the Ministry of Economy: 2017 – EUR 44,840, 2018 – EUR 791,280).
Expected impact on competitiveness	The establishment of the Single public registry of administrative procedures and other business conditions is expected to result in the reduction of the administrative burden the business sector faces by the minimum of 20%, as well as in a greater transparency and predictability of the business environment. Apart from that, the inventory of procedures will help ascertain which procedures can be simplified and, consequently, help reduce administrative costs of the functioning of the business sector. The setting up of the SECP will facilitate and diminish the costs of starting and pursuing a service activity, which will directly boost the setting up of new enterprises and competitiveness in the service sector. The objective of the setting up of the portal is to ensure an easier access to information on the starting and doing a service activity for service providers. An opportunity to find in one place all the required information shortens the time needed to meet the required conditions, which in turn leads to reduced business costs. Besides, the making of the inventory of procedures will help ascertain which procedures can be simplified and thus diminish administrative costs of the operating of the business sector.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The pursuit of this structural reform will positively affect the legal security of interaction with state administration bodies owing to greater transparency of the work of state administration bodies, reduction of administrative barriers for the provision of services, as well as a better information of both the employers and the employees. The boosting of competitiveness and efficiency of overall economy will directly lead to an increase in the number of opened new enterprises, and thus to the creation of new jobs.
PSR 10.	ESTABLISHING A COMMON INFORMATION PLATFORM FOR ALL INSPECTORATES AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)
Outline	The implementation of a unified inspection information system- e-Inspector is related to the activity contained in the Draft Action Plan for the implementation of the Strategy for the Development of e-Government 2017-2018. This reform will improve the coordination of inspections, introduce legal regulations and establish an information system in order to effectively exchange data and electronic documents for planning and conducting of inspection oversight, which is the goal of the Public Administration Reform Strategy in the Republic of Serbia and the Law on Inspection Oversight.
Annual timeline	2017: Drafting a central module supporting the mutual collaboration of all inspectorates, as well as communication with external partners, such as SBRA, Customs Administration, and/or the development of a joint information platform and module for individual inspections.
	2018: Developing a unified information system for all national inspection services.
	2019: Drafting an assessment of the hardware infrastructure required for the entire information system, with particular emphasis on the local needs of specific inspectorates. Education of inspectors in all inspectorates for working through the new information system.
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 560,000, while the projected costs of reform in 2018 amount to approximately EUR 640,000.

Expected impact on competitiveness	Consolidating the operations of market inspectorate, labour inspectorate, communal police, etc., as well as their improved coordination with the Tax Administration, through development of the unified information system will enable more efficient and effective work of all inspectorates. Targeted controls that the inspectorates carry out should result in a safer business environment due to better enforcement of regulations and reduced burden of unnecessary and frequent inspections to bona fide business entities. This reform should also contribute to the reduction of informal economy, increase budget revenues from taxes and contributions, and improve formal employment opportunities.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The effects of the implementation of this reform are reflected in: the reduction of the number of workers in informal economy and better functioning of the labour market as a result of improved quality of oversight and better work coordination between inspection services; better-quality monitoring of compliance with labour contracts and rights of employees which will be provided by improved efficiency of labour inspectorates; better dissemination of information to the public and greater visibility of the work of inspectors in the field, provided by a quality information system; better qualifications of inspectorate services staff.
PSR 11.	PROGRAMME SUPPORTING INNOVATIONS AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS
Outline	In addition to support for innovation and technological development projects in scientific and research organisations and the private sector, the reform implies the establishment of a technology transfer system, implementation of joint projects by public scientific and research organisations and private companies, and financing innovation projects in the private sector through the Innovation Fund. Independent international evaluation of Serbian public research and development institutes will be conducted in the course of 2017, to enhance their efficiency and capacities for collaboration with the private sector through technological projects. The Strategy of Scientific and Technological Development 2016-2020 – Research for innovations was adopted in March 2016 and a draft action plan for the implementation of the Strategy was prepared.
Annual timeline	<p>2017: Implementation of a collaborative grant scheme; Drafting the documentation for the Early Development Programme and Programme of Co-Financing Innovations and publication of public calls; Evaluation of scientific institutes.</p> <p>NOTE: The implementation of the Program of research in the field of technological development in 2017 – the Government of RS adopted Decision 05 no. 021-12663/2016 of 29 December 2016 extending the financing of national projects until 30 June 2017 (OG RS, no. 108/2016).</p> <p>2018: Implementation of the Early Development Programme and Programme of Co-Financing Innovations; Drafting the sector reform plan; Implementation of projects selected within the Programme of Research in the Field of Technological Development.</p> <p>2019: Introduction of a new model of financing science and a results-based management system; Implementation of the Early Development Programme and Programme of Co-Financing Innovations; Establishing technology transfer service lines in the Central Technology Transfer Office.</p>
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the amount of EUR 42,251,064, while the same amount is envisaged for the costs of the reform in 2018 and 2019, from the budget of RS. The following funds have been provided as potential non-budgetary financing for the reform: 2017 – around EUR 2 million (with EUR 1.5 million from IPA funds); 2018 – around EUR 1.9 million (with EUR 1.4 million from IPA funds); 2019 – EUR 960,833 from IPA funds.
Expected impact on competitiveness	The structural reform has a positive impact on competitiveness because it encourages innovation activities in the private sector through raising the capacity of a company to develop innovative products and services with a high value added. In addition, the technology transfer program creates the conditions for commercialisation of existing knowledge and scientific results on the market. The capital cost is reduced through the financial instruments of the Innovation Activity Fund and the companies are getting ready to access other forms of financing, e.g. venture capital funds.

Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The reform will have a positive impact on creating sustainable and well paid jobs in the long run. Successful examples of innovative companies supported through the programs of the Innovation Activity Fund shall enhance social awareness of the importance of entrepreneurship, science and innovations. The impact of the brain drain shall be reduced by the creation of new jobs for highly educated staff (primarily youth) and/or through joint projects of the private sector and the academic community. Furthermore, the reform will contribute to promoting an innovation culture in society, an increased absorption of new technologies and, therefore, an increased level of general education in society.
PSR 12.	IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM
Outline	An efficient and internationally recognised quality infrastructure (QI) system is aimed at providing safe and good-quality products on the market, which is among the key prerequisites for improving the competitiveness of the Serbian economy, exports and economic growth. An efficient QI system will ensure for the Serbian enterprises and industry a framework for the implementation of technical regulations and standards for products and management control systems (safety, quality, environmental protection, etc.). This reform is focused on attaining a high development level of key elements of the QI system: metrology, standardisation, accreditation and conformity assessment, as well as the full and efficient implementation of the legislation applicable to free movement of goods, without unnecessary technical barriers to trade (Negotiating group 1). The reform is consistent with the goals of the 2015-2020 Strategy for the Improvement of Quality Infrastructure in the Republic of Serbia (QI Strategy) and includes 3 measures: (1) harmonising the legislation with the EU regulations; (2) regulating the non-harmonised area (3) an internationally recognized QI framework.
Annual timeline	<p>2017: Implementation of the AP for 2017 as part of the Strategy for the Improvement of QI in the Republic of Serbia (2015-2020); Adoption of the new Law on Technical Requirements for Products and Assessment of Compliance (LTR); Further harmonization of regulations encompassed by NC1 - Freedom of movement of goods, pursuant to the NPAA and AP for the harmonized area; Regulation of the non-harmonized area through the implementation of the AP for the non-harmonized area and raising the capacities to apply the Regulation on the procedure of notification and method of information regarding technical regulations, assessment of compliance and standards (Notification Regulation); Opening of negotiations under NC1 - Freedom of movement of goods; Maintaining full membership of national institutions in European and international organizations for standardization, accreditation and metrology.</p> <p>2018: Implementation of the AP for 2018 as part of the Strategy for the Improvement of QI in the Republic of Serbia (2015-2020); Adoption of bylaws in accordance with the new LTR; Further harmonization of regulations encompassed by NC1 - Freedom of movement of goods, pursuant to the NPAA and AP for the harmonized area; Regulation of the non-harmonized area through the implementation of the AP for the non-harmonized area and applying the Notification Regulation; Negotiations under NC1 - Freedom of movement of goods; Maintaining full membership of national institutions in European and international organizations for standardization, accreditation and metrology.</p> <p>2019: Implementation of the AP for 2019 as part of the Strategy for the Improvement of QI in the Republic of Serbia Further harmonization of regulations encompassed by NC1 - Freedom of movement of goods, pursuant to the NPAA and AP for the harmonized area; Regulation of the non-harmonized area through the implementation of the AP for the non-harmonized area and applying the Notification Regulation; Closure of negotiations under NC1 - Freedom of movement of goods; Maintaining full membership of national institutions in European and international organizations for standardization, accreditation and metrology.</p>
Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds to the total amount of EUR 9.6 million. Non-budgetary financing has also been provided in 2017 to a total amount of EUR 5.3 million, for: the Project Strengthening Capacities of National Quality Infrastructure (NQI) and Conformity Assessment (CA) Services in the Republic of Serbia (IPA 2013 – Twinning) - EUR 300,000 and for the Project Supply of Equipment Necessary for Conformity Assessment (CA) Services in the Republic of Serbia (IPA 2013 – Supply Contract) – EUR 5,000,000. The estimated value of own funds of the Institute for Standardisation of Serbia and the Accreditation Body of Serbia for the period 2017-2019 amounts to EUR 6.6 million.

Expected impact on competitiveness	Implementation of aforementioned measures shall have a direct impact on creating an environment for placing safe and good-quality products on the market and on increased competitiveness of local economy by reducing the costs of tests and certification, improving market surveillance and aligning the legal framework and technical regulations with demands of the EU market, thus removing the technical barriers for manufacturing, import and export of products.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The implementation of this structural reform directly ensures high level of protection of human safety and health owing to using safer and better quality products, as well as the protection of property, the environment and other public interests. In addition, the protection of consumers' and end-users' interests is improved and awareness is raised about the importance of technical regulations and standards.
PSR 13.	LABOUR MARKET NEEDS ORIENTED QUALIFICATIONS
Outline	Reform processes are under way, focused on secondary vocational education, aiming to improve the educational system so that it produces competent individuals capable of responding to the needs of the labour market, society as a whole, but also of meeting their own personal needs,. Since technology today is progressing rapidly, and schools cannot keep up with these technological changes, it is imperative for part of the professional and practical education to be displaced towards companies. This will enable students, having completed a secondary vocational school, to have functional, usable and applicable knowledge to immediately join the work process. The dual system of education, in Serbia involving the model of dual and entrepreneurial education, will make secondary school students more entrepreneurial, and even motivate them to open their own companies and actively participate in the production process immediately after formal education. The National Qualifications Framework (NQF) in Serbia should benefit students as well as the economy, and to provide for compatibility with the European education area. Qualifications should show what a given person can do, not just what diploma or certificate they have and what school they have completed.
Annual timeline	<p>2017: Adoption of the Law on Dual Education, its promotion and application, forming the Office for Dual Entrepreneurial Education, application of the methodology of enrolment to secondary schools involving the harmonization of the curriculum of the educational system with the needs of the labour market, as well as forming the inter-regional information centre Valjevo.</p> <p>NQF: Establishment of 2 sectoral groups and drafting 2 sector profiles; Referencing with the EQF; Population of the qualifications database; Drafting the Law on NQF and public review; Drafting the educational programmes / study programmes based on qualifications standards (including dual model qualifications). Drafting the National Classification of Occupations.</p> <p>2018: Application and promotion of the Law on Dual Education, application of the methodology of enrolment to secondary schools involving the harmonization of the curriculum of the educational system with the needs of the labour market, as well as the opening of the inter-regional information centre Valjevo.</p> <p>Establishment of the institutional framework for the implementation of the NQF based on the adopted Law on NQF; Establishment of the Register of Qualifications; Establishment of 2 sectoral councils and development of 2 sector profiles; Drafting the educational programmes / study programmes based on qualifications standards (including dual model qualifications). Establishment of the Register of Qualifications.</p> <p>2019: Application of the Law on Dual Education. Strengthening institutional capacities for the implementation of NQF; Establishment of 2 sectoral groups and drafting 2 sector profiles; Establishing the system of validation of non-formal and informal learning; Drafting the educational programmes / study programmes based on qualifications standards (including dual model qualifications).</p>

Costs of implementation and implications for the annual budget	The Budget Law for 2017 provides funds for NQF and the introduction and promotion of dual education to the amount of EUR 682,728. Non-budgetary financing has also been provided for NQF in 2017 to the amount of EUR 1.5 million from IPA 2014, while funds to the amount of around EUR 75,000 for the period 2017-2019 have been secured as part of the project “Support to the Implementation of the Employment and Social Policy Reform Programme in the Republic of Serbia with Focus on Youth Employment”, sub-component 2 (financially supported by the Swiss Agency for Development and Cooperation).
Expected impact on competitiveness	Competent human capital is one of the essential prerequisites for attracting investment in certain areas of the economy. The matching of needs for competences to education programmes/study programmes enables faster and more efficient inclusion of qualified individuals in work processes, thus cutting back the costs of adaptation, increasing the efficiency of the process, boosting the availability of appropriate labour force and attracting foreign investment. By creating competent staff, capacity of local companies to create innovative products and services will also be increased. The establishment of an NQF system provides mechanisms for social partnership among all stakeholders on the labour market: the educational system redefines its offer on the labour market when it comes to formal education, while on the other hand, non-formal education service providers can intervene in the market of competences in a fast and efficient manner with an offer of accredited training programs. By establishing a link with the EQF, qualifications acquired in Serbia become visible and comparable with qualifications acquired in other countries, primarily the EU.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The identification of the necessary competences and qualifications on the labour market will enable each individual-holder of such a qualification to find a rewarding and suitable job more easily. Employers hire skilled labour force according to their requirements because they are involved in all phases of the process of identification, development, and implementation of qualifications, i.e., education programmes/study programmes. Education, besides being a process of acquiring knowledge and skills to perform certain precisely defined tasks, also contributes to making each individual ready to respond to the needs of society as a whole; consequently, the establishment of an educational system that will respond to these needs contributes to the further development of society in all aspects. Qualifications based on needs identified on the labour market, enable each individual to acquire appropriate competences in an adequate manner for both work and further learning, as well as daily life and allow for full recognition of each individual.
PSR 14.	IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET POLICIES WITH SPECIAL EMPHASIS ON YOUTH, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED
Outline	The promotion of efficiency and effectiveness of active labour market policies (ALMPs) based on an analysis of labour market needs and the status of certain categories of unemployed persons, as well as the effects of implemented ALMPs, should contribute to a timely, adequate, and proper integration or reintegration of the unemployed in the world of labour. The development of a system of early profiling of the unemployed as an integral part of the NES reform (by improving counselling methods and techniques and employability assessments) and inclusion of youth, redundant workers and the long-term unemployed in ALMPs through service packages contributes to higher employability and employment, i.e., to a more competitive appearance on the labour market. The ALMPs are implemented in conformity with the annual National Employment Action Plan (NEAP), as the core instrument for operationalizing strategic goals set out in the National Employment Strategy for the 2011-2020 period. This reform is also aligned with the objectives defined in the Employment and Social Reform Programme (ESRP).
Annual timeline	2017: MoLEVSA: Analysis of the ALMP measures implemented during the previous year and development and adoption of the Report on the implementation of NEAP for the previous year; Conclusion of the Performance Agreement of the NES; Publication of public calls/competitions by the NES for the implementation of active labour market policy measures, in accordance with the NEAP; Decisions on the requests submitted through the public calls/competitions for the implementation of ALMP measures; Implementation and monitoring the implementation of ALMP measures; Adoption of the NEAP for the next year. MYS: the implementation of activities from the Action Plan for the implementation of the National Youth Strategy for 2015-2017 through

	<p>financing or co-financing programmes and projects aimed at encouraging and stimulating various forms of employment, self-employment and youth entrepreneurship; development of services and mechanisms improving the employability and employment of youth the intersectoral cooperation and the empowerment of youth to adopt skills for active, responsible and efficient career management; preparation of the Action Plan for the implementation of the National Youth Strategy for the period 2018-2020.</p> <p>2018: MoLEVSA: Analysis of the ALMP measures implemented during the previous year and development and adoption of the Report on the implementation of NEAP for the previous year; Conclusion of the Performance Agreement of the NES; Publication of public calls/competitions by the NES for the implementation of active labour market policy measures, in accordance with the NEAP; Decisions on the requests submitted through the public calls/competitions for the implementation of ALMP measures; Implementation and monitoring the implementation of ALMP measures; Adoption of the NEAP for the next year.</p> <p>MYS: Implementation of the activities improving the conditions for the employment, self-employment, entrepreneurship and employability of youth defined in the Action Plan for the implementation of the National Youth Strategy for the period 2018-2020.</p> <p>2019: MoLEVSA: Analysis of the ALMP measures implemented during the previous year and development and adoption of the Report on the implementation of NEAP for the previous year; Conclusion of the Performance Agreement of the NES; Publication of public calls/competitions by the NES for the implementation of active labour market policy measures, in accordance with the NEAP; Decisions on the requests submitted through the public calls/competitions for the implementation of ALMP measures; Implementation and monitoring the implementation of ALMP measures; Adoption of the NEAP for the next year.</p> <p>MYS: implementation of the activities improving the conditions for the employment, self-employment, entrepreneurship and employability of youth defined in the Action Plan for the implementation of the National Youth Strategy for the period 2018-2020.</p>
Costs of implementation and implications for the annual budget	<p>The Budget Law for 2017 provides funds for the professional rehabilitation and employment of persons with disabilities to the amount of EUR 4.4 million (from the Budget Fund for the Professional Rehabilitation and Stimulation of Employment of Persons with Disabilities) with the same amount for the envisaged costs of reform in 2018 and 2019, each year. Increased collection of contributions created the conditions for ALMP measures to be financed from contributions, thereby providing an indirect positive effect on the 2017 budget to the amount of EUR 22.4 million.</p> <p>The Budget Law for 2017 provides funds to the amount of EUR 760,000, to be used by the MYS for the implementation of activities related to the financing of programs and projects of local self-government units aimed at developing youth employment services and youth services at the local level, as well as for the creation of mechanisms fostering employability and employment of young people through inter-agency and international cooperation, and financing and co-financing of associations' projects aimed at encouraging and incentivising different types of employment, self-employment and entrepreneurship of young people. The costs envisaged in the Budget of RS for these purposes in 2018 and 2019 amount to around EUR 760,000 per year.</p>
Expected impact on competitiveness	<p>This reform will result in higher employment and job creation, through programs of financial support to existing employers or through launching own businesses, a rise in demand for different types of funding for self-employment, boosting of demand for labour and formal employment by improving the quality of the workforce in line with the needs of employers. The reform also enhances innovation capacity through acquisition of managerial, organizational, and other skills, especially by young people, and through the creation of innovative products through the development of entrepreneurship with the support of business and technological incubators.</p>
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	<p>Increasing the employability of unemployed persons through continued investment in knowledge, skills and competences; support for gaining first work experience and learning about the real world of labour; additional training for unemployed who are not competitive on the labour market to perform specific tasks for which there is a need expressed by the business sector; improvement of the position of especially vulnerable groups of unemployed persons in the labour market and persons in need through affirmative action measures; a rise in efficiency of the NES in providing services to the unemployed and employers, resulting in an increase in the number of employees.</p>

PSR 15.	IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES
Outline	<p>Includes two measures: Measure 1. Increasing the adequacy of cash benefits and improving the accessibility and quality of social services by amending the legislation; and Measure 2. Linking information systems of the different sectors to ensure that beneficiaries of the measure can exercise their social rights without administrative barriers, thus ensuring better targeting of overall social assistance.</p> <p>Prerequisites for increasing the adequacy of cash benefits are: higher weights (benefits) for children and youth with disabilities, loosening asset-related requirements, primarily by increasing the maximum amount of land, depending on the soil quality for old people's households, increasing the adequacy of the child allowance programme for children with disabilities and increasing the coverage of destitute children, linking cash benefits to corresponding services, a review of the eligibility for assistance and care benefits from two systems (the system of pension and disability insurance and the system of social welfare) and an analysis of the amount of the basic allowance for assistance and care of another person.</p> <p>The activities contributing to the accomplishment of the objectives (standardized and high-quality social services falling within the purview of local self-governments) include: amendment of current and adoption of new regulations in the field of control and regulatory mechanisms, strengthening of control services (in terms of headcount and expertise), a review of standards and criteria for determining prices of social services, harmonization of social services standards with the European Quality Framework for Social Services, the application of the mechanism of earmarked transfers for financing social services to underdeveloped municipalities in accordance with the Budget System Law, as well as the further involvement of as many different actors as possible, including civil society organizations, with the system of social service providers, while paying attention to quality, through the strengthening of social protection inspection and the establishment of oversight of the professional work of social service providers.</p> <p>Linking information systems of the different sectors within the MoLEVSA, as well as between institutions of importance, will reduce administrative obstacles to beneficiaries of social protection entitlements, reduce the period for exercising the rights and enhance the analytical capabilities; secure access for social welfare centres to the records of other state administration bodies in the procedures for deciding on entitlement recognition applications and provide an opportunity for them to obtain certain proof in the procedure by themselves, which shortens the process and thus facilitates access, while at the same time being a control mechanism. This will also shorten the procedures, and simplify administrative obstacles, while narrowing the space for potential abuse.</p>
Annual timeline	<p>2017: Revision of the measures and criteria for establishing the price of social protection services; Amendments to the Law on Financial Support to Families with Children; Networking the social work centres into a single network (through software); Increasing the weightings (handouts) for children and youth with disabilities, relaxation of property conditions, primarily an increase in the land maximum depending on the quality of land for elderly households; Completion of the process of standardization of services and licensing of social protection institutions and professional workers, the development of adequate bylaws, as well as the establishment and strengthening of education programmes; Improvement of social protection service quality.</p> <p>2018: Networking the social work centres into a single network (through software); Increasing the weightings (handouts) for children and youth with disabilities, relaxation of property conditions, primarily an increase in the land maximum depending on the quality of land for elderly households; Connecting financial handouts with relevant services, review of the justification of the existence of handouts for help and care from two systems (reimbursement based on insurance and social handouts) and analysis of the amount of basic contributions for the assistance and care of another person; Increase in the adequacy of financial handouts; Improvement of the quality of social protection services; Expansion of regional centres for foster care and adoption and definition and improvement of their control function; Informational networking of various sectors; Reduction of the deadlines for the use of rights; Empowering inspection services (increasing the number of employees, establishing a new organization and work methods).</p>

	2019: Connecting financial handouts with relevant services, review of the justification of the existence of handouts for help and care from two systems (reimbursement based on insurance and social handouts) and analysis of the amount of basic contributions for the assistance and care of another person; Increase in the adequacy of financial handouts; Improvement of the quality of social protection services; Informational networking of various sectors; Empowering inspection services (increasing the number of employees, establishing a new organization and work methods).
Costs of implementation and implications for the annual budget	The social protection system tends to remain in the same financial framework, but the goal is a more just and improved distribution of funds, better coverage of socially vulnerable persons, without the potential for duplication of rights or their unfounded use. The implementation of social protection measures during the 2017-2019 period envisages funds from the budget of the Republic of Serbia to the amount of EUR 755,909,752, i.e. by year: 2017 – EUR 229,613,488, 2018 – EUR 246,356,968, 2019 – 279,939,296.
Expected impact on competitiveness	This reform is primarily social in its character; however, the improvement of social services helps reducing the costs of exercising these rights for beneficiaries and companies, thus cutting back administrative costs. Likewise, the development of innovative social services is expected, as a result of raising the quality of services in this area.
Expected social outcomes, including outcomes for employment and social groups, with particular emphasis of the gender aspect	The accessibility of social services to a large number of beneficiaries (particularly children, persons with disabilities, the elderly) as a result of improving the adequacy of cash benefits and raising the quality of social services; job creation and establishment of control mechanisms in the social welfare system as a result of the conclusion of the service standardization process and of the licensing of new social protection institutions and professionals; through continuous attendance of accredited employee training programs, social welfare centres' work efficiency and time savings will be increased; a positive impact on the health status of the most vulnerable population segments, through better housing, living, working, eating conditions.

Table 11a. Planned Implementation Timetable of Priority Structural Reforms

Priority structural reform 1. TAX ADMINISTRATION TRANSFORMATION	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Staff retention plan, considering gradual change in age structure												
Activities related to establishment of new risk management system												
Harmonised proposal of the new organisational structure on all levels												
Review and revise Law on Tax Procedure and Tax Administration regarding the application of indirect calculation methods and assessment methods used for inspection of taxpayers' bookkeeping data based on risks/operations												
Commence preparations for implementation of the adopted proposal of the new organisational structure												
Continue activities related to improvement of control and collection function, tax-legal affairs and non-tax functions, more efficient management of material and IT resources, upgrade of electronic services and development of services to taxpayers												
Final preparations for implementation of the adopted proposal of the new Tax Administration organisational structure												
Set up a new organisational unit for providing services to taxpayers												
Introduce a more effective regime for late payment penalties												
Activities related to establishment of a new system of training in line with the organisation's needs												
Establish internal communication system between control and tax-related investigations												
Efficient management of seized goods												
Complete Tax Administration electronic services												

Priority structural reform 2. IMPROVED MANAGEMENT OF CAPITAL INVESTMENTS	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Conduct a pilot phase of the assessment of capital projects by budget beneficiaries and the Ministry of Finance												
Adopt the remaining methodologies for managing capital investments												
Conduct training of budget beneficiaries regarding the application of the methodology and guidelines												
Develop terms of reference and purchase unique information database of capital projects												
Make analysis and proposals for improving the methodology;												
Implement and update a uniform database of capital projects												
Rate capital projects by budget beneficiaries and the Ministry of Finance												

Priority structural reform 3. CONNECTION WITH THE MARKETS IN THE REGION	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Measure 3.1. E-75 and E-80 motorway construction (Corridor 10)												

[illegible]

line.													
Build the Kragujevac-Kraljevo transmission line													
Prepare the technical documentation for the Obrenovac - Bajina Bašta transmission line													
Develop the urban/spatial plan for the Bajina Bašta - Obrenovac transmission line													
Develop the spatial plan for the Bajina Bašta - Višegrad-Pljevlja transmission line													

Priority structural reform 4. DEVELOPMENT AND IMPROVEMENT OF THE NATIONAL BROADBAND COMMUNICATIONS INFRASTRUCTURE	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Adopt the Law on Broadband Access												
Connect educational and cultural institutions to the Academic Network of the Republic of Serbia												
Prepare and plan for the establishment of a unified national telecommunications network (UNT)												
Develop broadband access networks in municipalities across the country (end of first phase)												
Operational establishment of UNT												
Analysis, preparation and design of pilot projects												

Priority structural reform 5. IMPROVEMENT OF COMPETITIVENESS AND STATUS OF AGRICULTURAL HOLDINGS	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Prepare the rulebook and competition												
Adopt the rulebook and issue the competition												
Publish the call and implement the competition												
Implement the measure (in accordance with the Plan for Publishing the Call for IPARD measures adopted at the beginning of the year for the current year and bylaws)												

Priority structural reform 6. RAISING THE COMPETITIVENESS OF THE PROCESSING INDUSTRY	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Draft the strategy and the action plan for priority industries – working group establishment and operations												
Finalise four strategies and action plans for priority industries												
Review industry policy												
Implement new programmes supporting investments and exports												
Evaluate the effects of the implemented programmes supporting investments and exports												
Enhance programmes supporting investments and exports and develop new programmes (as needed)												
Submit a draft Law on Amendments to the Law on Investments to the Government												
Submit a draft Law on Amendments to the Company Law to the Government												
Draft an analysis of the effects of 4 strategies and action plans – establishment and work of the working group												
Complete the analysis of the effects of 4 strategies and action plans for priority industries												

Draft strategic documents for establishing the industrial development policy for the coming period – establishment and work of the working group													
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Priority structural reform 7. PACKAGE OF MEASURES TO IMPROVE ACCESS TO FINANCE FOR SMEEs	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Drawing the APEX credit line for additional EUR 150 million.												
Negotiations on the drawdown of the loan of APEX credit line by additional EUR 200 million.												
Prepare the APEX loan												
Draw down the loan of APEX credit line for additional EUR 200 million.												
Prepare needs analysis for alternative financial instruments with a proposal of an investment strategy – EIB												
Prepare a plan of public financial institutions reform – activities of a working group												
Implement the project of establishing financial instruments financed from IPA 2016												
Adopt a plan of public financial institutions reform												
Draft laws and subordinate legislation related to the reform of public financial institutions												
Start a new annual cycle of implementing the small businesses support programme for purchasing equipment												
Evaluate the investment strategy programme												
Analyse the impact of the implemented programme equipment												
Implement the programmes and monitor their implementation												
Evaluate the impact of the implemented programmes												
Develop new programmes												
Draft the legislative framework for introducing microfinance institutions												
Develop the microfinance institution market												

Priority structural reform 8. REFORM OF PUBLIC ENTERPRISES	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Measure 8.1. Introduction of corporate governance in PE												
Analyse the capacity of prospective educational institutions for providing training in corporate governance												
Establish a working group to define a system of licensing directors and supervisory board members in PE												
Organise activities of the working group to define a system of licensing directors and supervisory board members in PE												
Draft laws and subordinate legislation for introducing a system of licensing directors and supervisory board members in PE												
Carry out training needs analysis (TNA) of directors and supervisory board members in public enterprises												
Implement training for PE directors and supervisory board members in corporate governance												
Develop procedures in ME for monitoring and evaluating the impact of corporate governance in PE												

Implement procedures in ME for monitoring and evaluating the impact of corporate governance in PE													
Analyse the impact of the implementation of corporate governance in PE													
Correct activities based on the implemented analysis													
Implement procedures in ME for monitoring and evaluating the impact of corporate governance in PE													
Analyse the impact of the implementation of corporate governance in PE													
Measure 8.2. Reform of railways													
Review key contracts (audit)													
Monitor the implementation of labour force restructuring													
Secure funding for key contracts and investments													
Develop a plan for capacity enhancement													
Measure 8.3. Reform of PE EPS													
Measure 8.4. Reform of PE Srbijagas													

Priority structural reform 9. SIMPLIFICATION OF THE PROCEDURES FOR BUSINESS ENTITIES	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Preparation of a digitalised form with guidelines for making the inventory of administrative procedures												
Organisation of the trainings for trainers and the trainings of civil servants that will take part in making the inventory of administrative procedures												
Making the inventory of administrative procedures and other business conditions												
The analysis of results of making the inventory of administrative procedures and other business conditions												
Simplification and optimisation of the listed administrative procedures												
The preparation and adoption of the legal framework for the registry (Law on the single public registry of administrative procedures and other business conditions and pertinent by-laws)												
Establishment of the registry												
Promotional activities relating to the establishment of the registry (a continued process)												
Simplification and optimisation of administrative procedures												
Adoption of the Law on e-document, e-identification, and confidential services in e-business												
Adoption of the Law on services												
Adoption of the Regulation on the work of the single electronic contact point and the establishment of the SECT (Stage I)												
Completion of alignment of sector regulations with the Service Directive, i.e. the Law on services												
Preparation and adoption of the Law on fees for the usage of public goods												

Priority structural reform 10. ESTABLISH A COMMON INFORMATION PLATFORM FOR ALL INSPECTIONS AT THE LEVEL OF THE REPUBLIC (E-INSPECTION)	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Phase II												
b) Contract contractors for Phase III												
c) Conduct a GAP analysis												
d) Design e-Inspector system												
e) Conduct a functional system analysis												
f) Develop e-Inspector system for the first four inspection services												
g) Test the system												
e) Produce the system for the first four inspection services												
Phase III												
a) Conduct a GAP analysis of the rest of the system												
b) Design e-Inspector system												
c) Conduct a functional system analysis												
d) Develop the e-Inspector system for the other 32 inspection services e												
e) Test the system												
f) Produce the entire system												

Priority structural reform 11. PROGRAMME SUPPORTING INNOVATIONS AND TECHNOLOGICAL DEVELOPMENT IN THE PUBLIC AND PRIVATE SECTORS	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Implement projects by users awarded financing, monitoring by the Fund – IPA 2013												
Sign the contract on direct grant between the Innovation Fund and the Ministry of Finance at the end of the quarter – IPA 14												
Draft documentation for grant programmes (Early Development Programme and Innovation Co-Financing Programme, Mini Grants and Matching Grants) – IPA 2014, promotional activities – info days for the first public call												
Open doors and workshops, preparation of candidates for application – IPA 2014; At the end of the quarter publish the public call for the Early Development Programme and Innovation Co-Financing Programme – IPA 2014 – first public call												
Implement projects by users awarded financing, monitoring by the Fund – IPA 2014 – first public call												
Open doors and workshops, preparation of candidates for application – IPA 2014; At the end of the quarter publish the public call for the Early Development Programme and Innovation Co-Financing Programme – IPA 2014 – second public call												
Assess received projects and decide on financing and Start of implementation of projects approved for the collaborative grant scheme – IPA 2014 – second public call												
Implement projects by users awarded financing, monitoring by the Fund – IPA 2014 – second public call												
Promotional activities and presentation of the programme, and publish public call for MG during the first quarter –												

“Competitiveness & Jobs”												
Consultations and open doors and at the end of the second quarter expiry of deadline for submitting applications – “Competitiveness & Jobs”												
Assess received projects and decide on financing – “Competitiveness & Jobs”												
Implement the projects from the 1 PC by the beneficiaries and monitoring by the Fund for Innovation Activities – “Competitiveness & Jobs”												
Publish the 2 PC – “Competitiveness & Jobs”												
Consultation and open doors as per 2 PC at the end of the second quarter submission of applications – “Competitiveness & Jobs”												
Assess received projects under 2 PC and adopt decision on financing – “Competitiveness & Jobs”												
Implement the projects from the 2 PC by the beneficiaries and monitoring by the Fund for Innovation Activities – “Competitiveness & Jobs”												
Start the implementation of the technological development programme – MESTD												
Establish service lines for technology transfer at the Central Office for Technology Transfer: 1. Collection of inventions by the applications, 2. Assessment of technological and commercial readiness (triage), 3. Financing additional development to increase commercial readiness, 4. Defining the strategy and tactics of commercialization, 5. Implement the commercialization strategy, 6. Identification of potential commercial partners, 7. Negotiation and conclusion of transactions, 8. Supervisions and monitoring of further development of commercialization – IPA 13 and “Competitiveness & jobs”; Detailed report on the self-evaluation and pilot analysis by international experts – “Competitiveness & Jobs”												
Implement activities: 1. Collect draft projects by TTF and TTO, 2. Evaluate received draft projects and 3. Define commercial exploitation strategy – IPA 13 and “Competitiveness & Jobs” + develop new service lines												
Implement an analysis of institutions in the scientific-research sector, based on the methodology originating from the analysis of pilot institutions from 2016. Plan of sectoral reforms, including the introduction of a management system based on results, both at the level of the institution, as well as individual – “Competitiveness & Jobs”												
Sector reform plan, including an introduction of an output-based management system, both on the institutional and individual level, adopted by the Government - ‘Competitiveness & Jobs’												
Finalise the project of setting up technology transfer service lines in the Central Technology Transfer Facility - IPA 14 and ‘Competitiveness & Jobs’					IPA 13					C&J		

Priority structural reform 12. IMPROVING THE NATIONAL QUALITY INFRASTRUCTURE SYSTEM	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Adopt and implement annual action plans for the implementation of the Strategy for the Improvement of the Quality Infrastructure (2015-2020)												

Adopt the new Law on Technical Requirements for Products and Assessment of Harmonization (LTRPAH)												
Adoption of by-laws to LTRPAH												
Further harmonize regulations encompassed by NC1-Freedom of movement of goods, in accordance with the NPAA and the AP for the harmonized area												
Adopt the Strategy and AP for the harmonized area												
Review the NPAA for NC1-Freedom of movement of goods												
Adopt new technical regulations in accordance with the AP for the harmonized area and revised NPAA												
Regulate the non-harmonized area, by implementing the AP for the non-harmonized area and raising capacities for the application of the Regulation on the application procedure and method of information regarding technical regulations, assessment of harmonization and standards (Regulation on notifications)												
Strengthen focal point for providing information on technical regulations and the application of Regulation 764/2008/EC												
Strengthen the capacities of competent ministries for identification/elimination of obstacles to trade, in the non-harmonized area and implement a legal analysis of regulations from the AP for the non-harmonized area												
Implement a campaign on the need to register technical regulations in the preparatory phase (in accordance with the requirements of the revised Regulation on notification)												
Place out of force and innovate obsolete technical regulations, potential obstacles to trade in the non-harmonized area												
Open negotiations within NC1-Freedom of movement of goods												
Strengthen capacities of QI institutions and bodies for the assessment of harmonization (BAH)												
Maintain full membership of national institutions in European and international organizations for standardization, accreditation and metrology												
Implement the procurement of equipment for TOU and DMDM (IPA 2013 project)												
Efficient use of equipment procured for the assessment of harmonization												
Develop new forms of accreditation and develop existing types of accreditation in new fields												
Implement training for appointed and authorized bodies for the assessment of harmonization, i.e. potential notified bodies												
Prepare guides, publications and promotional materials												
Hold round tables, informational events on the importance of QI for all stakeholders, particularly the industry												

Priority structural reform 13. QUALIFICATIONS AIMED TOWARDS THE NEEDS OF THE LABOUR MARKET	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Draft and adopt the Law on Dual Education												
Form the Office for Dual Entrepreneurial Education												
Apply the methodology of enrolment to secondary schools involving the harmonization of the curriculum of the educational system with labour market needs												
Adoption and verification of 9 new profiles harmonized with labour market needs and their implementation in the educational system in 2017												

Promotion of dual and entrepreneurial education through the “Spirit of Youth” caravan													
Forming and opening the interregional information centre Valjevo													
Active implementation of the Law on Dual Education													
Prepare 2 sector profiles / descriptions													
Make preparations for setting up sector councils													
Adopt a document on the NQF													
Draft the Law on the NQF and organise public consultation													
Make preparations for referencing the NQF to the EQF													
Enact the Law on the NQF													
Prepare by-laws for the establishment of the NQF													
Register the NQF for referencing													
Prepare a report on referencing the NQF to the EQF													
Set up a formal qualifications database													
Record qualifications in the database													
Establish a working group for the application of the harmonized classification of occupations													
Draft the National Classification of Occupations													
Draft the curriculums based on the qualification standards													
Establish 2 sectoral groups based on the cooperation agreement of MESTD, IIE and the SCC													
Set up 2 sector councils based on the Law on the NQF													
Establish the Register of Qualifications													
Establish the Register of Occupations													
Develop qualification standards in 2 sectors and ensure their accreditation (entry onto the Register)													
Establish the Qualifications Agency													
Develop education / study programmes based on qualification standards													
Establish a validation system for non-formal and informal learning													

Priority structural reform 14. IMPROVING THE EFFECTIVENESS OF ACTIVE LABOUR MARKET MEASURES WITH SPECIAL EMPHASIS ON THE YOUNG, REDUNDANT WORKERS AND THE LONG-TERM UNEMPLOYED	2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Analyse active labour market policies in the previous year, and draft and adopt the Report on the Implementation of the National Employment Action Plan for the year before												
Conclude the Agreement on the National Employment Service Performance for the current year												
The National Employment Service to announce public calls / open competitions for the implementation of active labour market policies, in line with the National Employment Action Plan for the current year												
Decide on requests made in relation to public calls / open competitions for the implementation of active labour market policies; implement active labour market policies												
Implement active labour market policies and monitor the process												
Adopt the National Employment Action Plan for the coming												

year												
Implement relevant activities from the National Youth Strategy 2015-2025 in accordance with the Action Plan for its implementation												

Priority structural reform 15. IMPROVING THE ADEQUACY, QUALITY AND TARGETING OF SOCIAL PROTECTION MEASURES	2017				2018				2019			
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>
Revise the benchmarks and criteria for costing social services												
Amend the Law on Financial Support to Families with Children												
Link centres for social work into a single network (by implementing software)												
Increase the weightings (benefits) for children and youth with disabilities; relax property-related requirements, in particular raise the land ownership ceiling depending on land quality for elderly households												
Link cash benefits to the relevant services; review the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analyse the basic attendance allowance level												
Improve the adequacy of cash benefits												
Complete the process of standardising services and licensing social service providers and professionals, develop the relevant bylaws and strengthen training programmes												
Improve the quality of social services												
Expand regional foster care and adoption centres and define and improve their oversight function												
Align the regulations applicable to social protection with a view to linking different sectors' information systems												
Link different sectors' information systems												
Shorten the time limits for access to entitlements												
Strengthen inspection services (increase the number of staff, introduce a new organisation and modality of operation)												

Table 12. Report on the implementation of priority structural reforms (PSR) from ERP 2016-2018

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
Area PUBLIC FINANCE MANAGEMENT					
PSR 1. Tax administration transformation					
1.	Prepare a plan of tax compliance	Yes	The Plan of Compliance with Tax Regulations for 2016 has been completed. The analysis of implementation and schedule of implementation is under way. The text of the Plan for Compliance with Tax Regulations for 2017 will be drafted by the end of 2016, based on the map of risks for tax regulation compliance developed by a group of employees with the assistance of IMF consultants. IMF experts will hold trainings for a special group of employees of the TARS to work on drafting the Plan of Compliance with Tax Regulations.		
2.	Staff retention plan, considering gradual change in age structure	Partially	The programme of voluntary applications for leaving the workplace in the Tax Administration with severance pay is not being implemented	Legal limitations of the number of employees and requirements to reduce the number of public sector employees have caused a delay in this activity. Likewise, there are deviations in the segment related to the employment of new staff, planned by the Transformation Programme.	
3.	Analysis of current state of play and initial proposal of future organisational structure	Yes	The analysis of the existing organizational structure of TARS has been drafted. A draft new Tax Administration organizational structure has been developed based on the analysis.		
4.	Activities related to establishment of new risk management system	Partially	A structure was formed consisting of a special group of employees that should become, through the new systematization, the Department for Strategic Risk, with a number of employees seconded. The Tax Regulation Compliance Board was founded. The Plan of Compliance with Tax Regulations for 2017 has been developed.		
5.	Proposal of necessary amendments to Law on Tax Procedure and Tax Administration and Criminal Act in order to extend the powers and authorities	Yes	In March 2016 the Ministry of Finance formed a Working Group consisting of representatives of the Ministry of Finance and the Tax Administration for the analysis of legal solutions in the field of tax		The working group is continuing its activities.

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	for tax related investigations		<p>procedures and tax administration, tasked with conducting an analysis and proposing amendments or a new Law on the Tax Procedure and Tax Administration.</p> <p>Adopted amendments for the crime of Tax evasion as per Article 225, paragraph 1 of CCRS to be applied as of 1 March 2018.</p> <p>The Law on Amendments to the Law on the Tax Procedure and Tax Administration has been adopted ("Official Gazette of RS", no. 108/16).</p> <p>Competences for tax investigations have been expanded, and the activity has been implemented without the necessary changes to the Criminal Code.</p>		
6.	Harmonised proposal of the new organisational structure on all levels	Partially	<p>The draft new organizational structure of TARS has been developed. The founding of a new organizational unit is planned for the coordination of the work of branch offices, with the office of the Director of the Tax Administration, as assistance in the establishment, organization and operation of the new organizational scheme.</p> <p>The founding of the Sector for Providing Services to Taxpayers has also been planned, along with a specialized Strategic Risks Group unifying the work of operational risks and the CLTP, control and tax police.</p>		
7.	Review and revise Law on Tax Procedure and Tax Administration regarding the application of indirect calculation methods and assessment methods used for inspection of taxpayers' bookkeeping data based on risks/operations	Partially	<p>An analysis of the existing provisions of LTPTA was produced on establishing the tax base by using indirect methods (provisions 58 to 61) and the Rulebook on the method and procedure for establishing the tax base for citizen income tax for unreported income through cross-analysis, analysis of the methods of regulating the same issue in countries in the region, as well as a comparative overview of the currently applicable legal provisions in the Republic of Serbia and countries in the region.</p> <p>A draft elaborated initiative was produced on the need to adopt a by-law - rulebook that would further define the method of establishing the tax base through</p>		

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			<p>estimation and enable the introduction of this method of establishing the tax base in the tax control procedure.</p> <p>In parallel with this, work is ongoing on defining parameters and methods for their calculation to be used under the procedure of establishing the tax base through estimation.</p>		
8.	Commence preparations for implementation of the adopted proposal of the new organisational structure	Yes	<p>A proposal for the new organizational structure envisaging a reduction in the number of branch offices has been prepared. The proposal was presented to the Ministry of Finance.</p> <p>A report was produced on the existing office space of the Tax Administration.</p>		
9.	Set up a risk management unit as a separate organisational unit and build its capacities, establishment of risk management methodology	Partially	Tax officers were allocated in April 2016, by Order of the Director, to work on developing the methodology of risk management and tax regulation compliance, development of the framework and methodology for the identification and monitoring of potential risk, until the formation of a separate organizational unit for strategic risk management is complete.	According to the TARS plan of activities this activity will be implemented in 2017.	
10.	Continue activities related to improvement of control and collection function, tax-legal affairs and non-tax functions, more efficient management of material and IT resources, upgrade of electronic services and development of services to taxpayers	Partially	<p>The implementation of the project "Development of collection system within the integrated Tax Administration information system" is under way; continuously, an according to plan, new electronic tax filings and services are being introduced, the deadline for completing these operations is 1 January 2018; the formation of the Sector for the Provisions of Services to Taxpayers is planned during 2017; software for material resources is being developed; an overview of established non-competence of TA in non-tax laws was produced and a proposal was issued for their displacement.</p> <p>During Q3 and Q4 of 2016 the Tax Administration continuously undertook activities of regular and enforced collection of public revenue. Emphasis was placed on increasing regular collection, i.e. the part of collection executed by taxpayers through strict adherence to their legal obligations. The schedule of the key revenue of the budget of Republic of Serbia</p>		

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			was exceeded, with greater than projected collection achieved. Good collection of public revenue was established through efficient collection of current obligations, as well as undertaking measures and activities for regular and enforced collection by the Tax Administration.		
11.	Final preparations for implementation of the adopted proposal of the new Tax Administration organisational structure	Partially	The concept of the new organizational structure will be the subject of deliberation of the Transformation Board, where the detailed plan will be presented.		
12.	Re-design of the HR management system and development of new generation of civil servants	No		The IPA 2011 project that was supposed to enable the introduction of a new modern human resources management software was not completed successfully. The Tax Administration did not sign the Final Report. The human resources management strategy was adopted, defining 7 strategic goals that would improve the operation of the Tax Administration through improving human resources and developing a new generation of civil servants.	
13.	Set up a new organisational unit for providing services to taxpayers	Partially	The draft concept of the Sector for Services was presented at the Board for the implementation of the Transformation Programme, held on 21 December 2016, and the preparation of the final version of the organizational structure of the sector and analysis of staffing is under way.		
PSR 2. Improved management of capital investments					
1.	Improving the system of managing capital investments	Partially	Discussion with the competent ministries and institutions is under way regarding improving capital investment management; "USAID" and the Ministry of Finance implemented an analysis of public finance management and provided a proposal of measures for improving management by way of the Regulation;	Adoption of the methodology for improving the system of managing capital projects is planned for mid-Q3 2017. If the methodology is adopted, it will be applied as of January 2018. Upon the adoption of the methodology by the Government of RS, the minister competent for finance will adopt the regulations prescribed by the methodology.	

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 <i>(activities from the Gantt chart)</i>	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES <i>(unplanned, but implemented activities undertaken for the implementation of PSR)</i>
2.	Prepare and adopt methodologies and guidelines for applying the improved system of managing capital investments	No		The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
3.	Prepare modules for training budget beneficiaries in the application of the improved system and using the methodology and guidelines	No		The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
4.	Conduct a pilot phase of the assessment of capital projects by budget beneficiaries and the Ministry of Finance	No		The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
5.	Adopt the remaining methodologies for the improved system.	No		The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
6.	Conduct training of budget beneficiaries regarding the application of the improved system and the use of the methodology and guidelines	No		The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
7.	Develop terms of reference and purchase unique information database of capital projects	Partially	As part of the "Public Finance Management" project, the World Bank prepared a draft scope and functionality of the planned information system through the system of managing capital investments;	The precondition was not met, i.e. the adoption of the methodology for improving the system of managing capital investments	
Area ENERGY, TRANSPORT AND TELECOMMUNICATIONS MARKET					
PSR 3. Improvement of the physical infrastructure for better connection with the markets in the EU and the region					
3.1.	<i>E-75 and E-80 motorway construction (Corridor 10)</i>				
1.	Contract the tunnel equipment	Partially	The tunnels Progon and Pržojna are about to be contracted. Other tenders are under preparation.		
2.	Complete the construction of sections	Partially	E-75 section Grabovnica-Grdelica deployed. Profiles deployed along part of E80.		

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3.	Complete tunnel construction	Partially	Works under way. Completion planned for 2017. There is a problem with ground waters and geology.		
3.2.	<i>Construction of the Žeželj Bridge near Novi Sad with slip roads (Corridor 10)</i>				
1.	Build the slip roads	No		Planned activities not started due to delays in the construction of the bridge, i.e. inability to hand over space for the implementation of contractual works.	
2.	Complete bridge construction	No		The high water level of Danube in 2016 caused a six-month hiatus at the construction site. Since September 2016 works are ongoing in accordance with the established schedule. Completion of the bridge is expected in November 2017.	
3.3.	<i>Belgrade-Subotica-Kelebija (state border with Hungary) railway line modernisation (Corridor 10)</i>				
1.	Develop the planning documentation for the preliminary design	Partially	Preliminary design for the section BG-Stara Pazova, financed from a Russian government loan, by the end of 2016. The section Novi Sad - Subotica was designed by consultant Luis Berger, however, the design was developed using different terms of reference. By 10 October a decision will be adopted on what will be used from the existing design.		
2.	Contracting in accordance with the defined funding model	No		Intensive discussions held in May between Serbia and the Chinese side regarding the Commercial Contract for the Project. Having in mind that a large number of open issues were identified, the parties agreed that the basic precondition for concluding a Commercial Contract would be completing the Preliminary Design, providing input for defining key missing articles of the contract.	
3.	Carry out the 'Russian loan' – complete the Stara	No		Implementation in stages has been agreed for the reconstruction and	

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	Pazova - Novi Sad section			modernization of the section Stara Pazova - Novi Sad - Annex 3 of the "Russian Loan", through Annex 3.1 Tunnel and viaduct works and Annex 3.2 Open railway works. Works as per Annex 3.1 are planned to begin in January 2017, while the start of works as per Annex 3.2 requires the completion of technical documentation.	
3.4.	<i>Modernisation and rehabilitation of the Niš-Preševo section of the Niš- Brestovac single-track railway line (Corridor 10)</i>				
1.	Sign the IPA 2015 Financing Agreement with the European Commission and launch tender dossier preparation	Yes	Financial agreement for IPA 2015 programme implemented through a decentralized system signed between the EC and the Government of RS on 30 December 2016.		
2.	Prepare the tender dossier and launch the tender process according to the EU rules	No		Starting the development of tender documents requires that the Republic Audit Commission (RAC) approves the preliminary design for this section. The positive report by the RAC is expected.	
3.	Conduct the tender procedure and select the best bidder	No		The tender procedure may commence upon the completion of the tender documents.	
4.	Sign the contract with the best bidder	No			
5.	Launch the works (foreseen to last three years as of the date of signing the contract)	No			
3.5.	<i>E-763 Belgrade-South Adriatic motorway construction</i>				
1.	Contract the funding for the Surčin-Obrenovac section	Partially	Discussions under way with the Chinese Exim bank.		
2.	Obtain the use permit for the Ub-Lajkovac section	No			
3.	Build the Surčin-Obrenovac section	No			
4.	Build the Ljig-Preljina section	Partially	Construction contract signed and its implementation is under way. Problems regarding: Expropriation;		

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			Financing additional works; Energy supply; Supervision tender; Redesign due to unstable slopes.		
5.	Build the Preljina-Požega section	No			
6.	Build the Obrenovac-Ub and Lajkovac-Ljig sections	Partially	Works on motorway construction started on 30 June 2014, according to the contract their duration is as follows: preparatory works 3 month and implementation of works 34 months. Works are being implemented on building culverts, regulation of waterways, works on the Ub and Ljig turnpikes, works on bridges and overpasses, road deviations and works on the Brančiči tunnel, earthworks and test asphaltting sections. Smaller technical problems, unsatisfactory schedule of works on facilities and regulations. Insufficient mobility of the contractor.		
7.	Develop the design documentation for the Požega-Boljare section	No			
3.6.	<i>Niš-Dimitrovgrad trunk gas pipeline construction</i>				
1.	Develop planning documentation	Yes			
2.	Develop the expropriation study	No		Delays in the implementation of activities were caused due to failure to adopt the SPSPA.	
3.	Exploratory works	Partially		Delays in the implementation of activities were caused due to failure to adopt the Business Operations Plan of PE Srbijagas.	
4.	Develop the preliminary design	No		Delays in the implementation of activities were caused due to failure to adopt the SPSPA.	
5.	Declare public interest	No		Delays in the implementation of activities were caused due to failure to adopt the SPSPA.	
6.	Develop the feasibility study	No		Harmonization based on the objections of the EU Delegation.	
7.	Obtain location requirements	No		Delays in the implementation of activities were caused due to failure to	

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				adopt the SPSA.	
8.	Develop the design to obtain the building permit	No		No activities envisaged in 2016.	
9.	Develop the environmental impact study	Partially		Delays in the implementation of activities were caused due to failure to adopt the SPSA.	
10.	Obtain the energy permit	No		Delays in the implementation of activities were caused due to failure to adopt the SPSA.	
3.7.	Trans-Balkan Corridor				
1.	Build the Pančevo-Rešita transmission line	Yes			
2.	Reconstruct the Pančevo 2 transformer station, required to install the new Pančevo-Rešita double-circuit transmission line	Partially	Obtaining work permits planned for the current year. Procurement of equipment is under way and the majority is already purchased.		
3.	Obtain the building permit for the Kragujevac-Kraljevo transmission line	Partially	Since no financing model has been defined, obtaining the permit will be delayed until next year, to minimize the number of permits/requirements/approvals that expire.		
4.	Launch the reconstruction of the Kraljevo 3 transformer station, required to install the new Kragujevac-Kraljevo transmission line	Yes	All planned activities have been implemented during the current year. The building permit for works in TS Kraljevo 3 has been obtained.		
5.	Reconstruct the Kragujevac 2 transformer station, which is required to install the new Kragujevac-Kraljevo transmission line	Yes	All planned activities have been implemented during the current year. The building permit for works in TS Kraljevo 3 has been obtained.		
6.	Build the Kragujevac-Kraljevo transmission line	No		The construction of the line is conditional on securing donation funds. The loan agreement on securing credit funds to the amount of up to EUR 15 million has been prepared, with signing expected in late February 2017.	
7.	Prepare the technical documentation for the Obrenovac - Bajina Bašta transmission line	No	Approved and used WBIF grant for technical assistance where the Preliminary Feasibility Study and Feasibility Study have been developed. Approved KfW grant to the amount of EUR 0.25 million for harmonizing the existing Preliminary Design and Environmental Impact Assessment Study with	Although the WBIF institutions awarded a EUR 0.8 million loan and a contract was signed on financing the documentation with KfW bank, the implementation did not occur. During the process of contractor selection KfW	Problem with the legal limits for the duration of location requirements. Location requirements inevitably expire by the time the documentation for applications is ready and property-legal affairs have been resolved. Additionally,

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			provisions of the domestic legislation. The evaluation and selection of bidders for this harmonization has been finalized.	notified PE EMS it will not finance the documentation due to delays in the construction until the provision of a financial solution for resolving the status issues for all sections of the Trans-Balkans Corridor. Negotiations with KfW are under way.	even with the renewal of location requirements a repeat of the audit commission in accordance with the new location requirements is required.
8.	Develop the urban/spatial plan for the Bajina Bašta - Obrenovac transmission line	No		Development of the plan is conditional on the previous step, i.e. the selection of the high-voltage line route.	
9.	Develop the spatial plan for the Bajina Bašta - Višegrad-Pljevlja transmission line	Yes			
3.8.	<i>Enhancing security of electric power supply – construction of a new B3 unit in Kostolac Thermal Power Plant</i>				
	Unit B3 – 350 MW – Kostolac, Serbia:				
1.	Design (Design for obtaining the Building Permit, Implementation Design)	Yes	Due to its complexity, the project was divided into 11 phases. The development of the design for obtaining the Building Permit is currently under way. Building permits will be obtained separately for each phase. The process of obtaining all building permits is expected to be completed by August 2017.		
2.	Prepare the site	Yes	Currently under way: 1) Clearing the terrain from the location of the new unit, 2) Archaeological surveys, 3) Terrain levelling.		
	Excavator-conveyor-stacker (ECS) system VI at Drmno open-cast mine:				
1.	Design and approval	Yes	1) Base engineering for all three devices accepted by PE EPS during the period 25 March - 29 June 2016. Proactive participation of the PE EPS implementation team, as well as FIDIC engineers. 2) Development is under way for Detailed Engineering for all three devices, adoption is expected by February 2107. Proactive participation of the PE EPS implementation team, as well as FIDIC		

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			<p>engineers.</p> <p>3) Manufacture of parts of equipment for packages 1 and 2 is under way. Two factory handovers of equipment in China have been completed for package 1 (rotary excavator). The first handover was in China during the period 22-26 August 2016, thereafter the equipment arrived at the assembly point Drmno. The second handover of equipment in China occurred during the period 15-21 December 2016. Factory handovers of equipment for package 2 have been completed during the period September-December 2016. The official start of assembly for the ECS system is envisaged for 23 January 2017.</p>		
PSR 4. Development and improvement of the national broadband communications infrastructure					
1.	Adopt the Law on Broadband Access	Partially	Regarding activities on the further development of broadband networks and services, the Law on Broadband Communications Infrastructure is planned to be adopted. This will lead to harmonization with the Directive on measures to reduce the costs of setup for high-speed electronic communications networks. The Ministry of Trade, Tourism and Telecommunications started drafting the Law on Broadband Communications Infrastructure, with the adoption of the Law envisaged for Q3 2017. Previously, an analysis of the relevant regulatory framework of the European Union in the field of electronic communications has been implemented at the Ministry.		
2.	Connect educational and cultural institutions to the Academic Network of the Republic of Serbia	Yes	<p>The transfer of planned funds for ANRS has been implemented.</p> <p>A tender was issued for the procurement of the service of connecting primary and secondary schools to ANRS.</p> <p>A two-year framework agreement has been signed and a contract was concluded based on the framework agreement (22 December 2016) to connect the central facilities of primary and secondary schools to the ANRS network infrastructure. The contract envisages</p>		

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			the connection of 1750 primary and secondary schools to ANRS, successively during Q1 2017.		
3.	Prepare and plan for the establishment of a unified national telecommunications network (UNTN)	Partially	<p>Regarding further work on the development of broadband internet, the Ministry is undertaking numerous activities. Based on a proposal by the Ministry of Trade, Tourism and Telecommunications, the Government adopted the Decision on forming the working group to define the National Broadband Network in June 2015. The task of the working group is to prepare a plan of utilization of state telecommunications infrastructure resources to establish a unified national broadband network, along with a draft legal framework to ensure the sustainability and further development of a national broadband network. The working group has prepared a draft Action Plan for the efficient utilization of the telecommunications infrastructure, defining activities related the use of state telecommunications infrastructure resources.</p> <p>Consultations are under way with all stakeholders for final harmonization, prior to submitting the Action Plan for Government approval.</p>		
4.	Develop broadband access networks in municipalities across the country (end of first phase)	Partially	<p>The Ministry of Trade, Tourism and Telecommunications implemented preliminary activities for drafting the design, namely:</p> <ol style="list-style-type: none"> 1. Public procurement has been implemented and a contract was signed for the procurement of the Esri ArcGIS software for identifying internet access and implement final availability maps. 2. During Q1 2016 the MTTT prepared a questionnaire and started the process of collecting data from operators on the available broadband infrastructure, along with the broadband service offer, aiming to map the infrastructure. Based on the questionnaire, operators of public mobile networks and services submitted data on coverage with GSM, UMTS and LTE signal in Q2 2016. During Q3 2016, operators of landline networks and services started the process of submitting information, particularly regarding the applied technologies and possible throughputs. 		

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			<p>3. In order to increase precision, i.e. the quality level of data on internet availability, MTTT implemented a public procurement and concluded a contract on the analysis of availability and presence of the internet in Serbia, with a total value of RSD 5,760,000.00, to be used to produce a detailed analysis of existing capacities and availability of broadband internet access for 5-7 municipalities in RS.</p> <p>4. During Q4, MTTT initiated the public procurement of the Needs Analysis and the drafting of pilot projects to build access broadband networks at the local level, with a total value of RSD 5,400,000.00, to be used to implement the development of technical design documentation for 5 municipalities in RS.</p> <p>Following the identification of sources and models of financing, the construction of access broadband networks will be initiated across the country.</p> <p>5. MTTT and EBRD, who provided funds to the amount of EUR 400,000, started activities in Q4 on implementing the study Drafting a National Programme for the Development of Broadband Access. The deadline for the implementation of the project is 12 months. The main goals of the project are:</p> <ul style="list-style-type: none"> - improve legislation in the field of building telecommunications infrastructure with the aim of acceleration and increase of investments - recognize in which areas and to what extent is financial assistance and other types of assistance by the Government necessary to ensure the construction of the required broadband infrastructure - elaborate models and improve telecommunications infrastructure sharing - draft pilot projects for the construction of access broadband networks in several regions in RS. 		
Area SECTORAL DEVELOPMENT					
1. Development of the agricultural sector					
PSR 5. Improvement of competitiveness and status of agricultural holdings					
1.	Prepare the rulebook and competition	Partially	The structural reform relates to improving the competitiveness of agricultural households by	The rulebooks for the implementation of the IPARD programme are in the final	

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			implementing measures financed from the national budget and EU pre-accession funds for rural development (through the IPARD programme). The activity of preparing rulebooks and competitions for national budget funds has been implemented fully. The activity of preparing rulebooks and competitions for funds from the IPARD programme has been implemented partially, since IPARD is an operational structure undergoing the accreditation process.	phase of communication with all institutions competent for its implementation (Administration for Agrarian Payments).	
2.	Adopt the rulebook and issue the competition	Partially	The activity of adopting the rulebook and issuing the competition for funds from the national budget has been implemented fully, while the same activity for funds from the IPARD programme was implemented partially, since IPARD is an operational structure undergoing the accreditation process.	Issuing the competition for IPARD has been delayed until IPARD budget implementation affairs have been entrusted by the European Commission.	
3.	Publish the call and implement the competition	Partially	The call has been issued and the implementation of the competition for funds from the national budget was fully implemented, with the competition to last until 15 October 2016. Payments to beneficiaries will follow during October. The activity of publishing the call and implementing the competition for measures of the IPARD programme has been implemented partially, since the rulebooks have not been prepared due to the accreditation process for the IPARD operational structure.		
4.	Implement the measure (in accordance with the Plan for Publishing the Call for IPARD measures adopted at the beginning of the year for the current year and bylaws)	No		Planned for Q4 2017.	
2. Development of the industry sector					
PSR 6. Raising the competitiveness of the processing industry					
1.	Promote the Law on Investments on the local level – a conference targeting local government units – partner SCTM	Yes	A conference was held in cooperation with SCTM on 26 February 2016 with the aim of promoting the Law on Investments at the Local Level. The conference was attended by Minister of Economy Željko Sertić, Acting Director of the Development Agency of Serbia Miloš Petrović, representatives of SCTM, as well as mayors and presidents of municipalities. The key		

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			<p>topics of the conference were:</p> <ul style="list-style-type: none"> - How to achieve successful implementation of the Law on Investments? - Detailed criteria for identifying significant investments; criteria, method and conditions for attracting investments and keeping records of local importance, standards of a favourable business environment; rules on the method of operation of project teams; investment programme. - Roles and responsibilities of key actors in this process (Ministry of Economy, Economic Development Council, DAS and local self-governments). 		
2.	Deliver training of local government representatives on the implementation of the Law on Investments – partner SCTM	Yes	<p>During the period 20 September - 10 October 2016 three regional workshops have been organized to raise the capacities of local self-government representatives for the implementation of the Law on Investments. The workshops have been implemented in partnership with SCTM. The key topics of the workshops were:</p> <ul style="list-style-type: none"> • Coordination, communication and responsibility of key actors in this process of attracting investments • DAS cooperation with local self-governments - challenges and potential; key aspects for successful realization of investments • Local regulations of importance for the application of the Law on Investments 		
3.	Support local governments to draft local instruments – partner SCTM	Yes	<p>Support was provided for local self-governments in cooperation with SCTM in the drafting of the following documents:</p> <ul style="list-style-type: none"> • Draft Model decision on establishing the project team at the local level • Draft Model decision on establishing an investment programme 		
4.	Develop the strategic framework and an action plan for reforming agencies in the jurisdiction of the Ministry of Economy – working group establishment and operations	Yes	<p>The adoption of the Law on Investments ("Official Gazette of RS", no. 89/2015) lead to the disbanding of the Serbian Investment and Export Promotion Agency (SIEPA), as well as the National Agency for Regional Development, therefore in January 2016 the Development Agency of Serbia started operations. The formation of the Development Agency of Serbia served to implement the institutional reform of</p>		

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			<p>agencies under the competence of ME, namely agencies whose work contributes significantly to improving the competitiveness of the processing industry. Despite the implementation of the institutional reform, it is necessary to implement significant reform in the programmes, in order to increase their orientation towards support for investments and export.</p> <p>In accordance with the above, instead of developing a strategic framework and action plan for agency reform, the Ministry of Economy initiated activities related to the development of the strategic framework and action plan for the Development Agency of Serbia. This document should encompass several key segments: (1) Improvement of the efficiency of operation of the Development Agency of Serbia, (2) Strategic Framework and Action Plan for attracting investments, and (3) Strategic Framework and Action Plan for export promotion. This activity engaged consultants through the World Bank project "Competitiveness and Jobs"</p>		
5.	Adopt the strategic framework and the action plan for reforming agencies in the jurisdiction of the Ministry of Economy	Yes	<p>The adoption of the Law on Investments ("Official Gazette of RS", no. 89/2015) lead to the disbanding of the Serbian Investment and Export Promotion Agency (SIEPA), as well as the National Agency for Regional Development, therefore in January 2016 the Development Agency of Serbia started operations. The formation of the Development Agency of Serbia served to implement the institutional reform of agencies under the competence of ME, namely agencies whose work contributes significantly to improving the competitiveness of the processing industry. Despite the implementation of the institutional reform, it is necessary to implement significant reform in the programmes, in order to increase their orientation towards support for investments and export. The Ministry of Economy adopted the Strategic Framework and Action Plan of the Development Agency of Serbia on 28 December 2016.</p>		

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6.	Initiate the procedure of reforming the agencies in the jurisdiction of the Ministry of Economy – drafting bylaws	Yes	<p>The following bylaws have been developed:</p> <ul style="list-style-type: none"> o Rulebook on the organization and systematization of jobs at the Development Agency of Serbia o Rulebook on the organization of the presentation of businesspersons from the country at international fairs, no. 110-00-1/2016-01 of 8 February 2016 o Regulation on the conditions and method for attracting investments - March 2016 Official Gazette 27/2016 o Rulebook on the form of the application for awarding incentive funds - May 2016 Official Gazette 47/2016 o Rulebook on the standards of a favourable business environment in local self-government units - March 2016 Official Gazette 33/2016 		
7.	Develop a monitoring and evaluation system within the Ministry of Economy for monitoring and supervising the work of agencies	Yes	<p>The following documents have been drafted during 2016:</p> <ul style="list-style-type: none"> • Analysis of the strategic adequacy of institutions under the competence of the Ministry of Economy • Implemented assessment of readiness of the Ministry of Economy for introducing the RBM system • Defined key performance indicators for the sector within ME • Defined planning and reporting system within ME • Definition and development of RBM methodology concepts in accordance with the RBM postulates of World Bank and project goals of the Ministry of Economy and relevant agencies 		
8.	Objectives and indicators for monitoring and evaluating the work of agencies in the jurisdiction of the Ministry of Economy are developed	Partially	<p>A specialist for RBM has been engaged to define goals and indicators for the monitoring and evaluation of the work of the Agency under the competence of ME. An assessment of the readiness of all agencies under the competence of the Ministry of Economy for the introduction of the monitoring and evaluation system has been produced by the end of 2016.</p> <p>The contract with the specialist engaged through the World Bank project “Competitiveness and Jobs” defines the schedule of activities for introducing monitoring and evaluation systems into agencies under the jurisdiction of ME.</p>		

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			December 2016 - Assessment of agency readiness for introducing the M&E systems January 2017 - Analysis of training needs February 2017 - Training plan April 2017 - Hierarchy of goals and indicators		
9.	Conduct the reform of agencies in the jurisdiction of the Ministry of Economy	Partially	The adoption of the Law on Investments ("Official Gazette of RS", no. 89/2015) lead to the disbanding of the Serbian Investment and Export Promotion Agency (SIEPA), as well as the National Agency for Regional Development, therefore in January 2016 the Development Agency of Serbia started operations. The formation of the Development Agency of Serbia served to implement the institutional reform of agencies under the competence of ME, namely agencies whose work contributes significantly to improving the competitiveness of the processing industry. Despite the implementation of the institutional reform, it is necessary to implement significant reform in the programmes, in order to increase their orientation towards support for investments and export. Part of the activities related to the reform of the operation of the Development Fund and Export Insurance and Financing Agency is being implemented by a separate World Bank project in cooperation with the Ministry of Finance.		
10.	Identify priority industries – working group establishment and operations	Yes	The final selection of industries was completed after consultations with the business sector. Namely, the meeting with representatives of the business community regarding sectoral policies in industry was organized on 6 June 2016 in the premises of the Serbian Chamber of Commerce (SCC), with the aim of collecting the opinions of the business community on the processing sectors with the greatest export potential. Following the opening presentations related to the industry development policy of the Republic of Serbia, the importance of the sectoral approach to defining industrial policy, sectors with the greatest development potential, investments into individual industrial sectors and discussions, a survey was implemented and processed, leading to the selection of processing industry sectors to be used to define		

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			development strategies in 2017. Based on the opinion of representatives of the business sector, the four sectors of the processing industry to be in the focus of drafting policies and measures to promote investment, competitiveness and exports in 2017 are: food industry, wood and furniture, rubber and plastics, machinery and equipment.		
11.	Draft the strategy and the action plan for priority industries – working group establishment and operations	Yes	A consulting house was selected after an implemented public procurement, to lead the process of drafting 4 strategies and 4 action plans for priority industries, namely: food industry, wood and furniture, rubber and plastics, machinery and equipment. The key activities were planned for the last 4 months of 2016. There were 4 working groups formed in during September, one for each sector, and working group meetings were held. Likewise, 8 workshops were held in November and December 2016 with businesspeople, and 4 roundtables with representatives of the academic community. Total participants: 258.		
12.	Finalise four strategies and action plans for priority industries	Partially	<p>The contract with the consultant for drafting four sectoral strategies with action plans was signed in early September. The contract lasts for 9 months, thus part of the activities has been implemented in 2016, while part will be implemented in 2017.</p> <p>In accordance with the contract, the completion of the four strategies and action plans for the priority industries is planned for June 2017.</p>		
13.	Synergy of operations of the reformed agencies and action plans for priority industries through the development of new programmes supporting investments and exports	No		The adoption of the draft is planned by the end of 2016, with public review and adoption of the final document in early 2017. This activity can only be implemented once the four strategies and action plans for priority industries are completed.	
Area BUSINESS ENVIRONMENT AND REDUCTION OF GREY ECONOMY					
PSR 7. Package of measures to improve access to finance for SMEs					

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
1.	Negotiate on the drawdown of the loan of APEX credit line for additional EUR 150 million	Yes	The financial agreement on the second tranche of the APEX loan III B was signed in June 2016 and ratified at the National Assembly of RS in November 2016. The Law confirming this agreement came into force in late November 2016.		
2.	Prepare the APEX loan	Yes	The text of the Cover Letter – Criteria of EIB for awarding funds in the second tranche of the APEX loan III B has been harmonized and the procedure of the adoption of the Cover Letter by the Government of RS is under way.		
3.	Draw down the loan of APEX credit line for additional EUR 150 million	Partially	The realization of the second tranche of the APEX loan III B is expected to begin during Q2 2017, through intermediary banks chosen by EIB.		
4.	Negotiate on the drawdown of the loan of APEX credit line by additional EUR 200 million	No		This activity is planned for 2017.	
5.	Prepare the APEX loan	No		This activity is planned for 2017.	
6.	Draw down the loan of APEX credit line for additional EUR 200 million	No		This activity is planned for 2018.	
7.	Prepare a report with recommendations ‘State Financial Support for SMEs’	Yes			
8.	Prepare an action plan for the Pilot Programme - New financial instruments for state financial support for SMEs	Partially	This plan envisaged the improvement of the use of leasing as an alternative source of financing SMEs, developing a guarantee scheme as an incentive for the development of SMEs, and the programme “Leasing as support for newly founded enterprises owned by youth”.		
9.	Develop 3 pilot programmes of new financial instruments	Partially	Leasing has been introduced into the programme of support for small enterprises for purchasing equipment, and the implementation of the guarantee scheme and improvement of SME capacities for access to various forms of financing are ongoing.		
10.	Implement 3 pilot programmes of new financial instruments	Partially	Two leasing companies have participated in the programme of support for small enterprises for the procurement of equipment, while USAID engaged an expert to work on the guarantee scheme.		

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11.	Prepare a small businesses support programme for purchasing equipment	Yes			
12.	Implement the small businesses support programme for purchasing equipment	Yes	The programme was implemented in cooperation with DAS and the selected commercial banks and leasing companies. A total of 434 requests were processed, 383 requests were approved with a grant value of around RSD 560,000,000.		
13.	Analyse the impact of the implemented programme for purchasing equipment	No		The first evaluation will be implemented in 2017.	
14.	Prepare needs analysis for alternative financial instruments with a proposal of an investment strategy – EIB	Yes			
15.	Provide training in the implementation of financial instruments held by EIF, through EDIF project	Partially	The training consists of three modules. The first module was held on 2 June 2016, and the remaining two modules are planned to be held by the end of 2016.		
16.	Prepare a plan of public financial institutions reform – form a working group	Partially	The Ministry of Economy and the Ministry of Finance, in cooperation with the World Bank, are preparing an agreement on the implementation of a diagnostic study of the Development Fund and Export Insurance and Financing Agency of RS, aiming to develop mechanisms to increase access to finance.		
17.	Prepare a plan of public financial institutions reform – activities of a working group	Partially	The Ministry of Economy and the Ministry of Finance, in cooperation with the World Bank, are preparing an agreement on the implementation of a diagnostic study of the Development Fund and Export Insurance and Financing Agency of RS, aiming to develop mechanisms to increase access to finance.		
PSR 8. Reform of public enterprises					
8.1. Introduction of corporate governance in PE					
1.	Develop Guidelines for the preparation of an annual business plan of public enterprises founded by the RS	Yes	On 5 November 2015 the Government of the Republic of Serbia adopted Conclusion 05 no: 023-11810/2015, adopting the contents of the Guidelines for drafting the annual business plan for 2016. Preparing the annual business plans for 2016, public enterprises have the obligation to start from the goals and		

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			guidelines of the Government economic and fiscal policy, as well as to implement a comprehensive analysis of activities for 2015, in order to plan annual business plans for 2016 on realistic bases.		
2.	Prepare amendments to the Law on Public Enterprises - activities of a working group	Yes	Decision no. 119-01-00638/2015-01 of 29 October 2015 lead to the formation of the Working Group for developing the draft Law on Public Enterprises, consisting of representatives of: Ministry of Economy, Ministry of Finance, Ministry of Justice, General Secretariat of the Government, Business Registers Agency, City of Belgrade, Serbian Chamber of Commerce and the Republic Secretariat for Public Policy.		
3.	Adopt the new Law on Public Enterprises	Yes	The Law on Public Enterprises ("Official Gazette of RS", no. 15/16) was adopted on 24 February 2016, coming into force on 4 March 2016, with the goal of cost-effectiveness and efficiency of monitoring, supervision and the control function over the activities of public enterprises.		
4.	Prepare a Study – Analysis of corporate governance in public enterprises founded by the RS	Yes	The study Analysis of Corporate Governance in Public Enterprises founded by the RS was developed as part of the "PERFORM" project, financed by the Swiss Agency for Development and Cooperation SDC. The main goal of the study was a comprehensive and comparative analysis of the state of corporate governance in public enterprises through: <ul style="list-style-type: none"> • Developing a comparative functional analysis by analysing the situation in public enterprises and companies founded by the Republic of Serbia, i.e. those the Law on Public Enterprises applies to, • Identification of the degree of knowledge and skills regarding corporate governance among members of supervisory boards and directors of the above companies, and • Identification of recommendations for the continued process of introducing corporate governance. 		
8.2.	Reform of railways				
1.	Implement the plan for key contracts management	Yes	A multi-annual contract on management of the public railway infrastructure with "Infrastruktura Železnice		

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			Srbije" a.d. and the Contract on the Obligation of Public Transport with "Srbija Voz" a.d. was concluded by the Government of the Republic of Serbia in February 2016.		
2.	Review key contracts (audit)	Yes	Regular overviews were conducted of the implementation of the contract between the Government and the manager of the public railway infrastructure, as well as the passenger railway transport company, through mechanisms of mandatory reporting defined under the concluded contracts. MCTI demanded and received quarterly, and/or semi-annual reports on the implementation of the contractual obligations by the railway companies, meetings were held and surveys were implemented in the field.		
3.	Monitor the implementation of labour force restructuring	Partially	The working group for resolving the issue of redundant workers was founded in December 2015. Regular meetings were held in 2016 between MCTI, other bodies and institutions with representatives of railway companies and unions of railway workers, with the aim of developing a programme to resolve the issue of redundant workers. Plans for the optimization of the number of employees were produced in accordance with World Bank requirements.		
4.	Secure funding for key contracts and investments	No			
5.	Provide feedback on the network rationalisation	Partially	"Infrastruktura železnice Srbije" a.d. submitted a proposal for halting traffic along 430 km of railway network where, during previous years, traffic has already been halted, but the decision was not verified by the Government. Prior to this, a proposal was drafted for the rationalization of the network, as well as part of the network where traffic is currently ongoing, but with very low volume. Discussions are under way between "Infrastruktura železnice Srbije" a.d. with APV and local self-government units about the potential transfer of the right of management along sections where "Infrastruktura železnice Srbije" a.d. does not have economic interest.		

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8.3.	<i>Reform of PE EPS</i>				
1.	Adaptation to market conditions with the implementation of the Financial Consolidation Plan	Partially	<p>- The price of electricity for guaranteed supply increased by 3.8% as of 1 October 2016 (increase of the price of electricity envisaged by the Financial Consolidation Plan, harmonized with the IMF and World Bank), with further increases to be implemented in accordance with this plan.</p> <p>- Electricity collection for 2016 is expected at the level of around 94.5%.</p> <p>- The planned reduction of electricity loss in 2016 was 13.52% of received electricity, while the achieved value is 12.95% of received electricity.</p> <p>- The amended Law on Public Enterprises enables the development of a three-year plan of operations enabling PE EPS to plan procurements, investments and other elements at a three-year level in accordance with the law.</p>		
2.	Improvement of governance within the existing organizational structure and more efficient corporate governance	Partially	<p>Following the implemented status changes in July 2015 and January and June 2016, a new organizational structure has been established (involving the existence of: PE EPS as the controlling company engaged in the activities of: electricity and coal production, wholesale electricity supply and electricity supply, and one dependent company Distribution System Operator "EPS Distribucija" – for the activity of electricity distribution and management of the distribution system. There is also one dependent company in Slovenia for the activity of electricity supply.</p> <p>The Decision on the founding of PE EPS was harmonized in December 2016 with the new Law on Public Enterprises. The harmonization of the Statute of PE EPS with the Decision on the founding of PE EPS is under way, along with the harmonization of the Decisions on founding DSO EPS Distribucija with the new Law on Public Enterprises.</p>		
3.	Improvement of operational and organizational efficiency	Yes	- Drafting a unified planning process for the main activities throughout PE EPS (financial funds planning, production planning, procurement		

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			<p>planning). The process of implementing procurement processes in accordance with the LPP was reduced from 14 distinct processes of implementing procurement procedures to one process.</p> <ul style="list-style-type: none"> - Implemented planned measures to increase organizational and energy efficiency in production and mining. - Implemented measures in the optimization of support functions; the optimization of the vehicle fleet reduced the number of vehicles by 315, with preparations for the procedure of selling another 111 vehicles under way. - Increased wholesale electricity trade volume. 		
4.	Plan of optimization of the number of employees, decision on incentive severance pay	Yes	<p>PE EPS implemented the procedure for the rationalization of the number of employees based on the Decision on incentive reimbursements for the voluntary termination of employment no. 12.01.345129/4-16 of 1 September 2016 and the Decision on amendments to the Decision on incentive reimbursements for the voluntary termination of employment no. 12.01.393407/3-16 of 30 September 2016.</p> <p>Concluding with 30 December 2016 the termination of employment with payment of incentive reimbursement was signed by 1517 employees.</p> <p>Further rationalization of the number of employees will be implemented in accordance with the planned schedule established under the Financial Consolidation Plan, with active participation by the World Bank.</p>		
5.	Activities on obtaining Government approval for establishing the right of property over PE EPS and DSO EPS Distribucija real estate	Partially	<p>During 2016 the Government adopted a Conclusion providing approval for PE EPS as the bearer of the right of use, holder or factual user of facilities and special parts of facilities owned by the RS to be entered as the bearer of the right of possession over such facilities (Conclusion 05 no. 46-5819/2016-1 of 24 June 2016).</p> <p>Likewise, a conclusion with the same content was</p>		

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			<p>adopted by the Government for DSO EPS Distribucija (Conclusion 05 no. 023-10405/2016 of 3 November 2016).</p> <p>In addition to the above, the Government adopted a Conclusion whereby public facilities owned by the RS not used to perform business activities shall be taken from the bearers of the right of use, holders of factual users – former dependent companies of PE EPS (Conclusion 05 no. 464-6442/2016 of 15 July 2016).</p>		
6.	Customer relations strategy	Yes	<p>-The plan of communication activities regarding energy efficiency and the value of electricity is being implemented.</p> <p>- The project of improving the PE EPS website is under way, the call centre for small commercial consumers has been established.</p>		
7.	Change of the legal form of PE EPS into a joint-stock company	Partially	A change in the legal status of PE EPS will ensue upon the conclusion of the current process of corporate restructuring and financial consolidation, aiming to transform it into a joint stock company (by 1 July 2017), creating the conditions to analyse other options for the further development of the company to improve company performance and ensure professional management.		
8.4.	<i>Reform of PE Srbijagas</i>				
PSR 9. Simplification of the procedures for business entities					
1.	Adopt the Law on Electronic Business	No		The draft Law on Electronic Document, Electronic Identification and Trust Services in Electronic Business was prepared, currently under the public review process.	
2.	Adopt the Law on Services	No		The draft Law on Services was prepared in 2015, adopted during Q4 2016 at a Government session, and submitted to the National Assembly.	Draft Law on Services, November 2015.
3.	Adopt the Law on Fees	No		The law is being prepared, a working group of the Ministry of Finance has	

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				been established.	
4.	Prepare an Action Plan for a unified public registry	Yes	An Operational Plan of Activities was adopted for establishing a unified public registry of administrative procedures and other conditions for doing business by way of Government Conclusion, also prescribing the mechanism for the coordination of 125 public administration bodies and other public authorities.		
5.	Establish patterns and list procedures	Yes	The Government adopted the form of the Form of the List of Administrative Procedures (template) and Instructions for completing the Form by way of a Decision		An agreement was signed on business cooperation between the PPS and the Official Gazette that will connect the database of regulations with the Form for the list of administrative procedures
6.	Establish a management structure for the project implementation (Ministry of Economy, Ministry of Trade, Tourism and Telecommunications, the Ministry of Finance, PPS)	Yes	The Working Group has been formed. Likewise, if there is need, the working group will have its scope of competence expanded, and a Coordination Team will be formed.		The decision was adopted whereby 125 public bodies and organizations, as well as other public authorities, are obliged to participate in the implementation of the Operational Plan of Activities for establishing a unified public registry of administrative procedures and other conditions for doing business and the coordination mechanism between all these bodies has been created. PPS is the body coordinating the entire process.
7.	List taxes	Yes	Taxes have been listed and sorted by sector.		
8.	Adopt the Regulation on the electronic point of single contact and establishing a PSC (phase I)	No		The adoption of the regulation will be preceded by the adoption of the Law on Services.	
9.	Start training on process management	No			
PSR 10. Establish a common information platform for all inspections at the level of the republic (e-inspection)					
	Phase I				
1.	a) List business procedures	Yes	June 2016 - All activities within the project have been completed/handover.		
2.	b) Prepare ToR for Phase II of the project	Yes	March 2016 - Adopted final version of the Technical		

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			Specification for phase II of the project.		
	Phase II				
3.	a) Organise a tender procedure for Phase II	No		The procedure for initiating the tender procedure for phase II of the project was not initiated, because initiating the procedure would require obtaining the approval of the Ministry of Finance for a multi-annual contract. The approval of the Ministry of Finance was not obtained because the Budget Law for 2016 did not plan funds within the limit for 2017 and 2018 for the programme of Sectoral Budget Support, and it is not certain that the funds for sectoral budget support for 2017 and 2018 will be approved. The tender procedure for phase II can be initiated immediately after the provisions of funds, i.e. approval by the Ministry of Finance. The schedule of project implementation will need to be adjusted accordingly.	
4.	b) Contract contractors for Phase III	No			
5.	c) Conduct a GAP analysis	No			
6.	d) Design e-Inspector system	No			
7.	e) Conduct a functional system analysis	No			
Area RESEARCH AND INNOVATION					
PSR 11. Programme supporting innovations and technological development in the public and private sectors					
1.	Sign the contract on direct grant between the Innovation Fund and the Ministry of Finance (Sector for Contracting and Financing EU-funded Programmes) – IPA 2013	Yes	The contract was signed on 5 February 2016. Implementation was started on 30 March 2016, through the payment of the first tranche to the Innovation Fund.		
2.	Prepare documentation for a collaborative grant scheme – IPA 2013, promotion activities – info-	Yes	The documentation was prepared and approved by the world Bank and is available to applicants as of June 2016 (when the public call was published). Likewise,		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
	days		the World Bank provided technical assistance for the design of the cooperation programme of science and business. Six info days were held in six towns: Belgrade, Novi Sad, Novi Pazar, Kragujevac, Niš and Čačak during July and August 2016.		
3.	Submit the application by the Innovation Fund to the Ministry of Finance (Sector for Contracting and Financing EU-funded Programmes) – IPA 2014	No		Two consultations were held of the Fund and MESTD. The application was prepared, and thereafter the final harmonization was expected between the Innovation Fund and MESTD. In the meantime, starting as of October/November 2016, certain IPA units had at their disposal the professional assistance of an individual international consultant (by way of the Ministry of Finance) regarding the improvement of the contents of the application, with intensive work on this during Q4 2016.	
4.	Prepare a manual for MG - 'Competitiveness & Jobs'	Partially	The goal is to produce a manual that will not depend on the source of financing (to also be applicable for IPA 2014 and for "Competitiveness & Jobs"). The problem occurs due to a lack of harmonization of the Budget Law of RS and European Union regulations because, e.g. the budget funds allocated for "Competitiveness & Jobs" are subject to VAT, while funds from IPA funds are not.	The MG manual (manual for the Early Development Programme and Innovation Co-Financing Programme) exists and was created from IPA 2011. In Q4 the Innovation Fund finalized and submitted a revised MG manual (to be applied within "Competitiveness & Jobs") to the World Bank for approval. According to the Loan Agreement for "Competitiveness & Jobs" project, the World Bank needs to approve the MG manual. Harmonization will be implemented for "Competitiveness & Jobs" and in parallel for IPA 2014.	
5.	Organise open days and workshops, prepare applicants for submitting applications – IPA 2013	Yes	Ten of the planned ten workshops were held for preparing applicants to submit applications during July/August/September 2016 for further introduction of potential applicants to the preparation of applications, rules for applying, as well as principles regarding project implementation and management (relevant for project preparation).		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
6.	Open a public call for the collaborative grant scheme (programme of cooperation between science and business) – IPA 2013	Yes	The public call was issued and the launch event was held on 21 June 2016.		
7.	Conduct promotion activities and present the programme and open the public call for MG at the end of the quarter - 'Competitiveness & Jobs'	No		Funds from the Budget of the Republic of Serbia for 2016 for the implementation of the MG programme were not provided.	
8.	Launch the implementation of the technological development programme – MoESTD	No		<p>The Government of RS adopted Decision 05 No. 02-4339/2016 of 6 May 2016 on extending the financing of national projects to the end of 2016 (Official Gazette of RS, no. 45/2016 and corrigendum 50/2016).</p> <p>The Government of RS adopted Decision 05 No. 021-12663/2016 of 29 December 2016 on extending the financing of national projects to 30 June 2017 (Official Gazette of RS, no. 108/2016).</p>	
9.	Set up service lines for technology transfer in the Central Technology Transfer Facility – IPA 14 and 'Competitiveness & Jobs' Conduct self-evaluations of scientific-research sector institutions and an analysis of pilot institutions by international experts - 'Competitiveness & Jobs'	Partially	Service lines for technology transfer in the Central Technology Transfer Facility - IPA 2013 have been set up. The Technology Transfer Program manual was developed, used by scientists/researchers to apply for this programme.	The self-assessment of institutions in the scientific-research sector and analysis of pilot institutions by international experts - "Competitiveness & Jobs" was not completed by MoESTD, representing one of the DLIs.	
10.	Sign the contract on direct grant between the Innovation Fund and the Ministry of Finance at the end of the quarter – IPA 2014	No		The signing of the contract is preceded by the submission of the application by the Innovation Fund to the Ministry of Finance (Sector for Contracting and Financing EU-funded Programmes), expected in October/November 2016. The Ministry of Finance (Sector for Contracting and Financing EU-funded Programmes) needs to send to the Innovation Fund a "Tender Dossier" to be used by the Innovation Fund to submit its application. Following the assessment and approval of the application at the Sector for Contracting	

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
				and Financing EU-funded Programmes, the Sector for Contracting and Financing EU-funded Programmes will prepare the draft contract on a direct grant.	
11.	Conduct consultations and open days and submission of applications at the end of Q3 – ‘Competitiveness & Jobs’	No		Funds from the Budget of the Republic of Serbia for 2016 were not provided.	
12.	Assess the submitted project proposals and adopt a decision on financing and launch the implementation of the approved projects under the collaborative grant scheme - IPA 2013	Yes	The evaluation of submitted applications by international reviewers was completed in October 2016, the decision on the shortlist by the independent Expert Commission was adopted in November 2016, the independent Expert Commission adopted the final decision on financing in early December 2016, on 9 December 2016 the ceremony for announcing the winner of financing was organized, contracting with beneficiaries is planned for January/February 2017.		
13.	Prepare documentation (manual and relevant documentation) for the grant scheme - IPA 2014, promotion activities – info-days	No		The signing of the Direct Grant Agreement between the Innovation Fund and the Ministry of Finance (Sector for Contracting and Financing EU-funded Programmes) is expected in mid-2017. The preparation of the Manual and relevant documentation - (to be harmonized with the MG programme within the “Competitiveness & Jobs” project), first half of 2017.	
14.	Assess the submitted project proposals and adopt a decision on financing - ‘Competitiveness & Jobs’	No		Funds from the Budget of the Republic of Serbia for 2016 for the implementation of the MG programme were not provided.	
15.	Set up service lines for technology transfer in the Central Technology Transfer Facility: 1. Collection of inventions by the applicants, 2. Assessment of technological and commercial readiness (triage), 3. Financing additional development to increase commercial readiness, 4. Defining the strategy and tactics of commercialization, 5. Implement the commercialization strategy, 6. Identification of	Partially	Completed (service lines (a total of 8) for technology transfer in the Central Technology Transfer Facility have been established, along with the Instructions for Applicants (manual) for the Technology Transfer Programme, approved by the World Bank), everything but the Detailed Report on Self-Evaluation and Pilot Analysis of International Experts - “Competitiveness & Jobs”		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
	potential commercial partners, 7. Negotiation and conclusion of transactions, 8. Supervisions and monitoring of further development of commercialization – IPA 13 and “Competitiveness & jobs”; Detailed report on the self-evaluation and pilot analysis by international experts – “Competitiveness & Jobs”				
Area STIMULATING FOREIGN TRADE AND INVESTMENTS					
PSR 12. Improving the national quality infrastructure system					
1.	Adopt the Action Plan Implementing the Strategy for the Improvement of Quality Infrastructure	Yes	The AP for 2016 was prepared and harmonized with bearers of activities in late March of this year. The implementation of activities is in accordance with this AP. Since the Government was formed in late August, and the adoption procedure lasts at most one month, the decision was made that it is more purposeful to start information collection activities on its implementation and drafting the AP proposal for 2017, to be submitted to the Government for adoption by the start of the next year.		
2.	EC approval to launch the tender process for equipment supply for conformity assessment services under IPA 2013	Yes	The EC approved the issuing of an international tender, issued by the Ministry of Finance on 15 January 2016.		
3.	Conduct other activities under the planned projects:				
	– prepare and adopt the Foundations for the Action Plan on the Non-Harmonised Area	Yes	At the session held on 31 May 2016 the Government adopted the Conclusion accepting the Report on the Need to Submit the Action Plan to the European Commission regarding measure 1 for opening negotiations under chapter 1 - Free movement of goods.		
	– strengthen the contact point for the provision of information on technical regulations and implementation of Regulation (EC) No 764/2008	Partially	Part of the activities from the Twinning Project (Component 2) has been implemented. Another study visit is planned before the end of 2016 with the goal of learning about Focal Point operation practices in the Czech Republic. In accordance with the project plan, activities will continue through mid-2017.		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
	– support in the development of the Draft Law on Metrology	Yes	The Law on Metrology has been adopted (Official Gazette of RS, no. 15/2016)		
4.	Prepare the Institute for Standardisation of Serbia to apply for membership in CEN/CENELEC	Yes	ISS became a full-fledged member of the CEN/CENELEC European standardization organizations on 23 November 2016.		
5.	Strengthen the capacity of line ministries to identify/remove barriers to trade in the non-harmonised area and conduct a legal analysis of the regulations from the Action Plan on the Non-Harmonised Area	Partially	Strengthening the capacities of competent ministries is a continuous activity, and 5 expert visits have been implemented up to the date of reporting as part of the Twinning Project. The deadline for the completion of the legal analysis of regulations is 6 months as of the date of adoption of the Conclusion accepting the Report on the Need to Submit the Action Plan to the European Commission regarding measure 1 for opening negotiations under chapter 1 - Free movement of goods.		
6.	Adopt new technical regulations in accordance with the Action Plan on the Harmonised Area and the revised NPAA	Yes	The following technical regulations have been adopted, implementing harmonization with relevant EU directives: 1) Rulebook on electrical equipment intended for use within certain voltage limits (Official Gazette of RS, no. 25/16); 2) Rulebook on electromagnetic compatibility (Official Gazette of RS, no. 25/16); 3) Rulebook on machine safety (Official Gazette of RS, no. 58/16). As part of project support, (GIZ) expert missions were implemented in the fields of these directives. Assistance was related to the transposition of these directives into national legislation and their application in practice.		
7.	Conduct the public procurement procedure and select the best bidders – IPA 2013	Yes	The international tender procedure has been finalized and vendors have been selected. The signing of the equipment procurement contract is currently under way.		
8.	Conduct a campaign on the need to notify technical regulations in the preparation stage (as required by the revised Decree on Notification)	Partially	The campaign on the need to notify technical regulations is a continuous activity. Two seminars will be organized by the end of the year for these purposes.		
9.	Conduct other activities under the planned projects:				
	– analyse the legislation in the area of metrology and pre-packaged products, organise round-table	Yes	Part of the activities from the Twinning Project (component 1) have been implemented, related to directives on pre-packaged products, MID and NAWI.		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
	discussions and present recommendations		Three expert missions and one study visit were held. In accordance with the project plan, activities will continue through mid-2017.		
	– support for transposing the Aerosols Directive	Yes	One study visit has been implemented and the transposition of this directive is still ongoing with the assistance of project experts.		
	– further strengthen the contact point for the provision of information on technical regulations and implementation of Regulation (EC) No 764/2008	Partially	Activities were started in late 2016 through the expert support of the Twinning Project. These activities will continue in 2017.		
	– support for the implementation of the REACH Directive	Yes	Support for the implementation of the REACH Directive started in Q2. Four expert missions were held. Two workshops were held in September at SCC, for businesses and advisors in the field of chemicals, i.e. the line ministry competent for the field of environment.		
10.	Develop new types of accreditation and develop the existing types of accreditation in new areas	Partially	Continuous development of accreditation systems in accordance with the capacities and annual operational programme of the Accreditation Body of Serbia. This is a continuous activity. The development of new types of accreditations is currently under way, along with the development of existing types of accreditations in new fields or for new scopes of accreditation (a total of 8).		
11.	Prepare the Institute for Standardisation of Serbia to apply for membership in CEN/CENELEC	Yes	All preparations have been completed, an assessment visit was organized for CEN/CENELEC representatives during the period 5-7 September 2016. The decision on full membership is expected in November 2016.		
12.	Strengthen ISS capacities to participate in the work of technical committees of the European standardisation organisations CEN and CENELEC	Partially	This is a continuous activity.		
13.	Conduct other activities under the planned projects:				
	organise training for sanitary inspectors	Yes	A workshop was held in September in the field of toy safety for the needs of inspectors and laboratory employees working on testing the health and safety of toys. Presentations were made of practical examples,		

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			requirements of the Toy Safety Directive, as well as obligations and methods for inspection control, methods of laboratory testing, modules, etc.		
	organise training for designated and authorised conformity assessment bodies, i.e. potential notified bodies	Yes	Educational seminars were held in cooperation with the Institute for Standardization for bodies for the assessment of harmonization and representatives of companies.		
14.	Distribute the equipment to conformity assessment bodies	No		Planned for Q2 2017. The signing of the contract with the bidders is currently under way.	
15.	Adopt the Action Plan on the Non-Harmonised Area, with time limits for removing the identified barriers	Partially	The draft AP for the non-harmonized area was sent for an opinion to the European Commission in early December. Their response is being awaited.		
16.	Adopt the Strategy and Action Plan for Transposing and Implementing the Acquis in the Harmonised Area	Partially	The draft Strategy and Action Plan was sent for an opinion to the European Commission in early December. Their response is being awaited.		
17.	Conduct other activities under the planned projects by preparing and adopting technical regulations in the harmonised area	Yes	Workshops were held in the field of metrology, elevators, aerosols and devices and protective systems intended for use in potentially explosive environments (ATEX).		
Area EDUCATION AND SKILLS					
PSR 13. Establishing the national qualifications framework (NQF) aimed at increasing competences					
1.	Adopt a document on the NQF	Partially	The National Council for Higher Education adopted a decision on adopting the draft levels and descriptions of levels for higher education on 26 February 2016, while the Council for Vocational Education and Adult Education did so for pre-university education and adult education on 10 March 2016.		Adopt a document on the NQF
2.	Make preparations for setting up sector councils	Partially	Sector profiles have been prepared for the sectors: Agriculture, food production and processing, Electrical engineering and ICT for pre-university education, Mining, geology and metallurgy and Tourism and catering.		Make preparations for setting up sector councils

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
3.	Prepare 2 sector profiles / descriptions	Yes	With the support of the IPA 2012 project "Raising the capacity of the secondary vocational education system for improving the quality of the secondary vocational education system for improving the quality, scope and relevance of secondary vocational education" two Profiles sectors were developed for the sector Agriculture, food production and processing, as well as Electrical engineering and ICT. These sector profiles were developed by foreign experts for the level of pre-university education. With the support of the E2E project two sector profiles were developed - Tourism and catering and Geology, mining and metallurgy - and methodology was identified. Aiming to implementing this activity, successful cooperation was established with institutions such as CROSO, Statistical Office of the Republic of Serbia, and CAQC, submitting the required data.		Prepare 2 sector profiles / descriptions
4.	Draft the Law on the NQF and organise public consultation	Partially	Certain documents were prepared with the aim of preparing for the development of the draft Law on NQF, to be subject to public review during the coming period - draft sector classification to establish the schedule of establishing sectoral councils; two studies based on functional analysis - on the institutional and financial framework for establishing the NQF system in Serbia. They represent an important [...]		Draft the Law on the NQF and organise public consultation
5.	Make preparations for referencing the NQF to the EQF	Partially	An information brochure was developed on the process of referencing the National Qualifications Framework with the European Qualifications Framework. This publication was printed in 300 copies and published on the Ministry website (http://www.mpn.gov.rs/prosveta/noks/). The European Training Foundation (ETF) provides support for this process and two workshops were organized to this end for members of the Expert Team for Drafting the NQF regarding referencing with EQF and self-certification of the European Higher Education Area in March and September 2016. The elements and roadmap of the referencing process were presented. The action plan for the referencing process and the first draft report on referencing with the EQF will be prepared by the end of the year.		Make preparations for referencing the NQF to the EQF

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
6.	Set up 2 sector councils based on the Law on Adult Education	No		The Law on Adult Education does not provide enough options to establish sectoral councils in their full format, thus additional options are now being sought.	Set up 2 sector councils based on the Law on Adult Education
7.	Enact the Law on the NQF	No		The negotiation position for Chapter 26 plans for the adoption of the law in 2017. Due to the elections this year and the late establishment of the new ministry, the activities around the adoption of this law have been prolonged.	Enact the Law on the NQF
8.	Prepare a report on referencing the NQF to the EQF	Partially	Planned in Q4 - the expert team for NQF started work on drafting the Report on Referencing the NQF and EQF, as well as drafting the report on the self-certification of NQF in accordance with the European Higher Education Area (EHEA) with the support of experts provided by ETF from Turin. The action plan for the referencing process and the first draft report on referencing with the EQF will be prepared upon the adoption of NQF.	It is possible that a lack of funds will prolong this phase. Namely, the IPA-14 project intended for NQF is late, and the budget has no funds planned for these activities.	Prepare a report on referencing the NQF to the EQF
9.	Set up a formal qualifications database	Done	Part of the document for the qualifications database has been prepared - qualification standards in the Serbian and English language for qualifications in pre-university education. Software was drafted for the qualifications database, initially to be filled with 100 formal and non-formal qualifications.		Set up a formal qualifications database
10.	Record qualifications in the database	Done	The first 100 qualifications have been entered into the database.		Record qualifications in the database
11.	Prepare by-laws for the establishment of the NQF	No		By-laws will be prepared in parallel with the Law on NQF, envisaged for 2017.	Prepare by-laws for the establishment of the NQF
12.	Register the NQF for referencing	Partially	The EQF advisory group was notified that the application for referencing will be submitted by the end of 2017. With the support of ETF, the structure of the document was established, as well as the necessary social partners without whom the NQF cannot pass the referencing process.		Register the NQF for referencing
13.	Set up 2 sector councils based on the Law on the NQF	No		The legal basis for establishing sectoral councils stems from the Law on NQF, envisaged for adoption by the end of	Set up 2 sector councils based on the Law on the NQF

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
				2017. Planned for Q2 and Q4 2018.	
Area EMPLOYMENT AND LABOUR MARKET					
PSR 14. Improving the effectiveness of active labour market measures with special emphasis on the young, redundant workers and the long-term unemployed					
1.	Analyse active labour market policies in the previous year, and draft and adopt the Report on the Implementation of the National Employment Action Plan for the year before	Yes	The Report on the Implementation of the National Employment Action Plan for 2015 was adopted on 31 May 2016.		
2.	Conclude the Agreement on the National Employment Service Performance for the current year	Yes	The Agreement on the NES Performance for 2016 was signed on 19 February 2016.		
3.	The National Employment Service to announce public calls / open competitions for the implementation of active labour market policies, in line with the National Employment Action Plan for the current year	Yes	Public calls/competitions for the implementation of active labour market policies were published by NES on its website on 17 February 2016. Public calls/competitions are open as of the date of publishing until the available funds are spent, and at the latest until 30 November 2016, i.e. up to a specific date for the submission of requests stated in the text of the public call/competition.		
4.	Decide on requests made in relation to public calls / open competitions for the implementation of active labour market policies; implement active labour market policies	Yes	The procedure for deciding on submitted requests for the implementation of ALMP measures has been finalized, in accordance with the issued public calls/competitions.		
5.	Implement active labour market policies and monitor the process	Partially	Contracts on the implementation of ALMP measures have been concluded in accordance with the adopted decisions. Note that certain ALMP measures (professional internships, training for labour market needs, programme of acquiring required knowledge for non-qualified persons) are being implemented during a period that may last at most 12 months, leading to a transfer of the obligation of implementing measures into next year. Monitoring the implementation of ALMP measures by		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
			NES is continuously ongoing. The Agreement on NES Performance envisages the submission of performance reports to MLEVSA with data on the effects and implementation of measures in the form of monthly, regular trimestral and annual reports.		
6.	Adopt the National Employment Action Plan for the coming year	Yes	The National Employment Action Plan for 2017 ("Official Gazette of RS", no. 92/2016) was adopted on 9 November 2016, establishing the goals and priorities of employment policy in 2017, i.e. specific programmes and measures of an active labour market policy to be implemented during the year, with participation in the preparation by social partners, relevant ministries, institutions and other stakeholders. The document is based on the status and trends on the labour market, results of the implementation of ALMP measures during the previous period, and/or evaluations of measures, with harmonization with sectoral policies and current reform processes of importance and impact on the field of employment policy. NEAP defines new active policy measures with implementation planned for 2017, while some of the existing measures have been redesigned, in accordance with the evaluation reports for these measures (evaluation of the package of services for youth, programme of professional internships and programme of acquiring practical knowledge, labour market training, training upon request by the employer, training for the labour market for persons with disabilities).		
7.	Implement relevant activities from the Action Plan for the Implementation of the National Youth Strategy 2015-2017, according to the set schedule	Partially	Two public calls have been issued in March: 1. Public call for support to local self-government units in implementing youth policy at the local level - part B: Development of services and mechanisms improving employability and employment of youth, inter alia, through intersectoral cooperation. Six projects have been approved and are being financed, to the amount of RSD 10,615,620.00. 2. Public call for youth employment support programmes and projects. There are 28 projects approved and financed, implemented by youth associations and associations for youth, to the amount		

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
			<p>of RSD 61,596,045.00.</p> <p>Two public calls have been issued in August:</p> <p>1. Public call for support to local self-government units in implementing youth policy at the local level - part B: Development of services and mechanisms improving employability and employment of youth, inter alia, through intersectoral cooperation. Three projects are approved and financed to the amount of RSD 5,222,163.</p> <p>2. Public call for programmes and projects for the implementation of the goals of the National Youth Strategy - Field A-1: youth employment and entrepreneurship. Nine projects have been approved and financed, implemented by youth associations and associations for youth to the amount of RSD 15,345,790.</p>		
Area SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES					
PSR 15. Improving the adequacy, quality and targeting of social protection measures					
1.	Map the existing non-institutional social services within the mandate of local governments	Partially	The legal deadline for licensing social protection organizations expired on 22 May 2016, and most social protection service providers submitted requests for licences within the given deadline. The Ministry issued only 195 licenses for social protection organizations, and this is, at the moment, the only official record on services and their presence in local communities. Approximately another 200 requests are undergoing the procedure, and only upon the finalization of the decision procedure will a more complete overview be provided. There are no records of the service providers who have not submitted a license request, because for most of them the permit/license was not issued according to previous regulations.		
2.	Revise the benchmarks and criteria for costing social services				

No.	OUTLINE OF ACTIVITIES PLANNED FOR 2016 (activities from the Gantt chart)	WERE THE ACTIVITIES PLANNED FOR 2016 IMPLEMENTED?	IF YES/PARTIALLY, PROVIDE BRIEF OVERVIEW (steps undertaken, schedule of implemented activities, difficulties and delays in implementation)	IF NOT, EXPLAIN WHY	OTHER ACTIVITIES (unplanned, but implemented activities undertaken for the implementation of PSR)
3.	Amend the Law on Financial Support to Families with Children	Partially	The draft Law on Financial Support to Families with Children passed the public review phase and obtained the required opinions, work is under way on formulating the text that will, due to the formation of the new Government, have to re-enter the phase of obtaining opinions, to thereafter be submitted for further procedure.		
4.	Link centres for social work into a single network (by implementing software)	No			
5.	Increase the weightings (benefits) for children and youth with disabilities; relax property-related requirements, in particular raise the land ownership ceiling depending on land quality for elderly households	No		The increasing of the weightings is conditional upon the amendments of the Law on Social Protection, work on the amendments is under way, the deadline is 2017, and has been moved due to the scope of changes and the need to draft additional analyses, as well as the need for harmonization with other regulations currently being drafted (Law on Pension and Disability Insurance).	
6.	Link cash benefits to the relevant services; review the rationale for the existence of the attendance allowance under two systems (an insurance-based allowance and a social benefit) and analyse the basic attendance allowance level	No		The increasing of the weightings is conditional upon the amendments of the Law on Social Protection, work on the amendments is under way, the deadline is 2017, and has been moved due to the scope of changes and the need to draft additional analyses, as well as the need for harmonization with other regulations currently being drafted (Law on Pension and Disability Insurance).	

Annex 1. Overview of the comments received during the public discussion on the 2017 Economic Reform Programme

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
PUBLIC FINANCE MANAGEMENT			
National Convention on the EU Aleksandar Bratković, Coordinator of WG for chapters 5: Public Procurement and 32: Financial Control (comments made at the public presentation of ERP and submitted in written form on 31 January 2017)	Tax Administration transformation	<p>The transformation of the tax policy should be pursued with a view to increasing tax revenue through increased tax collection in combination with reduced tax rates. Awareness raising and motivation measures in synergy with more efficient tax control can lead to increased collection efficiency. The aim of more efficient public finance management would also benefit from responsible actions and transparency in the work of public officials and from improved budgetary policies through an enhanced budgeting process.</p> <p>The impression regarding the current ambience is that citizens and businesses exist solely to pay taxes to the state and that it is necessary to strengthen the mutuality element of the tax policy. It is also desirable to undertake adequate measures to upgrade the public image of the Tax Administration, since its work is often negatively perceived by the public as a result of the existing corruption, privileged tax payers and negative client experiences.</p>	The policy document Tax Administration Transformation Programme 2015–2020 largely addresses the points of the said comment, as does the Public Finance Management Programme 2016–2020, through various measures and activities; however, its timeframe is demanding.
National Convention on the EU Aleksandar Macura, WG for Chapter 15: Energy Comments made at the public presentation of ERP and submitted in written form on 31 January 2017)	Capital investment management improvement	<p>As regards capital investments, it is vital to continue improving the public procurement system by undertaking measures to raise the capacities of the institutions dealing with public procurement affairs (Ministry of Finance, Public Procurement Office, Republic Commission for the Protection of Rights in Public Procurement Procedures, State Audit Institution, Anti-Corruption Agency and others); as well as by switching from the lowest price policy to the best offer policy, i.e. to the public procurement cost-effectiveness policy.</p> <p>In addition to the indicators, ERP should also specify the sources of verification.</p>	<p>The comment will be taken into consideration by the competent institutions in the process of developing future public policies.</p> <p>The verification of the indicators of this PSR will be conducted by the Ministry of Finance's Budget Sector</p>
ENERGY, TRANSPORT AND TELECOMMUNICATIONS MARKET			
National Convention on the EU, Aleksandar Macura, WG for Chapter 15 (comments made at the public presentation of ERP and submitted in written form on 31 January 2017)	Energy market	<p>The comparison of absolute indicators with those of other countries makes no sense. The data on overall production and consumption should be retained, whereas the comparisons should be removed. Import dependency should be shown as percentage and compared to others. The ratio between energy production and the GDP is known as energy intensity – this term should be used. Proposed formulation: “The energy intensity of Serbia is, along with Bulgaria, the highest in the region...”</p> <p>Proposal to delete the statement that the low price of electricity insufficiently stimulates energy efficiency. Electricity accounts for less than 25% of the final energy consumption. The price of electricity for the industry is not significantly lower than in other markets. Household</p>	The overall analysis of the current state of affairs in the area/sector was conducted in line with the diagnostic methodology provided by OECD in the form of the Manual.

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
		electricity consumption accounts for about 12% of the final consumption, and this is roughly the same as the consumption share of firewood, which is by far the least efficient energy consumption. The prices of other types of energy and energy generating products (oil, fuel wood, heat) are not lower than in other markets, while their energy efficiency is low). It is necessary to introduce energy managers, taking e.g. the municipality of Vršac as the model.	The introduction of energy managers is envisaged under ERP.
National Convention on the EU, Aleksandar Vukalović (comment on the preliminary list of reforms was sent in written form on 31 October 2016)	Development and improvement of the national broadband communication infrastructure	Proposal to reconsider the term “national”, which potentially implies a coverage that is wider than the public institutions. To ensure good coverage, the suggestion is to list all the planned institutions, by type, and to state whether and how the branches of certain authorities that can be rationally connected wirelessly are covered.	PSR does not cover solely public institutions; it refers to the development of the broadband communication infrastructure at the national level, as envisaged in the Digital Agenda for the Republic of Serbia, which is aligned with the Digital Agenda for Europe. The Digital Agenda for Serbia comprises the Strategy of Information Society Development in the Republic of Serbia until 2020 and the Electronic Communication Strategy of the Republic of Serbia 2010–2020. Furthermore, the planning, designing and construction of broadband access networks for each territorial unit will take into account the specific characteristics and needs of those areas.
SECTORAL DEVELOPMENT			
<i>Development of the Agricultural Sector</i>			
National Convention on the EU, Dragan Roganović, Coordinator of WG for chapters 11: Agriculture and Rural Development, 12: Food Safety and Phytosanitary Control and 13: Fisheries (comment submitted through the National Convention on the EU on 31 January 2017)	Improvement of competitiveness and the position of agricultural holdings	Given that the implementation of the IPARD Programme in Serbia has not begun, a more detailed explanation of the further steps is requested. Moreover, the clarification of the connection of this programme with the budget is requested. The document states the following risk in PSR 5 implementation: "Lack of established support structure for the implementation of measures to improve competitiveness (issuing permits, programme promotion, etc.)". Since membership in the Serbian Chamber of Commerce has been compulsory since 1 January 2017, this risk can be mitigated and eliminated through active involvement of the Serbian Chamber of Commerce and its provision of services the coverage, quality and price of which would be commensurable with the amount of the membership fee.	The comment has been adopted and the PSR has been amended. The proposals regarding risk mitigation will be taken into consideration by competent institutions in the process of developing future public policies.
<i>Industry Sector Development</i>			
National Convention on the EU, Dušan Protić, Coordinator of WG for chapters 1: Free Movement of Goods and 28: Consumer Protection (written	Increasing competitiveness of the processing industry	The PSR proposes the identification of industry branches with the highest growth and development potential, but it does not propose to revise (or develop a new) Serbian industry development policy as the overarching document in this area, which should lay the foundations for subsequent	In the ERP development process, the assistance of OECD and WB was already used in the field of improving the Serbian industrial policy. This field also comprises a significant element of the Chapter 20: Enterprise and

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
comment submitted on 31 January 2017)		sectoral policies.	Industrial Policy.
National Convention on the EU, Dušan Protić, Coordinator of WG for chapters 1: Free Movement of Goods and 28: Consumer Protection (comment submitted through the National Convention on the EU on 31 January 2017)	Increasing competitiveness of the processing industry	The selection of four sectors that will be in the focus of formulation of policies and measures for promotion of investments, competitiveness and export should take into account that these sectors have realised their export potential mainly because they are based on foreign investments. The strategy for strengthening the role and capacities of Serbian private companies as contractors (by joining the value chains of foreign investors) is unclear. It is necessary to develop measures and activities to strengthen their competitiveness by redefining the existing state aid policy, focusing it on the support programmes for introduction of new technologies, innovation support programmes, support programmes for increasing energy efficiency, for introduction of environmental protection measures, for introduction of quality infrastructure, as well as other state aid measures in compliance with the EU legislation.	The comment will be taken into consideration by competent institutions in the process of developing future public policies.
Development of the Services Sector			
National Convention on the EU, Dušan Protić, Coordinator of WG for chapters 1: Free Movement of Goods and 28: Consumer Protection (comment made at the public presentation and submitted in written form on 31 January 2017)	General comment	In the area 4.3.3. Sectoral Development, the services sector, and especially tourism and e-commerce within it, have been singled out as priorities, but no corresponding structural reform has been formulated. Is this how it should be or was it omitted by mistake?	The establishing of the Single Electronic Contact Point (SECP), which will ensure better transparency and reduced costs of starting a business for Serbian service providers, is a part of PSR 9 – Simplification of procedures for business entities.
BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY			
Citizens' Association "Učitelj nezvalica" (comment submitted in written form on 1 November 2016 based on the preliminary list of reforms)	Two new structural reforms proposed: -stimulation of community-oriented financial institutions - stimulation of cooperatives as a special form of business activity	In the field of community-oriented financial institutions, the comment suggests that it is necessary to set a lower minimum equity capital requirement than for commercial banks, through a special law. In the sphere of cooperatives, the adoption of the new law on cooperatives is proposed in order to stimulate collective entrepreneurship through cooperatives. This would allow the economic activities that are currently conducted in the informal sector to be organised in a legal way.	The stimulation of community-oriented financial institutions, such as ethical banks, savings and loan cooperatives and micro-credit institutions, is already envisaged under PSR 7 Package of measures to improve access to finance for SMEs. The new Law on Cooperatives (<i>Official Gazette of RS</i> , No. 112/15) came into force on 7 January 2016. The Ministry of Agriculture and Environmental Protection established the Working Group for monitoring the implementation of the Law on Cooperatives, to resolve any problems that arise, or will arise in the implementation of its provisions. Furthermore, the Ministry will also work on the promotion and revitalisation of cooperatives in Serbia.
National Convention on the EU, Dragan Roganović, Coordinators of WG for chapters 11: Agriculture and	General comment	Although the issue of improving the access to finance for SMEs has existed for a long time as a problem for the development of entrepreneurial initiatives in Serbia and, in general, for the development of the country's	Much has been done to improve SME financing, including through guarantee schemes supported by the EU funds. In the last year, the SME sector had access to low-interest loans

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Rural Development, 12: Food Safety and Phytosanitary Control and 13: Fisheries (comment submitted through the National Convention on the EU on 31 January 2017)		<p>private sector, there is the impression that little progress has been made in the implementation of the SME loan guarantee scheme.</p> <p>According to the available information, the draft regulation governing the functioning of non-depository financial institutions as the key source of funding for micro-enterprises and business start-up already exists, and a working group was also established (almost a year ago) from representatives of businesses and the relevant authorities. The question is, therefore, why this legislative framework has not yet been adopted, especially during last year as the “Year of Entrepreneurship”.</p>	<p>provided by commercial banks in Serbia with guarantees under the COSME, Horizon 2020, EaSi and WB EDIF schemes.</p> <p>The comment will be taken into consideration by the competent institutions in the process of developing future public policies.</p>
National Convention on the EU, Sanja Filipović, Coordinator of WG for Chapter 20: Enterprise and industrial policy (comment made at the public presentation of ERP and submitted on 31 January 2017)	General comments	<p>The proposal is to focus future entrepreneurship development support programmes on a limited number of measures with adequate financing and the greatest impact (with the monitoring of the impact of measures). Another proposal is to reintroduce Article 48 of the Corporate Profit Tax Law, which provides for incentives to small enterprises in the form of tax credit. Furthermore, the importance of passing the Law on Microfinance is also emphasised.</p> <p>In order to overcome the difficulties in accessing the sources of funding, it is necessary to legally regulate the possibility of investing through venture capital funds, “angel investors” and the like, by introducing a special law on venture capital funds. In addition, tax incentives for venture investments are also proposed.</p>	<p>In 2016, the Government of the Republic of Serbia implemented the “Year of Entrepreneurship” initiative, which included 33 financial and non-financial support programmes and a budget of RSD 16 billion (of which 4.4 billion were grants). The evaluation of the programme by independent consultants is scheduled for March 2017, and its results will enable further improvement of the national support to the financing of entrepreneurial initiatives in Serbia.</p>
National Convention on the EU Slobodan Krstović, Coordinator of WG for Chapter 8: Competition Policy (comment made at the public presentation of the document and submitted on 31 January 2017)	General comments for this area	<p>It is proposed that the list of reference documents should also include the National Programme for Countering Shadow Economy, adopted by the Government, as well as some of the activities from the Action Plan for Countering Shadow Economy in 2017. The key fiscal measures envisaged under this programme include the reduction of taxes and contributions on minimum wages, more progressive taxation and reduced contributions for part-time workers. Additionally, the comprehensive reform of regulations and administrative procedures, labelled as the “guillotine of regulations”, is met with approval.</p> <p>Further priorities are also proposed: continued reform of the public administration and introduction of the E-solution (E-governance GENERAL priority), strengthening business environment transparency and predictability, reform of inspection oversight, ensuring the predictability of the system for introducing and setting the amounts of non-tax charges and levies, developing the regulatory framework for operation of the non-bank financial sector, restructuring the state aid to the SME sector, ensuring the efficiency of enforcement procedure and reduce administrative burden, increasing businesspersons’ knowledge of financial management.</p>	<p>The comment is adopted. Please note that the National Programme for Countering Shadow Economy is already included in ERP as a strategic document, in PSR 9.</p> <p>Most of this proposal is already included in ERP, while the rest will be taken into consideration by the national institutions in the process of developing future public policies.</p>

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
Bojana Bogojević, Specialist for Legal Aspects of Corporate Governance (comment sent in written form on 22 January 2017)	General comment regarding corporate governance	The introduction of corporate governance is important for economic development. However, in order to ensure that the necessary development in the abovementioned areas is achieved in an adequate way, dealing with corporate governance needs to be entrusted to persons who are educated in this area and who have acquired the required degrees and knowledge in the area.	The area of corporate governance is recognised as a priority and included in PSR 8.
Citizens' Association "Učitelj neznalica" (comment sent in written form on 1 October 2016, based on the preliminary list of reforms)	Reform of public enterprises <i>4 measures: 1. Introduction of corporate governance in public enterprises; 2. Railway reform; 3. Reform of the PC EPIS; 4. Reform of the PC Srbijagas</i>	Proposal to add the activity: introduction of client participation in public enterprise management. It is argued that it is important to enable the clients of the services provided by public enterprises to participate in the management of those enterprises. This would be ensured by enabling the clients to directly elect management board members.	The Law on Public Enterprises, passed on 24 February 2016 and effective since 4 March 2016, stipulates the conditions and procedure for appointment of management bodies in public enterprises. The provisions of this Law do not provide for the participation of the clients of public enterprises in the management of those enterprises.
National Convention on the EU, Slobodan Krstović, Coordinator of WG for Chapter 8: Competition Policy (comment made at the public presentation of the document and sent on 31 January 2017)	Reform of public enterprises <i>4 measures: 1. Introduction of corporate governance in public enterprises; 2. Railway reform; 3. Reform of the PC EPIS; 4. Reform of the PC Srbijagas</i>	As coordinators of the WG for Chapter 8: Competition Policy, we have seen that the screening result identified 6 benchmarks in the field of state aid control, one of them being the independence in the work of the Commission for State Aid Control, in the context of the Ministry of Finance's competences.	Pursuant to Article 10 of the Law on State Aid Control (<i>Official Gazette of RS</i> , No. 51/09), the specialist, administrative and technical activities for the Commission for State Aid Control are performed by the Ministry of Finance. State aid is an intersectoral policy, which, in addition to the MoF, involves a large number of line ministries competent for adopting individual regulations or implementing measures in this area. In view of the above, and taking the comments into consideration, the benchmarks identified within Ch.8 will be addressed in the continuation of the negotiation process.
National Convention on the EU, European Policy Centre (comment in written form submitted on 31 January 2017)	Simplification of procedures for business entities	The summary of the reform is inconclusive as to whether it also refers to the establishment of the entire public register of procedures, or only to a part of it – the Single Electronic Contact Point (in compliance with the Services Directive). Please, specify.	PSR 9 refers to the establishment of a single public register of administrative procedures and other preconditions for doing business, with the Single Electronic Contact Point as its integral part.
Aleksandar Vukalović, National Convention on the EU (comment on the preliminary list of reforms was sent on 31 October 2016)	Establishing of the common information platform for all the inspectorates on the republic level (e-inspection)	The proposal is to analyse this systemic, software-based solution from the perspective of overlapping and, especially, synchronised work of various inspection bodies. Adequate access also needs to be enabled for authorised and responsible persons from the entities that are subjects of inspection. The solution should prevent the repeating of certain parts of procedures and reduce the paperwork for all involved parties.	The first phase of the project, in which all business processes in 36 inspectorates at the national level were catalogued and analysed, produced the technical specifications to be used in the second phase for developing a software-based solution for the integrated information system, which should enable full coordination of all national inspectorates, without the possibility of competence overlapping or unsynchronised work. The primary goal of the e-Inspector project is to enable

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
			<p>coordinated work of national inspectorates. To that end, an information system will be established to prevent duplication of efforts and repeating of procedures, as well as to reduce the administrative burden.</p> <p>In the project implementation, account will be taken of the need to align with the EU standards, while other bodies (e.g. the newly established Council for Advancement of the Information Technology Sector) and policy documents (e.g. the recently adopted Strategy for Development of the Information Technology Industry 2017–2020) will contribute to synchronising the activities of various public administration bodies with the aim of enhancing the entire IT sector in the Republic of Serbia.</p>
RESEARCH AND INNOVATION			
National Convention on the EU, Ana Vušurović, Coordinator of the WG for chapters 25: Science and Research, 26: Education and Culture (comment made at the public presentation of ERP and submitted on 30 January 2017)	Programme to support innovations and technological development in the public and private sectors	<p>A clearer definition needs to be provided of the programme to support innovations and technological development in the public and private sectors and indicators that correspond to the described programme need to be adopted. The indicators for the technology transfer system are lacking.</p> <p>As regards the lack of financial instruments and mechanisms for stimulating the demand for innovations, attention was drawn to the existence of the Innovation Fund, established by the World Bank and financed by the EU.</p> <p>All risks identified within this structural reform refer to researchers; the risks should also be considered from the vantage point of the state. A major problem is also the unresolved funding status of the institutes that are financed on project basis. Another risk is also the non-adoption of the new, combined model that envisages both project-based and institutional funding, which is provided for in the Scientific and Technological Development Strategy.</p>	<p>The proposed programme is a set of reform activities, implemented with the aim to support innovations and technological development in the public and private sectors. The indicators have been selected in such a way as to enable the monitoring of all activities under PSR 11 with the narrowest set of indicators, but this comment will be taken into consideration when revising all indicators in the next ERP.</p> <p>The programmes of the Innovation Fund are exceptionally important for the development of innovations, but they do not stimulate the demand for innovations (innovation demand side policies).</p> <p>The model of financing science activities is undergoing a reform, envisaged under the Scientific and Technological Development Strategy of the Republic of Serbia. The evaluation of scientific institutes under PSR 11 marks the first step in this process.</p>
EXTERNAL TRADE AND INVESTMENT FACILITATION			
	Improvement of the national quality infrastructure system		
National Convention on the EU, European Policy Centre (comment submitted on 31 January 2017)	General comment	<p>In the area 4.3.6. External Trade and Investment Facilitation, there is no reference in the PSR to investment incentives. Will the current system of incentives “per number of jobs created” be retained?</p>	<p>As regards the system of investment incentives in the Republic of Serbia, please note that this area is governed by the <i>Law on Investments (Official Gazette of RS, No. 89/2015)</i> which regulates the general legal framework for</p>

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			investing in the Republic of Serbia, stipulates equal treatment of domestic and foreign investors and guarantees the protection of investments and investors' acquired rights. Based on this law, the <i>Decree on the Conditions and Methods for Attracting Direct Investments</i> (Official Gazette of RS, No. 110/2016) was adopted and has been effective since 1 January 2017. It provides a detailed definition of the concept of direct investments, amends the criteria for the status of investments of special importance and for receiving incentives for investing in the municipalities at development levels I and II, and prescribes statutory control by an independent certified auditor.
National Convention on the EU, Prof. Marko Malović PhD, Coordinator of WG for chapters 17 and 29 (comment made at the public presentation of ERP and submitted on 29 January 2017)	General comment for the area of investments	The question refers to the appropriateness of direct subsidising of foreign investors, given the poor results in the period for which we have in-depth data.	See the previous answer.
EDUCATION AND SKILLS			
National Convention on the EU, Ana Vušurović, Coordinator of WG for chapters 25: Science and Research and 26: Education and Culture (comment made at the public presentation of ERP and submitted on 30 January 2017)	Qualifications oriented to the labour market requirements	<p>The summary of the PSR itself and the pertinent text need to be improved and, in particular, answers should be given to questions whether the objective of the part that refers to the area of education is to cover the whole system, or only a part of it that refers to skills and human capital? The structural reform is also not sufficiently elaborated and focused on the dual education system (dual and entrepreneurial education) and the National Qualifications Framework (NQF) in Serbia.</p> <p>The school dropout rate needs to be double-checked.</p> <p>Both indicators refer to NQF – there are no indicators referring to the dual education system; therefore, our proposals for the indicators are: the number of concluded contracts between schools and companies and the number of students in the dual education system.</p> <p>The identified risks refer only to external stakeholders, while there is no critical reflection about the economy; hence, in our view, a risk is the insufficient number of business entities that are capable of fulfilling the requirements of secondary vocational schools.</p>	<p>The general analysis of the current state of affairs in the area/sector was conducted in line with the diagnostic methodology provided by OECD in the form of the Manual.</p> <p>The proposal has been accepted and the indicators referring to dual education have been included.</p> <p>The proposal has been accepted and the proposed risk has been included.</p>
National Convention on the EU, Ana Vušurović, Coordinator of WG for chapters 25: Science and Research and 26: Education and Culture (comment made at the public presentation of ERP and submitted on 30 January 2017)	Proposal of additional measures	<p>Rightsizing of the school network – owing to demographic trends and migrations, decisions about status changes and purpose of school buildings should be planned. A recent study by the Centre for Education Policy has suggested that significant savings can be made.</p> <p>The issue of <i>per capita</i> funding of education – a measure that also leads to the rightsizing of the number of people working in the educational sector</p>	The comment will be taken into consideration by the competent institutions in the process of developing future public policies.

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
30 January 2017)		<p>and a stronger relation between effectiveness and efficiency in education.</p> <p>Dropout of students from vulnerable social groups, as well as of members of national minorities – which has strong economic implications in the long term.</p> <p>When defining the problem, the issues of adult education, i.e. their re-training and additional training, should also be taken into consideration as measures that can contribute to unemployment decrease, which is also recognised in the Adult Education Development Strategy.</p> <p>The recognition of non-formal education – not only has the EU given the recommendation that the Members States should regulate the issue of the validation of non-formal and informal learning by 2018, but also the recognition of non-formal learning may be the easier way for the labour force to acquire the competences they lack and, in that respect, it is more flexible and easier to implement and its availability is also widespread.</p> <p>A question arises regarding the functional knowledge of graduate students, who find it difficult to get the first job as a result of the lack of practical training or any other type of practical experience, which is a critical step in the context of becoming integrated in the labour market.</p>	
SOCIAL INCLUSION, POVERTY REDUCTION AND EQUAL OPPORTUNITIES			
Network of Organizations for Children of Serbia (MODS) (written comment submitted on 1 October 2016 based on the preliminary list of reforms)	Improved adequacy, quality and targeting of social protection	The comment underlines children's high at-risk-of-poverty rate compared to the EU. Employment policy interventions are proposed (job-seeking assistance for parents, tax incentives system, services such as high-quality childcare, education and protection of children's rights). Emphasis is also put on the need to increase social transfers for children and to correlate them with services. According to this proposal, the Law on Financial Support to Families with Children and the Law on Social Protection need to be amended.	MODS proposals have largely been or will be incorporated in the amendments to the Law on Social Protection and the Law on Financial Support to Families with Children.
IRIS Network – improving social services in SEE (written comment submitted on 31 October 2016 based on the preliminary list of reforms)	Improved adequacy, quality and targeting of social protection	The proposal is to revise the formulation of the measure in order to align it with ESRP. The revised measure would read: 2 measures: 1) Increase of adequacy of cash payments and improvement of availability and quality of social welfare services through amendments of legislation and improvement of the quality of services, strengthening of control and regulatory mechanisms, monitoring and evaluation; and 2) IT interconnection of various sectors to ensure that no administrative obstacles stand in the way for the beneficiaries to exercise their social rights and in order to improve the system of cooperation between centres for social work and other authorities with a view to early identification, better client protection and integrated approach.	There is no essential difference in the newly proposed formulation of the reform.
“Centre for Democracy” Foundation, coordinators of WG for chapters 2 and	Improved adequacy, quality and targeting of	The programme classification in the area of social protection needs to be improved (the Ministry of Finance, SCTM and SIPRU addressed this	The Ministry of Finance accepts this comment; therefore, in the 2017 budget cycle, activities aimed at improving the

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
19, (commends made at the public presentation of ERP and submitted on 31 January 2017))	social protection	<p>problem and even tested the proposal of improvement; hence, in our opinion these changes should also be incorporated in order to increase the value of the gathered data and facilitate reporting on and monitoring of this structural reform).</p> <p>The Social Inclusion and Poverty Reduction Unit of the Serbian Government has carried out a study on the establishment of an IT system in this area. This measure is exceptionally significant for raising the efficiency of distribution of already limited resources in the area of social protection. It is vital to operationalize this measure as soon as possible, so that we can answer 3 key questions: 1. How efficient is the distribution of resources? 2. Does the system protect the poorest? 3. Determine the social profile of individuals and families.</p>	<p>programme classification at the local level in the area of social protection will be continued in cooperation with SCTM and SIPRU.</p> <p>The comment is accepted and IT networking will be set as one of the priorities in the upcoming reform activities in the area of social protection.</p>
Standing Conference of Towns and Municipalities (comment submitted on 27 January 2017)	Improved adequacy, quality and targeting of social protection	<p>Our proposal for the formulation of the first sentence of the first paragraph on page 49 is: <i>“There is considerable scope within the existing financial envelope to improve the availability and quality of the provided social protection”</i>.</p> <p>In the same paragraph, the proposal for the second sentence is: <i>“The key problems and challenges for the social welfare system in Serbia still include the widespread poverty, insufficient coverage and adequacy of cash benefits designed to protect to poor, as well as the insufficient number of social welfare services in combination with weak mechanisms for oversight, regulation, monitoring and evaluation”</i>.</p> <p>We propose to include the data about the base for FSA for 2016, as well.</p> <p>Our proposal for the second sentence of the first paragraph on page 50 is: <i>“Another challenge in the field of social protection is the continuous improvement of service quality, strengthening of oversight and regulatory mechanisms, monitoring and evaluation”</i>.</p>	All proposals for amendments have been accepted and included in the document.
IRIS Network – improving social services in SEE (comment submitted on 31 October 2016 based on the preliminary list of reforms)	New measure proposed	<p>Proposal for introduction of a new measure: Improvement of financial sustainability of the financial system, which entails the improvement of the system of retirement on grounds of increased pensionable service, efficiency of implementation of the pension and disability insurance, adaptation of statutory insurance to demographic changes, promotion of other pension and disability insurance rights, enhanced safeguarding of elderly people’s minimum living standard, preservation of the adequate amount of pensions and promotion of the role of voluntary pension funds.</p> <p>The introduction of the “Inclusion Fund” is also proposed, to ensure structured financial and counselling support for sustainability of existing services and development of new ones. This body would also conduct monitoring and evaluation and provide support to service providers.</p> <p>The process of deinstitutionalisation of the clients of residential institutions</p>	<p>Based on the experiences of the Social Innovations Fund, our opinion is that all of this has already been ensured through earmarked transfers and social protection institutes, and that there is no need to establish a special new fund.</p> <p>The process of deinstitutionalisation and decentralisation of the development of social services has started in compliance with the Law on Social Protection, since local governments are responsible for development of services at the local level, while the earmarked transfers, which were introduced in March 2016, are designed to support the development</p>

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
		for persons with mental disorders and the introduction of community-based services for these clients should be accelerated.	these services and assist the municipalities the development level of which is below the national average.
GENERAL COMMENTS			
Aleksandar Vukalović , National Convention on the EU (comment on the preliminary list of reforms, submitted on 31 October 2016)		E-Government is still not set as a strategic project and objective, or established as an unavoidable intersectoral mechanism.	The development of e-Government is marked as one of the priorities of the new Government and included in the Prime Minister's inaugural speech, while the Action Plan for Implementation of the Government's Programme envisages the adoption and implementation of the action plan for the period 2017–2018 for implementation of the Strategy for the Development of e-Government in the Republic of Serbia 2015–2018. Furthermore, e-Government projects are included in key policy documents, e.g. the e-Inspector project has been included in the Action Plan for Implementation of the Government's Programme, the proposed priority structural reforms, the draft AP "Stop to Bureaucracy", the draft AP for Implementation of the Strategy for the Development of e-Government, and funds have been allocated in the National Budget for several years of its implementation.
Milica Ristić , PhD student at the Faculty of Economics in Niš, EMinS Leskovac (comment submitted through the National Convention on the EU, on 31 January 2017)	General comment	Emphasis is placed on the importance of adopting an ethical code for professional accountants. Becoming a professional in this occupation initially requires a high level of general education, and then a person must pursue special education and training and has to take the professional examination for accountants. The effective national legislation has no reference to an Ethical Code for professional accountants and indirectly negates the recognition of the accounting and audit profession. Ethical codes positively reflect on the quality of financial reports and do not call it into question (only a part of the comment is conveyed due to the size of the document)	The comment will be taken into consideration by the competent institutions in the process of developing future public policies.
Union of Employers of Vojvodina – UEV proposals for enhancing the business environment (document submitted on 19 October based on the preliminary list of structural reforms)		Proposals for the foundation of a new economic policy of the Republic of Serbia include: - initiation of industrial production, accelerated growth and employment, - new interest rates and loans policy, - new realistic and stable exchange rate policy - tax reform, whereby taxes would be reduced and tax burden would be adjusted so as to match the economic strength of taxpayers; - economic policy aimed at eliminating the budget deficit and reducing the public expenditure to a level that matches the achieved gross domestic product.	The comment will be taken into consideration by the competent institutions in the process of developing future public policies.
National Convention on the EU, Dragan Roganović, Coordinator of	General comment	It was concluded that, in a considerable number of ERP areas, the risks to structural reform implementation include problems with respect to the	The proposed comment is a part of the reform of the public administration and the EU accession process.

Consulted stakeholders (civil society organisations)	Considered structural reform	Comment/Proposal/Question	Answers
WG for chapters 11: Agriculture and Rural Development, 12: Food Safety and Phytosanitary Control and 13: Fisheries (comment submitted through the National Convention on the EU on 31 January 2017)		functioning of the public administration and, in particular, the human resources. It was suggested that the key assumption for the success of the Economic Reform Programme is to concentrate the public administration reform on increasing the quality and efficiency of the administration and on realistically identifying the human resources required for fulfilling the obligations assumed under the EU accession negotiations.	
Chamber of Commerce and Industry of Serbia, Association of Pharmaceutical and Medical Industries (comment submitted in written form on 30 January 2017)	General comment	A set of concrete suggestions was given for resolving the issue of the debts of healthcare institutions to the pharmaceutical sector, as well as the suggestions regarding the amendments to the Law on Social Protection and for ensuring stable and sustainable financing of health care in Serbia. The proposal is to include the area of health care into ERP, within the area of "Social Inclusion, Poverty Reduction and Equal Opportunities".	The comment will be taken into consideration by the competent institutions in the process of developing future public policies.
Zvezdan Kalmar, Centre for Ecology and Sustainable Development (CEKOR) (comment submitted through the National Convention on the EU on 31 January 2017)	General comment	Energy efficiency and environmental protection were not addressed in ERP. It was also stressed that Serbia's obligations with regard to climate changes and reduction of emissions need to be considered. The proposal also refers to ensuring government support to renewable energy sources, especially to the development of pump-storage hydropower generation capacities and smart networks that would enhance the solar power offtake capability. In the field of capital investment management, the comment stresses the need to assess the environmental impact of all capital investments.	The area of environmental protection was not identified as one of the priority structural reforms in the EC Guidance for ERP. Given the significance of this topic for the Republic of Serbia, the comments will be taken into consideration by the competent institutions in the process of developing future public policies.
Zoran Melev, President of the Trade Union of the Unemployed	General comment	The proposal puts forward suggestions regarding the amendments to the Law on Volunteering and underlines the importance of social entrepreneurship and of the need to adopt sectoral policies and programmes.	The comment will be taken into consideration by the competent institutions in the process of developing future public policies.

Annex 2 – List of institutions participating in the drafting of the ERP

In accordance with the guidelines, the following institutions have appointed ERP coordinators and deputies to participate in drafting the document:

- Ministry of Finance
- Ministry of Economy
- Ministry of Trade, Tourism and Telecommunications
- Ministry of Public Administration and Local Self-Government
- Ministry of Health
- Ministry of Education, Science and Technological Development
- Ministry of Culture and Information
- Ministry of Agriculture and Environmental Protection
- Ministry of Mining and Energy
- Ministry of Labour, Employment, Veteran and Social Affairs
- National Employment Service
- Ministry of Construction, Transport and Infrastructure
- Ministry of Justice
- Ministry of Youth and Sports
- Office of the Minister without Portfolio Responsible for the EU
- European Integration Office
- Republic Secretariat for Public Policy
- Social Inclusion and Poverty Reduction Unit
- National Bank of Serbia
- Statistical Office of the Republic of Serbia
- Government of the Republic of Serbia – Office of the Prime Minister – Strategic Project Implementation Unit

Annex 3. The implementation of recommendations submitted to Serbia at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey held in May 2016

Recommendations	Structural reforms
<p>P1. Additionally solidify fiscal consolidation by using potential surplus of income and savings on account of current expenditures, and undertake additional measures, if necessary, to achieve primary surplus in 2016 and reduce the total budget deficit in the coming years.</p>	<p>Serbia continued strong fiscal adjustments in the second year of its arrangement with the IMF. State deficit will be on a level below 2% GDP or lower, compared to the planned 3.8%. The improved performance is the result of better income, both tax income due to favourable macroeconomic trends, as well as non-tax one-off income. Primary surplus with reduced public debt is expected at the end of the year, regarding its share in GDP. Structural fiscal adjustment of 4% GDP, achieved within a period of 2 years, was one of the goals envisaged by the IMF arrangement. The achieved results allowed for new policies, primarily investments in infrastructure and growth of relative share of capital expenditures in GDP. Also, opportunity is created for early repayment of unfavourable loans which would bring savings in interest rates and reduce obligations in the coming period. Reduction in deficit is expected in the coming period to a level which would ensure a decreasing trend of public debt and stabilization of public finances in the long run.</p>
<p>P1. Support fiscal consolidation by undertaking steps to find a sustainable solution for the remaining public enterprises and continued organizational and financial restructuring of large public enterprises. Continue with public administration reform as envisaged. Further improve the collection of revenues in a systematic manner that favours the economy, by implementing the Tax Administration Transformation Program.</p>	<p><i>PSR 1. Tax Administration Transformation</i> – A detailed plan of Tax Administration reform envisages additional streamlining and consolidation of tax procedures and better training of staff, as well as improvement of operational activities in curbing grey economy. In addition to a more efficient collection of tax, the envisaged reform will lead to reduced procedural burden in terms of tax payment, thereby improving this component of the conditions for doing business.</p> <p>By the end of 2016, the Draft Plan for Compliance with Tax Regulation in 2017 will be prepared with help of IMF consultants based on the map of risks for compliance with tax regulations. Employees were identified and trainings were delivered by IMF experts in the field of managing the risks for compliance with tax regulations.</p> <p>A proposal of a new organizational structure of all levels of the Tax Administration has been prepared.</p> <p>Electronic submissions and services are introduced continuously, aiming to fully implement electronic operations of the Tax Administration by January 1, 2018.</p> <p>The project team for establishing an organizational unit tasked with providing services to taxpayers has been established. The project team has drafted the Strategy for Providing Services to Taxpayers.</p> <p><i>PSR 8. Reform of Public Enterprises</i> – of the 17 strategic enterprises identified towards the end of 2015, the privatization process was finished in 7 enterprises by May 2016, while privatization solutions are being investigated for the remaining 10 enterprises. Furthermore, reorganization and financial restructuring of the largest public enterprises of PE Elektroprivreda Srbije, PE Srbijagas and PE Železnice Srbije is under way, and corporate governance is introduced in all public enterprises.</p> <p>There were a total of 181 privatization subjects in the privatization procedure on 8 September 2016 which employ a total of 55,130 workers (including workers in dependent companies). The most important privatization subjects include: Telekom Srbija AD Belgrade, Galenika AD Belgrade, RTB Bor</p>

	<p>Grupa DOO Bor, Lasta AD Belgrade, PEPEU Resavica, PKB Korporacija AD Belgrade, HIP – Petrohemija AD Pančevo, Simpo AD Vranje, and others.</p> <p>It may be concluded that the status of more than 300 companies has been resolved since the new Law on Privatization entered into force and/or since August 2014, while the privatization procedure for the remaining privatization subjects is expected in the following period.</p> <p>Part of recommendation 2 (<i>continue with public administration reform as envisaged</i>) is implemented through the adopted Strategy for Regulatory Reform and Advancing the System of Managing Public Policies 2016-2020 (OG 8/16), as well the advancement of the rule of law and efficiency of courts in line with the Action Plan under Chapter 23 Judiciary and Fundamental Rights.</p>
<p>P3. Continue resolving the risks to the stability of the financial system and real economy by following up on the execution of the adopted action plan for resolving non-performing loans, increasing efforts to implement the existing strategies stimulating the utilization of national currency in the financial system (“dinarization strategy”) and elucidate more deeply on the quality of assets of smaller banks not covered by specific diagnostic analyses. In the course of this process, the central bank’s attitude towards the monetary policy may remain accommodating if the inflationary expectations remain anchored and a favourable direction of fiscal consolidation continues.</p>	<p>During the previous period the NBS has implemented all activities envisaged in its Action Plan for the Implementation of the Strategy for Resolving Non-performing Loans. In the next period, activities of supervisors will be focused on monitoring the steps undertaken by banks, primarily expected to resolve the non-performing loans more efficiently, as well as more realistic levels of devaluation and write-off of receivables, and a more detailed reporting to the NBS on the structure and level of non-performing loans. The measures should comprehensively ensure a continued commitment and focused approach of banks to resolving non-performing loans, including established instruments to ensure a timely reaction of supervisors. The data indicate that a systemic, inter-institutional and coordinated approach envisaged in the Strategy positively affects the resolution of non-performing loans, in particular keeping in mind that the share of non-performing loans at the end of August, after a long period (as of June 2013), is below 20% and totals 19.6%.</p> <p>Although smaller banks were not covered by the special diagnostic studies procedure, controls of the remaining 16 banks were conducted in 2015 and 2016 (or are under way) which, <i>inter alia</i>, include the issue of credit risk with special focus on the application of NBS guidelines for IAS 39 (result of the special diagnostic studies). Additionally, the qualitative segment not covered by the control is covered by a regular supervision assessment, while the group of debtors assessed within the special diagnostic studies were subject to the quarterly analysis on the level of the overall banking sector, i.e. both on the level of banks that were subject of the diagnostics and the banks which were not covered by the procedure.</p> <p>Low inflationary pressures and consistent implementation of fiscal consolidation and structural reforms, which increased the resilience of national economy to external disturbances, enabled further moderation of the monetary policy. The reference interest rate was reduced by 50 base points in 2016, to 4.0%. Caution was indicated by uncertainty on the international goods and financial market, particularly regarding the changes in the price of oil and other primary products, as well as various monetary policies in the leading central banks.</p> <p>As long as inflation factors permit, the National Bank of Serbia will lead an accommodating monetary policy – it will strive to provide support to the Government’s economic policy and maintain the achieved price and financial stability.</p> <p>At the same time, the National Bank of Serbia will continue to support the</p>

	<p>dinarization process with its measures and activities, which contributes both to increasing the efficiency of monetary policy measures and to decreasing foreign exchange risk, therefore the stability of the financial system. On the side of credit activity, the results of the dinarization strategy are reflected in a constant growth of dinar loans for the population, as well as the fact that banks' offers start including housing loans in dinars with 30 years repayment periods and interest rates below 5%, which were the interest rates for approving the exchange rate-indexed loans until some time ago. On the side of deposits, dinar savings of the population have almost tripled over the last three years, and currently total approximately 48 bln dinars, increasing the level of dinarization of the population's deposits by 5.7 p.p. (from 8.8% towards the end of 2012 to 14.5% at the end of August 2016).</p>
<p>P4. Tackle the resolution of weak implementation of capital public expenditures by improving the identification of priorities and management in this field; as a priority, significant progress should be achieved in building the Bulgaria-Serbia gas interconnection and finalize the works in constructing the Corridor X road by end 2017.</p>	<p><i>PSR 2. Improved Management of Capital Investments</i> – the Report with Recommendations for Improving the System of Managing Capital Investments has been prepared in accordance with the analysis of the current status of planning capital projects from all financing sources. The preparation of the improved system of the management of capital projects is under way, which will regulate this field in terms of methodology and procedures.</p> <p><i>PSR 3. Improving Physical Infrastructure for Better Connection with Markets in the EU and the Region, projects 3.1-3.4.</i> – 43% of the works have been completed along the South Branch Grabovnica – Levosoje (75.2 km). The construction of the most difficult section through the Grdelička gorge is under way, with a length of 34 km, where the Predejane tunnel (1 km) was opened in May 2016. The opening of the longest tunnel along this section, Manajle (1.8 km), is expected in July 2016, while the completion of the last section through the Grdelička gorge is expected during the first half of 2017. Works have begun on the railway Corridor 10 in April 2016, on the reconstruction and modernization of three sections at a length of 46 km: Vinarci – Đorđevo (15 km), Vranjska Banja – Ristovac (17.7 km) and Bujanovac – Bukarevac (13.7 km), financed from the Russian loan. The speed of trains upon the finalization of works will increase from the current 40-50km/hour to 100km/hour.</p> <p><i>PSR 3. Improving Physical Infrastructure for Better Connection with Markets in the EU and the Region, project 3.6.</i> – Issues of financing and schedule of implementation of the project tackling the construction of the Bulgaria-Serbia gas interconnection were specified at the meeting of the representatives of the Serbian and Bulgarian energy ministries in April 2016.</p>
<p>P5. Improve business environment and stimulate private investments by developing a more transparent and less burdensome system of parafiscal levies, introduce a program of guarantees for loans to small and medium-sized enterprises and relaunch the “regulatory guillotine”.</p>	<p><i>PSR 7. Package of measures to improve access to finance for SMEES</i> – develop the Program of financial instruments for providing loans to SMEES financed through bank loan lines, as one of the measures from the Action Plan to the Strategy for Supporting the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness 2015 – 2020 (OG RS, 35/2015).</p> <p>The NBS started to develop a regulatory framework for the functioning of non-deposit financial institutions to create additional potential for financing SMEES, in particular of micro-segment and newly established (start-up) enterprises.</p> <p><i>PSR 9. Simplification of Procedures for Business Entities</i> – activities were launched in March 2016 to implement the project of establishing a unique registry of administrative procedures and other conditions for doing business, aimed at streamlining the procedures and reducing the costs for businesses</p>

	<p>and citizens. The activities are implemented in line with the adopted strategic documents – <i>Strategy for Supporting the Development of Small and Medium-sized Enterprises, Entrepreneurship and Competitiveness 2015 – 2020</i> (OG 35/2015), <i>the Strategy for Regulatory Reform and Advancing the System of Managing Public Policies 2016 – 2020</i> (OG 8/16) and the <i>National Program for Curbing Grey Economy</i> (OG 110/15); the European Union Services Directive of 2006 is being transposed through the preparation of the Law on Services (draft prepared), the identification of a national list of services that the law will refer to and the preparation of a plan of sectoral harmonization of regulations in this field.</p> <p>An analysis with proposals for optimizing all the listed procedures will be conducted during the project, including the establishment of an adequate legal framework (taking the form of a legal instrument).</p> <p>Activities of establishing an efficient portal at the website of the Republic Secretariat for Public Policies have been launched, where initiatives for amending inefficient regulations may be submitted by citizens and legal entities. In this way, the mechanism will enable continuous analysis of efficiency in the implementation of regulations and specific provisions.</p> <p>On the other hand, the “regulatory impact assessment” represents a mechanism for controlling the quality of regulations and is significant for the system of policy making. The implementation of this tool will prevent uncontrolled legislative activity, including the adoption of unjustified and costly solutions. The regulatory impact assessment will thus ensure continued, system support to the “regulatory guillotine”, as it represents a barrier to the creation of new and unjustified solutions.</p>
<p>P6. Improve the implementation of targeted active employment policy measurers, particularly to enable a reintegration of workers who will become redundant when tackling the issues of public enterprises and rationalization of public administration. Increase the capacity of the National Employment Service for expanding such measures in order to increase the number of its beneficiaries.</p>	<p><i>PSR 14. Improving the effectiveness of active labour market measures with special emphasis on the young, redundant workers and the long-term unemployed</i> – part of the recommendation has been implemented (<i>Improve the implementation of targeted active employment policy measurers, particularly to enable a reintegration of workers who will become redundant when tackling the issues of public enterprises and rationalization of public administration</i>) through a package of services for redundant workers which has been prepared and is identified in the National Employment Action Plan 2016, as implemented by the NES. The package includes a number of steps, depending on whether pre-emptive activities are needed, before employment is to be ended, or activities with persons after they are registered with the NES.</p> <p>The implementation of the second part of the recommendation (<i>increase the capacity of the National Employment Service for expanding such measures in order to increase the number of its beneficiaries</i>) is ongoing, through the World Bank project entitled “Competitiveness & Jobs” (2016-2018). A component relates to reforming the labour market and the social protection system. This component, <i>inter alia</i>, tackles the building of capacities of NES employees through the establishment of a system for internal certification and training of employment counsellors, in a way overcoming the obstacles linked to increasing the capacities of NES that are established by the provisions of the Law on Establishing the Maximum Number of Employees in the Public Sector (OG 68/15) and the Decision on the Maximum Number of Persons Employed on an Open-End Basis in the Public Bodies System, the Public Services System, the Autonomous Province of Vojvodina System and the Local Government System in 2015 (OG 101/15).</p>
<p>Reforms in the field of education</p>	<p>Ongoing reforms:</p>

<p>and skills</p> <p>(although the EC did not submit any recommendations on education, due to the significance of this field and its being emphasized as a priority in the Government Programme (expose), it is necessary to report on:</p> <ul style="list-style-type: none"> - Ongoing reforms - Reforms whose implementation is to begin in the following year - Planned reforms in the period of Government's mandate 	<ul style="list-style-type: none"> - Establish the national qualifications framework system aimed at raising competencies - Develop and deliver functional education in line with the needs of the labour market, with focus on vocational education and training. Reforms in vocational education, founded on more intensive engagement of employers in all education stages –establishing the needs for a specific qualification and/or competencies, program development, delivery of education through practical activities and participation in final and/or <i>matura</i> exams. These reforms include the development of a national work-based learning model (cooperative education, dual education); - Reforms in the field of computer science in primary and secondary education by modernizing the curriculum of the elective subject in primary school and the mandatory subject in all secondary schools; <p>Reforms whose implementation is to begin in 2017:</p> <ul style="list-style-type: none"> - Introduce new education profiles developed in line with the needs and in cooperation with the business sector following the dual education model; - Develop an entrepreneurial learning model in primary and secondary schools. Piloting of the model; - Introduce a mandatory subject entitled Computer Science in primary education - Develop new school sports models - Build capacities of head teachers in primary and secondary schools <p>Planned reforms in the period of the Government's mandate:</p> <ul style="list-style-type: none"> - Establish a national qualifications framework system aimed at improving competencies - Introduce a dual education model in the vocational education and training system - Develop entrepreneurial learning at all education levels - Develop pre-school education - Further reforms in the field of higher education
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