



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 14.10.2009  
SEC(2009) 1339

**COMMISSION STAFF WORKING DOCUMENT**

**SERBIA 2009 PROGRESS REPORT**

*accompanying the*

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

**Enlargement Strategy and Main Challenges 2009-2010**

{COM(2009) 533}

## TABLE OF CONTENTS

1.	Introduction.....	4
1.1.	Preface.....	4
1.2.	Context.....	4
1.3.	Relations between the EU and Serbia.....	5
2.	Political criteria.....	6
2.1.	Democracy and the rule of law.....	6
2.2.	Human rights and the protection of minorities.....	13
2.3.	Regional issues and international obligations.....	19
3.	Economic criteria.....	23
3.1.	The existence of a functioning market economy.....	23
3.2.	The capacity to cope with competitive pressure and market forces within the Union.....	29
4.	European standards.....	30
4.1.	Internal market.....	30
4.1.1.	Free movement of goods.....	30
4.1.2.	Movement of persons, services and right of establishment.....	32
4.1.3.	Free movement of capital.....	33
4.1.4.	Customs and taxation.....	33
4.1.5.	Competition.....	35
4.1.6.	Public procurement.....	35
4.1.7.	Intellectual property law.....	36
4.1.8.	Social policies, employment and public health policy.....	36
4.1.9.	Education and research.....	39
4.1.10.	WTO issues.....	40
4.2.	Sectoral Policies.....	40
4.2.1.	Industry and SMEs.....	40
4.2.2.	Agriculture and fisheries.....	41
4.2.3.	Environment.....	43
4.2.4.	Transport policy.....	45
4.2.5.	Energy.....	46

4.2.6.	Information society and media.....	48
4.2.7.	Financial control.....	49
4.2.8.	Statistics .....	50
4.3.	Justice, freedom and security .....	50
4.3.1.	Visa, border management, asylum and migration.....	50
4.3.2.	Money laundering .....	52
4.3.3.	Drugs.....	53
4.3.4.	Police.....	53
4.3.5.	Fighting organised crime and terrorism .....	54
4.3.6.	Protection of personal data.....	55
	STATISTICAL ANNEX.....	56

# COMMISSION STAFF WORKING DOCUMENT

## Serbia 2009 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

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

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

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

The period covered by this report is from early October 2008 to mid September 2009. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or are awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Serbia, the EU Member States, European Parliament reports<sup>1</sup> and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Serbia in its separate communication on enlargement<sup>2</sup> based on the technical analysis contained in this report.

#### 1.2. Context

Serbia is a potential candidate for EU membership. On 29 April 2008 Serbia signed a Stabilisation and Association Agreement and an Interim Agreement on trade related measures with the EU.

---

<sup>1</sup> The rapporteur for Serbia is Mr Jelko Kacin.

<sup>2</sup> Enlargement Strategy and Main Challenges 2009-2010 (COM(2009)533 of 14.10.2009).

### 1.3. Relations between the EU and Serbia

Serbia is participating in the **Stabilisation and Association Process**. The Stabilisation and Association Agreement (SAA) provides a framework of mutual commitments on a wide range of political, trade and economic issues. The SAA was signed, along with the Interim Agreement, in April 2008. EU ministers agreed to submit the SAA to their parliaments for ratification and the Community agreed to implement the Interim Agreement as soon as the Council decides that Serbia is fully cooperating with the International Criminal Tribunal for the former Yugoslavia (ICTY). In advance of a decision by the EU and following ratification of the SAA by the Serbian parliament, in January 2009 Serbia has already started to implement provisions of the Interim Agreement.

The visa facilitation and readmission agreements between Serbia and the European Community continued to be implemented. In the framework of the **visa liberalisation** dialogue, Serbia has made important progress in the areas of justice, freedom and security and has fulfilled the majority of the roadmap benchmarks. Therefore, the Commission in July 2009 proposed lifting the visa obligation for Serbian citizens<sup>3</sup>. This proposal is subject to Serbia meeting the outstanding criteria before the Council of the EU takes its decision, after consultation of the European Parliament.

Serbia has taken first steps to cooperate with the EU rule of law mission in **Kosovo** (EULEX) but these efforts need to be further strengthened. In December 2008 the government adopted a decision supporting the UN Secretary-General's plan on deployment of EULEX. In September 2009 EULEX and Serbia signed a protocol on police cooperation.

The EU is providing guidance to the Serbian authorities on reform priorities as part of the **European Partnership**.<sup>4</sup> The Serbian government has begun to implement a national programme for integration into the EU and has established a monitoring mechanism on the basis of which quarterly reports are published. Progress on reform priorities is encouraged and monitored by the **Enhanced Permanent Dialogue (EPD)**. The plenary EPD meeting was held in May 2009. Several sub-EPD meetings took place during the reporting period, covering sectors such as energy, transport, the environment, the internal market, trade, justice, freedom and security and agriculture. A political dialogue at ministerial level took place in January 2009.

As a potential candidate for EU membership, Serbia aligned itself with 93 CFSP declarations from a total of 128 relevant declarations adopted by the EU during the reporting period.

Serbia receives pre-accession **financial assistance** from the Instrument for Pre-Accession Assistance (IPA). IPA assistance continues to be implemented by the Commission Delegation in Belgrade. A decentralised implementation system (DIS) for management of aid remains a medium-term objective for Serbia. Preparatory work has started. Extensive further efforts are required in order to put Serbia in a position to take over responsibility for implementation of all IPA components and for future management of Structural and Cohesion Funds.

---

<sup>3</sup> Residents of Kosovo (under UNSCR 1244/99) are not covered by the current proposal. The technical requirements for visa liberalisation have not yet been met on the territory of Kosovo. The Commission in this regard will continue to work closely with both the Serbian and Kosovo authorities and explore options for addressing the visa issue in the future.

<sup>4</sup> Council Decision 2008/213/EC.

Serbia's national IPA allocation for 2009 totalled €194.8 million. Financial assistance is focusing on areas such as strengthening the rule of law, human rights, education, transport and environmental protection. Serbia participates in multi-beneficiary programmes. Serbia is also participating in cross-border cooperation with neighbouring countries across a range of areas such as infrastructure, environmental issues, cultural exchanges, research, job creation, security and crime prevention. A number of **civil society** initiatives are being supported both under the national and regional IPA programmes under the Civil Society Facility and by thematic financing instruments such as the European Initiative for Democratisation and Human Rights. Support for civil society under 2009 programmes totalled over €3 million and is focused on civic initiatives and capacity building, a people to people programmes and partnership actions between civil society organisations and the EU.

In response to the **economic crisis**, Serbia is receiving €100 million of exceptional budgetary support from the 2009 national IPA envelope. Moreover, an IPA crisis package has been created for the Western Balkans. It amounts to €200 million and is expected to leverage investments of at least €1 billion, co-financed by the partner financial institutions. Of this multi-beneficiary fund, Serbia will receive a share to finance projects on competitiveness, SMEs, energy efficiency and banking sector regulation. Serbia will also benefit from infrastructure projects. €9 million have been committed to the Infrastructure Project Facility for projects on water supply infrastructure and reconstruction of urban transport in Belgrade.

Concerning Community programmes, the EU has co-financed Serbia's participation in the Seventh European Community Research Framework Programme, the Culture Programme, the Fiscalis 2013 Programme, the Customs 2013 Programme and the Programme for Employment and Social Solidarity (PROGRESS).

## **2. POLITICAL CRITERIA**

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

### **2.1. Democracy and the rule of law**

#### *Constitution*

The follow-up to the opinion of the Venice Commission of the Council of Europe concerning the constitutional provisions considered not fully in line with European standards has been only partial. The main concerns remain political party control over the mandates of Members of Parliament (MPs) and the role of parliament in judicial appointments.

The Provincial Assembly of Vojvodina adopted a draft Statute of Vojvodina in October 2008, in line with constitutional requirements. However, the draft Statute has not yet been passed by the national parliament as required by the Constitution. The deadline for this expired on 31 December 2008. Nor has parliament adopted the accompanying law on the transfer of powers from State to provincial level. The main reasons for this delay are related to political and party divisions in the approach to decentralisation in Serbia.

*Overall*, there has been little progress on adopting legislation to implement the new constitutional framework. The constitutional requirements regarding the status of Vojvodina have not yet been implemented. Further reforms are needed to ensure that the constitutional provisions, notably on the judiciary, are implemented in line with European standards. This is one of the key priorities of the European Partnership.

### *Parliament*

Following a prolonged period of obstruction, amendments to the parliament's rules of procedure were adopted in February 2009, providing for more efficient parliamentary debates. This has led to improvements in the functioning of the parliament including the passage of laws through the legislature. The conditions for MPs to invoke procedural violations, the main source of the previous practice of obstruction, were tightened up. The agenda and timing of plenary debates have been streamlined. Parliament activated the existing, but previously rarely used, instrument for exercising oversight of the executive, namely the possibility for MPs to ask both written and oral questions and for organising debates on specific topics proposed by MPs.

Parliament adopted a new Law on Political Parties in May 2009, a fundamental piece of legislation which has established clearer and stricter rules for registration and which will reduce the number of parties, some of which exist only on paper. The law increased the number of signatures required in order to register a party to 10,000 or to 1,000 for parties representing minorities. The new registration process started in July 2009.

There has been increased legislative output from the parliament. There is, however, a need to improve *ex ante* compatibility checks with EU standards before legislation is adopted. There has, moreover, been insufficient public consultation on content and impact of draft laws.

The challenges facing operation of the legislature are still considerable. The changes to the rules of procedure have been only partial, and adoption of an entirely new rulebook is still pending. Furthermore, the procedural revisions were adopted without the full participation of the opposition. The practice of obstruction and legislative delays, such as submission of large numbers of non-substantial amendments to draft laws has recurred. New election laws and the Law on the Assembly have yet to be adopted.

In February 2009, disputes over the decision by the public broadcasting service to suspend live transmission of parliamentary sessions led to suspension of the work of parliament. A temporary solution was found, whereby sessions would continue to be broadcast until a special parliamentary channel is established.

Parliament and its committees still lack sufficient numbers of qualified staff. Committees remain weak and their work is largely reactive. The practice of law-making by urgent procedure has continued and this has had an impact on the quality of legislation. Inflammatory, and at times offensive, language was used by some MPs against political opponents and human rights defenders. Sanctions were applied in some cases but, on the whole, the current parliamentary rules have proved inadequate and have not prevented such behaviour. Parliament still lacks a coherent approach to consultations with civil society, international organisations and other stakeholders.

The parliamentary committee for finances has not ensured adequate control of the funding of political parties. Under the current deficient legislation, the committee lacks powers to

investigate reports fully and to sanction parties which fail to abide by their obligation to submit reports.

The electoral framework has not been revised and is not in line with European standards. Constitutional provisions giving parties control over the mandates of MPs continue to hamper the work and reform of the legislature. Most parliamentary parties have concluded individual agreements with their MPs on blank resignations, which can be activated at any time by the party leadership. Legislation required by the Constitution has not been adopted. The current procedure for signing blank resignations is, therefore, not legally regulated and triggered a major political and legal dispute following the split in the Serbian Radical Party. This split resulted in the formation of a new party, the Serbian Progressive Party, with a separate caucus in the Serbian parliament.

*Overall*, there have been some improvements on the functioning of the parliament including the passage of laws through the legislature, such as in the areas of competition, agriculture justice, freedom and security. There has also been some progress on streamlining debates following the procedural revisions, although a complete reform is still pending. The institutional capacity of parliament remains low and, in spite of changes to the rules, parliament has not sufficiently used its powers of control over the executive branch. The work of parliament continues to be affected by the controversial issue of MPs' mandates. The capacity of parliamentary committees remains limited. Election legislation has not yet been revised.

#### *Government*

The government has proven stable and has demonstrated a high degree of consensus on EU integration as a strategic priority. In January 2009, the government started to implement provisions of the Interim Agreement of the SAA. Customs duties were lowered with effect from 30 January 2009, and measures were taken in the areas of competition and State aid. The European Integration Council, chaired by the Prime Minister, met twice since the formation of the new government, giving its full political support to government efforts in the field of visa liberalisation, implementation of the Interim Agreement and further harmonisation of domestic legislation with the *acquis*.

In March 2009 the government approved a new organisational structure for the Serbian European Integration Office with a view to ensuring more efficient and comprehensive coordination of the EU accession process. The Serbian European Integration Office is functioning well. Government accountability to parliament has improved and the practice of regular hearings in parliament and replies to MPs' questions was established. The Secretariat-General of the government was reorganised with a view to strengthening its role in planning, monitoring and policy analysis.

The government has been drafting a large number of bills aimed at further alignment of national legislation with European standards. However, the quality has varied considerably across ministries and the Legislative Secretariat has not been given sufficient time to check thoroughly compatibility with existing national legislation. This reflects uneven administrative capacity on European integration within line ministries. Regulatory impact analysis is not sufficiently thorough and not enough attention has been paid to effective implementation of existing legislation and action plans.



The government was criticised for withdrawing the draft anti-discrimination law from the parliamentary procedure in response to pressure exerted by religious communities. The reaction to the death threats against the State Secretary for Human and Minority Rights for his defence of the rights of the lesbian, gay, bisexual and transgender (LGBT) population was insufficient.

There were cases of interference by government in the work of the judiciary and conflicts of interest. In this respect, the government has failed to abide by the recommendations made by the board for the prevention of conflicts of interest.

As regards local government, legislation regulating transfers of property to municipalities has not been adopted. This has hampered decentralisation. Legislation regulating the status of local government employees is also pending.

*Overall*, stability in the government has increased, with greater consensus on European integration. The government has prepared a large number of laws across a range of areas. However, insufficient attention has been paid to impact assessment and to effective implementation of existing laws and strategies. Insufficient action was taken in cases involving conflicts of interest and incompatible functions. Planning of government work needs to be improved, with greater coordination between ministries.

#### *Public administration*

As part of the public administration reform, the Law on Civil Servants was amended in December 2008. The new provisions set clear educational requirements for civil servant posts, defined the role of the Ombudsman in connection with dismissal of civil servants and extended the legal deadline for completion of open competitions for the recruitment of civil servants until the end of 2009. As part of an arrangement with the International Monetary Fund (IMF) in response to the financial crisis, legislation was adopted to reduce salaries for all elected and appointed public servants until the end of 2009. In addition the government is taking measures to significantly reduce the number of employees in the public administration. The new Law on Registration Books was adopted in March 2009 with the aim of introducing electronic communication between State bodies and registries, thus facilitating document management.

However, the legislative framework governing public administration is not yet complete. The Law on Administrative Procedures, the Law on Administrative Disputes, updated action plans for implementation of the public administration reform strategy and relevant implementing legislation have not yet been adopted. Only initial steps have been taken to introduce specific anti-corruption measures for the public administration and there is inadequate follow-up or judicial control.

The Ombudsman's offices, at both State and provincial levels, have been very active. They issued a large number of opinions and recommendations, visited relevant institutions and proposed amendments to legislation. Public awareness of the existence and responsibilities of the Ombudsman has increased. The Provincial Ombudsman organised awareness-raising campaigns in Vojvodina. However, the State authorities have not provided all the resources necessary for the offices to carry out their mandates fully and there has not been sufficient follow-up to the Ombudsman's recommendations. At local level, offices have been established in only 11 cities and municipalities.

The commissioner for free access to information of public interest has become more active. Following adoption of the Personal Data Protection Law in November 2008, the commissioner's powers were extended to cover data protection as well. Training of the commissioner's staff in charge of data protection began in early 2009. However, insufficient staff, especially now that the office has taken on additional tasks and the lack of a mechanism for enforcing the commissioner's decisions are major obstacles to the work of this office.

Other independent regulatory institutions – the State Audit Institution, the Committee for the Suppression of Conflicts of Interest, the Anti-Corruption Council, the Competition Protection Commission, the Public Procurement Office and the Commission for the Protection of Bidders' Rights – continued to face difficulties in carrying out their mandates. These related mainly to lack of resources and inadequate official follow-up to their decisions and recommendations.

Capacity-building and further specialisation within the police have continued, with positive steps taken to modernise police work and improve international and regional cooperation. Better coordination within police structures and with other ministries contributed to adoption of several key strategies and laws. Steps were also taken to improve relations with the public and civil society, but cooperation needs to be further developed and established throughout the police service.

*Overall*, Serbia has good capacity in the area of public administration. However the pace of public administration reform has been slow. The action plan for implementation of the public administration reform strategy has yet to be adopted. The merit system provided for in the amended Law on Civil Servants has not been implemented. Transparency in the public administration has to be improved and greater priority should be given to fighting corruption and effectively supporting the work of independent bodies. This is a key priority of the European Partnership. Greater coordination on implementation of public administration reform is needed, including monitoring and evaluation, and good management practices need to be developed.

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

In March 2009 the Serbian government adopted a strategic defence review which provides the framework for medium- and long-term defence planning. In April 2009 the government adopted two key reform documents – the military strategy and the defence strategy. The parliamentary committee for security and defence held regular hearings with the civilian and military intelligence services. In April and May 2009 the committee carried out the first field visits to the premises of the civilian State security agency, the military security agency and the military intelligence agency. The Ministry of Defence demonstrated greater openness to consultations with civil society on preparing the new military strategies.

In December 2008 a public dispute broke out between the Army Chief of Staff and the Minister of Defence regarding the pace and nature of defence reforms. In line with his constitutional powers, the Serbian President dismissed the Chief of Staff and appointed a new one in February 2009.

The legislative framework, however, is incomplete. The national security and defence strategies which were approved by the government in April 2009 have not yet been adopted by parliament. Moreover, the Laws on Alternative Service and Conscientious Objection,

Military Intelligence and Military Security Agencies and the Law regulating Trade in Arms and Military Equipment have not yet been adopted.

Civilian oversight remains insufficient and the relevant parliamentary committee lacks specialised staff. The committee mainly held routine periodic hearings and has only just started field visits to the security agencies. There have been no debates about how the military budget is spent or about public procurement of military equipment.

*Overall*, there has been some progress on civilian oversight of the security forces, with more involvement of the parliamentary committee for security and defence. Reform in this sector still has to be completed.

### *Judicial system*

There has been progress in the reform of the judicial system, which is a key priority of the European Partnership. In December 2008 a set of judicial laws were adopted, introducing a broad reform of the judiciary. They included laws on the High Judicial Council, on judges, on the organisation of courts, on the State Prosecutorial Council and on the public prosecution service.

Two new bodies – the High Judicial Council and the State Prosecutorial Council – were established in April 2009. They will be responsible for election and promotion of judges and prosecutors. This includes defining the criteria for and implementing a general reappointment procedure for judges and prosecutors.

In accordance with the Constitution, the new High Judicial Council will have eleven members. The President of the Supreme Court of Cassation, the Minister of Justice and the President of the Parliamentary Committee for Judicial Affairs will be *ex officio* members and parliament will appoint the remaining eight elected members, six of whom will be judges. By law, the nominees will be chosen by an election in which all judges in Serbia can participate. The fact that judges will hold the majority of seats in the Council should ensure that they are represented more fairly and adequately and reduce the political influence to which the current Council is exposed.

The autonomy of the prosecution service was strengthened by extending the mandate of deputy prosecutors to permanent posts upon appointment by the new State Prosecutorial Council.

The new Law on Seats of Courts introduces major changes to the system, which currently consists of some 168 courts. Under this law, the new Serbian court network will consist of 34 basic courts, 26 higher courts and 4 courts of appeal with general jurisdiction. The law also provides for specialised commercial and administrative courts and the Supreme Court of Cassation. To secure adequate access to justice, basic courts will maintain court units in the former seats of the municipal courts and judges will travel to them on the days designated for hearings. The new system is expected to be applied from January 2010.

However, the new package of judicial laws contains major weaknesses. As an exception to the general rule, the members representing judges in the first composition of the new High Judicial Council were nominated by the previous High Judicial Council which was not bound by the proposal from the courts. This appointment procedure does not provide for sufficient participation by the judiciary and leaves room for political influence. This is of particular

concern as the first new High Judicial Council will be fully in charge of implementing the reappointment procedure for all judges.

The reappointment procedure faces major challenges. The criteria adopted for the reappointment of both judges and prosecutors are not fully in line with the Council of Europe's Venice Commission's recommendations. The criteria for reappointment leave room for political influence over the procedure, as they are difficult to assess in practice. The short deadline set – by the end of 2009 – raises serious concerns as to the possibility to carry out an objective procedure. This creates a risk of long-term politicisation of the judiciary. Nevertheless, the Serbian Constitutional Court confirmed in a judgement of July 2009 the constitutionality of the reappointment procedure, following an appeal filed by the Serbian Judges Association.

Concerns as to the autonomy of the prosecution service persist. Despite certain improvements under the new legislation, the procedure for the election of public prosecutors and their deputies remains subject to influence of the parliament.

The Constitutional Court continued its work with a limited staff of ten judges, while the appointment of five judges is pending. On top of the already large backlog of cases, 1,787 new cases were filed in 2008. The Court processed 786 cases.

Despite attempts to implement a special programme, the significant backlog in civil, criminal, commercial and administrative cases remains a cause for concern. Enforcement of judgments remains inefficient. There is an important need to streamline court procedures and improve court management systems.

Progress on domestic war crime cases has been slow. The entry into force of the 2006 Criminal Procedure Code was postponed for the second time, until the end of 2010.

*Overall*, Serbia is moderately advanced in the area of reform of the judiciary. There has been progress in the form of adoption of a new legislative framework and steps to implement it. However, the ongoing reform and its partly hasty implementation pose big risks for the independence, accountability and efficiency of the judiciary.

#### *Anti-corruption policy*

Serbia made progress on improving the institutional framework for the fight against corruption. Implementation of Group of States against Corruption (GRECO) recommendations and international conventions continued. Parliament elected the executive board of the Anti-Corruption Agency in April 2009. The Agency was also allocated premises, budgetary resources and initial technical and administrative assistance. Progress can be reported in access to information of public importance, where there has been a considerable increase in the number of requests.

The law enforcement authorities have shown a higher level of commitment to fighting corruption, leading to the arrests of several suspects, and a number of high-profile cases have been opened. Internal control is operational in all law enforcement agencies.

However, corruption remains prevalent in many areas and continues to be a serious problem. There are major obstacles to rooting out systemic corruption. The most vulnerable sectors are public procurement, privatisation and other large budgetary expenditures, but also taxation, customs and licensing. The 2007 action plan has not yet been implemented. There is no clear

plan for the measures needed to implement the international conventions that have been ratified. The overall processing of corruption cases remains inefficient, with only a few final convictions. The short term of office of the special prosecutor and his deputies (two years) limits their effectiveness and autonomy.

In the absence of an Anti-Corruption Agency, which is only expected to be operational in 2010, the 2008 provisions on conflicts of interest and financing of political parties have not yet been implemented. Moreover, these provisions contain shortcomings, in particular on party financing, which will make effective supervision difficult. Further improvements of the anti-corruption legislation are necessary. In the meantime, application of the old Law on Financing Political Parties continued, leading to the absence of sufficient control over this area. The electoral commission, which currently acts as a supervisory body, had neither the powers nor the capacity to enforce delivery of financial statements and to assess the accuracy of the information provided. The same applies to control over conflicts of interest, where a large proportion of public officials still fail to meet their reporting obligations.

Insufficient protection of whistleblowers is affecting the fight against corruption. Public procurement and privatisation procedures along with budgetary expenditure are still not efficiently monitored by independent bodies. The State Audit Institution is still at a very early stage and has only started to carry out its first audits. Due to a serious lack of staff and audit capacity, no adequate supervision of public expenditure is ensured.

*Overall*, some progress has been achieved on adopting the new legislative and institutional framework for the fight against corruption, which is a key priority of the European Partnership. However, the effectiveness of the law enforcement and judicial authorities remains low. The setting-up of the Anti-Corruption Agency has been slow and the relevant legislation needs further improvement. Political party financing and conflicts of interest remain serious causes for concern.

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

### *Observance of international human rights law*

As regards **ratification of human rights instruments** Serbia has ratified all the major human rights instruments. The Revised European Social Charter and the European Convention on Trans-frontier Television were ratified in May 2009.

The **European Court of Human Rights (ECtHR)** received 1,361 new applications and delivered 17 judgments from October 2008 to September 2009, which found that Serbia had violated the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR). Judgments concerned violation of the right to a fair trial. As of September 2009, there are almost 3000 eligible cases pending against Serbia.

In relation to **promotion and enforcement of human rights**, the Ministry for Human and Minority Rights has been raising awareness within the administration about international human rights obligations. It also signed a memorandum of cooperation with more than 150 civil society organisations active in the field of human rights, thus improving the level of involvement of civil society organisations in policy- and decision-making. The Ministry for Human and Minority Rights has been promoting tolerance and respect for human rights and has used occasions such as the International Day of Tolerance, the International Roma Day and Universal Children's Day to raise awareness among the population.

The Judicial Training Centre continues to provide training on the ECHR. Awareness among judges of international human rights obligations has improved. However, courts are still reluctant to directly enforce ratified international treaties.

*Overall*, the legal and institutional framework for the observance of human rights is in place and some progress has been made on improving observance of international human rights law. The new Ministry for Human and Minority Rights is playing an important role in promoting such rights. Further efforts are needed to increase understanding of relevant international standards in this area.

### *Civil and political rights*

There has been some progress on **prevention of torture and ill-treatment** and the **fight against impunity**. The latest concluding observations by the UN Committee against Torture and the report of the Council of Europe's Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment were published in January 2009. Serbia submitted responses to both reports which outlined the measures taken by the authorities to prevent torture and ill-treatment.

Greater efforts however are still necessary in order to prevent any further cases of torture and ill-treatment. In particular, Serbia has not yet established a national mechanism to prevent torture, an obligation deriving from its ratification, in 2006, of the Optional Protocol to the Convention against Torture and other Cruel, Inhuman and Degrading Treatment or Punishment. Further reports of inhumane treatment by the police suggest that such malpractices still have not been eradicated.

A Deputy Ombudsman for the rights of detainees was appointed to monitor places of detention. However police detention procedures remain of concern. In particular, there have been violations of detainees' right to have access to a lawyer, doctor and, where necessary, an interpreter. Internal and external inspection of detention centres is irregular. No independent external oversight mechanism exists

As regards **access to justice**, no progress has been made on adopting legislation and establishing a comprehensive system of free legal aid.

Some progress was made with reform of the **prison system**. Initial steps were taken in November 2008 to introduce a system of alternative sanctions. Progress was made on developing programmes and capacity for individual treatment of prisoners and providing better medical services. However, the effects of these measures remained limited pending revision of the legislation. The problem of overcrowding in prisons continues, due to ineffective implementation of alternative sanctions and the lack of decriminalisation of minor offences or of reintegration programmes. Moreover, the lack of training is hampering prevention of discrimination and protection of human rights. Increased levels of drug use and corruption in prisons were reported following independent monitoring by NGOs.

**Freedom of expression** is generally protected under the Constitution and other laws. New anti-discrimination legislation introduced a rule prohibiting hate speech. A similar prohibition also exists in the Public Information Law and amendments to the Penal Code in August 2009 have further elaborated provisions against hate speech. However, in spite of the legal framework, incidents involving hate speech, threats and physical attacks against journalists, human rights defenders and the lesbian, gay, bisexual and transgender (LGBT) population have not been properly investigated and perpetrators have not been brought to justice. There

has been no progress in the investigations of murders of journalists dating back to the 1990s and 2001 and of an attempted murder of a journalist in 2007.

As regards the **media**, changes to the new Broadcasting Law, clarifying the procedure for appointment of members of the Broadcasting Council, were adopted in May 2009. Progress was made in terms of the transparency and accountability of the activities of the Republican Broadcasting Agency. The process of allocation of frequencies was completed in 2008. The Republican Broadcasting Council issued 467 licenses to radio and TV stations. In a small number of cases, in particular those relating to media using minority languages, the decisions proved controversial and procedural irregularities were raised. The appointment of two new members of the Broadcasting Council, whose mandates have expired, is still pending. The new Law on Media Concentration and the Law on Advertising have not yet been adopted. Political interference in the work of media has continued. Breaches of the rules on protection of privacy and ethics by some sections of the media continued. In August 2009 amendments to Law on Public Information were adopted under urgent procedure. Both the government and parliament were criticised by civil society, professional associations and international organisations over the lack of transparency and lack of public consultation prior to the adoption of the amendments. There are concerns, moreover, that some of the new provisions, such as the severity of penalties for violating professional norms, may have the effect of infringing on media freedom.

**Freedom of assembly** is guaranteed by the Constitution. It is the direct responsibility of the state authorities to guarantee the effective exercise of this fundamental right. Legislation banning gatherings of neo-nazi and fascist organisations and prohibiting use of neo-nazi and fascist symbols was adopted in May 2009. There have been improvements in cooperation and action by the Serbian police to provide protection during public gatherings. However, a planned Belgrade Pride Parade had to be cancelled in September 2009 at the last minute as the Serbian authorities were unable to guarantee the safety of the participants. The organisation of this event was marred by threats from extremist and right wing groups against the organisers and the participants and a climate of prejudice against the LGBT community.

**Freedom of association** is guaranteed by the Constitution and by new laws on political parties and on associations. The Constitutional Court received four requests to ban political parties or citizen's associations. One was dismissed and the other three are pending.

**Civil society organisations** play an active part in the social, economic and political life of Serbia and have provided an invaluable contribution to the democratic transition in the country. Human rights defenders have played a key role in raising awareness of civil and political rights, positively influencing public policy and fighting impunity. The new Law on Associations adopted in July 2009 has clarified the legal status of NGOs. There have been some improvements within the Serbian administration to cooperate with civil society. However, cooperation remains mainly ad hoc and selective. NGOs, in particular human rights defenders, were once again victims of threats and verbal abuse for holding diverging views on issues such as Kosovo and the fight against impunity.

Constitutional guarantees provide for **freedom of religion** and new anti-discrimination legislation prohibits discrimination on religious grounds. According to reports by NGOs active in this field, there was a decrease in religiously motivated incidents in 2008. However, there were reports of attacks against 'non-traditional' religious communities. The official follow-up to these incidents has been insufficient. Implementation of the 2006 Law on Churches and Religious Communities led, in practice, to a number of arbitrary decisions

concerning registration of non-traditional communities. Out of approximately 170 religious organisations active in Serbia, only 13 were registered in addition to the seven traditional communities listed in the law. A number of cases are pending before the Serbian Supreme Court, including the long-standing case of the Montenegrin Orthodox church. In May 2009 the UN special rapporteur on freedom of religion or belief concluded that a number of religious communities and groups had been aggrieved by the law because of its discriminatory effects. In April 2009 the State Ombudsman stated that the Law should be revised and that the criteria for registration should be clarified.

*Overall*, civil and political rights are largely respected in Serbia. However, existing constitutional and legal guarantees need to be fully enforced and violations properly investigated. Relevant legislation needs to be further brought into line with European standards. Greater efforts need to be made by the Serbian authorities to fight impunity at all levels.

### *Economic and social rights*

As regards **women's rights**, the national strategy to improve the position of women and promote gender equality was adopted in February 2009, identifying the six most critical areas: improvement of the economic position, health, representation in public and political life, equality in education, suppression of violence and elimination of gender stereotypes in the media. Legislation prohibits discrimination based on gender. However, no specific gender equality law has yet been adopted. The level of violence against women, including domestic violence remains a serious concern. Violation of women's rights often goes unreported. NGOs have played a key role in raising awareness of this problem. At provincial level, implementation of the strategy for protection against domestic violence and other forms of gender-based violence in Vojvodina started in January 2009.

Concerning **children's rights**, the national strategy for the protection of children from violence was adopted in December 2008 but has not yet been implemented. The Ministry of Justice has adopted a protocol aimed at protecting children from abuse. In June 2009 Serbia signed the European Convention on the Exercise of Children's Rights, and the revised European Convention on the Adoption of Children. The ongoing reform of residential institutions for children has resulted in fewer children being placed in such institutions. However, this process, together with development of alternative measures, should be accelerated.

More concerted efforts need to be made to raise awareness of the situation of vulnerable groups of children and ensure that their rights are protected. The rate of school attendance by Roma children, especially girls, is still very low. Due to their insufficient knowledge of the Serbian language, many children, particularly Roma refugees from abroad, are placed in special schools for children with disabilities. Inclusive education should be developed, as the right to education, particularly of children with disabilities, has been continuously violated. Violence against children remains a persistent problem.

As regards **socially vulnerable persons and persons with disabilities**, some progress was made with the adoption, in May 2009, of the Law on Vocational Rehabilitation and Employment of Disabled Persons, which regulates several areas related to the employment, including incentives for equal participation by persons with disabilities in the labour market, vocational rehabilitation and compulsory recruitment of persons with disabilities. The UN Convention on Rights of Persons with Disabilities and the Optional Protocol were ratified in



May 2009. Implementation of the strategy on improving the situation of disabled persons is continuing.

In the area of mental health, the government continued to take measures aiming at de-institutionalisation of mental healthcare and at developing and building the capacity of community-based services. However, this reform is proceeding at a slow pace. The related community-based services remain insufficiently developed.

In the area of **labour rights and trade unions**, the government signed an extended general collective agreement with the trade unions and the employers' association in November 2008 covering various rights of employees, such as remuneration, fringe benefits and safety at work. This became binding on all employers, including the State. However, this new agreement has been temporarily suspended due to the economic crisis. Social dialogue remains weak and consultations between social partners are irregular. The capacity of the Socio-Economic Council remains weak, also due to lack of resources. It should play a more active consultative role in law-making. Local councils have been established in only a limited number of municipalities and their role remains marginal.

The Law on Prohibition of **Discrimination** was adopted in March 2009. This law marks a step forward in protection of human rights. It provides for appointment of an independent commissioner for the protection of equality. Court protection is also envisaged. The commissioner will deal with all cases of discrimination, except those already processed in court. The commissioner is expected to be operational from January 2010 on. In practice, there is ongoing discrimination, in particular against vulnerable groups such as Roma, persons with disabilities, and the LGBT population. All these groups are frequently victims of intolerance and hate speech. There is little support for victims of discrimination and there is a need for greater commitment on the part of all involved – the police, the prosecution service and the judiciary – to make sure that the legislation is fully enforced. (*See Section 4.1.8. Social policies, employment and public health policy*).

With regard to **property rights**, Serbia has adopted a new law regulating private ownership of urban construction land. However, the continued lack of a legal basis prevents proper launching of the restitution process. Privatisation of some of the properties in dispute has continued with the risk of *de facto* prejudging future decisions on the return of property. The restitution process faces greater uncertainty, as a result of the economic crisis and consequent limited budgetary resources.

*Overall*, the legal provisions on protection of economic and social rights are largely in place in Serbia. Enforcement of the existing legislation needs to be fully ensured. More sustained efforts are needed to improve the social inclusion of children, persons with disabilities and other vulnerable groups. Protection of women against all forms of violence needs to be strengthened.

#### *Minority rights, cultural rights and protection of minorities*

In addition to constitutional provisions, new legislation explicitly prohibits discrimination against ethnic **minorities**. The Law on Political Parties provides for affirmative action in favour of ethnic minority parties, by allowing a lower number of signatures for registration. The national parliament and the Provincial Assembly of Vojvodina have laid down the conditions under which minority representatives can use their mother tongue. A total of 16 minority national councils have been established. In August 2009 the Law on Minority

National Councils was adopted. This Law regulates competencies and the election of national minority councils in line with international standards. In May 2009 the Committee of Ministers of the Council of Europe issued a set of recommendations in connection with application of the European Charter for Regional and Minority Languages in Serbia. These call for promotion of tolerance and better regulation of use of minority languages in education. The Inter-State Commission provided for in the bilateral agreement with Hungary on the protection of national minorities met in May 2009. Similar agreements signed with Croatia, Romania and the former Yugoslav Republic of Macedonia are not being fully implemented and the Inter-State Commissions are not fully operational.

The Republican Council for National Minorities has not yet met. The status of different minorities varies in practice from one region to another. In particular, the position of the Vlachs and Bunjevci is uncertain and their status has not been clarified, as highlighted by the recommendations made by the Council of Europe's Committee of Ministers in May 2009. The Bulgarian national minority has been having problems with exercising its right to have access to information in its language and the right to official use of the Bulgarian language in municipal administrations.

The political situation in Vojvodina has been affected by the debate over adoption of the new Statute. Cooperation and coordination between the provincial institutions and the Ministry of the Interior have improved. The Provincial Assembly and Executive Council conducted a campaign to promote tolerance and multi-culturalism. The 2008 report by the Provincial Ombudsman noted that 24 of the 597 complaints received (4%) related to national minority rights. According to the Ministry of Justice, a number of legal proceedings have been initiated in connection with ethnically-motivated incidents. On the whole, ethnically-based incidents in the province decreased in 2008. However, in the first half of 2009 incidents involving physical assaults and offensive graffiti occurred in three towns in Vojvodina.

The situation in southern Serbia deteriorated following a number of attacks on the Serbian gendarmerie in July 2009. In March 2009 an agreement on restructuring of the government's coordination body was signed. In line with the agreement, a representative of the ethnic Albanian community was appointed as Deputy President of the coordination body. An initial boycott by some Albanians has been resolved and key Albanian leaders are now participating in the coordination body. In October 2008 the Serbian government agreed to recognise degrees awarded by Pristina University and stamped with UNMIK seals, in line with previous practice which had been interrupted in August 2008. However, a long-term solution to the issue of recognition of degrees awarded by Pristina University still has to be found. The government has issued licences for bilingual branches of the Economic and Law Faculties of the Nis University in Medvedja to be established. Problems persist with regard to integration of Albanians into the public administration and integration of Serbs into local governments in Presevo and Bujanovac.

The situation in Sandžak has deteriorated. Divisions within the Muslim community have continued and there have been several outbreaks of violence. In April 2009 the incidents spilled over from Sandžak to Vojvodina, triggering clashes between supporters of the opposing Muslim religious factions. Municipal structures lack the capacity to enforce minority rights fully in Sandžak.

According to the UNHCR there are approximately 86,000 **refugees** and 205,000 **internally displaced persons** (IDPs) in Serbia. The number of refugees living in collective centres has decreased. However, more than 5500 people are still living in these centres, enduring very

poor conditions. Both the national strategy on refugees and the law regulating this issue still have to be revised. There have been very limited improvements in the housing situation. Poverty is widespread and is particularly acute among refugees. Unemployment is high. The situation for IDPs continues to be very difficult. They are faced with many obstacles in exercising their basic social rights. Very few IDPs have returned to Kosovo.

During the Serbian Presidency of the Decade of **Roma** inclusion, Serbia adopted the national strategy for improvement of the status of the Roma in April 2009. An action plan to implement the strategy was adopted in July 2009. A limited number of scholarships were provided by the State and Vojvodina budgets to Roma students. The quality of national and local media reporting on Roma issues has improved. The League for the Roma Decade, an alliance of 60 Roma and non Roma NGOs, has become a respected partner to the state and local institutions. The initiative on legalisation of Roma settlements which started in 2007 is still in progress. At the end of 2008 the relevant ministries signed agreements with eight municipalities on preparation of legal documentation for legalisation and relocation of Roma settlements. Affirmative action introduced several years ago in the area of education is producing results, but is still insufficient. An additional 45 health mediators and 26 teaching assistants have been employed by the ministries concerned.

However, the Roma population, especially Roma children and women, remains one of the most vulnerable groups in the country. There is no organised and systematic approach to resolving the issue of housing including the relocation of Roma settlements, but instead ad hoc and often inadequate solutions, which in some cases have led to fundamental rights being violated. The Roma population is subject to discrimination, prejudice and intolerance and has been victim of a number of individual attacks. There is still a problem with civil registration, particularly for Roma IDPs. A special law to regulate the procedure for recognition of legal subjectivity and allow subsequent inclusion in citizens' registries has not been adopted. Low school attendance by Roma children and high unemployment are widespread.

*Overall*, the framework for protection of minority rights in Serbia is in place and minority rights are broadly respected. Insufficient attention has been paid to resolving the status of refugees and IDPs. The Roma population continues to endure very difficult living conditions and frequent discrimination, particularly regarding access to education, social protection, health care, employment and adequate housing.

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

There are no major outstanding issues in connection with Serbia's compliance with the **Dayton/Paris peace agreement**. In May 2009 the High Representative and EU Special Representative to *Bosnia and Herzegovina* visited Belgrade, following his appointment in March 2009. Serbian officials reiterated their support for the stability and territorial integrity of Bosnia and Herzegovina. The Serbian President also stressed that constitutional changes in Bosnia and Herzegovina are possible only with the agreement of legitimate representatives of the three constituting nations.

Cooperation with the **International Criminal Tribunal for the former Yugoslavia (ICTY)** has further improved. In his address to the UN Security Council in June 2009, the ICTY Chief Prosecutor, stated that the Serbian authorities have responded adequately and in a timely manner to specific requests for assistance and that cooperation must continue and lead to further specific and positive results. However, in spite of the improved cooperation and the searches that have taken place, the ICTY indictees Ratko Mladić and Goran Hadžić are still at

large. The ICTY Chief Prosecutor expressed concern regarding negative statements made by senior government officials about the Tribunal's judicial decisions which he stated "seemed to be in contradiction with the level of cooperation on the ground". Full cooperation with the ICTY remains an international obligation and a key priority of the European Partnership.

The status of the former State Union Law on the Freezing of Assets of ICTY Fugitives has still not been clarified. Procedures for freezing assets remain highly complex and the current legal framework contains potential loopholes and shortcomings.

As regards domestic processing of **war crimes**, there were a number of first-instance rulings in cases concerning crimes committed in Kosovo and Croatia. The War Crimes Prosecutor is currently investigating over 100 suspects. He has been working efficiently, in a difficult political context and with limited resources. Twelve trials are underway.

At operational level, the police have demonstrated improved professionalism. However, in cases related to Kosovo, there have been allegations of intimidation of witnesses, and law enforcement authorities have been reluctant fully to investigate allegations within their own ranks. Final verdicts in some high-profile cases were criticised by NGOs and members of the public, citing legal grounds, mild sentencing and denial of justice to victims and families. Trials relating to domestic war crimes have continued at a slow pace.

There has been improved cooperation regarding the exchange of evidence and the transfer of some war crimes cases between the prosecutors from Croatia, Bosnia and Herzegovina and Serbia. Obstacles to the extradition of suspects in cases of war crimes and crimes against humanity between the countries of the region continue to exist, however. Serbia, together with its neighbours, should address the regional impunity gap, including by taking steps towards extradition agreements covering war crimes cases.

Serbia's policy regarding **the International Criminal Court (ICC)** remains aligned with the EU guiding principles and the EU Common Positions on the integrity of the Rome Statute. A Law on Cooperation with the ICC was adopted in August 2009.

Serbia continues to be covered by the procedure of the Parliamentary Assembly of the **Council of Europe** to monitor its fulfilment of obligations and commitments arising from its membership. The Parliamentary Assembly adopted a resolution in April 2009 stating that Serbia has been steadily implementing its obligations and commitments. However, the resolution highlighted a number of steps that need to be taken in the field of international obligations, democracy, rule of law and human rights.

The Serbian government continued to contest **Kosovo's** declaration of independence and pursued legal and diplomatic measures to this effect, including via the International Court of Justice (ICJ). The ICJ received 36 written statements in connection with the UN General Assembly's initiative on the ICJ advisory opinion on the legality of Kosovo's declaration of independence.

In December 2008 the Serbian government adopted a decision supporting the UN Secretary-General's plan to deploy EULEX over the entire territory of Kosovo. In March 2009 the Head of EULEX officially visited Belgrade for the first time and had several meetings with the Serbian authorities. In September 2009 EULEX and Serbia signed a protocol on police cooperation. The Serbian government does not have official contact with the Kosovo authorities, insisting on dealing only with UNMIK and EULEX.

As regards trade, the Serbian government does not recognise Kosovo's customs stamps that have been notified to the European Commission and which are, according to UNMIK, in accordance with UNSCR 1244. Serbia insists that the stamps be labelled "UNMIK customs" or alternatively "EULEX customs". Serbia's refusal to recognise Kosovo's customs stamps raises serious concerns regarding the impact on trade and regional cooperation. Serbia and Kosovo need to reach pragmatic solutions enabling key regional *fora* to continue fulfilling their role in advancing regional cooperation and development. Cooperating constructively on matters relating to Kosovo is a key European Partnership priority.

Serbia maintained parallel institutions in Kosovo. The Serbian authorities have organised local by-elections in Kosovo, which is not consistent with UNSCR 1244. At the same time, Serbia has discouraged Kosovo Serbs from participating in the municipalities elections organised by the Kosovo authorities for November 2009.

The Serbian authorities protested against the establishment of the Kosovo security force and stated that it is an illegal body. The Serbian government introduced more stringent rules to control use of State funds in Kosovo. The Serbian Ministry for Kosovo released a working draft of a comprehensive strategy for sustainable stay and return of Serbs to Kosovo for public debate. This draft strategy envisages cooperation with the international community but not with Kosovo institutions.

In May 2009, a total of 1,911 persons were still missing in connection with the conflict in Kosovo. In 2008 only 43 cases were resolved. A working group between Pristina and Belgrade meets regularly under the auspices of the International Committee of the Red Cross (ICRC). However, there are insufficient exchanges of information to solve cases of missing persons at a faster pace.

There has been little progress in the **Sarajevo declaration** process, which aimed to finalise the regional refugee return process by the end of 2006. While Serbia continued to work to a greater or lesser extent on its roadmap, there has been limited discussion on implementation issues either at bilateral or regional basis. The Serbian authorities participated in the high-level meeting on protracted refugee crises organised by the United Nations High Commissioner for Refugees (UNHCR) in Geneva in December 2008. Also in December 2008 the Serbian authorities distributed a non-paper which identified outstanding issues relating to the Sarajevo Declaration process. However, there has been limited follow-up.

**Regional cooperation and good neighbourly relations** form an essential part of the process of integrating with the European Union.

Serbia continued to participate actively in regional initiatives, including the South-East European Cooperation Process (SEECP) and the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement (ECAAA). Serbia's participation in regional cooperation has, however, been affected by its approach to participation by Kosovo in the regional initiatives and other *fora*.

As regards **bilateral relations with other enlargement countries and neighbouring Member States**, there was no progress in the demarcation of *borders* with the former Yugoslav republics, notably with Croatia on the River Danube and with Bosnia and Herzegovina as regards several disputed border crossings. Demarcation of the border with Montenegro is still pending.

Political relations with *Albania* remained stable, although they were affected by Albania's recognition of the independence of Kosovo. There were no bilateral political visits, but there were senior-level meetings on the fringe of regional and international events. There have been ongoing contacts regarding judicial cooperation. Economic cooperation progressed and in March 2009 a memorandum on cooperation was signed between the Serbian and Albanian Chambers of Commerce.

Relations with *Bosnia and Herzegovina* remained stable. There were several high-level visits by Serbian officials. Serbia also provided assistance to Bosnia and Herzegovina during the gas crisis. As part of the implementation of the 2008 Protocol on inter-parliamentary cooperation, a delegation from the Serbian Parliament visited Republika Srpska in April 2009. No meetings of the Interstate Cooperation Council have taken place and there was no progress on addressing issues related to property. A border agreement between Serbia and Bosnia and Herzegovina has not yet been signed. Building on the existing agreement on special parallel relations with Republika Srpska, an agreement on economic cooperation was signed in June 2009.

Progress has been made in relations with *Croatia*, in particular following the visit of the Croatian Prime Minister to Belgrade in March 2009. The Serbian Ambassador, recalled after Croatia recognised the independence of Kosovo, returned in November 2008. The visa-free arrangement between the two countries is continuing to function well. There has been progress on cooperation on war crimes prosecutions. Croatia and Serbia signed agreements on police cooperation, on readmission of illegal migrants and on cooperation in the field of European integration. There has been some progress on cooperation on the 2,000 cases of missing persons from the war. However, there has been no progress towards a border agreement nor has the bilateral commission met. Other open matters include property-related issues, in particular claims for compensation for lost occupancy and tenancy rights, return of refugees and the genocide lawsuits before the ICJ. Relations were particularly strained amid harsh rhetoric from both sides concerning the ICJ case at the end of 2008. Economic cooperation is growing although there are limited Serbian investments in Croatia compared to the level of Croatian investments in Serbia, possibly due in part to reluctance in Croatia to accept Serbian investments.

Serbia's relations with the *former Yugoslav Republic of Macedonia* improved. After a cooling of relations in 2008 after the former Yugoslav Republic of Macedonia recognised Kosovo's independence, Serbian authorities agreed to the appointment of a new ambassador in April 2009. There have been a number of high-level bilateral visits between the two countries. Economic cooperation is continuing to improve. Unresolved issues concerning relations between the Orthodox churches in the two countries had no major political implications.

Relations with *Montenegro* continue to be affected by the Montenegrin decision to recognise Kosovo's independence. The Montenegrin Ambassador was declared *persona non grata* in October 2008. A new Ambassador was accredited in September 2009. There was good cooperation in the defence sector and the Serbian Minister for Defence visited Podgorica in February 2009. The Montenegrin President visited Belgrade in May 2009. There continues to be good economic cooperation. On the basis of a bilateral agreement, Serbian diplomatic and consular missions in some countries continue to provide services to Montenegrin citizens. Regarding the issue of dual citizenship, little progress was made towards concluding a bilateral agreement with Montenegro. Agreements on judicial cooperation and joint border patrols were signed. Police cooperation in the fight against organised cross-border crime was strengthened. Talks on border demarcation are proceeding.

Relations with *Turkey* are, on the whole, good. An agreement on military cooperation was signed in May 2009. In June 2009 Serbia signed a free trade agreement with Turkey in line with SAA requirements.

Serbia continues to maintain good relations with *Romania*. The Serbian President visited Romania in March 2009. Preparations are being made for establishment of a joint inter-state commission to implement the agreement on protection of national minorities. Problems regarding the legal status of the Romanian Orthodox church in Serbia are being addressed.

Relations with *Bulgaria* and *Hungary* are improving, after having been affected after both these countries recognised the independence of Kosovo. Several high-level bilateral meetings with Bulgaria and Hungary took place. Hungary provided emergency assistance to Serbia during the gas crisis.

*Overall*, Serbia has continued to be active in regional cooperation initiatives. Bilateral cooperation with the neighbouring and enlargement countries has improved. However, regional cooperation has been affected by developments related to Kosovo. Cooperation with the ICTY has further improved, however ICTY indictees Ratko Mladić and Goran Hadžić are still at large. Significant challenges remain regarding the domestic prosecution of war criminals.

### **3. ECONOMIC CRITERIA**

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

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

In January 2009, the government submitted to the European Commission an Economic and Fiscal Programme (EFP), covering the years 2009-2011. The programme builds on the budget memorandum of May and the December 2008 update thereof and presented a generally coherent and ambitious macroeconomic and fiscal framework together with an ambitious agenda for structural reforms. In the light of the deteriorating economic situation in autumn 2008 and beginning of 2009, the EFP rapidly became outdated and it retains only limited relevance as a core document for economic policy making. In June 2009, the Serbian government adopted a new budget memorandum, in the context of a budget revision.

In December 2008, the Serbian authorities requested a Stand-by Arrangement (SBA) for over €420 million from the International Monetary Fund (IMF), which was approved in January 2009. As the impact of the global economic crisis turned into a domestic fiscal crisis, in April 2009, the Serbian government agreed with the IMF on a revision of the programme assumptions, an increase of the available loan to €2.9 billion and an extension of the agreement to April 2011. A first tranche of this assistance, worth €788 million, was drawn in May 2009. A set of fiscal measures has been implemented in the context of the revised IMF programme, with the objective to ease the fiscal crisis. However, the underlying structural weaknesses of Serbian public finances, in particular as regards the unreformed welfare state,

have not been addressed in depth. *Overall*, consensus on the fundamentals of a market economy has been maintained, but the government lacks a medium-term reform strategy.

### *Macroeconomic stability*

In 2008, GDP growth decelerated to 5.4% compared to 6.9% in 2007 as the country started being affected by the global economic crisis. Growth in the last quarter of 2008 declined to 2.8% year-on-year as compared to an average growth rate of 6.5% in the previous three quarters. During the first quarter of 2009, GDP declined by 3.5% year-on-year. In 2008, industrial output was 1% higher than in the previous year, mainly due to good results during the first half of the year.

The declining trend that started in the second quarter of the year accelerated sharply towards the end of 2008 and further intensified in early 2009. Industrial production declined by 17.4% in the first half of 2009 compared to the same period of the previous year. In 2008, export growth slowed to 15.5%, compared to 26.1% a year earlier. During the first quarter of 2009, exports contracted by 23.8% year-on-year. As a result, growth projections for 2009 were revised downwards from an initial 6.5% to 3.5% and to -2% in March. Growth projections were further reduced to -6% mid-2009 on the back of the strongly deteriorating economic indicators during the first half of the year. In 2008, average per capita income in purchasing power standards rose to 37% of the EU-27 average, up from 33% in 2007. *Overall*, the Serbian economy was substantially affected by the global economic crisis and has been in recession during the first half of 2009.

The international financial crisis strongly impacted Serbia's economy and its financial sector. External imbalances rendered the Serbian economy vulnerable to possible disruptions in capital flows and the risks of a sudden stop or reversal of capital flows started growing. As this disruption occurred during the last quarter of 2008, the Serbian authorities approached international financial institutions to secure access to fresh loans. With the aim to inject liquidity in the financial sector, the authorities also adopted two packages in February and in May 2009, comprising loans at a preferential interest rates subsidised by the Government. The latter loans were aimed at addressing the needs of local companies faced with serious problems in financing their activities.

In 2008, the current account deficit widened to 17.6% of GDP from 15.6% a year earlier, driven by a growing deficit in the trade balance and a decline in current transfers. Strong domestic demand, fuelled by a relaxation of fiscal and wage policies, and a drop in exports of some of the major export items — notably steel — contributed to the deterioration in external accounts. Capital inflows remained substantial at 16% of GDP. However, they fell short of the financing needs. Foreign direct investment remained stable at €1.81 billion or 5.3% of GDP. Long-term borrowing by the corporate sector continued to grow by €2.5 billion albeit at a slower pace than in 2007. Short-term borrowing rose from almost zero to about € 500 million. Capital inflows practically stalled, however, towards the end of the year and in the first months of 2009. Foreign exchange reserves declined by €1.8 billion to €8.2 billion by the end of 2008. However, as the first tranche of the IMF loan was disbursed and inflows of remittances picked up in early 2009, foreign exchange reserves of the National Bank of Serbia (NBS) grew again to € 8.9 billion at end-May, reaching a comfortable 9 months worth of imports or 27% of GDP. External debt grew to € 21.7 billion or 70% of GDP at end-June 2009 from €18.6 billion or 58% of GDP in June 2008. *Overall*, the Serbian economy is going through a process of substantial external adjustment, as reflected in a rapidly contracting



current account deficit, while foreign exchange reserves have been secured at a comfortable level. Consequentially, the level of external debt has been increasing.

In 2008, labour market conditions improved slightly. The employment rate rose to 53.3%, compared to 51.5% a year earlier, but then again fell to 50.8% in April 2009<sup>5</sup>. The registered unemployment rate fell to 14.8% compared to 18.3% in 2007. This rate also rose in April 2009 to 16.4%. Nominal wages grew by 17.9% year-on-year in 2008, compared to 27.9% a year earlier. However, real wage growth slowed to 3.9% year-on-year, substantially less than in 2007 when real wages grew by a strong 19.5% year-on-year. Nominal wages grew by 8.9% year-on-year in May 2009 and, as inflation remained relatively high during the first few months of the year, in real terms by 0.6% for the same period. *Overall*, despite strong economic growth rates in recent years, unemployment remains persistently high.

The monetary policy framework that had been introduced in September 2006 was adjusted in January 2009, when the National Bank of Serbia (NBS) switched from targeting core inflation to a target of consumer price inflation. For 2009, the annual consumer price index (CPI) inflation target band was announced at a band between 11% and 15% year-on-year. In January 2009, CPI inflation accelerated back to 10.4%, driven by increases in regulated prices, such as for oil derivatives, medications, communal services and fixed line telephone service, but thereafter declined again to 7.5% in June. At end-October 2008 the NBS increased its policy rate by 200 basis points to 17.75% to stem rising inflationary pressures but also to help support the local currency, which had come under growing pressure on the foreign exchange market in late 2008. In early 2009, the NBS reversed course and reduced its policy rate in several steps by 5.75 percentage points to 12.0% at end-July, in an attempt to boost dinar liquidity and support the collapsing domestic economy. *Overall*, inflation remained relatively high in Serbia, despite the economic recession, due to strong increases in administered prices and persistently high inflation expectations. The monetary policy framework of inflation targeting remained difficult to implement successfully.

As far as the foreign exchange rate policy is concerned, the NBS was forced to intervene in the inter-bank market in late 2008 and early 2009, following the strong and rapid depreciation of the dinar that started in October. In the last quarter of 2008, the dinar nominally depreciated against the euro by 15.7%. The Serbian currency kept losing value during October, November and early December when it reached 91.63 dinar against the euro when the NBS intervened. After a month of stabilisation, the dinar fell to an all-time low of 96.33 dinar against the euro, in spite of a total of €480 million in interventions in January and February. Since then, the exchange rate has stabilised between 92 and 95 dinar against the euro, and the NBS has abstained from intervening. *Overall*, the dinar has lost some 23% against the euro since September 2008, but has stabilised since February 2009.

The expansionary fiscal policy of 2007 and early 2008, further intensified in the second half of 2008 as election promises were being delivered. The consolidated fiscal deficit stood at 6.5% of GDP during the last quarter of the year. For the whole of 2008, the consolidated fiscal deficit rose to 2.4% of GDP from 1.9% a year earlier. The rise of current expenditure was particularly large due to labour costs and pensions, which together continued to account for 54% of total public spending. Among all expenditures, those for pensions saw the highest growth in 2008 (overall 35% increase in nominal terms). On the other hand, capital expenditures declined to 3.9% of GDP in 2008 compared to 4.9% a year earlier. On the

---

<sup>5</sup> However, the drop in unemployment between 2007 and 2008 was mainly due to methodological changes.

revenue side, there was a decrease in real revenues from indirect taxes in the fourth quarter of 2008. Given this negative trend, the 2009 budget, adopted on 29 December 2009, was based on a growth assumption that was too optimistic, therefore rendering the revenue and expenditure projections for 2009 unrealistic. This was confirmed as budget revenues in January and February were well below projections. In view of the need to agree on a revised macroeconomic framework with the IMF, a revised budget was adopted on 29 April 2009, aimed at keeping the fiscal deficit at 3.0% of GDP. However, by end-June it was clear that the mid-year target of the IMF programme would not be met amid growing expenditures and declining revenues. The IMF programme had to be revised. The public deficit for 2009 is now predicted to be higher, at about 4.5% of GDP. Serbia and IMF agreed to postpone final discussions until end-October allowing Serbia to suggest further adjustments in view of the 2010 budget. *Overall*, fiscal policy remained expansionary in 2008, leaving Serbia particularly vulnerable to the fallout of the global economic crisis. As it became clear that public finances were deteriorating fast in early 2009, the Serbian authorities committed to budget adjustments that, in the context of the crisis, so far have turned out to be insufficient to stabilise public finances.

Expansionary fiscal policy and current account deficits made Serbia particularly vulnerable to the global crisis. The situation further deteriorated throughout 2008 and in early 2009 as the impact of the global economic crisis was increasingly being felt domestically. The fiscal reform measures agreed in the IMF programme appear to be insufficient to fully address adjustment needs over the short-term and further structural improvements of public finances will be needed in the medium-term. At the same time, structural reforms, in particular enterprise restructuring and privatisation, would contribute to cutting wasteful subsidies to unviable enterprises and to fostering the establishment of a competitive and dynamic private sector. A review of the social security policies and systems, in particular pension and health reform as well as the education system, with a view to ensuring medium-term sustainability of the systems and of public finances is still missing. This would also contribute to lowering labour costs and help increasing employment. *Overall*, further efforts are needed to address short-term fiscal adjustment needs and fully re-establish medium-term fiscal sustainability.

#### *Interplay of market forces*

The share of the private sector remains small at between 55% and 60% of total output. The private sector employs about 60% of the total number of employees.

The privatisation of socially-owned companies continued in 2008 and about 560 socially-owned companies were sold (15 tenders, 226 auctions and about 320 companies sold through the sale of state-owned stakes on the capital market). This brought revenues amounting to about €330 million. By the end of 2008, the total number of companies privatised through tenders or auctions since the beginning of the process in 2002 had risen to over 1,800 and has brought about €2.3 billion in privatisation revenues. The number of firms that still need to be sold declined substantially in 2008. *Overall*, progress in selling state-owned companies was hampered by reduced interest in acquiring such companies due to the global economic crisis.

According to earlier plans, four large state-owned companies (the electricity company EPS, Telekom, Belgrade airport and the pharmaceutical company Galenika) were to be offered for sale in the form of initial public offerings. This plan has been postponed for the time being. However, the government is still considering the possibility to offer Galenika and Telekom for sale in 2010 when market conditions related to the global crisis improve. On the other hand, the state oil company NIS was sold (a 51% majority stake for €400 million) as part of a

wider framework agreement for supply of gas and oil with Russia. The agreement was finalised in December 2008 and the new owner Gazprom took over the company in February 2009. With regard to the long-standing issue of privatisation of national car producer Zastava, a joint venture agreement has been signed with Italian car manufacturer Fiat in early 2009. The question of privatisation of about 500 utilities at the level of local communities remains open. Their restructuring and reorganisation have not yet begun and the plan for their privatisation remains undefined. After the legislation on the free distribution of minority shares in six state-owned companies to all adult citizens was adopted in December 2007, no new developments took place in 2008 and early 2009 as shares have not been distributed yet. This is a reflection of the fact that non-privatised state-owned companies still generate a large part of Serbia's output. Private companies remain relatively weak and have a major share in trade, but less so in production. This prevents the development of competitive domestic production and burdens public finances. Finalising the process of privatisation or, when necessary, liquidation of socially- and state-owned enterprises is one of the key priorities of the European Partnership. *Overall*, some progress was made, as the privatisation of socially-owned companies has been almost finalised. However, state-owned companies remain mainly non-restructured, therefore, a competitive and dynamic private sector has not been established. The private sector has been further weakened by the ongoing liquidity crisis.

#### *Market entry and exit*

With regard to market entry and exit, some progress was made. In April 2009 the number of registered companies slightly increased reaching 106,000 compared to 100,000 of the previous year. At the same time, about 220,000 entrepreneurs were registered with the Serbian Business Registry Agency. The process of registration has been further simplified as registration with the tax authorities is no longer done separately. With regard to market exit, implementation of the 2005 Bankruptcy Law has continued and a draft of the new legislation on bankruptcy was finalised in March 2009. The number of pending cases was still very high at the end of 2008. Further efforts are needed to improve the business environment such as in the area of construction permits. *Overall*, although some progress was registered, excessive bureaucratic requirements and complex legislation continue to hamper the business environment.

#### *Legal system*

With regard to the legal system, some progress can be reported in a number of *acquis*-related areas. However, a number of reform-related laws have been held up and implementation of the existing laws is sometimes weak. The courts and administrative bodies sometimes lack the technical capacity and personnel to perform their activities properly and promptly, and corruption remains prevalent in many areas. This has led to inconsistent implementation and very lengthy procedures, which frequently exceed the deadlines set by law. *Overall*, weaknesses in the judiciary continued to limit legal predictability and to undermine trust in the legal system among economic operators, in particular as regards effective enforcement of property rights.

#### *Financial sector development*

The lending activity of banks increased by 35% in 2008. The share of total loans granted to enterprises and households stood at 61.5% and 35.5% respectively. Deposit activities of banks grew by 7% (after 44% during the previous year). The largest share of deposits was accounted

for by the household sector (46%), followed by the enterprise sector (31%) and bank deposits (15%). Foreign currency deposits made up 69% of total deposits.

These deposits were particularly affected by the start of the crisis. In October 2008 over EUR 1 billion was withdrawn from local banks. However, fears related to banking sector stability turned out to be unfounded. Deposits stabilised quickly. The banking system has weathered the crisis well so far. The large share of FX or FX-indexed loans in the portfolios of Serbian banks remains a concern (about 69% of all loans) as it is a source of credit risk from unhedged beneficiaries. Non-performing loans increased to 7.2% in June 2009 from 4.0% a year earlier. However, the risks have been tempered somewhat by the banking system's large share of liquid assets (23.6% as of February 2009) and substantial capital buffers (capital adequacy ratio of 21.9% at fourth quarter). Foreign banks agreed to maintain their exposure in Serbia unchanged at the level of end-2008. *Overall*, financial intermediation continued to grow, though at a slower rate than in the past and from a still relatively low level. Substantial balance-sheet risks for banks exist due to large share of foreign nominated loan.

The number of majority state-owned banks remained unchanged at 4 out of a total of 34. However, the National Bank and the Government of Serbia adopted a strategy to reduce state ownership in the banking sector. There are 20 banks that are now majority-owned by foreign shareholders. Six banks were under majority ownership of domestic natural persons or legal entities. The five largest banks in terms of assets accounted for 46.2% of the total banking sector. *Overall*, competition between banks is well established and privatisation of the remaining state-owned banks has advanced slowly.

At end-December 2008, the share of total credits in default (non performing loans) in total outstanding debt stood at 4.7% (from 3.7% a year earlier). The foreign exchange risk ratio of banks stood at 8%. The average capital adequacy ratio of the banking system stood at 21.9% (from 27.7% a year earlier) and, consequently, remained well above the required minimum of 12% of risk-weighted assets for each bank. The profitability of the banking sector deteriorated in the last quarter of 2008 and the return on equity fell to 9.3% from 12.7% in 2007. *Overall*, the banking sector remains profitable and generally sound. However, the high share of high-risk assets indicates substantial financial vulnerabilities.

The Belgrade stock exchange registered negative performance in 2008. Both indexes fell sharply: BELEX15 (of the 15 largest companies) by 75.6%, and BelexLine by 68.7%. This negative trend continued in the first four months of 2009, followed by a recovery in May. In February 2009, the government started to issue on a large scale T-bills with 3 and 6 months maturity, to help finance the growing deficits in the public budgets. The total amount outstanding was € 634 million by June 2009. At the end of 2008, there were 24 insurance companies operating in Serbia (from 20 a year earlier) with an increase in staff to 11,700 (+21%). The structure of the insurance sector is continuing to change with the privatisation of the socially-owned insurance companies and the arrival of new foreign investments. Privately owned insurance companies increased their previously noted prevalent share in non-life premiums from 59.1% in 2007 to 61% in 2008, as well as in total assets from 58.6% to 61.2%. In the five years from 2004 to 2008, the premium income more than doubled, at an annual growth rate of 16.5%. However, the insurance sector's share of capital in the total financial sector has decreased to 5.6%. *Overall*, progress continued in the development of the non-banking financial sector, but its size remains limited.

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

#### *Existence of a functioning market economy*

Sharply deteriorating macroeconomic stability towards the end of 2008, and in particular in early 2009, contributed to creating a less stable and less predictable climate for decision-making by economic operators. The functioning of market mechanisms remained hampered by distortions, legal uncertainty, heavy state involvement in the production of private goods and insufficient competition.

#### *Human and physical capital*

Little progress can be reported on the reform of the education system in relation to labour market demand. The gap between demand and supply of skilled employees continues to be an obstacle to increasing foreign direct investment and developing new branches of the economy. Therefore, companies are responding to the growing shortages by becoming more proactive in offering personal/professional development and training incentives to new recruits. Attitudes towards lifelong learning and mobility continued to change. Public education expenditure accounts for a relatively small 3.4% of GDP, well below average EU levels. *Overall*, the economy has been suffering from a shortage of skilled employees, while supply has only gradually been building up in response.

Net FDI grew by 12.5% to €1.9 billion in 2008, bringing the cumulative net FDI inflow to €13.3 billion since 2000. 50% of the totals foreign direct investment originated from Austria, Greece, Norway and Germany. The three sectors receiving most foreign direct investment were financial intermediation, transportation and telecommunication as well as manufacturing. Funds from the National Investment Plan have been used for various infrastructure projects such as the Belgrade ring road and motorways in southern Serbia, but also in order to stimulate foreign investment and job creation. The policy has lately changed into the financing of only a limited number of larger projects. Continuation of the construction of Corridor X, development of infrastructure for the car centre in Kragujevac, and investment in the 40 least developed municipalities are priorities for Serbia in 2009. The total budget for expenditure under the National Investment Plan fell to €210 million for 2009 (in 2008 it stood at €600 million). *Overall*, investment activity from domestic sources has been declining, and foreign investors have become more hesitant, primarily due to growing the global economic downturn.

#### *Sectoral and enterprise structure*

Progress in selling state-owned companies was hampered by the global economic crisis, which significantly reduced interest in for acquiring such companies. Restructuring and privatisation on the other hand have been slow. The shift of economic activity towards the service sector is continuing, with services currently accounting for more than 60% of GDP. About 40% of all employees are working in state-owned enterprises or the public administration. The large informal sector is fuelled by weaknesses in tax and expenditure policies, as well as in law enforcement, including the fight against corruption and organised crime. The informal sector remains an important challenge, as it reduces the tax base and the efficiency of economic policies. *Overall*, the pace of structural adjustment of the economy is being held back by slow reforms, and has lately been aggravated by the economic crisis.

#### *State influence on competitiveness*

Subsidies from the consolidated state budget remained high (at 1.8% of GDP) and they even rose by 36% in real terms in 2008. While relevant legislation on state aid control was adopted in July 2009, the appropriate monitoring mechanism and authority are still missing. State-controlled monopolistic structures remain in place. *Overall*, state influence on competitiveness remained substantial.

#### *Economic integration with the EU*

In January 2009, Serbia started implementing the Interim Agreement.

The EU remained Serbia's main trading partner. Exports and imports of goods to and from the EU increased by 11.8% and 11%, respectively, in 2008 compared to the 2007 figures, accounting for 53% of Serbia's overall trading volumes. However, as economic activity in the country slowed down due to the global financial crisis, a significant decrease was noted in the first quarter of 2009, with both exports and imports of goods from Serbia to the EU decreasing considerably, by 25.3% and 26.8% respectively.

Standard indicators suggest that the deterioration in export price competitiveness of recent years stopped in 2008. Real gross wages grew by 4.1% less than average labour productivity (estimated at 6.1%), resulting in a 1.8% decrease in real unit labour costs. In 2008, the nominal effective exchange rate of the dinar depreciated by 11.4%. In real effective terms, the dinar depreciated by 4.9%, despite consumer prices growing faster on the domestic market than abroad. *Overall*, trade integration with the EU remained high and export competitiveness has slightly improved.

## **4. EUROPEAN STANDARDS**

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

### **4.1. Internal market**

#### *4.1.1. Free movement of goods*

Good progress can be reported in the field of free movement of goods.

As regards **standardisation**, the Law on Standardisation and the Law on Technical Requirements for Products and Conformity Assessment were adopted. The latter establishes a legal basis for transposition of all the relevant *acquis*. Moreover, in June 2009 all mandatory standards were repealed, while a number of relevant technical regulations were kept. The action plan for preparation of technical regulations, complete with measures to apply them, was approved at the end of 2008 and is being implemented.

The Ministry of Economic Affairs and Regional Development continued to play a central role in coordinating all institutions and ministries for transposition of the *acquis*. Cooperation between the ministry and the Serbian Standardisation Institute, the Serbian Accreditation Board and the Directorate for Measures and Precious Metals has improved.

The Serbian Standardisation Institute represents Serbia in international and European standardisation organisations. It is also the national enquiry point for standards. In March 2009 the government approved the annual work programme and the standards adopted by the institute. The director of the institute was appointed by the government and the three expert councils were set up. However, the chairman and members of the supervisory board have not yet been appointed. The overall administrative capacity of the institute needs to be further improved.

By September 2009 the Standardisation Institute had adopted 5,072 European standards. It is no longer in charge of mandatory certification of products, which is now under the responsibility of relevant accredited certification bodies and testing laboratories. It will remain responsible for type-approval of vehicles until the relevant line ministry has the administrative and technical capacity to take over this task.

At the end of September 2009 the number of accredited **conformity assessment** bodies stood at 347. A new procedure for designating conformity assessment bodies has been established.

There has been progress on **accreditation**. The Serbian Accreditation Board became an associate member of International Laboratory Accreditation Cooperation. The new statutes of the Accreditation Board have been approved by the Serbian government. In February 2009 the Accreditation Board applied to European Cooperation for Accreditation to sign the multilateral agreement on testing laboratories, calibration laboratories and inspection bodies. The Accreditation Board applied new accreditation systems for assessing medical laboratories. It provided training and seminars for assessors and its own staff and carried out awareness-raising activities. It has further improved its IT capacity. However, an adequate legal framework is missing, as the new legislation on accreditation has yet to be adopted. Human resources remain limited.

In the area of **metrology**, progress can be reported on upgrading specific metrology equipment and with new laboratories for acoustics, length, time, frequency, road traffic, mass, electricity, thermometry, humidity and type-approval. The Directorate for Measures and Precious Metals participates in the activities of international and European metrology organisations. However, further efforts are still needed on the legislative front, as the new Law on Metrology has yet to be adopted. The institutional set-up of the Directorate for Measures and Precious Metals has still to be clarified and the limited administrative capacity upgraded.

There has been little progress on **market surveillance**. Preparations for establishment of an appropriate market surveillance structure in line with the *acquis* have begun. A trade development strategy designating a special body consisting of representatives of all inspectorates responsible for harmonisation and coordination of inspections has been adopted. However, the capacity of the market inspectorate remains weak. Coordination between the market surveillance authorities is still lacking.

There has been further legal alignment in the field of **consumer protection**, with the adoption of a new Law on General Product Safety and a Law on Electronic Trade. The annual consumer protection plan was adopted. Training activities for professional staff have continued. The selection criteria for awarding grants from the ministry to consumer protection organisations have improved. The administrative and IT capacity of the consumer protection unit within the Ministry of Trade has been improved, but the human resources remain insufficient. The new structure of the ministry's Council for Consumer Protection was

established and a working group was set up with the task of protecting customers of financial services, primarily consumer loans and leasing products. Public awareness-raising activities have been stepped up to some extent. However, new legislation on consumer protection – on which establishment of advisory centres for consumer protection and out-of-court dispute resolution bodies are contingent – has yet to be adopted. Consumer organisations remain fragmented and lack adequate resources. This has hampered their overall effectiveness. Implementation of the national consumer protection programme continues to be weak and public awareness-raising activities are not yet sufficient.

*Overall*, Serbia is moderately advanced on free movement of goods and the requirements of the SAA. The legal framework for accreditation and metrology has still to be adopted. Serbia needs to pay greater attention to consumer protection as a matter of priority for EU integration. The administrative capacity and cooperation between State institutions need to be further strengthened. Further efforts are required to start transposing the product-specific *acquis* into Serbian legislation.

#### 4.1.2. *Movement of persons, services and right of establishment*

There has been some progress on **movement of persons**. With regard to the *coordination of social security* schemes an agreement on social insurance was signed by Slovenia and Serbia in September 2009. This agreement primarily aims to solve the problems relating to pensions, invalidity and health insurance rights of about 10,000 pensioners living in Serbia who - in the former Yugoslavia – worked for Slovenian companies.

The administrative capacity of the Ministry of Economic Affairs, which is in charge of movement of workers, remains limited. No progress has been made towards recognition of **professional qualifications** and its differentiation from the recognition of academic qualifications. As concerns the **right of establishment** no progress can be reported.

Little progress was made in the area of **company law**. The Company Act and the Company Registration Act have still to be amended.

The legislation on accounting and auditing is not fully harmonised with the *acquis*. The strategy and action plan on corporate financial reporting still have to be prepared.

There has been some progress on **financial services**. The National Bank of Serbia is responsible for supervision of the banking, insurance and voluntary pension fund sectors and is committed to actively using its supervisory powers (on-site inspections, reporting and regulatory powers). However, the Securities Commission, which is in charge of supervising the capital market, is still not sufficiently independent and still not operating fully in line with international standards. Serbia prepared a roadmap for implementation of the Basel II framework, which was introduced in the EU by the Capital Requirements Directive. The supervisory capacity, particularly relating to employment and training of qualified personnel, needs to be further strengthened in order to comply with the Capital Requirements Directive and the requirements for risk-based supervision.

Serbia has yet to sign memoranda of understanding with all home supervisory authorities of foreign banks operating on its territory.

In the field of postal services, new legislation ratifying the Acts of the Universal Postal Union has been adopted. However, the Postal Services Agency established in 2005 does not fully



meet the conditions to work independently, as the members of the Postal Services Agency Council have not yet been approved by parliament.

*Overall*, Serbia is moderately advanced towards meeting its SAA obligations in the areas of movement of persons, services, right of establishment and company law. A number of pieces of legislation are still awaiting parliamentary approval.

#### 4.1.3. *Free movement of capital*

Progress was made on free **movement of capital** during the reporting period.

In March 2009, the National Bank of Serbia liberalised all personal transfers, via banks, of up to €10,000. With regard to capital flows, the National Bank of Serbia continued cooperating with neighbouring countries. The National Banks of Serbia and of Bosnia and Herzegovina continued to implement a clearing arrangement that includes a number of banks (in 2008, a total of over €44 million worth of payments were made and about €10 million in the first quarter of 2009). This has increased efficiency, as transactions are carried out in a single day.

Serbia still has fully to liberalise outward **payments** and current account transactions and to lift restrictions on short-term credit and portfolio investments. Movement of capital to foreign countries, both from individuals and from legal entities, is subject to rigorous and time-consuming checks by the National Bank of Serbia, even in cases where the legal origin of the funds is proven.

Under the Law on Foreign Exchange Operations, non-residents are free to make direct investments. Restrictions in the arms sector and in other areas are laid down by the law. However, EU investors are still having problems, due to the unclear status of acquisition of real estate rights, along with the very large number of licences required and the numerous granting agencies and authorities involved.

*Overall*, Serbia remains moderately advanced in the area of capital movements. Non-residents are free to make direct investments (with certain restrictions), but are hampered by the large number of licences required for acquiring property. Serbia needs to continue its efforts to meet the gradual liberalisation requirements laid down in the SAA.

#### 4.1.4. *Customs and taxation*

Serbia has made good progress in the area of **customs**. A set of legal acts were adopted in order to allow voluntary implementation of the Interim Agreement with the EU. The amended customs tariff nomenclature was published in February 2009 and is fully in line with the 2007 World Customs Organisation Harmonised System and the 2009 EU Combined Nomenclature. Simplified procedures for imports and exports, based on accounting documents, have been introduced. However, further alignment with the EU Customs Code is still required, in particular with regard to transit and risk analysis. There is also a need to strengthen customs operating procedures in order to reduce the discretionary powers of customs officers.

The **administrative capacity** of the Serbian customs administration has been further strengthened by stepping up training activities. The World Customs Organisation's (WCO) e-learning Programme has been incorporated into the regular customs training curriculum. As a result, post-clearance controls have been strengthened. Implementation of the Code of Conduct led to initiation of a high number of disciplinary procedures based on internal controls (27 cases concerning 73 customs staff).

A risk management strategy is being implemented, based on an improved IT system with more risk parameters. In the fields of enforcement and trade facilitation, progress was also made on international cooperation and systematic exchanges of pre-arrival information with neighbouring countries. The Serbian customs administration led its first operation as part of its cooperation with the South-East European Cooperative Initiative Centre with the aim of revealing channels for smuggling textile goods.

Implementation of the integrated border management strategy and action plan has continued. In cooperation with neighbouring countries, Serbia has also continued to work on simplifying controls on goods and passenger railway traffic with the aim of reducing transit times at border crossings. Furthermore, the country has applied for membership of the Customs Transit Convention. In April 2009 Serbia joined the Customs 2013 Programme.

*Overall*, Serbia is already well on the way to meeting the SAA requirements and remains committed to reforms in the area of customs. However, Serbia's customs and IT infrastructure and procedures, risk-analysis system, post-clearance controls and human capital in this area need to be further strengthened.

In the area of **taxation**, some progress has been observed. In January 2009 parliament adopted a set of budget laws, including amendments to the Laws on excises, administrative taxes, property tax, social security contributions and pension and invalidity insurance. The customs duties on imported cars decreased from 20% to 12.5%, whereas excise duties on oil derivatives, especially car fuels, and on beer and cigarettes and the tax on luxury goods increased. Parliament also adopted new taxes on mobile telephony. There was little progress on approximation of tax legislation to the *acquis* regarding direct taxation.

The tax administration stepped up its efforts to improve tax collection. Tax revenue had been rising constantly since 2003. However, in early 2009 the tide turned, due to the decline in overall economic activity. Progress has been made on enforcement. In 2008 some 58% of the registered debts were collected, as opposed to 50% and 54% in the two previous years. In addition, the tax administration has continued to identify 'ghost' companies and successfully implement its audit programme. It has also continued work on introduction of e-government.

The **administrative capacity** of the Serbian tax administration has improved as a result of training and education. At the beginning of 2009 about 500 out of its 6,800 employees were on various training courses. The tax administration also needs to recruit more staff with the qualifications sought, especially in the IT sector.

International cooperation between the Serbian tax administration and its counterparts continued to improve. Implementation of the bilateral agreements ratified has continued, in particular on issues such as avoidance of double taxation and on cooperation and mutual assistance.

*Overall*, in the area of taxation, Serbia is well on the way to meeting the requirements of the SAA. The enforcement capacity of the tax administration and tax collection has further improved. However, the problem of the informal economy has not been tackled. Serbia needs to continue improving collection of registered tax debts. The tax legislation remains partly aligned with the *acquis* and certain provisions, most notably on excise duties and VAT, require further alignment. Serbia needs to take follow-up action to ensure that its tax legislation complies with the Code of Conduct for business taxation.

#### 4.1.5. Competition

There has been good progress in the area of **anti-trust**. The new Law on Competition Protection was adopted in July 2009, following a wide and transparent public debate. It revised the notification threshold for mergers and introduced the possibility for the competition authority to impose fines. These legislative developments mark a step forward in alignment with the SAA and the Interim Agreement. A number of implementing laws need to be adopted.

In 2008 the Commission for the Protection of Competition dealt with about the same number of cases as in 2007, further building its track record. As in previous years, the majority of the competition cases in 2008 (around 84%) related to merger control. The number of cases concerning agreements which considerably prevent, restrict or distort competition more than doubled in 2008, compared with the previous year. The number of cases of abuse of dominant positions decreased to two in the same period. Work on competition advocacy among government officials, regulators, judges, the business community and the general public has continued. However, the Commission for the Protection of Competition needs to strengthen its capacity to carry out economic analyses when dealing with cases. The enforcement capacity of the judiciary remains weak for lack of specialised knowledge.

There has been progress in the area of **State aid**. The Law on State Aid Control was adopted in July 2009. It provides for establishment of an operationally independent State aid authority, as required by the SAA and the Interim Agreement. Moreover, in September 2009 the Serbian government adopted the State aid inventory for 2008. However, Serbia's monitoring and administrative capacity in the area of State aid is still weak.

*Overall*, Serbia remains moderately advanced in meeting the SAA requirements the area of anti-trust, including mergers. The new legislative framework needs to be completed and fully enforced. The new legislation on State aid needs to be followed up by adoption of implementing legislation and establishment of an operationally independent State aid authority.

#### 4.1.6. Public procurement

Good progress has been made in the area of public procurement.

Serbia adopted a new Law on Public Procurement in December 2008 and implementing legislation in July 2009. The law paved the way for a major overhaul of the Serbian procurement framework and is a positive step towards alignment with the *acquis*. It has brought about several changes, such as certification of professional public procurement officials, introduction of e-procurement and establishment of an electronic public procurement portal, the possibility of court review in public procurement cases, introduction of anti-corruption clauses and institutional independence of the public procurement bodies, notably the Public Procurement Office and the Commission for the Protection of Rights in public procurement matters. There are nevertheless certain shortcomings in the new legislation regarding the definition of public bodies, the scope of exemptions and excluded contracts and the conditions for use of the restricted procedure. There is still a need for further efforts to prepare an appropriate regulatory framework on concessions.

Serbia needs to ensure the full implementation of the new Law by electing members of the new Commission for the Protection of Bidders' Rights and by ensuring sufficient financial resources for the public procurement bodies. The strategy for upgrading the public

procurement system in Serbia needs to be finalised. The weaknesses in the public administration's internal and external audits are undermining the effectiveness of the public procurement system as a whole. Administrative capacity and coordination mechanisms of the main stakeholders in the public procurement system still need further strengthening, in particular to reduce the scope for corruption.

*Overall*, Serbia is moderately advanced towards establishing an effective and fully independent public procurement system with streamlined award procedures. Additional efforts remain necessary on strengthening the capacity to implement the requirements of the SAA in this field.

#### 4.1.7. *Intellectual property law*

Progress has been made in the area of **intellectual property rights**. The Intellectual Property Office continues to play the role of national coordinator for intellectual property rights and a new management team was appointed. The Intellectual Property Office has started preparations for drafting a national intellectual property rights strategy and establishing an in-house education and information centre. Following the changes in the General Administrative Fees Act, the fees of the office have been substantially increased. However, the office is still under the State financing rules and has not yet been established as a financially autonomous agency. No new legislation, notably on optical disks has been adopted.

In relation to **industrial property rights**, Serbia is preparing for full membership of the European Patent Office. A number of international conventions (including the Vienna Agreement, the Strasbourg Agreement and the Geneva Act) were ratified by parliament in May 2009. No progress has been made on **copyrights and related rights** in the reporting period. Although Serbia's copyright legislation is largely aligned with the *acquis*, shortcomings persist, in particular with respect to rental and lending rights.

In the field of enforcement, some progress can be reported. As part of their daily controls, tax inspectors have been taking increasing action against pirated software and databases. Seizures by market inspectors have further improved, thanks to new technical equipment and additional training. The customs administration, although short-staffed, has continued to make progress on enforcing intellectual property rights, both in response to requests by companies and *ex officio*. For this purpose, an electronic database of customs offences in intellectual property rights matters has been set up. However, the issue of inadequate storage space for counterfeited and pirated goods that infringe copyright and related rights or other industrial property rights has not been addressed. Also, there is still a shortage of judges specialising in this area, which leads to inefficiency in the system for protection of intellectual property rights as a whole.

*Overall*, Serbia's preparations in the area of intellectual property law are moderately advanced. The legislative alignment required by the SAA is well advanced but administrative capacity and enforcement, especially in relation to training for judges, remain weak. Public awareness-raising activities also need to be sustained in the fight against piracy and counterfeiting. An overall national strategy on intellectual property rights is missing.

#### 4.1.8. *Social policies, employment and public health policy*

Regarding **social policies**, an amendment to the *Labour Law* adopted in July 2009 extended employers' possibility to grant paid leave for over 45 days.

Good progress has been made in the area of *health and safety at work* in the form of new legislation. The Regulation on Occupational Safety and Health at Work at Temporary or Mobile Construction Sites, based on the *acquis*, was adopted in February 2009. In March 2009 two by-laws were adopted with the aim of aligning with the *acquis* on temporary and mobile construction sites, health and safety requirements at the workplace, use of work equipment and use of personal protective equipment. Also, the strategy on occupational safety and health for 2009-2012 was adopted in April 2009. Within the National Social and Economic Council, a permanent working party has been established to deal with occupational health and safety. However, the number of accidents at work remains high.

As regards *social dialogue*, the Social and Economic Council has met more frequently and all four specialised bodies (on legislation, the economy, collective bargaining and health and safety at work) are now operational. Social and economic councils have also been established at local level (16 in all), but only a few of them are operational. The input of social partners into decision making process remains quite limited and the operations of the Council still need to be improved. Moreover, bipartite social dialogue is still rather weak.

Regarding *social inclusion*, the Serbian poverty reduction strategy has continued to contribute to reducing the number of people living in absolute poverty. However, with the economic crisis, poverty levels are likely to rise. Fighting poverty and social exclusion of vulnerable categories of the population, with particular reference to the Roma population, IDPs and some pensioners, remains a key challenge. Promoting social inclusion plays an important role in contributing to national cohesion. The UN Convention on the Rights of Persons with Disabilities and the Optional Protocol was ratified by the Serbian Parliament in May 2009.

Concerning *anti-discrimination*, the new Law on Prohibition of Discrimination is a welcome step towards the implementation of the European standards in this field. However, certain definitions relating to discrimination still need to be better formulated. A number of exceptions are wider than allowed under European standards and the rights of NGOs and associations to pursue discrimination before the courts still need to be clarified. Vulnerable groups, such as Roma, persons and children with disabilities and the lesbian, gay, bisexual and transgender (LGBT) population, remain the most exposed to discrimination.

As regards gender equality, the Government adopted the National Strategy for the Improved Status of Women and Promotion of Gender Equality. The Gender Equality Act still needs to be adopted and women continue to face discrimination in the labour market.

In the area of *social protection* the process of de-institutionalization of parentless children has continued with the number of children in institutions decreasing and the number of those children staying with families increasing. The Centre for Family Care started providing help and support to host families in Belgrade in December 2008. Significant amounts were invested in social protection institutions providing care for persons with special needs. In line with the national strategy, local strategies for social protection were launched in 122 Serbian municipalities. Training programmes for employees in social protection institutions have continued with more than 600 participants in January and February 2009 alone.

Good progress has been made on **employment policy**. In March 2009, the government adopted the national action plan for employment for 2009 as part of the employment strategy. Active policy measures aimed at boosting employment, particularly in SMEs, were provided for in the 2009 budget and implemented in the course of the year. The government continued

with the start-up loans aimed at generating new jobs. All these measures have been used to counter the impact of the economic crisis and maintain the level of employment.

In 2008, the employment rate rose to 53.3%, compared to 51.5% a year earlier, but then again fell to 50.8% in April 2009. The registered unemployment rate fell to 14.8% compared to 18.3% in 2007. This rate also rose in April 2009 to 16.4%. However, the drop in unemployment between 2007 and 2008 was mainly due to methodological changes. Without these changes the rate would have stood at around 17.5%.

In May 2009 two laws were adopted: the Law on Employment and Unemployment Insurance and the Law on Vocational Rehabilitation and Employment of Disabled Persons. The aim of the new Law on Employment is to establish an efficient and flexible legal framework in order to achieve the highest possible level of employment. The Law on Vocational Rehabilitation and Employment of Disabled Persons better regulates several areas related to the employability of disabled people. The Ministry of Economy and the National Employment Service have increased their organisational capacity. Work has also continued on development of regional training centres under the National Employment Service. This has helped to create new jobs. In March 2009 the government adopted two action plans for, respectively, the implementation of the strategy for the development of vocational education and training in Serbia and the implementation of the adult education strategy.

However, reforms of the employment services have also been delayed and, although some progress has been made, the effectiveness and administrative capacity of the National Employment Service are not yet sufficient. Further efforts are needed to improve coordination and collaboration between the Ministry of Economy and the National Employment Service.

Further progress was made in the field of **public health policy**, although more efforts must be made towards alignment with and implementation of the *acquis*. The Law on Public Health, along with the laws on organ transplantation, on tissues and cells transplantation, on infertility treatment by biomedical assisted fertilisation and on blood transfusion were adopted. Cooperation with the European Centre for Disease Prevention and Control has begun. The National Health Council was constituted in April 2009, consisting of 15 members with a five-year mandate. This professional and consultative institution is, *inter alia*, in charge of developing the quality of the healthcare system, the organisation of health services and the health insurance system and bringing them into line with European and international standards. The Health Insurance Fund has introduced a functioning IT system and developed a database of insured persons. There has been progress in the reform of primary healthcare. Awareness-raising campaigns, such as on the harmful effects of smoking and exposure to second-hand smoke, have been stepped up to boost preventive healthcare. A number of strategy papers were adopted, notably on public health, the fight against drugs and alcohol abuse, tobacco control, prevention of breast and colorectal cancer, mental healthcare for young people, healthcare quality and patient safety. In the field of communicable diseases, a national focal point was appointed within the framework of the international health regulations. A waste management system has been established at health institutions throughout the country and administrative capacity has been strengthened in this area.

However, the administrative capacity within the Public Health Institute is still very limited. Furthermore, funding in the public health sector is still low. In the area of mental health, the government continued to take measures aimed at de-institutionalisation of mental healthcare and at developing and building up the capacity of community-based services. However, the related community-based services are still insufficiently developed and continued focus is

needed on mental health care for children and young people. Further efforts are needed in the area of public health in order to strengthen the administrative capacity and implement a more patient-oriented system based on the national strategy for improvement of health service quality and patient safety that was adopted in February 2009.

*Overall*, Serbia's capacity to implement employment policies effectively has improved, but unemployment remains a cause for concern. Coordination and harmonisation with other policies remain insufficient to reduce unemployment. With regard to social policies and public health policy, the legislative framework needs to be developed and existing legislation needs to be properly implemented.

#### 4.1.9. *Education and research*

Some progress has been made with regard to European standards on **education**.

Serbia is largely meeting the EU Education and Training 2010 benchmarks concerning early school leavers and upper secondary attainment. There has been an increase in the proportion of tertiary graduates in mathematics, science and technology. However, participation of adults in lifelong learning is well below the EU average and has not increased since 2001.

Reforms aimed at adapting the higher education system to the Bologna requirements are continuing. The process of accreditation of higher education institutions is on-going. The ministry has established a department that will be responsible for implementation of EU-funded projects in this area.

An action plan was adopted for the implementation of the strategy for the development of vocational education and training, and another one for the implementation of the adult education strategy. Adult training has been developed in five regional training centres in Serbia but needs to be put in place more systematically. Limited administrative capacity and weak coordination between the institutions concerned are still causes for concern. The agency for vocational education and training and adult education needs to be established.

Future challenges include adopting a National Qualification Framework, making the higher education system more flexible and responsive to the needs of the labour market, improving links between university education and vocational education and training, facilitating enrolment in higher education institutions and improving recognition of informal learning.

Financing of education is still low, on 3.4 % of GDP, and there has been limited investment in infrastructure. Moreover, there is insufficient funding from local governments and limited involvement of the business sector.

Good progress has been made in the field of **culture**. Serbia has continued to participate in the Community's Culture Programme. A contact point has been established within the Institute for Cultural Development Research to provide information and encourage participation in the programme. The UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions was ratified in May 2009. A new Law on Culture was adopted in August 2009.

In the area of **science and research**, Serbia has been very active and successful in obtaining research projects under the Seventh EC Research Framework Programme (FP7). A promotion bureau for research cooperation with international partners has been set up. However, further efforts on research cooperation under FP7 remain necessary in particular with respect to the

involvement of SMEs and the mobility of scientists. The fact that Serbia also became associated with the Competition and Innovation Programme (CIP) is a positive step towards engaging the private sector in research and innovation. The procedure to associate Serbia with the Seventh Euratom Research Framework Programme (2007-2011), as requested by Serbia, is proceeding well and the aim is to make the association effective in the course of 2010. Possibilities for increased cooperation between Serbia and the Joint Research Centre (JRC) are under discussion.

With respect to designing an integrated research policy aiming inter alia at increasing investment in research and ensuring a sufficient number of scientists, Serbia proposed a draft national strategy in August 2009. Adoption and implementation need to follow as part of Serbia's integration into the European Research Area. National funding of research is still very low.

The national EURAXESS Jobs Portal as well as the EURAXESS Services Network, which aims to facilitate the mobility of researchers, has been established in a fully satisfactory way.

*Overall*, Serbia needs to continue its efforts to improve the education system, particularly as regards funding mechanisms, development of vocational training and adult education, and recognition of informal learning. Substantial efforts are needed to facilitate Serbia's integration into the European Research Area and strengthen its national research capacity. Good progress has been made in the field of culture.

#### *4.1.10. WTO issues*

Serbia's preparations to join the World Trade Organisation (WTO) are well advanced. A big step forward has been taken on the bilateral track of negotiations. Progress has also been made on the multilateral track, with the adoption of WTO-compatible laws (such as the Law on Standardisation). However, finalisation of the process will depend on the pace of further legislative reforms. Serbia is well-placed to meet its objective of joining the WTO in the near future.

## **4.2. Sectoral Policies**

### *4.2.1. Industry and SMEs*

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

It has moved from the phase of formulating policy and defining strategic objectives to implementing policy in areas such as innovative companies, start-ups, provision of business services and dissemination of information.

A new strategy for the development of competitive and innovative SMEs was adopted in October 2008. The SME Council took it as the basis for adoption of the 2009 action plan. The performance of the institutional framework for SMEs has further improved. In particular, cooperation and coordination between the various stakeholders have been strengthened. The SME Council, which is made up of representatives of various ministries and entrepreneurs, meets regularly and is effective. The Agency for SME Development, one of the key stakeholders, has developed a network of regional agencies and local offices providing non-financial support. A one-stop shop for business registration has been established within the Serbian Business Registration Agency. Application of the new legislation on electronic signatures has also started. New legislation on the chamber of commerce system has been



adopted introducing affiliation on a voluntary basis. However, the law will not enter into force until 2013. Serbia remains fully committed to the European Charter for Small and Medium-sized Enterprises, to which it provided high-quality input. Internal coordination is efficient and all the relevant bodies are participating actively in the process.

As regards the programme for the development of business incubators and clusters, about 20 incubators are operating. In addition, 20 clusters are at various stages of development, 14 of which have obtained direct financial support from the Ministry of Economic Affairs.

Regarding the regulatory burden on businesses, the Council for Regulatory Reform is continuing its work on the plan to reduce existing laws and regulations by one quarter by the end of 2011. However, so far the effects of the reform have been very limited.

In November 2008, Serbia signed a Memorandum of Understanding for its participation in the Entrepreneurship and Innovation Programme (EIP) the first pillar of the community programme Competitiveness and Innovation Community Programme (CIP). Within this programme, Serbia is an active member of the Enterprise Europe Network.

Serbia has still not made any progress on developing and implementing a modern **industrial policy**.

*Overall*, Serbia's preparations in the area of industry and SMEs are well advanced and fulfil the relevant SAA requirements

#### 4.2.2. *Agriculture and fisheries*

Progress has been made in the area of **agriculture and rural development**, where efforts are ongoing on alignment with the *acquis*.

The National Agricultural Programme for 2009-2011 has been prepared but now needs to be adopted. Moreover, budgetary constraints have affected the administrative capacity of the Ministry of Agriculture, Forestry and Water Management.

The Law on Agriculture and Rural Development was adopted in May 2009 providing the legal basis for the establishment of a paying agency and a managing authority in line with EU requirements. They will serve as the managing authority and IPARD agency in the future. The government adopted a Decree on the use of subsidies for rural development through support measures for the improvement of economic activities of rural inhabitants in 2009. The Serbian authorities already have some experience with channelling financial support to farmers from the national budget. The national rural development network has expanded and now has 14 regional rural development centres and 140 sub-regional offices.

The National Strategic Plan for Rural Development, on which a public consultation was held, and the National Programme for Rural Development still need to be adopted. Furthermore, an inter-ministerial mechanism for coordination of policies related to rural development still has not been established. The rural development unit within the Ministry of Agriculture, Forestry and Water Management is understaffed and the National Agency for Rural Payments (Directorate for Agrarian Payments) and the managing authority are yet to be established.

Progress has been made in the wine sector. The new Law on Wine was adopted. The vineyard and wine sector registers required by the law have been partially established. However, a sustainable system for vineyard and wine management and inspections has yet to be

established. The capacity of the relevant unit within the ministry needs to be further strengthened. A national network of oenology laboratories has yet to be established.

Support for the development of organic production continues. The number of accredited certifying organisations for organic production slightly increased in 2009 and progress has been made in terms of alignment with the *acquis*.

Some progress can be reported in the area of **food safety**. The new Law on Food Safety was adopted in May 2009. It clarifies the responsibilities of and cooperation between the ministries responsible for food chain safety. Veterinary inspection - formerly transferred to the newly established General Inspectorate - has been reorganised. A new allocation of responsibilities for inspections has been introduced which improves the framework for the control activities.

Serbia is still at an initial stage with regard to the upgrading of food and by-product establishments. No establishments have yet been approved for export of milk or milk-based products to the EU. Implementing legislation on the quality of raw milk has been published. There are still a number of deficiencies in the food chain safety. Further improvements are needed in implementation of the hazard analysis critical control points (HACCP) principles.

Some progress can be reported in the **veterinary** area. The Law on Animal Welfare was adopted in May 2009. Action plans for improvement and extension of the system for the identification of bovine animals and for the registration of their movements were adopted. A strategy for exchanges of data from the animal identification and registration IT systems with other IT systems was endorsed by the Ministry of Agriculture, Forestry and Water Management. The rulebook on bovine animal identification and registration development was adopted in July 2009 together with three rulebooks for the eradication of bovine diseases.

However, Serbia still needs to adopt the amended version of the Framework Veterinary Law and the relevant rulebooks for implementation of the action plans. The IT systems of the Veterinary Directorate (including the system for the identification of animals and the registration of their movements) need further upgrading and strengthening in terms of staffing. The Veterinary Directorate still needs training activities, notably on implementation of official controls of registration of holdings and animals.

Progress towards upgrading **laboratories** for the control of food chain safety has been limited. According to the Law of Food Safety a national reference laboratory has been established with defined responsibilities. An information management system for veterinary laboratories has not yet been integrated with the veterinary information system because of lack of funding.

There has been some progress in the **phytosanitary** area. The Law on Plant Health, the Law on Plant Protection Products and the Law on Protection of Plant Breeders' Rights were adopted in May 2009. There is still no annual programme on plant health measures for 2009. A phytosanitary laboratory information management system has not yet been developed.

In the area of **fisheries**, the Law on Sustainable Use of Fish Funds and the Law on Livestock Breeding have been adopted. The Regulation on the closed season for certain fish species and the minimum landing size was adopted to comply with international conventions. However, the new Law on Sustainable Use of Fish Funds does not cover all fishing activities. The distribution of powers between the Ministry of the Environment and the Ministry of

Agriculture needs to be clarified. No progress has been made on marketing standards for fisheries products or on structural policy.

*Overall*, in the area of agriculture Serbia is advancing in fulfilling the SAA requirements and its European Partnership priorities. The administrative capacity of the Ministry of Agriculture, Forestry and Water Management needs to be strengthened. Serbia needs to improve even further its record on implementation of food safety, veterinary, phytosanitary and agricultural and rural development policies. Institutional coordination of the food chain safety needs to be ensured. Veterinary, phytosanitary, wine and sanitary laboratories, inspectorates and controls need to be upgraded. Further efforts are still needed in the fisheries sector in order to comply with the relevant parts of the *acquis*.

#### 4.2.3. *Environment*

Good progress can be reported in the area of the environment, notably with the adoption of a large package of laws and the ratification of several international conventions.

As regards **horizontal legislation**, the Law on Environmental Impact Assessment (EIA) and the Law on Environmental Protection were amended. The Aarhus Convention on Access to Information, Public Participation in Decision-Making and Access to Justice was ratified.

The cleaner production strategy was adopted to implement part of the national strategy for sustainable development. There has been an increase in the number of awareness-raising and environmental clean-up activities, notably for cleaning up large waste tips, thus preventing further pollution and strengthening the green industry.

The Serbian Environmental Protection Agency has maintained a good level of cooperation with the European Environment Agency on the European environment information and observation network. However, the rules on environmental impact assessment and strategic impact assessment are not fully enforced. The environmental departments at local level still lack the necessary capacity, awareness and specialist knowledge in these fields.

Serbia has taken further steps in approximating to the European Eco-Management and Audit Scheme (EMAS) by adopting the rulebook on conditions, procedures for acquiring the right to use the eco-label.

In the area of **air quality**, progress can be reported, with the adoption of the Law on Air Protection. A National Ozone Office was established within the Ministry of the Environment. The capacity for monitoring and managing air quality has been strengthened. Concerning climate change, the administrative structures to implement the Kyoto Protocol are being established. The inter-ministerial body for the clean development mechanism (CDM) is now operational and a rulebook regulating criteria for approval of CDM projects and of procedure for designated national authority operations has been adopted. However, the national strategy for inclusion in the CDM under the Kyoto Protocol and the greenhouse gas inventory need to be finalised.

Progress can be reported on **waste management**, with the adoption of the Law on Waste Management and the Law on Packaging and Packaging Waste. Implementing legislation has been adopted, transposing the relevant *acquis*. However, the waste management strategy and the national plan for waste management at both national and local levels need to be finalised.

There has been little progress on **water quality**. Serbia signed the Protocol on prevention of water pollution of the Sava River. However, the new Law on Water introducing new instruments for financing the water sector, including appropriate tariffs, has not yet been adopted. There is no system to monitor nitrates concentrations and contamination in groundwater. The wastewater treatment infrastructure throughout the country needs upgrading.

Progress can be reported on **nature protection**, with the adoption of the Law on Nature Protection, along with several by-laws. A network was established to identify areas of special conservation interest. However, the national strategy for biodiversity conservation and the related action plan need to be finalised.

On **industrial pollution control and risk management**, a number of by-laws were adopted, notably on submission of integrated permit applications. The first integrated permits are scheduled to be issued in 2009 to 2010. The list of installations which will have to comply with the Integrated Pollution Prevention and Control Directive before 2015 is being revised.

Progress can be reported on **chemicals**, with the adoption of the Law on Chemicals and of the Law regulating the placing on the market of biocidal products and the ratification of the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade. Steps have been taken to implement the Stockholm Convention on Persistent Organic Pollutants. The national profile for chemical management, a preliminary inventory of discarded persistent organic pollutants, has been created. . The decision on establishing a Chemical Agency, a regulatory and implementation body dealing with biocidal products and chemicals was adopted by the government.

Serbia has adopted a new Law on **genetically modified organisms (GMOs)**. The law bans imports of genetically modified reproductive material but allows imports of soya bean meal with a certain degree of modification.

Progress can be reported on **noise**, with the adoption of the Law on Noise Protection which, notably, establishes the powers of the various inspectorates.

Positive steps have been taken towards strengthening the **administrative capacity**. The environmental protection inspectorates continued to receive specific training.

The Environmental Protection Fund is active, especially in the field of waste and hazardous waste management, sanitation, soil remediation and air quality monitoring.

However, the institutional capacity and technical and human resources remain insufficient, especially at local level. Better coordination with the central level is needed and greater attention will have to be paid to enforcement. The Water Directorate within the Ministry of Agriculture, Forestry and Water Management remains understaffed and its institutional capacity inadequate. The division of responsibilities for water management remains fragmented. Overall, the capacity for water management remains weak.

The Environmental Protection Agency remains fully operational and its performance is improving. However, it still lacks the capacity to ensure proper implementation of the integrated monitoring strategy. Budgetary resources for environmental protection remain low.

*Overall*, Serbia is moderately advanced in the area of environmental protection, and has continued to adopt a number of important laws thereby advancing well in fulfilling the

requirements of the SAA. However, enforcement of the legislation needs to be improved at all levels. In this regard, further efforts are needed to build up administrative capacity.

#### 4.2.4. *Transport policy*

Serbia has made some progress in the area of transport.

The government has approved the 2009 annual programme for implementation of the strategy on the development of rail, road, water, air and inter-modal transport for the period from 2008 to 2015, which lays down the financial resources and an implementation schedule.

Some progress has been made in the area of **trans-European transport networks**. Serbia has continued to participate actively in the implementation of the 2004 Memorandum of Understanding on the development of the South East Europe Core Regional Transport Network, and in the South East Europe Transport Observatory (SEETO) particularly by updating and implementing the Multi-annual Plan 2009-2013. The National Council for Infrastructure adopted the national plan for the construction of road and rail infrastructure for the period 2008-2012 and the action plan for the construction of road and rail infrastructure for corridor X for 2009, which lists the infrastructure projects to be undertaken along corridor X and the national and international resources to be secured. Work has started on some of the rail and road infrastructure projects provided for in the action plan for corridor X. The general master plan covering infrastructure projects for all modes of transport up to 2027 needs to be finalised. The Corridor X Company was set up as a subsidiary of the public entity 'Roads of Serbia' with the task of implementing the action plan for corridor X.

In the case of **road transport**, some progress can be reported. The Law on Road Safety, imposing an obligation to conduct a road safety audit and inspection and impact assessments, was adopted in May 2009. However, the necessary legislation transposing the *acquis* on road haulage, transport of dangerous goods and passenger transport has still not been adopted. In December 2008 bilateral and transit road transport with Bosnia and Herzegovina was liberalised. The government adopted a decision establishing a single tariff for domestic and foreign vehicles with effect from February 2009, harmonising the road tolls and thereby meeting one of the main requirements in the provisions of the Interim Agreement on road transit traffic.

There has been limited progress on **rail transport**. There has been no progress towards gradual opening of the rail transport market. Amendments to the Railways Law have yet to be adopted and this is preventing a number of reforms. The Directorate for Railways is still not fully carrying out its role as a regulatory body. Separation of infrastructure management from provision of transport services is still pending, as is separation of the accounts between operations and services. The conditions for market opening are not in place. The sector still needs major restructuring, though staff of the incumbent railways has been reduced. Work on the network statement has advanced, but with the decision on the infrastructure charges still pending, the network statement has not been finalised.

In the field of **inland waterways**, in May 2009 Serbia has ratified the Protocol on combined transport on inland waterways to the European Agreement on Important International Combined Transport Lines and Related Installations. The Law on Inland Waterway Transport has yet to be adopted and Serbia still needs to ratify further European agreements in this field. Development of infrastructure, particularly along the Danube and Sava, and of inland ports as intermodal terminals, including port facilities and security requirement, still requires special

attention and earmarked resources. Consideration should also be given to potential security requirements for inland port facilities and ports.

There was little progress in the area of **combined transport** and inter-modality. The limited liability company set up as a subsidiary of the Serbian railways for combined transport is still not operational.

In the area of **air transport**, the Agreement on a European Common Aviation Area (ECAA), the Montreal Convention and the Horizontal Agreement on Certain Aspects of Air Services were ratified in May 2009. Implementation of the first transitional phase of the ECAA remains to be completed. Some progress was made towards harmonisation of national legislation with the *acquis* in fields such as aviation safety and air traffic management. Serbia has made good progress in the area of air traffic management but further approximation to European standards is still required. Serbia has made use of the ISIS<sup>6</sup> Programme set up by the European Commission to assist States of the South East Europe to transpose Single European Sky legislation. In addition, it Serbia has participated actively to the Single European Sky Committee. In the field of safety, relations with EASA have been put on a formal footing by a working arrangement signed in July 2009.

However, the provisions on market access have not been applied by Serbia in line with the ECAA Agreement . Some issues are still pending before Serbia can move on to the second transitional phase, which includes implementation of the legislation on ground handling, accident investigation, search and rescue and a number of ECAA air traffic management commitments and the participation of Serbia in a functional airspace block. The Law on Civil Aviation, which should be in compliance with the ECAA Agreement, has not yet been adopted. Privatisation of the national carrier – JAT Company – was declared unsuccessful.

The administrative capacity of the Ministry of Infrastructure still needs to be reinforced in order to be able to fulfil the obligations as regards alignment of the national legislation with the *acquis*. The distribution of tasks between the ministry and the Civil Aviation Directorate is unclear.

*Overall*, Serbia is relatively advanced in the area of transport and has progressed well in the implementation of the requirements of the SAA and the interim agreement. However in the area of air transport problems with the implementation of the ECAA Agreement have arisen and must be resolved to allow for market access. Further alignment with the *acquis* is still necessary. The administrative and structural reform of the relevant departments is still pending.

#### 4.2.5. *Energy*

Some progress was made in the energy field during the reporting period.

**Security of supply** is progressing moderately, with a slight increase in gas reserves. A memorandum of understanding was signed with Russia on development of an underground gas storage facility in Banatski Dvor on 17 June 2009]. Construction of the facility is almost complete, with a view to securing gas supplies in the event of unexpected cuts from current sources. A joint stock company for the storage facility is due to be established by the end of 2009. Natural gas interconnections between Serbia and other countries in the region remain

---

<sup>6</sup> Implementation of Single European Sky In South Eastern Europe.

limited. The necessary investment in gas infrastructure still needs to be secured. As regards electricity interconnections, construction of a 400 kV overhead line between Niš and Leskovac has been completed and the section from Leskovac to the border with the former Yugoslav Republic of Macedonia is under construction. Preparatory work is under way on the feasibility of improving interconnections with Romania and with Bosnia and Herzegovina. **Oil stocks** remain far below European requirements.

Serbia continued to make good progress in the context of the **internal energy market**. The electricity sector has separated transmission from other costs. The electricity transmission system operator has, to a large extent, become financially sustainable. Formal opening-up of the electricity and gas markets to non-household consumers has been completed. The Energy Agency has been working well, in line with Energy Community Treaty requirements. In the gas sector, the State-owned public enterprise Srbijagas has fulfilled the requirements for unbundling of its accounts, but further restructuring of the company is still pending.

Amendments to the Energy Law, concerning the supply function in both the electricity and gas sectors, have not been adopted. No progress has been made on separating distribution and supply in the electricity sector. The deadlines set by the Energy Treaty have not been met. Further efforts are needed to achieve unbundling and real market opening together with a pricing policy offering a sustainable tariff reflecting costs.

As a result of the agreement on cooperation in the energy sector with Russia, a contract was signed for the sale of the Serbian oil company NIS to the Russian Gazprom Neft. Construction of the South Stream gas pipeline through Serbia and establishment of a joint company for the gas storage facility in Banatski Dvor are covered by a framework agreement. In May 2009 Srbijagas and Gazprom signed a cooperation agreement paving the way for establishment of a joint company that will build the South Stream section of the gas pipeline through Serbia.

Little progress was made in the area of **energy efficiency and renewable energy**. The Serbian power generation *sector* needs to comply with the *acquis* before 2015, involving significant investments in specific projects.

Serbia has made good progress in the areas of **nuclear safety and radiation protection**. The Law on Ionising Radiation Protection and Nuclear Safety Waste was adopted in May 2009. The provisions of the Law stipulate the next establishment of a nuclear regulatory agency. This agency is expected to be fully operational during the first half of 2010. Decommissioning of the Vinča RA research reactor, preparation for the repatriation of spent nuclear fuel to the Russian Federation, and management of radioactive waste on-site are progressing well. All the decommissioning activities at Vinča are now being performed under a new Public Company for Nuclear Facilities of Serbia.

Serbia has not ratified the Convention on Nuclear Safety and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management.

Significant progress was achieved. However, considerable efforts still need to be made in order to align nuclear safety and radiation protection with the *acquis* and best EU practices.

*Overall*, Serbia is moderately advanced in terms of alignment with European standards in the energy sector. However, progress remains uneven. Environmental issues in the energy sector, remain to be addressed in order to comply with the Energy Community Treaty.

#### 4.2.6. *Information society and media*

Progress can be reported in the areas of the **information society and electronic communications**, notably with the adoption of the Law on Electronic Commerce which completes the legal framework for electronic business in Serbia and the new Law on Public Procurement which allows electronic procurement. The Law on Personal Data Protection entered into force in January 2009 and has started to be implemented. Action plans for the electronic South-East Europe Agenda Plus and the Law on Electronic Documents were adopted. Concerning digital signatures, the by-laws necessary for qualified electronic signature were adopted and the first certification service provider was certified. Implementation of paperless government meetings (electronic government) began in June 2009. However, the digital divide in electronic access and digital inclusion needs to be addressed and a broadband strategy needs to be finalised. IT capacity needs to be strengthened, especially at local level, with a view to e-government. Administrative capacity for implementation of the legislation in this area is insufficient.

The government finally included timelines in the action plan for the telecommunications strategy (2006 - 2010). The basic principles of the strategy for switchover from analogue to digital broadcasting of radio and television programmes were approved in January 2009 and the digital switchover strategy was adopted in July 2009. The switchover date is set for 4 April 2012. The Ministry adopted implementing legislation on determination of the initial set of services of the universal service in July 2009. An amendment of the Law on Urban Planning shortened the deadlines for the granting of building permits for the communications sector.

The fixed telephony sector is not yet liberalised in practice and there is still a lack of competition on this market. To supplement the fixed-line network, in June 2009 two new code division multiple access (CDMA) technology licences were awarded (one to the fixed line incumbent operator, one to a new entrant operator) to provide CDMA-based internet and fixed wireless telephony services to the parts of southern Serbia with no access to landline telephony.

Following the adoption of rules on the provision of Voice over Internet Protocol (VoIP) services and on international connectivity in 2008 twenty-three VoIP authorisations were awarded, along with licences for international connectivity. However, only few of the operators have yet become active in the market.

Rules on application of the cost-accounting principle, of separate accounts and of reporting were adopted and are in the process of being applied to dominant companies on the market. The Regulatory Agency approved new prices for fixed telephony services and for cable services. It also adopted by-laws on radio-station permits and equipment, numbering plans and regulation of fees. However, the October 2008 decision regarding tariff rebalancing was not put into effect.

There is still no competition on the fixed telephony market. As tariffs have not been rebalanced and as other competitive safeguards such as number portability, carrier (pre-) selection and local loop unbundling have not been introduced, only few market players are interested in investing in the Serbian market. The Serbian State has an 80% share in the incumbent operator. However, the Ministry of Telecommunications has announced that it will organise a tender for a second national fixed telephony operator.



In June 2009 a 10% tax on mobile communications was introduced as a temporary measure for the duration of the global economic crisis to help fill the current budget deficit. This tax could weigh heavily on the mobile telephony sector.

In terms of administrative capacity, the Ministry of Telecommunications still lacks sufficient human resources. The Regulatory Agency is in operation and financially autonomous. However, its independence needs to be strengthened and it lacks sufficient expertise to regulate a liberalised market. The nomination procedure for those members of its management board whose mandates have expired has not yet started.

Progress can be reported in the area of **audiovisual policy**. In May 2009 Serbia ratified the European Convention on Transfrontier Television and the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions. Amendments to the Law on Broadcasting were also adopted. This will allow election of the members of the Broadcasting Council, a process which has been delayed due to lack of agreement on the final shortlist. The Law on Public Information was adopted, but not the new Law on Media Concentration or the Law on Advertising. The process of allocation of frequencies was completed in 2008.

Progress can also be reported on the transparency, accountability and efficiency of the Broadcasting Agency. Since 2008 all the decisions of the agency are published on the internet. In December 2008 the Broadcasting Council awarded 63 licences for broadcasting radio and TV programmes in regions, local areas and the city of Belgrade. After completion of the last tender, a total of 467 licences for broadcasting radio and TV programmes will have been issued. The agency opened a new branch of its monitoring service in Novi Sad. Branches in Niš and Kragujevac are planned. The capacity of the agency was reinforced by acquiring new equipment allowing more efficient monitoring of broadcasters.

Under the Broadcasting Law, privatisation of the broadcast media in Serbia was due by the end of 2007. However, this process was blocked by certain provisions of the Law on Local Self-Government and the Law on the Capital City. The problem remains unresolved.

*Overall*, preparations in the area of the information society and media have continued. The relevant authorities have organised a number of awareness-raising activities, training sessions, conferences and events. However, the inadequate institutional and regulatory capacity needs to be addressed and real progress remains contingent on implementation of the legislation.

#### *4.2.7. Financial control*

Progress has been made in the area of financial control. A working group led by the Ministry of Financial Affairs has prepared a comprehensive policy paper on **public internal financial control** (PIFC), which was adopted by government in July 2009. The Budget System Law, which also includes the legal basis for PIFC, was adopted and entered into force in July 2009. The internal audit department of the Ministry of Financial Affairs will perform the function of central harmonisation of internal audits until a separate unit is established. In ministries where internal audit units have been established, auditors generally lack experience and training. Managerial accountability and subsequent development of financial management control systems are still embryonic.

With regard to **external audit**, the State Audit Institution has not yet become fully operational. Delays in allocating appropriate premises for the office are continuing and only eight additional staff has been recruited in the past year.

*Overall*, Serbia is still at an early stage in its preparations for introducing public internal financial control and a new system of external audit.

#### 4.2.8. *Statistics*

There has been some progress on **statistical infrastructure**. Cooperation and coordination between the statistical office and other official producers of statistics have improved, in particular with the National Bank of Serbia and with the Ministry of Finance. In January 2009 the government adopted the development strategy for official statistics for 2009-2012. The new Law on Statistics, as well as laws regulating the agriculture and population censuses, have not yet been adopted. The Statistical Office has recruited a small number of new staff. However, budgetary allocations are not yet sufficient to cover all the activities planned and additional staff is still needed. Metadata have been prepared for all statistical domains.

Little progress was made on **classifications** and registers. Development of the statistical business register is progressing very slowly. Introduction of the classification of the nomenclature of economic activities (NACE rev. 2) is pending, awaiting adoption of the legislation on the classification of business activities. The Statistical Office still needs to create tools to convert codes from the old NACE version to the new one. There has been no progress towards harmonisation of the Serbian regional statistical classification with the NUTS Regulation of the EU.

There has been progress on **sector statistics**. A pilot census on population and housing was carried out in April 2009. Preparations are being made for an agricultural census, one of the short-term priorities of the European Partnership. A pilot census will be conducted in December 2009. Pilot surveys on energy, innovation and industrial waste have been carried out. A new method for air transport statistics and the new customs tariff based on the 2009 Combined Nomenclature were introduced. A full labour cost survey was conducted for the first time in 2008. The structural business statistics were expanded to cover additional items from the EU Regulation on the subject.

*Overall*, Serbia has made progress on statistics, but has advanced only moderately towards meeting the requirements of the SAA and the European Partnership. Further progress is needed on the business register. Additional efforts are needed to strengthen administrative capacity.

### 4.3. **Justice, freedom and security**

#### 4.3.1. *Visa, border management, asylum and migration*

Good progress has been made in the area of **visa policy** and in the wider framework of the visa liberalisation dialogue.

In particular, Serbia has taken important steps towards the benchmarks set in the road-map for visa liberalisation and met the majority of conditions, allowing the Commission to include Serbia in its proposal of July 2009 for visa free travel. Serbia issued more than 1.2 million biometric passports by September 2009. The administrative infrastructure was amended and now provides for overall secure personalisation and distribution procedures with concrete measures having been taken to minimise the risk of corruption.

The visa facilitation and readmission agreements between Serbia and the European Community continued to be implemented. Serbia exempts the citizens of all EU Member

States from visa requirements and maintains a visa-free regime for citizens of Croatia, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and Turkey. Serbia's diplomatic and consular representations continue to provide most types of visas for Montenegro on the basis of an agreement.

However, Serbia has not yet fully aligned its legislation with the EU negative list. Concerns over the integrity and security of national registers for persons residing in Kosovo persist. The new Law on Registry Books, which was adopted in March 2009, is expected to improve this situation, but has not yet entered into force. A bilateral agreement on dual citizenship with Montenegro could not yet be concluded.

*Overall*, Serbia is moderately advanced in terms of alignment to European standards in the area of visa policy.

Progress has been achieved in the area of **border management**. The new Law on State Border Protection entered into force in November 2008 and a one-year deadline was set for adoption of the implementing legislation. Risk analysis capacities have been increased and are being applied in carrying out border surveillance. Some 1000 biometric travel document readers have been set up at border crossing points.

Regarding inter-agency cooperation, a cooperation agreement between the main ministries involved in border management was signed in February 2009. Cooperation between border police and other law enforcement authorities is satisfactory. Cross-border cooperation is improving. Bilateral protocols for the regular meetings of the heads of border services have been concluded with Montenegro and the former Yugoslav Republic of Macedonia. In March 2009, a joint declaration on border security cooperation in south-east Europe was signed by Serbia, Albania, Bosnia and Herzegovina, and the former Yugoslav Republic of Macedonia. A working agreement with Frontex was signed in February 2009. The signing of a police cooperation agreement with EULEX was completed in September 2009. Capacity-building activities, initial training and provision of equipment for the border police continued.

However, important differences persist between the 82 border crossing points. Infrastructure at long-established border crossing points is generally acceptable. Newer border crossing points, in particular with Montenegro, and the control of the boundary line with Kosovo still show significant weaknesses. Not all border crossing points are fully connected to the Single Information System. Further upgrading of equipment and an increase in staffing levels is needed. Basic and specialised training courses should be improved in line with the Common Core Curriculum for border guards.

*Overall*, Serbia has started to address its priorities in the area of border control. However, it needs to step-up its efforts to address important differences between individual border crossings.

Little progress was made in the area of **asylum**. Implementation of the Law on Asylum continued. As the Asylum Office foreseen by the law has not yet been formally created, asylum claims are processed by an asylum unit within the Border Police. From September 2008 to September 2009, 190 applications were received; four of these applications received positive decisions in the first instance. The significant increase in asylum applications is due to larger numbers of applicants from Afghanistan. First instance appeals are processed by the Asylum Commission, which is an independent administrative body, composed of governmental experts appointed by the Prime Minister. Judicial appeals against decisions of

the Asylum Commission may be lodged to the Supreme Court. The centre for asylum-seekers in Banja Koviljaca can accommodate 80 applicants in adequate conditions.

However, there has been no forward-planning to address the potential increase in the number of applications and there is no coordination body responsible for integration of asylum-seekers in Serbia. Serbia has still not acceded to the UN Convention on Reduction of Statelessness.

*Overall*, Serbia is moderately advanced in the area of asylum.

There has been good progress on **migration** management with the adoption of the migration management strategy in July 2009. A national strategy to fight illegal migration was adopted in March and the national strategy for the reintegration of returnees was adopted in February 2009. Implementation of the EC readmission agreement continued. The Law on Foreigners entered into force in April 2009 and is largely in compliance with EU standards. It establishes separate systems for issuing residence and work permits. Provisions on carriers' obligations and sanctions for infringements are also provided for. At the end of 2008 Albania, Bosnia and Herzegovina, Croatia, Montenegro, the former Yugoslav Republic of Macedonia and Serbia signed a memorandum of understanding on setting up a system for sharing statistical data on illegal migration and participating in the regional system of advance notification.

However, further efforts are needed to effectively implement the newly adopted strategies. Resources for the integration of returnees remain very limited. A more proactive approach is required in order to ensure effective integration of migrants and returnees based on reliable statistical information on their number and socio-economic profile. Certain problems of obtaining documents, particularly for children born in foreign countries and those from mixed marriages, persist.

There has been an increase in the numbers of visa denials, illegal border crossings and illegal women and children migrants. There is no overall strategy on data collection in order to follow trends and carry out detailed analysis. Police and border police access to existing databases related to illegal migration is not clearly regulated. Staffing needs to be further improved and codes of ethics are properly enforced. Conditions in detention centres remain a matter of concern.

*Overall*, Serbia continues to be moderately advanced in the area of migration policy.

#### 4.3.2. *Money laundering*

There has been some progress on fighting money-laundering. The Law on the Prevention of and Fight against Money-Laundering and Terrorist Financing was adopted in March 2009, with further amendments in August 2009. The Financial Intelligence Unit has stepped up its efforts to raise awareness on reporting of suspicious transactions amongst reporting entities.

However, a new action plan has not yet been adopted. Reports on suspicious transactions are mostly limited to the banking sector. The number of investigations and convictions in money-laundering cases remained low. The expertise and capacity of the criminal investigators, public prosecutors and judges still need to be improved. There are considerable challenges in the areas of privatisation and real estate and financial market transactions.

*Overall*, Serbia has started to address its priorities in the area of fighting money laundering. Money-laundering continues to be a serious cause for concern.

### 4.3.3. *Drugs*

Progress was made in the fight against drugs, with the adoption of the national strategy for the fight against drugs in February 2009 and the related action plan. The basic legislation is in place. Special investigative techniques, such as secret surveillance measures and controlled deliveries, have been used increasingly by the law enforcement authorities. Significant drug seizures and dismantling of organised criminal groups have continued as a result of good inter-agency and international police cooperation at operational level. In the period from January to August 2009, 530 kg of drugs were seized and 3450 criminal charges have been filed. The department for suppression of drug smuggling within the Ministry of the Interior has established a database containing basic information on drug-related offences and criminal groups. The Ministry of Health continued its activities to prevent drug abuse and its negative effects.

However, serious weaknesses remain in surveillance and control of the administrative boundary with Kosovo, allowing major drug-smuggling activities in this area. Control of the border with Montenegro also needs urgent improvement in this respect. The newly established database is not linked to other databases and border police at border crossing points do not have access. Currently, seized drugs are not destroyed, but are stored in a drugs warehouse. This practice, which is allegedly due to environmental considerations, raises serious security concerns.

While preparations in the fight against drugs are moderately advanced, Serbia remains a key transit country for smuggling drugs to Europe, which is a serious cause for concern.

### 4.3.4. *Police*

Some progress has been made in the area of police reform. Capacity-building and further specialisation within the police force has continued and positive steps have been taken to modernise police work and improve international and regional cooperation. Provision of modern equipment continued and some good results were achieved on investigating serious crime. There have been improvements in basic training for the police, and overall professional development. The Ministry of the Interior has taken a proactive approach to reforms and there is now better coordination between police structures at all levels.

However, a strategy for further reform of the police and an analysis to define longer-term priorities and needs are missing. The decision-making process remains highly centralised, leading to inefficient management of human resources. More open and transparent recruitment and career development are needed. The internal control sector continues to lack support, in terms of staff and training, for improving mechanisms and for more proactive investigation. This remains a concern in view of the increase in the number of criminal charges brought against police officers, mostly for abuse of office and disciplinary measures. Corruption within the police remains a serious problem.

The private security sector continues to be inadequately regulated. Small arms and light weapons remain widespread and their illicit possession among the general public continues to be very high. Small arms and light weapons pose a significant challenge to security in Serbia and are subject to illegal trafficking by organised crime groups in the region.

*Overall*, the Serbian police system is moderately advanced.

#### 4.3.5. *Fighting organised crime and terrorism*

Progress has been made in the fight against **organised crime**.

Serbia adopted a national strategy for the fight against organised crime in March 2009. The Law on Organisation and Competences of the State Institutions in Suppressing Organised Crime was adopted in August 2009, giving broader competencies to the Specialised Prosecutor for Organised Crime, along with the Law on Enforcement of Prison Sanctions for Criminal Offences of Organised Crime. Changes to the Criminal Code, adopted also in August 2009, introduced new criminal offences, in particular in the area of financial crime.

Police actions led to the arrest of a number of suspects of organised crime activities. Police capacity for investigating financial crimes was improved by setting up a financial investigation unit within the Ministry of the Interior, which became operational in June 2009. Specialisation within the criminal police continued, with the creation of special units fighting cybercrime and drug-smuggling. A directorate for the management of seized assets has been in operation since March 2009. A Commission for Inter-ministerial Coordination in the field of Justice and Home Affairs was established in December 2008, with the aim of improving inter-ministerial coordination in the fight against organised crime. A number of suspected members of organised crime groups were arrested.

However, a comprehensive threat analysis and an action plan for implementation of the new organised crime strategy are missing. The adoption and entry into force of a substantially revised Criminal Procedure Code was further postponed, as prosecution services still lack adequate premises, infrastructure and the training to carry out the new task of leading criminal investigations. The newly established bodies, such as the financial investigation unit and the directorate for the management of seized assets, face serious staff shortages and are therefore only partially operational.

International police cooperation is mostly based on informal contacts, while official cooperation and implementation of cooperation agreements still faces problems. The lack of adequate surveillance and control of the administrative boundary with Kosovo and the insufficient cooperation with EULEX make the whole area vulnerable to organised crime activities.

Coordination between individual police departments needs to be improved. Despite a series of police investigations into organised crime cases, the number of final convictions remains low. A common database on organised crime has not yet been set up. The availability of reliable statistics remains insufficient. The witness protection system needs further upgrading.

*Overall*, there has been progress in the fight against organised crime, but tangible results are still rare. Organised crime remains a serious cause for concern, in particular in the region adjacent to the administrative boundary line with Kosovo.

Serbia made some progress in the fight against **trafficking of human beings**. The Council of Europe Convention against Trafficking in Human Beings was ratified in March 2009 and an action plan for the period 2009-2011 was adopted in April 2009. Amendments to the Criminal Code, adopted in August 2009, increase penalties for human trafficking offences.

The national coordinator was appointed and a ministerial-level National Council established. This should lead to better cooperation between the various stakeholders. Awareness raising

activities continued and a telephone helpline for victims has been set up. Cooperation between social centres, the police, NGOs and the judiciary has improved.

From January to August 2009, 78 victims of human trafficking were identified, which constitutes a significant increase compared to 55 victims in 2008.

However, the number of final convictions in this area remains low. The number of under-age victims continued to rise, which is a matter of concern.

*Overall*, Serbia's preparations for fighting trafficking in human beings are moderately advanced.

There was limited progress in the **fight against terrorism**. The new Law on Money-Laundering, adopted in March 2009, introduced new provisions against financing of terrorist groups. Police investigations have resulted in seizures of illegal arms. However, ratification of key international conventions remains pending. Cooperation and exchanges of information between the police and the security agency are still insufficient. There is no specific database on terrorist suspects. *Overall*, Serbia's framework for the fight against terrorism is still at an early stage.

#### 4.3.6. *Protection of personal data*

Some progress has been made on protection of personal data. The Law on the Protection of Personal Data entered into force in January 2009 and implementing legislation was adopted. The Commissioner for Information of Public Importance took over supervisory powers for enforcing it and was renamed Commissioner for Information of Public Importance and Personal Data Protection.

However, the Law on the Protection of Personal Data is not fully in line with EU standards. The office of the commissioner lacks staff and funding, which prevents effective supervision. At the same time, there is a potential conflict of interest between the commissioner's two roles of securing public access to documents on the one hand and protecting personal data on the other.

*Overall*, Serbia is moderately advanced in the area of protection of personal data.

## STATISTICAL ANNEX

### STATISTICAL DATA (as of 14 September 2009)

#### Serbia

<b>Basic data</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (thousand)		7 553	7 528	7 505	7 502	7 491	7 470	7 456	7 425	7 398	7 366
Total area of the country (km <sup>2</sup> )		77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474	77 474

<b>National accounts</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross domestic product (GDP) (million national currency)		205 624	384 225	762 178	972 901	1 133 027	1 384 253	1 687 832	1 980 237	2 362 850	:
GDP (million euro)		17 522	25 539	12 821	16 034	17 416	19 075	20 358	23 521	29 543	:
GDP (euro per capita)		2 324	3 398	1 709	2 138	2 328	2 556	2 736	3 174	4 002	:
GDP (in Purchasing Power Standards (PPS) per capita)		:	:	:	:	:	:	:	:	8 500.0	:
SI: GDP (in PPS per capita, EU-27=100)		:	:	:	:	:	:	32.0	33.0	33.0	:
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		-11.2	5.3	5.6	3.9	2.4	8.3	5.6	5.2	6.9	:
SI: Employment growth (national accounts, % change on previous year)		:	:	2.0	-0.4	-4.4	1.1	-5.5	7.2	2.3	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		-10.1	5.6	3.5	4.3	7.1	7.1	11.8	-1.8	4.5	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	:	:	:	:	:	:	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-27=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		19.0	20.2	20.1	15.3	13.5	14.0	12.2	11.3	10.2	:
Industry		23.3	26.4	24.7	24.3	23.0	24.0	23.6	24.4	23.7	:
Construction		3.6	3.6	3.2	3.5	4.3	4.8	4.6	4.8	5.1	:
Services		54.1	49.8	52.0	56.9	59.3	57.2	59.6	59.4	60.9	:
Final consumption expenditure, as a share of GDP (%)		96.3	97.2	104.0	106.9	102.4	96.8	95.6	95.1	93.4	:
Gross fixed capital formation, as a share of GDP (%)		11.0	12.7	10.7	12.4	16.7	19.2	19.0	20.8	23.4	:
Changes in inventories, as a share of GDP (%)		-0.5	-3.9	3.2	0.5	1.8	11.8	6.2	4.8	7.1	:
Exports of goods and services, relative to GDP (%)		11.4	10.9	24.6	22.9	22.9	24.6	28.7	31.7	30.6	:
Imports of goods and services, relative to GDP (%)		18.2	16.8	42.5	42.7	43.7	52.5	49.4	52.4	54.4	:

<b>Industry</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Industrial production volume index (2000=100)		89.8	100.0	100.1	101.9	98.8	105.9	106.7	111.7	115.8	117.1

<b>Inflation rate</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Consumer price index (CPI), (total, % change on previous year)		43.5	79.6	93.3	16.6	9.9	11.4	16.2	11.7	7.0	13.5

<b>Balance of payments</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Balance of payments: current account total (million euro)		-427	-166	-318	-1 319	-1 255	-2 306	-1 788	-3 157	-4 615	-5 876
Balance of payments current account: trade balance (million euro)		-1 167	-1 713	-2 577	-3 414	-3 555	-5 201	-4 252	-4 992	-6 638	-7 633



Balance of payments current account: net services (million euro)		109	153	272	137	179	141	-5	-41	-254	-171
Balance of payments current account: net income (million euro)		8	-1	7	-77	-120	-174	-260	-330	-599	-929
Balance of payments current account: net current transfers (million euro)		624	1 396	1 980	2 035	2 241	2 927	2 730	2 207	2 876	2 857
of which government transfers (million euro)		0	293	660	525	421	382	264	186	166	210
Net foreign direct investment (FDI) (million euro)		:	55	185	505	1 205	778	1 247	3 399	1 821	1 812
Foreign direct investment (FDI) abroad (million euro)		:	-2	-14	-21	3	2	-18	-68	-692	-192
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	1	2	4	4	-45	-76
Foreign direct investment (FDI) in the reporting economy (million euro)		:	56	198	526	1 202	775	1 265	3 467	2 513	2 004
of which FDI of EU-27 countries in the reporting economy (million euro)		:	:	:	:	850	397	932	3 335	1 820	1 488

<b>Public finance</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government deficit/surplus, relative to GDP (%)		:	:	:	:	:	:	1.0	-1.6	-1.9	-2.4
SI: General government debt, relative to GDP (%)		:	:	104.8	71.9	63.3	50.7	50.5	39.8	30.0	25.3

<b>Financial indicators</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross foreign debt of the whole economy, relative to GDP (%)		:	:	98.3	67.2	62.3	54.3	64.2	63.3	60.2	64.7
Gross foreign debt of the whole economy, relative to total exports (%)		:	:	464.2	343.6	281.6	231.7	245.9	213.5	204.8	214.7
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 259	544	974	1 546	1 526	1 533	1 748	2 378	3 112	2 721
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		1 591	662	1 139	1 828	1 920	2 015	2 318	3 315	4 882	4 463
Money supply: M3 (M2 plus marketable instruments, million euro)		2 125	1 313	2 098	3 156	3 762	4 449	5 535	7 539	11 302	11 205
Total credit by monetary financial institutions to residents (consolidated) (million euro)		:	:	:	:	:	:	:	:	:	:
Interest rates: day-to-day money rate, per annum (%)		:	:	:	:	:	:	:	:	:	:
Lending interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		11.740	49.670	59.770	60.680	65.060	72.570	82.910	84.160	79.980	81.470
Effective exchange rate index (2000=100)		:	:	:	:	:	:	:	:	:	:
Value of reserve assets (including gold) (million euro)		659	958	2 050	2 937	3 548	3 780	5 525	9 593	10 897	8 148

<b>External trade</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Value of imports: all goods, all partners (million euro)	1)	2 694	3 606	4 758	5 919	6 589	8 623b	8 439	10 463	13 507	15 589
Value of exports: all goods, all partners (million euro)	1)	1 270	1 680	1 896	2 192	2 442	2 832b	3 608	5 102	6 432	7 428
Trade balance: all goods, all partners (million euro)	1)	-1 423	-1 926	-2 862	-3 727	-4 147	-5 792b	-4 831	-5 360	-7 075	-8 161
Terms of trade (export price index / import price index, 1998=100)	1)	92.5	100.2	103.1	98.0	101.6	108.4b	98.4	104.5	102.6	97.5
Share of exports to EU-27 countries in value of total exports (%)	1)	50.5	54.3	58.2	59.5	53.9	56.6b	58.7	57.5	56.0	54.2
Share of imports from EU-27 countries in value of total imports (%)	1)	59.9	61.6	57.6	59.6	58.3	58.0b	54.2	54.4	55.1	53.0

<b>Demography</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		-3.9	-4.0	-2.7	-3.3	-3.3	-3.5	-4.6	-4.3	-4.7	:
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.1	10.6	10.2	10.1	9.0	8.1	8.0	7.4	7.1	6.7

Life expectancy at birth: male (years)		69.7	69.7	69.6	69.7	69.9	69.9	70.0	70.6	70.7	71.1
Life expectancy at birth: female (years)		74.8	74.8	74.8	75.0	75.1	75.4	75.4	75.9	76.2	76.3

<b>Labour market</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		68.2	68.2	68.9	68.4	68.9	66.4	65.2	63.6	63.4	62.7
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		58.3	59.2	59.7	58.5	57.9	53.4	51.0	49.9	51.5	53.7
Share of male population aged 15-64 that is in employment (%)		67.1	68.2	68.6	67.1	67.0	63.1	61.2	59.2	60.0	62.3
Share of female population aged 15-64 that is in employment (%)		49.8	50.4	50.8	50.0	48.7	44.0	40.8	40.6	43.0	45.3
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		42.3	43.3	42.1	42.0	44.3	37.3	35.4	32.6	33.5	36.7
Employment by main sectors (%)											
Agriculture		:	:	:	:	:	24.0	23.3	20.5	20.8	25.1
Industry		:	:	:	:	:	21.7	21.5	23.2	23.4	19.9
Construction		:	:	:	:	:	5.2	6.1	6.1	6.1	6.3
Services		:	:	:	:	:	49.1	49.1	50.2	49.7	48.6
SI: Unemployment rate: share of labour force that is unemployed (%)		14.5	13.3	13.3	14.5	16.0	18.7	21.1	21.0	18.3	13.6
Share of male labour force that is unemployed (%)		12.5	11.1	11.5	12.9	15.1	15.3	17.0	18.1	16.0	11.9
Share of female labour force that is unemployed (%)		16.9	15.9	15.7	16.5	17.2	23.1	26.5	24.9	21.2	15.8
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		53.2	50.2	46.4	45.3	44.8	48.1	47.7	47.8	43.7	35.2
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		10.5	9.9	9.0	9.9	11.0	14.5	16.7	17.0	14.8	9.7

<b>Social cohesion</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average nominal monthly wages and salaries (national currency)		1 992.0	3 799.0	8 691.0	13 260.0	16 612.0	20 555.0	25 514.0	31 745.0	38 744.0	45 674.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI) (2000=100)		94.2	100.0	118.4	154.9	176.5	196.1	209.5	233.3	266.1	275.7
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)		:	:	:	:	:	11.5	11.4	12.6	10.7	:

<b>Standard of living</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Number of passenger cars per 1000 population	2)	208.3	169.2	184.2	179.1	185.3	194.8	198.6	203.6	199.7	201.8
Number of subscriptions to cellular mobile telephone services per 1000 population		:	155.1	251.1	322.5	399.3	578.8	700.4	894.7	1 142.6	1 194.2

<b>Infrastructure</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2	49.2
Length of motorways (thousand km)		0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4

<b>Innovation and research</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		2.7	2.5	2.5	3.0	3.8	3.5e	:	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	:	:	:	:	:	:	:	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	18.5	26.3	33.2

<b>Environment</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:

SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP 2004)		:	:	:	:	:	:	413.1	413.6	:	:
SI: Share of renewable energy in electricity consumption (%)		52.2	42.1	43.3	41.2	36.5	44.9	46.9	41.8	37.9	:
SI: Road freight transport as a share of total inland freight transport (modal split of freight transport) (%)		49.8	:	:	:	:	:	:	:	:	:

<b>Energy</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Primary production of all energy products (thousand TOE)		:	:	:	:	:	:	7 729	7 907	8 797	:
Primary production of crude oil (thousand TOE)		:	:	:	:	:	:	:	:	654	:
Primary production of hard coal and lignite (thousand TOE)		:	:	:	:	:	:	6 696	6 966	7 073	:
Primary production of natural gas (thousand TOE)		:	:	:	:	:	:	:	:	198	:
Net imports of all energy products (thousand TOE)		:	:	:	:	:	:	1 431	1 686	:	:
Gross inland energy consumption (thousand TOE)		:	:	:	:	:	:	8 322	8 765	:	:
Electricity generation (thousand GWh)		31.0	32.0	31.0	31.0	32.0	34.0	36.0	36.0	37.0	:

<b>Agriculture</b>	Note	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agricultural production volume index of goods and services (producer prices, previous year=100)		100.0	87.0	118.0	97.0	93.0	120.0	95.0	100.0	92.0e	108.0
Total utilised agricultural area (thousand hectare)		5 086	5 074	5 077	5 071	5 079	5 075	5 075	5 066	5 053	5 055
Livestock: cattle (thousand heads, end of period)	3)	1 246	1 162	1 128	1 112	1 102	1 079	1 096	1 106	1 087	1 057
Livestock: pigs (thousand heads, end of period)	3)	4 066	3 615	3 587	3 634	3 439	3 165	3 212	3 999	3 832	3 594
Livestock: sheep and goats (thousand heads, end of period)	3)	1 794	1 670	1 612	1 685	1 741	1 728	1 748	1 718	1 756	1 760
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)	4)	1 665	1 585	1 594	1 596	1 590	1 593	1 616	1 602	1 562	1 548
Crop production: cereals (including rice) (thousand tonnes, harvested production)	5)	8 584	5 213	9 001	8 298	5 453	9 867	9 510	8 268	6 115	8 707
Crop production: sugar beet (thousand tonnes, harvested production)		2 428	1 070	1 806	2 098	1 738	2 814	3 101	3 189	3 206	2 300
Crop production: vegetables (thousand tonnes, harvested production)		1 145	1 043	1 283	1 340	1 172	1 340	1 289	1 348	1 128	1 277

SI = Structural indicators

: = not available

e = estimated value

b = break in series

All data from 1999 to 2008 refer to the territory of the Republic of Serbia excluding Kosovo under UNSCR 1244/99.

- 1) Break in series: from 2004 onwards the data are not comparable with the previous years because since January 2004 Uniform Customs Document harmonized with EU regulations has been used.
- 2) Ministry of Internal Affairs excluded the vehicles that were not registered before the given deadline (1 month).
- 3) Since 2006, the reference date is 1 December (instead 15 January as it was before).
- 4) In million litres, includes cow and sheep milk.
- 5) Without triticale, buckwheat and millet, which are minor; rice production does not exist in Serbia.